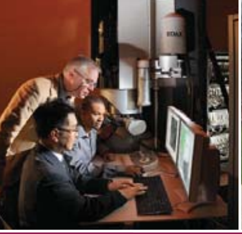
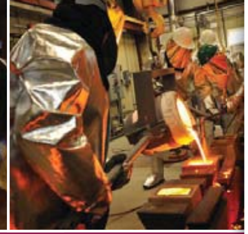
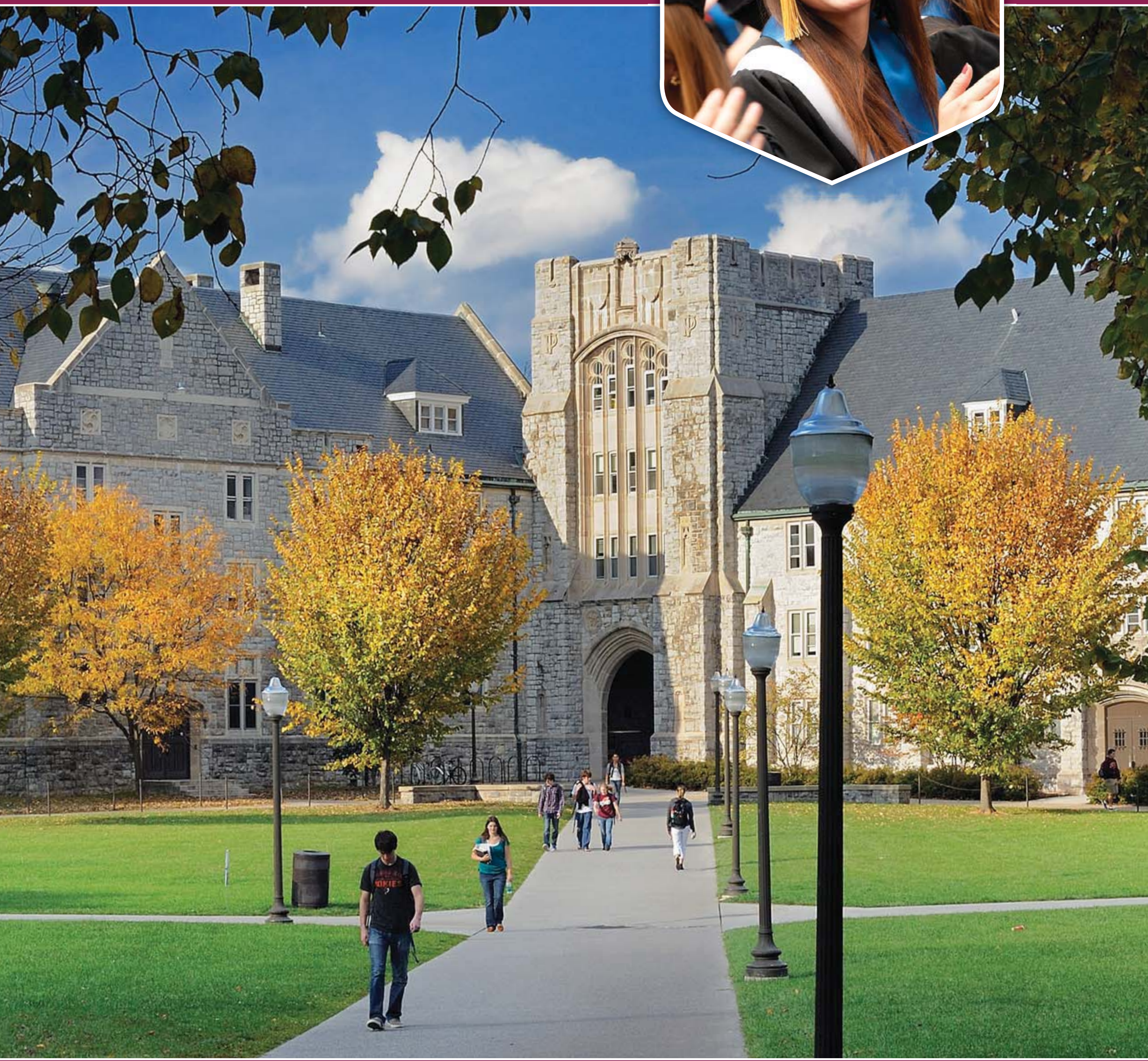


2012-13 Financial Report

Virginia Tech
Invent the Future®

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

In fiscal year 2013, Virginia Tech continued to recover from prior years' budget reductions. This recovery resulted from the partial restoration of funding for academic and instructional programs from increased general fund appropriations by the commonwealth and from increased tuition and fees revenues. The additional funding enabled progress on the university's strategic initiatives; this progress included expansion of several research initiatives and continued delivery of a high quality educational experience to our students. The university's additional investments during fiscal year 2013 have resulted in measurable progress toward the goals established in the 2012 – 2018 university strategic plan.

In May 2013, President Steger announced his intention to step down as the president of Virginia Tech after leading the institution for fourteen years. The vision and agenda set by President Steger at the onset of his presidency have propelled the university toward significant achievements over the years. Under President Steger's leadership, the university set a goal to become one of the nation's top research universities. Research expenditures at Virginia Tech increased from $248 million in 2003 to $454 million in 2012 - a phenomenal 81 percent increase over a span of 10 years. The university's investments in research have contributed to a gradual escalation of the university's research rank to the most recent National Science Foundation ranking of 40th for 2012, the university's highest rank to date. This increase is attributable to a combination of increases in external research grants and contracts awarded to our faculty, strategic investments of university resources in several university-wide research institutes, and development of large scale, interdisciplinary research teams and proposals.

President Steger's vision for the university in 2000 also resulted in substantial improvements to the physical campus. These facility improvements focused on major capital initiatives that both supported the development of the research infrastructure critical to the research goal and also raised the quality of instruction, student life, outreach, and student services spaces. Over the course of Dr. Steger's presidency, the university has completed or initiated 42 major capital outlay projects. These improvements totaled 3.3 million gross square feet of new spaces or fully modernized existing spaces. Through general fund support from the Commonwealth of Virginia, private donors, and the prudent use of self-generated revenue, the university has been able to infuse $1.1 billion since 2000 into its capital program to support these campus improvements. These projects reflect the most intensive capital investments in the university's history. Through the strategic and prudent allocation of resources, coordinated and sequenced over time, the university maintained the lowest level of non-E&G student fees in the commonwealth and held the university debt ratio below four percent during this period of historic campus growth and improvement.

In fiscal year 2013, the university's active portfolio of capital improvements included 30 projects with a total budget of $687 million and $171 million in expenditures for the year. A major portion of these expenditures related to ongoing construction of three significant capital projects – the Signature Engineering Building, the Moss Arts Center, and the Human and Agricultural Biosciences Building. The Moss Arts Center, with approximately 150,000 gross square feet, opened in October 2013, marking another major milestone in advancing the arts initiative at the university and throughout the region. The Signature Engineering Building is scheduled to open in spring 2014 with approximately 160,000 gross square feet of state-of-the-art classrooms and instructional laboratories. The Human and Agricultural Biosciences Building is scheduled to open in spring 2014 with approximately 93,000 gross square feet of state-of-the art life sciences laboratory and support spaces. This fiscal year the university also obtained general fund support for construction in 2014 of a new classroom building with approximately 73,000 gross square feet of modern teach-learning spaces for undergraduate students. The Board of Visitors also approved, in 2013, funds to plan and construct two new Upper Quad residential facilities to replace four existing outdated buildings while maintaining expected enrollment capacity for the Corps of Cadets.

Virginia Tech has made significant progress towards the goals in its strategic plan in large part due to the quality and caliber of its faculty and staff. Rewarding, retaining, and motivating faculty is critical for the continued progress of the university. The economic challenges of recent years have prevented the state from funding and the university from implementing its traditional annual merit process. The annual merit process provides a structured mechanism for departmental and university management to evaluate faculty performance and to propose differential merit recommendations based on that performance. The university's finance area has led efforts to advocate for a greater focus on the critical issue of faculty and staff compensation at the state level. As a result, after a five year hiatus, the university worked with the state to implement a faculty merit process in fiscal year 2013. The state provided general fund support for the state's share of a 3 percent salary action, effective for fiscal year 2014. The university augmented the resources provided by the state, resulting in a total average faculty increase of 4.8 percent. It is anticipated that this may result in some improvement in the university's current faculty salary ranking of the 20th percentile among peer institutions. The university continues to encourage the state to provide funding necessary for an annual faculty merit process to ensure sustained progress towards the state goal of the 60th percentile of peer average faculty salary.

The university is committed to enhancing the accessibility and affordability of a Virginia Tech education through careful management of tuition and fee rates and through the provision of financial aid programs. With a total cost (including room and board) of $18,177 per year for Virginia resident undergraduates, Virginia Tech ranked 20th among the 24 SCHEV public peer institutions in 2012-13. Thus, a Virginia Tech undergraduate degree continues to offer a high value as compared to the cost of peer institutions.

Due to national pressure to mitigate tuition increases and promote access and affordability of higher education, the traditional tuition model is evolving to be sensitive to student cost as well as provide the resources needed to support the demands of the global economy (i.e. STEM-Health education). To address this challenging environment, the university has employed alternative revenue strategies in areas of campus with exceptional resource-intensive activities. Program fees are assessed in the Colleges of Engineering, Architecture & Urban Studies, and Business, to offset expenses related to specialized equipment and academic space, as well as higher-than-average faculty compensation. A dedicated fee has also been implemented to support library expenses associated with the rising costs of printed academic material and the expansion of electronic access to scholarly materials available to campus. Other differential fees are used to address specialized laboratory expenses and student consumables not covered by base tuition revenue.

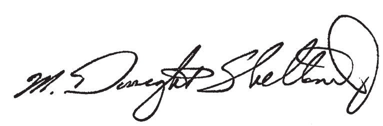
The university monitors the level of student loans taken on by students to help fund the cost of education. In 2012, 54 percent of the university's undergraduate graduating class incurred an average of $25,579 in student loan debt. In comparison, 71 percent of students who graduated from all four-year colleges in 2012 had an average of $29,400 in student loans.

Our endowment continues to provide flexible financial support for university initiatives and expand financial aid resources to students. The value of Virginia Tech Foundation's endowed assets as of June 30, 2013 was $660 million. As measured against the Cambridge Associates peer group universe, the endowment's return for 2012-13 ranked in the top 2nd percentile. Over the last five years, the endowment outperformed the benchmark return, ranking in the top 5th percentile.

The 2012 Virginia General Assembly directed the Joint Legislative Audit and Review Commission (JLARC) to conduct a study on cost efficiency of public higher education institutions and to identify opportunities to reduce the cost of public higher education. This comprehensive study is being conducted over a period of two years, and is expected to be completed in November 2014. As of December 2013, JLARC has issued three of five reports planned for the two-year period. The second report is significant in that it focuses on the auxiliary operations of Virginia universities as well as the related non-E&G (auxiliary) fees assessed to students to support many of those operating units. Virginia Tech is cited for a number of positive contributions, in terms of the management of the overall cost of its tuition and fee package. Most importantly, the report discloses that Virginia Tech maintains its non-E&G fees at the lowest level of any Virginia public institution. The report also specifically references Virginia Tech for having the highest amount of self-generated revenue from athletic programs and model transparency in providing detailed information regarding the mandatory fees to students. The quality of the student dining programs is also highlighted. Virginia Tech had the highest percentage of voluntary dining plan purchases, the highest meal utilization rate, and below-average estimated per-meal costs compared to other public four-year institutions in Virginia. The report validates the university's focus on providing quality services to its students, faculty, and staff in a cost effective manner.

The careful management of university finances has resulted in a $17 million or 6 percent increase in unrestricted net assets. This result continues a multi-year effort focused on improving this important financial measure, and it also reflects the overall growing financial health of the university. The university will continue to be responsible stewards of these resources and deploy them towards achieving the strategic goals of the university.

During 2013-14, Virginia Tech will enter a new phase in its history. We take this opportunity to recognize and applaud the tremendous growth and accomplishments of the university during President Steger's term in office; these improvements are the results of his leadership and vision for the university. We are pleased to have had a role in several of these achievements, and we look toward the future with much enthusiasm as we start a new chapter for Virginia Tech. Because of the improvements achieved in the 21st century, the university's financial and business areas are well poised to support the vision and initiatives of the incoming president.



M. Dwight Shelton Jr.

Contents

Management's Responsibility for Financial Reporting and Internal Controls

The information in this *Annual Financial Report*, including the accompanying basic financial statements, notes, management's discussion and analysis, and other information is the responsibility of Virginia Tech executive management. Responsibility for the accuracy of the financial information and fairness of its presentation, including all disclosures, rests with the management of the university. Management believes the information is accurate in all material respects and fairly presents the university's revenues, expenses, and changes in net position 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, 2013.

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

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

The Auditor of Public Accounts (APA), the office of the Commonwealth of Virginia's auditors, has examined these annual financial statements and the report thereon appears on the facing page. The APA examination includes a study and evaluation of the university's system of internal controls, financial systems, policies, and procedures. No material weaknesses were found on internal control matters by the APA for the fiscal year ended June 30, 2013.

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

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

October 31, 2013

The Honorable Robert F. McDonnell, Governor of Virginia

The Honorable John M. O'Bannon III, Chairman, Joint Legislative Audit and Review Commission

Board of Visitors, Virginia Polytechnic Institute and State University

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of Virginia Polytechnic Institute and State University, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units of the University, which are discussed in Notes 1 and 24. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinions.

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Opinion

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of Virginia Polytechnic Institute and State University as of June 30, 2013, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Year Summarized Comparative Information

We have previously audited the University's 2012 financial statements, and we expressed an unmodified audit opinion on the respective financial statements of the University in our report dated October 26, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Virginia Polytechnic Institute and State University's basic financial statements. The supplementary information such as the Virginia Tech Foundation, Inc. information, Affiliated Corporations Financial Highlights, and Consolidating Schedules are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The Virginia Tech Foundation, Inc. information, Affiliated Corporation Financial Highlights, and Consolidating Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Virginia Tech Foundation, Inc. information, Affiliated Corporation Financial Highlights, and Consolidating Schedules are fairly stated, in all material respects, in relation to the basic financial statement taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2013, on our consideration of Virginia Polytechnic Institute and State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University's internal control over financial reporting and compliance.

Martha S. Mavredes

AUDITOR OF PUBLIC ACCOUNTS

JMR/ alh

Management's Discussion and Analysis
(unaudited)

Virginia Polytechnic Institute and State University, popularly known as Virginia Tech, is a comprehensive, land-grant university located in Blacksburg, Virginia. The university offers 194 graduate, undergraduate, and professional degree programs through its eight academic colleges (Agriculture and Life Sciences, Architecture and Urban Studies, Engineering, Liberal Arts and Human Sciences, Natural Resources and Environment, Pamplin College of Business, Science and the Virginia-Maryland Regional College of Veterinary Medicine).

Virginia Tech has evolved into a position of increasing national prominence since its founding in 1872, consistently ranking among the nation's top universities for undergraduate and graduate programs. The university's research program was ranked 40th among the top research institutions in the United States by the National Science Foundation in its latest survey measuring annual research expenditures.

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

Overview

This unaudited *Management's Discussion and Analysis* (MD&A) is required supplemental information under the Governmental Accounting Standards Board's (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an overall view of the university's financial activities based on currently known facts, decisions and conditions. This discussion includes an analysis of the university's financial condition and results of operations for the fiscal year ended June 30, 2013. Comparative numbers are included for the fiscal year ended June 30, 2012. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying basic financial statements, including notes and other supplementary information. The university's management is responsible for all of the financial information presented, including this discussion and analysis.

The university's financial statements have been prepared in accordance with GASB Statement 35, *Basic Financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities*, as amended by GASB Statements 37, 38 and 63. The three required financial statements are the *Statement of Net Position* (balance sheet), the *Statement of Revenues, Expenses, and Changes in Net Position* (operating statement) and the *Statement of Cash Flows*. These statements are summarized and analyzed in the following sections. Combining schedules included in *Supplementary information* indicate how major fund groups were aggregated to arrive at the single column totals on the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Net Position*.

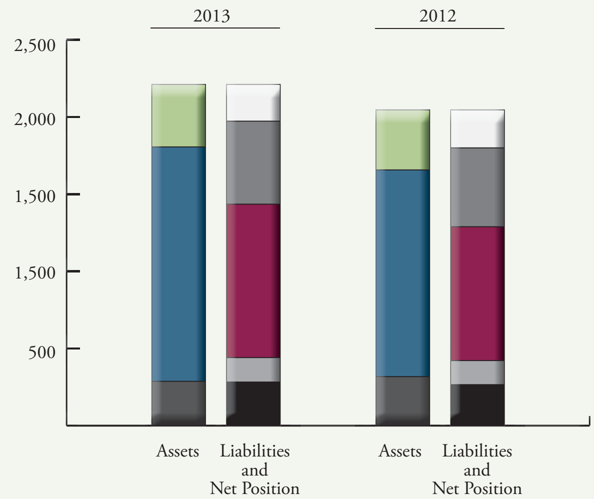
Using criteria provided in GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*, and GASB Statement 60, *The Financial Reporting Entity: Omnibus*, amendments of GASB Statement 14, the university's eight affiliated corporations were evaluated on the nature and significance of their relationship to the university. The Virginia Tech Foundation Inc. (VTF or 'the foundation') and Virginia Tech Services Inc. (VTS) were determined to be component units and are presented in a separate column on the university's financial statements. VTF serves the university by generating significant funding from private sources and aggressively managing its assets to provide supplemental funding to the university. VTS operates the university bookstores and provides other services for the use and benefit of students, faculty and staff. The foundation and VTS are not part of this MD&A, but detail regarding their financial activities can be found in note 24 of the *Notes to Financial Statements*. Transactions between the university and these component units have not been eliminated in this year's financial statements.

The following GASB statements of standards became effective in fiscal year 2013: Statement 60, *Accounting and Financial Reporting for Service Concession Arrangements;* Statement 61, *The Financial Reporting Omnibus;* Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements;* and Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* Statements 60, 61 and 62 do not require additional disclosures by the university as a result of operations during this period. Statement 63 requires the university to modify its statements to reflect the reporting guidance provided to account for deferred outflow of resources, deferred inflow of resources and net position.

Assets, Liabilities and Net Position

For the years ended June 30, 2013 and 2012
(all dollars in millions)

	2013	2012	Change Amount	Change Percent
Current assets	$ 404.9	$ 388.9	$ 16.0	4.1 %
Capital assets, net	1,519.0	1,339.5	179.5	13.4 %
Other assets	287.2	317.6	(30.4)	(9.6)%
Total assets	2,211.1	2,046.0	165.1	8.1 %
Current liabilities	238.1	246.1	(8.0)	(3.3)%
Noncurrent liabilities	537.8	511.0	26.8	5.2 %
Total liabilities	775.9	757.1	18.8	2.5 %
Net investment in capital assets	994.3	867.3	127.0	14.6 %
Restricted	158.3	156.0	2.3	1.5 %
Unrestricted	282.6	265.6	17.0	6.4 %
Total net position	$ 1,435.2	$ 1,288.9	$ 146.3	11.4 %



Statement of Net Position

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

The data presented aids readers in determining the assets available to continue operations of the university. It also allows readers to determine how much the university owes to vendors, investors and lending institutions. Finally, the SNP provides a picture of the university's net position and the restrictions for expenditure of the components of net position. Sustained increase in net position over time is one indicator of the financial health of the organization.

The university's net position is classified as follows:

Net investment in capital assets — Net investment in capital assets represents the university's total investment in capital assets, net of accumulated depreciation, amortization and outstanding debt obligations related to those capital assets. Debt incurred, but not yet expended for capital assets, is not included as a component of net investment in capital assets.

Restricted component of net position, expendable — The expendable category of the restricted component of net position includes resources the university is legally or contractually obligated to expend, with restrictions imposed by external third parties. This category partially consists of quasi-endowments totaling $59.6 million. The investment of quasi-endowments is managed by VTF.

Restricted component of net position, nonexpendable — The nonexpendable category of the restricted component of net position consists of endowment and similar type funds where donors or other outside sources have stipulated, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be expended or added to principal. The university's nonexpendable endowments of $0.4 million are included in its column on the SNP.

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

Total university assets increased by $165.1 million or 8.1% during fiscal year 2013, bringing the total to $2,211.1 million at year-end. Growth in current assets and the major components of noncurrent assets (capital assets and long-term investments) accounted for the majority of the increase to total assets. The largest net increase in current assets was in the accounts receivable category ($13.3 million). The increase in capital assets, net ($179.5 million) reflects the ongoing construction of university research and instructional facilities and the capitalization of completed facilities discussed in detail in the following section, Capital Asset and Debt Administration. The decrease in noncurrent cash and cash equivalents ($72.1 million) reflects expenditure of funds for on-going capital asset construction. This decrease in noncurrent assets was partially offset by the increase in long-term investments ($30.5 million). The net decrease in noncurrent assets is included in the other assets category of the Assets, Liabilities and Net Position chart on the previous page.

Total university liabilities grew by $18.8 million or 2.5% during fiscal year 2013. The current liabilities category decreased $8.0 million and the noncurrent liabilities category increased $26.8 million. The majority of the decrease in the current liabilities category was in accounts payable ($9.9 million), commercial paper ($6.9 million), accrued compensated absences ($1.4 million) and unearned revenue ($1.2 million), partially offset by increases in the funds held in custody for others ($7.1 million) and the current portion of long-term debt ($4.3 million). Growth in the noncurrent liabilities category primarily resulted from net additions to long-term debt ($23.1 million) and accrued compensated absences ($3.0 million). For more detailed debt information, see the Capital Asset and Debt Administration section.

The increase in total assets was greater than the corresponding increase in total liabilities, thus improving the university's net position by $146.3 million (11.4%). Net position in the categories of net investment in capital assets, unrestricted and restricted increased $127.0 million, $2.3 million and $17.0 million respectively. This reflects the university's continued investment in facilities and equipment in support of the university's missions as well as prudent management of the university's fiscal resources.

Capital Asset and Debt Administration

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

Note 7 of the *Notes to Financial Statements* describes the university's significant investment in depreciable capital assets with gross additions of $253.5 million during fiscal year 2013. Major projects included the completion of the Ambler Johnston Hall renovation ($53.8 million), the North End Center building and parking structure capital leases ($43.9 million), Lavery Hall ($41.3 million), the Chiller Plant facility ($17.7 million), VT-Carilion Research Institute Third Floor upfit ($12.3 million), Veterinary Medicine Instructional Addition ($11.6 million), Southwest Campus Heating & Cooling facility ($6.7 million) and construction of the first building in the Oak Lane Phase IV housing community ($4.6 million). Ongoing investments in instructional, research, and computer equipment totaled $43.5 million. Depreciation and amortization expense related to capital assets was $79.8 million with net asset retirements of $5.4 million. The net increase in depreciable capital assets for this period was $168.3 million. The increase in nondepreciable capital assets ($11.1 million) resulted primarily from construction in progress. This net amount reflects the ongoing construction of the Moss Arts Center ($37.4 million), the Signature Engineering building ($32.2 million), the Human & Agriculture Biosciences Building I ($28.1 million) and the Davidson Hall renovation ($14.5 million), partially offset by the completion of the projects referenced previously in this paragraph. Proceeds from the sale of commercial paper were used to provide temporary funding for some of the projects under construction. The majority of the temporary financing will be replaced with permanent debt through the issuance of long-term bonds and long-term notes.

Noncurrent liabilities sustained a net increase of $26.8 million during fiscal year 2013. The majority of the net increase in noncurrent liabilities resulted from the issuance of new debt for the construction of the Veterinary Medicine Instructional addition ($9.8 million) and the obligation recorded for

Funding for Authorized Current and Future Capital Projects

As of June 30, 2013

(all dollars in millions)

	State Funds (1)	Other Funds (2)	University Debt Issued Before June 30, 2013	University Debt To Be Issued After June 30, 2013	Total Funding	Cash Basis Project-To-Date Expenses
Current education and general	$ 179.7	$ 51.6	$ 76.7	$ -	$ 308.0	$ 214.9
Current auxiliary enterprise	5.5	6.5	-	12.0	24.0	2.3
Total current	185.2	58.1	76.7	12.0	332.0	217.2
Future education and general	-	24.4	-	12.0	36.4	18.2
Future auxiliary enterprise	-	6.4	-	86.6	93.0	0.2
Total future	-	30.8	-	98.6	129.4	18.4
Total authorized	$ 185.2	$ 88.9	$ 76.7	$ 110.6	$ 461.4	$ 235.6

(1) Includes the general fund, capital appropriations, and the general obligation bonds of the Commonwealth of Virginia

(2) Includes private gifts, auxiliary surpluses, student fees, and other customer revenues.

the North End Center building and parking structure capital leases ($43.6 million). The increase in noncurrent liabilities was partially offset by the reclassification of long-term debt from the noncurrent to current liabilities category. See note 11 of the *Notes to Financial Statements* for more details.

The educational and general (E&G) portion of the university's capital outlay program represents five projects currently in various stages of completion. Three of the largest projects in this category are the Moss Arts Center ($100.1 million), the Signature Engineering building ($95.2 million) and the Human & Agriculture Biosciences Building I ($53.8 million). In addition to the capital projects underway, there were several new construction and renovation projects approved for instructional and research facilities. The larger of the approved new construction projects are the design phase to address fire alarm systems and accessibility improvements in a number of existing E&G buildings ($5.5 million), planning for the construction of a classroom building ($2.0 million) and the relocation of agriculture programs to Kentland Farm ($1.0 million). The Commonwealth of Virginia will provide partial funding for several of these E&G projects.

The university's auxiliary enterprises have approval for five new capital projects. These future capital projects include a new residence hall, an indoor athletic training facility, and the continued expansion of the Oak Lane Phase IV housing community. Since auxiliaries are required to be self-supporting, no state general funds or capital appropriations are provided for these projects. The projects have been or will be funded from a combination of private gifts, federal funds, student fees, other customer revenues and debt financing.

Virginia Tech had a total authorization of $461.4 million in capital building projects as of June 30, 2013, requiring $110.6 million in additional debt financing.

Capital projects in progress carried commitments to construction contractors, architects and engineers totaling $39.3 million at June 30, 2013. These obligations are for future effort and as such have not been accrued as expenses or liabilities on the university's financial statements. The majority of the financial commitment is attributed to three projects; the Signature Engineering building ($17.3 million), the Human & Agriculture Biosciences Building I ($8.5 million) and the Davidson Hall renovation ($7.5 million). These commitments represent only a portion of the university's capital projects currently under construction or authorized by the commonwealth.

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

Statement of Revenues, Expenses, and Changes in Net Position

Operating and non-operating activities creating changes in the university's total net position are presented in the *Statement of Revenues, Expenses, and Changes in Net Position*, found on page 17. The purpose of the statement is to present all revenues received and accrued, all expenses paid and accrued, and gains or losses from investments and capital assets.

Operating revenues are generally received through providing goods and services to the various customers and constituencies of the university. Operating expenses are expenditures made to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the missions of the university. Salaries and fringe benefits for faculty and staff are the largest type of operating expense. Non-operating revenues are revenues received for which goods and services are not directly provided. Included in this category are state appropriations and gifts which supplement the payment of operating expenses of the university and support student

Revenues, Expenses, and Changes in Net Position

For the years ended June 30, 2013 and 2012

(all dollars in millions)

	2013	2012	Change Amount	Change Percent
Operating revenues	$ 900.0	$ 832.4	$ 67.6	8.1%
Operating expenses	1,155.5	1,076.3	79.2	7.4%
Operating loss	(255.5)	(243.9)	(11.6)	4.8%
Non-operating revenues and expenses	296.0	279.3	16.7	6.0%
Income before other revenues, expenses, gains or losses	40.5	35.4	5.1	14.4%
Other revenues, expenses, gains or losses	105.8	76.6	29.2	38.1%
Increase in net position	146.3	112.0	34.3	30.6%
Net position - beginning of year	1,288.9	1,176.9	112.0	9.5%
Net position - end of year	$ 1,435.2	$ 1,288.9	$ 146.3	11.4%

scholarships. Therefore, the university, like most public institutions, expects to show an operating loss.

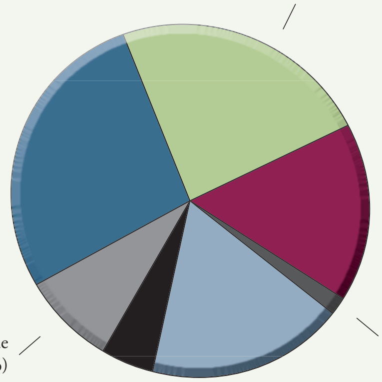
Operating Revenues

Total operating revenues increased by $67.6 million or 8.1% from the prior fiscal year. The growth in operating revenues came primarily from two categories: student tuition and fees, and grants and contracts. The increase in student tuition and fees ($23.3 million or 6.9%) was expected given an increasing student population and the rise in both in-state and out-of-state tuition and fees rates. The growth in grants and contracts operating revenue ($30.5 million or 11.2%) resulted primarily from increased funding from federal agencies and federally funded industrial partners ($27.6 million). The balance of the increased revenue in this category came from the expansion of research grants and contracts from commercial sponsors ($2.6 million) and federal appropriations supporting the university's land grant mission ($1.7 million). The increase in the grants and contracts category was partially offset by the continuing reduction of federal funds ($0.7 million) provided through the American Recovery and Reinvestment Act (ARRA) and reductions in local government grants and contracts ($0.7 million).

The remaining notable net revenue increase occurred in the auxiliary enterprise operating revenue category ($11.9 million or 5.9%). The growth in this category came primarily from increased student fees ($12.5 million) partially offset by small revenue reductions across numerous auxiliary revenue generating activities. Overall, the university's operating revenues increased to $900.0 million in fiscal year 2013, compared to $832.4 million in fiscal year 2012.

Total Revenue by Source

For the year ended June 30, 2013



Increase (Decrease) in Revenue

For the years ended June 30, 2013 and 2012

(all dollars in millions)

	2013	2012	Change Amount	Change Percent
Operating revenue				
Student tuition and fees, net	$ 360.8	$ 337.5	$ 23.3	6.9%
Grants and contracts	303.6	273.1	30.5	11.2%
Auxiliary enterprises	213.7	201.8	11.9	5.9%
Other operating revenue	21.9	20.0	1.9	9.5%
Total operating revenue	900.0	832.4	67.6	8.1%
Non-operating revenue				
State appropriations	232.4	219.4	13.0	5.9%
Other non-operating revenue*	63.6	59.9	3.7	6.2%
Total non-operating revenue	296.0	279.3	16.7	6.0%
Other revenue				
Capital grants and gifts	109.0	77.9	31.1	39.9%
Loss on disposal of capital assets	(3.2)	(1.3)	(1.9)	146.2%
Total other revenue	105.8	76.6	29.2	38.1%
Total revenue	$ 1,301.8	$ 1,188.3	$ 113.5	9.6%

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

Non-operating and Other Revenues and Expenses

Non-operating revenue and expenses totaled $296.0 million, an increase of $16.7 million from the previous year's total. Revenue increases in this category resulted primarily from a recovery in state appropriations ($13.0 million) and higher returns on investments ($6.5 million). These gains were partially offset by a reduction in federal fiscal stabilization funding ($3.5 million), reflecting the elimination of the program in fiscal year 2012.

Total other revenue, expenses, gains and losses increased by $29.2 million compared to the prior year. The on-going construction of capital projects funded from the commonwealth's 21st Century bond program increased $38.5 million, partially offset by reductions in capital appropriations ($3.2 million) and the Central Maintenance Reserve program ($4.3 million), as well as an increase in the loss on the disposal of capital assets ($1.9 million).

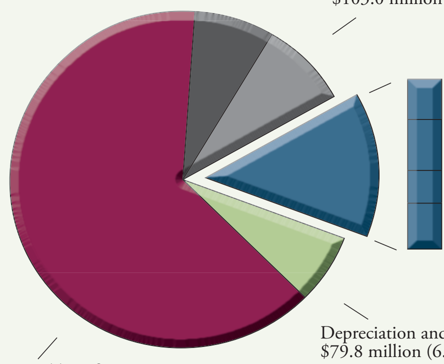
Revenues from all sources (operating, nonoperating and other) for fiscal year 2013 totaled $1,301.8 million, increasing by $113.5 million from the prior year. Operating expenses totaled $1,155.5 million for fiscal year 2013, reflecting a year-over-year increase of $79.2 million. Total revenues less total operating expenses resulted in an increase to net position of $146.3 million.

Total Expenses

The university is committed to recruiting and retaining outstanding faculty and staff. The personnel compensation package is one way to successfully compete with peer institutions and nonacademic employers. The natural expense category of compensation and benefits comprised $713.0 million or 61.7% of the university's total operating expenses. This category increased by $51.5 million (7.8%) over the previous year. Generally, changes to expenses in this category come from three sources: increases or reductions in the number of personnel, annual salary increases, and the general trends in the costs of fringe benefits. No general salary increases were funded by the commonwealth in fiscal year 2013. However, one-time bonuses ($13.0 million), the in-band adjustment process and growth in teaching and research faculty positions ($7.6 million), additional graduate teaching and research personnel ($3.8 million), as well as increased fringe benefit expenses (medical insurance - $9.1 million, retirement expense - $7.7 million, FICA - $1.8 million, group life insurance - $1.7 million, and retiree health insurance - $1.1 million) contributed to the overall increase in the compensation expense category. A second category with a significant increase over the prior year was sponsored programs subcontracts ($11.4 million). This was attributed primarily to the growth in federal grants and contracts. The last category with significant growth was contractual services ($8.8 million). The majority of the growth in this category was in the operations and maintenance area ($5.2 million) resulting from increases in contracting out for maintenance, repair and renovation activity.

Total Expenses by Natural Classification

For the year ended June 30, 2013



Increase (Decrease) in Expenses by Natural Classification

For the years ended June 30, 2013 and 2012

(all dollars in millions)

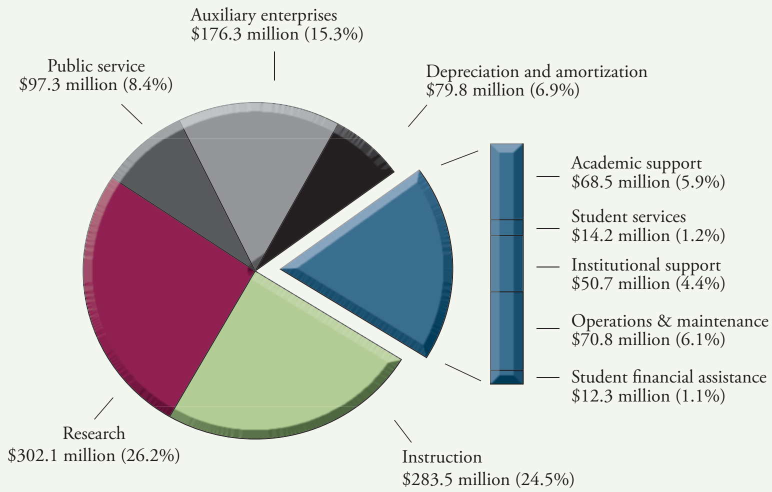
			Change	
	2013	2012	Amount	Percent
Compensation and benefits	$ 713.0	$ 661.5	$ 51.5	7.8 %
Contractual services	89.6	80.8	8.8	10.9 %
Supplies and materials	103.0	98.9	4.1	4.1 %
Travel	40.3	39.2	1.1	2.8 %
Other operating expenses	51.0	51.6	(0.6)	(1.2)%
Scholarships and fellowships	32.8	32.5	0.3	0.9 %
Sponsored program subcontracts	46.0	34.6	11.4	32.9 %
Depreciation and amortization	79.8	77.2	2.6	3.4 %
Total operating expenses	$ 1,155.5	$ 1,076.3	$ 79.2	7.4 %

Operating expenses for fiscal year 2013 (also shown in the chart on the facing page) totaled $1,155.5 million, up $79.2 million from fiscal year 2012. The net change resulted from moderate increases to expenses in the functional categories of instruction ($23.4 million), research ($21.7 million), auxiliary enterprises ($16.7 million) and public service ($11.5 million). Salaries, wages and fringe benefits accounted for the majority of the expense increase in these categories.

The largest percentage growth in operating expenses was in the public service function (13.4%). This increase was primarily in

Total Expenses by Function

For the year ended June 30, 2013



Increase (Decrease) in Expenses by Function

For the years ended June 30, 2013 and 2012

(all dollars in millions)

			Change	
	2013	2012	Amount	Percent
Instruction	$ 283.5	$ 260.1	$ 23.4	9.0 %
Research	302.1	280.4	21.7	7.7 %
Public service	97.3	85.8	11.5	13.4 %
Auxiliary enterprises	176.3	159.6	16.7	10.5 %
Depreciation and amortization	79.8	77.2	2.6	3.4 %
Subtotal	939.0	863.1	75.9	8.8 %
Support, maintenance, other				
Academic support	68.5	65.0	3.5	5.4 %
Student services	14.2	13.3	0.9	6.8 %
Institutional support	50.7	52.5	(1.8)	(3.4)%
Operations and maintenance of plant	70.8	69.3	1.5	2.2 %
Student financial assistance*	12.3	13.1	(0.8)	(6.1)%
Total support, maintenance, other	216.5	213.2	3.3	1.6 %
Total operating expenses	$ 1,155.5	$ 1,076.3	$ 79.2	7.4 %

*Includes loan administrative fees and collection costs

salaries and fringe benefits ($8.0 million) and sponsored programs subcontracts ($4.2 million) partially offset by reductions in supplies and travel expenses. The largest expense increase ($23.4 million) was in the instruction functional category, primarily due to increased compensation ($19.1 million).

In the functional categories for support activities, there were moderate increases in academic support and operations and maintenance of $3.5 million and $1.5 million respectively. The increases were primarily in the compensation and benefits category, discussed earlier in this section.

The largest percentage decrease was in the student financial assistance category (6.1%). The reduction in student financial assistance ($0.8 million) for fiscal year 2013 may be somewhat misleading. The net student financial assistance expense represents the amount of institutional resources refunded to the student in excess of tuition and fees, not the gross amount of financial aid provided by the university. The decrease in net expenses was actually due to increased waivers and scholarships provided to students, reflected in the $6.7 million growth in scholarship discounts and allowances (from $100.6 million to $107.3 million) which netted against the gross total of financial aid expenses.

In summary, the university's operating revenues grew by $67.6 million or 8.1% over the preceding year, while operating expenses increased by $79.2 million or 7.4%. This resulted in an increase of $11.6 million to the operating loss for the current fiscal year ($255.5 million) in comparison to the operating loss ($243.9 million) generated during the past year. The primary reason for the increase in the operating loss was the growth in expenses across all major operating areas with the largest increases occurring in the compensation and benefits category. State appropriations and other net non-operating revenues were used to meet operating expenses not offset by operating revenues.

Statement of Cash Flows

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

The statement is divided into five sections. The first section, *Cash flows from operating activities*, deals with operating cash flows and shows net cash used by operating activities of the university. The *Cash flows from noncapital financing activities* section reflects cash received and disbursed for purposes other than operating, investing and capital financing. GASB requires general appropriations from the commonwealth and noncapital gifts be shown as cash flows from noncapital financing activities. *Cash flows from capital and related financing activities* presents cash used for the acquisition and construction of capital and related items. Plant funds and related long-term debt activities (except depreciation and amortization), as well as gifts to endowments, are included in cash flows from capital financing activities. *Cash flows from investing activities* reflect the cash flows generated from investments which include purchases, proceeds, and interest. The last section reconciles the operating income or loss reflected on the *Statement of Revenues, Expenses, and Changes in Net Position* for fiscal year 2013 to net cash used by operating activities.

Major operating activity sources of cash for the university included student tuition and fees ($360.9 million), grants and contracts ($277.1 million), and auxiliary enterprise revenues ($208.8 million). Major operating activity uses of cash included compensation and benefits ($711.6 million) and operating expenses ($346.9 million). Operating activity uses of cash significantly exceeded operating activity sources of cash due to classification of state appropriations ($232.4 million) and gifts ($54.4 million) as noncapital financial activities.

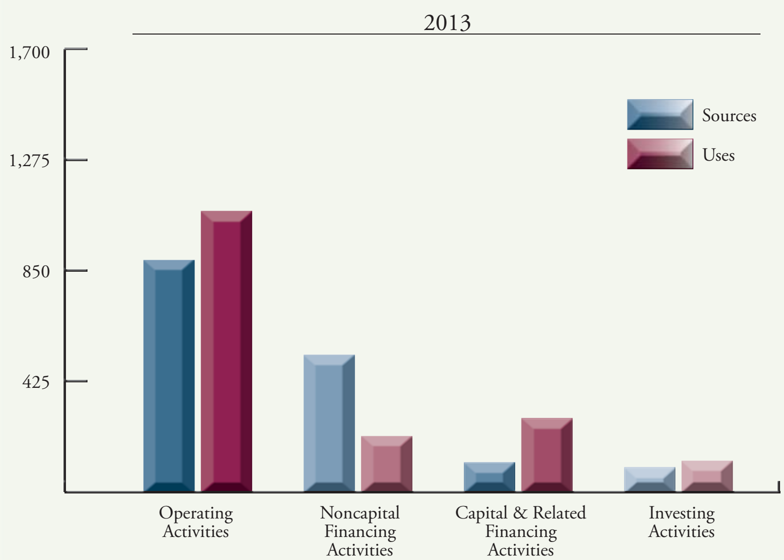
Economic Outlook

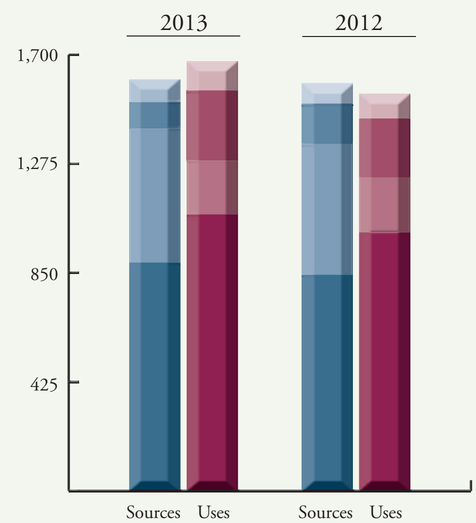
As a public institution, the university is subject to many of the macro-economic conditions impacting the nation and the Commonwealth of Virginia. The commonwealth currently supports 19% of the university's budget through general fund appropriations. With a slow but steady recovery building in

Summary of Cash Flows

For the years ended June 30, 2013 and 2012
(all dollars in millions)

	2013	2012	Change Amount	Change Percent
Net cash used by operating activities	$ (188.3)	$ (165.1)	$ (23.2)	14.1 %
Net cash provided by noncapital activities	312.1	295.3	16.8	5.7 %
Net cash used by capital and related financing activities	(169.8)	(70.9)	(98.9)	139.5 %
Net cash used by investing activities	(24.5)	(17.8)	(6.7)	37.6 %
Net increase (decrease) in cash and cash equivalents	(70.5)	41.5	(112.0)	(269.9)%
Cash and cash equivalents - beginning of year	430.2	388.7	41.5	10.7 %
Cash and cash equivalents - end of year	$ 359.7	$ 430.2	$ (70.5)	(16.4)%





(The graphs above demonstrate the relationship between sources and uses of cash. The graph on the left shows activity for fiscal year 2013 only, grouped by related sources and uses of cash, while the graph on the right displays that same activity for fiscal years 2013 and 2012 in a stacked format.)

the commonwealth, the *Virginia Higher Education Opportunity Act of 2011* and the 2013 Legislative Session have begun to reverse the trend of budget reductions with new state support for higher education across the 2012-14 biennium. While the Commonwealth of Virginia maintained the university's board of visitors' authority to establish tuition and fee rates, significant national and state emphasis has been focused on slowing the rate of tuition growth for undergraduate students, particularly state residents. The governor has indicated an interest in further investment in higher education in the coming biennium, though this is tempered by the continued pressure of mandatory cost drivers on the state's limited incremental general fund revenue.

The university continues to work with the Higher Education Advisory Commission and the State Council on Higher Education for Virginia to support higher education through the *Virginia Higher Education Opportunity Act of 2011*. The six year academic, enrollment, and financial planning process defined by this legislation has potential implications for future state support and tuition rates. As a part of this funding framework, the commonwealth has moved to an environment that seeks to incentivize certain activities in support of state goals such as increased STEM-H (science, technology, engineering, mathematics, and health) degree completion. As the largest producer of STEM-H graduates in the commonwealth, Virginia Tech is well positioned to leverage our excellence to further advance this goal, as well as other state higher education priorities.

The university is closely watching the federal budget process unfold and reviewing potential implications on the state and national economy, as well as university program funding including externally sponsored research, land grant activities, and student financial aid. The university continues to employ cost containment and income enhancement techniques which have helped to successfully advance the institution in the past. In addition, the university will continue to employ strategic planning processes to achieve its core missions of instruction, research and public service. The university has recently updated its vision for the future by completing a new long range plan covering fiscal years 2012 through 2018.

Virginia Tech, along with all other Virginia institutions of higher education, continues to maintain significant decentralized authority from the Commonwealth of Virginia through the requested restructuring of higher education. Restructuring provides additional flexibility and authority to the participant institutions with the potential for increased efficiencies and cost savings. The university works to leverage existing authorities to drive efficiencies for cost savings. The university is actively engaged in discussions with the Higher Education Advisory Commission, which has consideration of additional restructuring on its agenda.

The university has managed its exposure to risk through the implementation of its investment policy. The university's investment policy, established by the board of visitors and monitored by the board's Finance and Audit Committee, requires that its public funds be invested in accordance with the *Investment of Public Funds Act*, Section 2.2-4500 through 2.2-4516, et seq., *Code of Virginia*. The university has limited its investment in securities outside the scope of the *Investment in Public Funds Act* to restricted gift funds, local funds, and nongeneral fund reserves and balances designated by management as quasi-endowments. These funds are invested in the Virginia Tech Foundation's consolidated endowment fund and managed in accordance with the provisions of the *Uniform Prudent Management of Institutional Funds Act* (Section 55-268.11, et seq.). At the end of the fiscal year, the value of the university's quasi-endowments invested in the foundation totaled $59.6 million, an increase of $6.8 million over the preceding year.

The university continually monitors the valuation of its investments. At June 30, 2013, the market value for the university's non-endowed cash, cash equivalents, and investments totaled $474.7 million, including unrealized losses on investments of $0.5 million, compared to the market value of its investments at September 30, 2013 of $548.0 million and unrealized losses of $0.5 million.

Executive management believes that the university will maintain its solid financial foundation and is well positioned to continue to advance excellence in teaching, research, and public service. Management's policies of cost containment and investing in strategic initiatives will ensure the university is well prepared to manage the changing environment of higher education while continuing to advance the university's strategic plan. The financial position of the university is strong as evidenced by its diversified portfolio of research funding, National Science Foundation research ranking, strong student demand from increasingly talented students, auxiliary enterprises with high customer satisfaction, low total cost of attendance, growing contributions to endowments, increased liquidity, and quality debt ratings from Moody's (Aa1) and Standard and Poor's (AA). These debt ratings allow the university to obtain funding for capital projects with advantageous terms.

The university is grounded by an impressive community of students, faculty, and staff. Virginia Tech's future is bright as the commonwealth's largest university offering more career options than any other Virginia university.

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

Statement of Net Position

As of June 30, 2013, with comparative financial information as of June 30, 2012

(all dollars in thousands)

	2013		2012	
	Virginia Tech	Component Units	Virginia Tech	Component Units (as restated)
ASSETS				
Current assets				
Cash and cash equivalents (Note 4)	$ 290,526	$ (4,132)	$ 288,919	$ (8,571)
Short-term investments (Notes 4, 24)	2,960	8,536	2,410	7,854
Accounts and contributions receivable, net (Notes 1, 5, 24)	66,884	33,071	53,535	21,223
Notes receivable, net (Note 1)	1,748	2,307	1,743	2,169
Due from Commonwealth of Virginia (Note 9)	12,742	-	10,885	-
Inventories	13,321	8,164	15,313	6,415
Prepaid expenses	16,734	1,149	16,048	977
Other assets	-	2,983	-	3,021
Total current assets	404,915	52,078	388,853	33,088
Noncurrent assets				
Cash and cash equivalents (Note 4)	69,196	54,042	141,268	60,748
Due from Commonwealth of Virginia (Note 9)	10,101	-	4,157	-
Accounts and contributions receivable, net (Notes 1, 5, 24)	6,545	47,572	3,918	65,873
Notes receivable, net (Note 1)	17,178	29,513	13,771	25,624
Net investments in direct financing leases	-	62,601	-	22,187
Irrevocable trusts held by others, net	-	8,354	-	8,762
Long-term investments (Notes 4, 24)	182,920	761,007	152,403	711,379
Depreciable capital assets, net (Notes 7, 24)	1,201,170	208,246	1,032,837	173,350
Nondepreciable capital assets (Notes 7, 24)	317,864	86,132	306,722	115,269
Intangible assets, net	-	609	-	637
Other assets	1,218	4,881	2,068	4,893
Total noncurrent assets	1,806,192	1,262,957	1,657,144	1,188,722
Total assets	2,211,107	1,315,035	2,045,997	1,221,810
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities (Note 6)	131,938	19,269	141,786	15,987
Accrued compensated absences (Notes 1, 14)	19,330	650	20,716	595
Unearned revenue (Notes 1, 8)	38,937	9,360	40,129	8,812
Funds held in custody for others	13,561	-	6,516	-
Commercial paper (Note 10)	6,395	-	13,300	-
Long-term debt payable (Notes 11, 12, 24)	27,978	11,711	23,654	9,136
Other liabilities	-	7,927	-	7,289
Total current liabilities	238,139	48,917	246,101	41,819
Noncurrent liabilities				
Accrued compensated absences (Notes 1, 14)	20,700	271	17,694	90
Federal student loan program contributions refundable (Note 14)	13,620	-	13,501	-
Unearned revenue	-	6,313	-	6,315
Long-term debt payable (Notes 11, 12, 24)	500,360	236,632	477,250	242,361
Liabilities under trust agreements	-	25,677	-	24,776
Agency deposits held in trust (Note 24)	-	71,439	-	63,985
Other liabilities	3,113	10,488	2,508	9,897
Total noncurrent liabilities	537,793	350,820	510,953	347,424
Total liabilities	775,932	399,737	757,054	389,243
NET POSITION				
Net investment in capital assets	994,272	130,166	867,314	103,953
Restricted, nonexpendable	357	408,644	364	387,953
Restricted, expendable				
Scholarships, research, instruction, and other	88,017	280,770	79,101	256,812
Capital projects	11,024	57,868	20,302	57,868
Debt service and auxiliary operations	58,856	-	56,214	-
Unrestricted	282,649	37,850	265,648	25,981
Total net position	$ 1,435,175	$ 915,298	$ 1,288,943	$ 832,567

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

Statement of Revenues, Expenses, and Changes in Net Position

For the year ended June 30, 2013 with comparative financial information for the year ended June 30, 2012
(all dollars in thousands)

	2013		2012	
	Virginia Tech	Component Units	Virginia Tech	Component Units
OPERATING REVENUES				
Student tuition and fees, net (Note 1)	$ 360,814	$ -	$ 337,534	$ -
Gifts and contributions	-	41,487	-	36,516
Federal appropriations	16,747	-	15,047	-
Federal grants and contracts	220,053	-	192,493	-
Federal ARRA grants and contracts	6,561	-	7,348	-
State grants and contracts	12,667	-	12,282	-
Local grants and contracts (Note 3)	12,904	-	13,766	-
Nongovernmental grants and contracts	34,705	-	32,126	-
Sales and services of educational activities	15,009	-	14,463	-
Auxiliary enterprise revenue, net (Note 1)	213,683	44,379	201,796	45,265
Other operating revenues	6,868	58,820	5,516	50,046
Total operating revenues	900,011	144,686	832,371	131,827
OPERATING EXPENSES				
Instruction	283,535	6,686	260,149	4,190
Research	302,117	10,858	280,407	11,258
Public service	97,265	4,185	85,793	4,150
Academic support	68,477	14,607	65,024	14,735
Student services	14,246	-	13,306	-
Institutional support	50,678	34,629	52,494	37,501
Operation and maintenance of plant	70,848	11,434	69,280	11,149
Student financial assistance	12,205	23,675	12,901	22,936
Auxiliary enterprises	176,334	35,112	159,564	32,805
Depreciation and amortization (Note 7)	79,754	9,522	77,240	7,951
Other operating expenses	62	7,446	147	6,200
Total operating expenses	1,155,521	158,154	1,076,305	152,875
OPERATING LOSS	(255,510)	(13,468)	(243,934)	(21,048)
NON-OPERATING REVENUES (EXPENSES)				
State appropriations (Note 19)	232,381	-	219,375	-
Gifts	54,438	-	53,980	-
Non-operating grants and contracts	1,660	-	2,973	-
Federal student financial aid (PELL)	16,606	-	16,921	-
Federal fiscal stabilization (ARRA)	-	-	3,468	-
Investment income, net	6,495	9,690	4	8,465
Net gain (loss) on investments	-	60,995	-	(7,782)
Other additions	532	-	424	-
Nongeneral fund reversion	-	-	(1,422)	-
Interest expense on debt related to capital assets	(16,113)	(9,197)	(16,425)	(8,228)
Net non-operating revenues (expenses)	295,999	61,488	279,298	(7,545)
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	40,489	48,020	35,364	(28,593)
Change in valuation of split interest agreements	-	1,054	-	553
Capital appropriations (Note 20)	(3,276)	-	-	-
Capital grants and gifts (Note 9)	112,287	14,418	77,995	12,421
Loss on disposal of capital assets	(3,268)	(838)	(1,317)	(874)
Additions to permanent endowments	-	21,088	-	18,962
Other expenses	-	(1,011)	-	(759)
Total other revenues, expenses, gains, and losses	105,743	34,711	76,678	30,303
INCREASE IN NET POSITION	146,232	82,731	112,042	1,710
Net position—beginning of year	1,288,943	832,567	1,176,901	830,857
Net position—end of year	$ 1,435,175	$ 915,298	$ 1,288,943	$ 832,567

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

Statement of Cash Flows

As of June 30, 2013, with comparative financial information as of June 30, 2012
(all dollars in thousands)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 360,877	$ 337,777
Federal appropriations	16,747	15,047
Grants and contracts	277,140	258,865
Sales and services of educational activities	15,009	14,463
Auxiliary enterprises	208,807	206,641
Other operating receipts	6,868	5,516
Payments for compensation and fringe benefits	(711,561)	(656,507)
Payments for operating expenses	(346,869)	(333,683)
Payments for scholarships and fellowships	(11,966)	(12,729)
Loans issued to students	(6,280)	(3,437)
Collection of loans from students	2,925	2,893
Net cash used by operating activities	(188,303)	(165,154)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	232,381	217,953
Federal fiscal stabilization (ARRA)	-	3,468
Gifts received for other than capital purposes	54,446	53,806
Non-operating grants and contracts	1,660	2,973
Federal student financial aid (PELL)	16,606	16,921
Federal Direct Lending Program—receipts	127,063	134,850
Federal Direct Lending Program—disbursements	(127,069)	(134,850)
Funds held in custody for others—receipts	92,995	83,584
Funds held in custody for others—disbursements	(85,944)	(83,391)
Net cash provided by noncapital financing activities	312,138	295,314
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	(3,276)	-
Capital grants and gifts	99,660	73,956
Proceeds from capital debt	11,500	78,244
Proceeds from the sale of capital assets and insurance recoveries	1,279	777
Acquisition and construction of capital assets	(225,858)	(194,951)
Principal paid on capital debt and leases	(24,819)	(23,103)
Short-term debt, commercial paper	(6,905)	12,430
Interest paid on capital debt and leases	(21,343)	(18,213)
Net cash used by capital and related financing activities	(169,762)	(70,860)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	92,155	83,757
Interest on investments	1,589	1,019
Purchase of investments and related fees	(118,282)	(102,562)
Net cash used by investing activities	(24,538)	(17,786)
Net increase (decrease) in cash and cash equivalents	(70,465)	41,514
Cash and cash equivalents—beginning of year	430,187	388,673
Cash and cash equivalents—end of year	$ 359,722	$ 430,187

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

Statement of Cash Flows (continued)

As of June 30, 2013 with comparative financial information as of June 30, 2012
(all dollars in thousands)

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	2013	2012
Operating loss	$ (255,510)	$ (243,934)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation and amortization expense	79,754	77,240
Changes in assets and liabilities		
Receivables, net of allowance for doubtful accounts	(13,379)	4,037
Inventories	1,992	(2,315)
Prepaid items	164	818
Notes receivable, net of allowance for doubtful accounts	(3,412)	(472)
Accounts payable and accrued liabilities	1,716	(7,461)
Accrued payroll and other liabilities	(183)	2,910
Compensated absences	1,620	2,047
Unearned revenue	(1,192)	1,909
Credit card rebate	8	(8)
Federal loan program contributions refundable	119	75
Total adjustments	67,207	78,780
Net cash used by operating activities	$ (188,303)	$ (165,154)

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	2013	2012
Change in accounts receivable related to non-operating income	$ 2,597	$ (848)
Capital assets acquired through in-kind donations as a component of capital gifts and grants income	$ 2,179	$ 2,696
Change in fair value of investments recognized as a component of investment income	$ 4,287	$ (1,525)
Change in fair value of interest payable affecting interest paid	$ 456	$ 610
Capital assets acquired through assumption of a liability	$ 43,929	$ 1,221
Change in interest receivable affecting interest received	$ (29)	$ 3

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

Notes to Financial Statements

Contents

1. Summary of Significant Accounting Policies

Reporting Entity

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

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

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

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

Virginia Tech Foundation Inc.

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

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

During this fiscal year, the foundation distributed $69,166,000 to the university, for both restricted and unrestricted purposes.

Virginia Tech Services Inc.

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

During the year ended June 30, 2013, VTS paid $1,057,000 to the university, primarily for the rental of facilities.

Financial Statement Presentation

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

In fiscal year 2013 the following GASB statements of standards became effective: Statement 60, *Accounting and Financial Reporting for Service Concession;* Statement 61, *The Financial Reporting Entity: Omnibus;* Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements;* and Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* Statement 60 addresses service concession arrangements (SCAs), which are a type of public-private or public-public partnership. Virginia Tech is not currently a participant in any SCA. Statement 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The change in requirements does not affect the component units reported by Virginia Tech. Statement 62 continues efforts to codify all sources of generally accepted accounting principles for state and local governments into a single source. Statement 63 provides financial reporting guidance for deferred outflows of resources and deferred inflow of resources standardizing the presentation in the *Statement of Net Position*.

Basis of Accounting

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

Cash Equivalents

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

Short-term Investments

Short-term investments include securities that have an original maturity over 90 days but less than or equal to one year at the time of purchase.

Investments

GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, modified by GASB Statement 59, requires that purchased investments, interest-bearing temporary investments classified with cash and investments received as gifts be recorded at fair value (see Note 4). Changes in unrealized gain or loss on the carrying value of the investments are reported as a part of investment income in the *Statement of Revenues, Expenses, and Changes in Net Position*.

Accounts Receivable

Accounts receivable consist of tuition and fee charges to students, and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from federal, state and local governments and nongovernmental sources, in connection with reimbursement of allowable expenses made pursuant to the university's grants and contracts. Accounts receivable are recorded net of allowance for doubtful accounts. See Note 5 for a detailed list of accounts receivable amounts by major categories.

Notes Receivable

Notes receivable consist of amounts due from the Federal Perkins Loan Program, the Health Professional Student Loan Program, other student loans offered by the university and loans to affiliated organizations.

Notes receivable are recorded net of allowance for doubtful accounts for current and noncurrent notes receivable, which totaled $66,000 and $375,000, respectively, as of June 30, 2013.

The Virginia Tech Board of Visitors, under authority granted in section 23-38.101 of the *Restructuring Act of 2005*, approved up to $4,000,000 to be loaned to VTT LLC, an affiliated organization, in support of the acquisition of equipment, leasehold improvements and the initial operations of the National Transportation Research Center (NTRC). At year-end $3,100,000 in noncurrent notes receivable had been provided by the university in support of this strategic initiative promoting research growth, expanding economic development opportunities and advancing the university's instructional and outreach missions.

Inventories

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

Noncurrent Cash and Investments

Noncurrent cash and investments are reported as restricted because restrictions change the nature or normal understanding of the availability of the asset. This includes resources restricted for the acquisition or construction of capital assets, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds and other restricted investments.

Capital Assets

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

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

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

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

Interest Capitalization

Interest expense incurred during the construction of capital assets is capitalized, if material, net of interest income earned on resources set aside for this purpose. The university incurred and capitalized net interest expense related to the construction of capital assets totaling $3,560,000 this fiscal year.

Accrued Compensated Absences

Certain salaried employees' attendance and leave regulations make provisions for the granting of a specified number of days of leave with pay each year. The amount reflects all unused vacation leave, sabbatical leave and the amount payable upon termination under the Commonwealth of Virginia's sick leave payout policy. The applicable share of employer related taxes payable on the eventual termination payments is also included. The university's liability and expense for the amount of leave earned by employees but not taken, as of June 30, 2013, is recorded in the *Statement of Net Position*, and is included in the various functional categories of operating expenses in the *Statement of Revenues, Expenses, and Changes in Net Position*.

Unearned Revenue

Unearned revenue represents revenue collected but not earned as of June 30, 2013, primarily composed of revenue for grants and contracts, prepaid athletic ticket sales, and prepaid student tuition and fees. Summer Session I tuition and fees received during the fiscal year are considered earned at the end of the refund period, approximately June 15^{th} of each year. Tuition and fees received prior to year end for Summer Session II are unearned and recognized as revenue in the next fiscal year. See Note 7 for a detailed list of unearned revenue amounts.

Noncurrent Liabilities

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

Net Position

The university's net position is classified as follows:

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

Restricted component of net position, expendable — The expendable category of the restricted component of net position includes resources for which the university is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

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

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

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

Income Taxes

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

Classifications of Revenues

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

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

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

Scholarship Allowance

Student tuition and fees, certain auxiliary revenues and student financial assistance expenses are reported net of scholarship allowance in the *Statement of Revenues, Expenses, and Changes in Net Position*. Scholarship allowance is the difference between the stated charge for goods and services provided by the university and the amount paid by students and/or third parties making payments on the students' behalf. For the fiscal year ended June 30, 2013, the scholarship allowance for student tuition and fee revenue and auxiliary enterprise revenue totaled $86,939,000 and $20,322,000 respectively. Scholarship allowance to students is reported using the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). The alternative method is an algorithm that computes scholarship allowance on a university-wide basis rather than on an individual student basis.

Comparative Data

The university presents its financial information on a comparative basis. The basic financial statements include certain prior year summarized comparative information in total, but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, the prior year information should be read in conjunction with the university's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

2. Related Parties

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

The organizations are related to the university by affiliation agreements. These agreements require an annual audit to be performed by independent auditors. Affiliated organizations that hold no financial assets and certify all financial activities or transactions through the Virginia Tech Foundation Inc. may be exempt from the independent audit requirement. Exemption requirements are met by Virginia Tech Alumni Association, Virginia Tech Athletic Fund Inc., Virginia Tech Corp of Cadets Alumni Inc. and Virginia Tech Innovation Corporation. They are therefore not required to have an annual audit. Virginia Tech Intellectual Properties Inc. and Virginia Tech Applied Research Corporation are required to have an annual audit. Auditors have examined the financial records of these organizations and a copy of their audit reports have or will be provided to the university.

3. Local Government Support

The university, through the operation of its Cooperative Extension Service, maintains offices in numerous cities and counties throughout the Commonwealth of Virginia. Personnel assigned to these locations receive a portion of their compensation from local governments. Also included in the expenses of these extension offices are unit support services, which include such items as rent, telephone, supplies, equipment, and extension program expenses. The estimated amount contributed by the various local governments totaled $12,076,000 in 2013, and has been included in revenues and expenses of the accompanying financial statements. The university received other local government support of $828,000 in 2013.

4. Cash, Cash Equivalents, and Investments

The following information is provided with respect to the university's cash, cash equivalents and investments as of June 30, 2013. The following risk disclosures are required by GASB Statement 40, *Deposit and Investment Risk Disclosures*:

Custodial credit risk (Category 3 deposits and investments) — The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The university had no category 3 deposits or investments for 2013.

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

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

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

Foreign currency risk — This risk refers to the possibility that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The university had no foreign investments or deposits for 2013.

Cash and Cash Equivalents

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

Investments

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

All gifts, local funds, and nongeneral fund reserves and balances the university determines appropriate and permitted by law may be invested in the VTF Consolidated Endowment Program. These funds are governed by the foundation's investment and spending policies, and managed in accordance with the provisions of the *Virginia Uniform Prudent Management of Institutional Funds Act.*

A categorization of university investments follows. Short-term investments have an original maturity of over 90 days but less than or equal to one year. Long-term investments have an original maturity greater than one year.

Summary of investments

As of June 30, 2013 (*all dollars in thousands*)

	Current Assets	Noncurrent Assets	Total
Cash and cash equivalents	$ 290,526	$ 69,196	$ 359,722
Short-term investments	2,960	-	2,960
Long-term investments	-	182,920	182,920
Cash and investments	$ 293,486	$ 252,116	545,602
Less cash			42,750
Total investments			$ 502,852

Categorization of credit quality and interest rate risk

Investments held on June 30, 2013 (*all dollars in thousands*)

	Credit Rating	Less than 1 Year	1-5 Years	6-10 Years	Fair Value
U.S. Treasury and Agency securities (1)	N/A	$ 33,994	$ 17,211	$ -	$ 51,205
Debt securities					
Corporate notes	A	1,787	2,656	-	4,443
Corporate notes	A-	-	839	-	839
Corporate notes	A+	359	-	-	359
Corporate notes (2)	A1	-	994	-	994
Corporate notes (2)	A2	-	1,355	-	1,355
Corporate notes (2)	A3	1,003	-	-	1,003
Corporate notes	AA	836	535	-	1,371
Corporate notes	AA-	1,029	542	-	1,571
Corporate notes	AAA	-	606	-	606
Corporate bonds	A	3,014	1,572	-	4,586
Corporate bonds	A-	1,680	1,833	-	3,513
Corporate bonds	A+	807	2,176	-	2,983
Corporate bonds	AA	1,421	904	-	2,325
Corporate bonds	AA-	860	331	-	1,191
Corporate bonds	AA+	1,171	1,455	-	2,626
Corporate bonds (2)	Aa1	500	-	-	500
Corporate bonds (2)	Aaa	1,700	-	-	1,700
Corporate bonds	AAA	589	2,300	-	2,889
Repurchase agreements	N/A	61,178	-	-	61,178
Asset backed securities	AA+	108	-	-	108
Asset backed securities	AAA	5,392	13,782	-	19,174
Asset backed securities (2)	Aaa	3,204	2,858	-	6,062
Federal agency securities					
Unsecured bonds and notes (2)	Aaa	208,035	8,756	-	216,791
Mortgage backed securities	AAA	283	292	-	575
Mortgage backed securities (2)	Aaa	3,066	29,063	-	32,129
Money market & mutual funds					
Money market & mutual funds	AAA	1,084	-	-	1,084
Money market & mutual funds (2)	Aaa	3,204	-	-	3,204
Other:					
Deposits with VTF	N/A	1,427	-	-	1,427
Dairymen's Equity	N/A	-	-	62	62
Short-term investment fund	AAAm	166	-	-	166
SNAP	AAAm	15,597	-	-	15,597
Subtotal		$ 353,494	$ 90,060	$ 62	443,616
Investments without specific maturities, held with VTF					59,236
Total					$ 502,852

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

5. Accounts Receivable

Accounts receivable consists of the following as of June 30, 2013 (*all dollars in thousands*):

Current receivables	
Grants and contracts	$ 52,651
Federal appropriations	5,086
Accrued investment interest	419
Student tuition and fees	3,238
Auxiliary enterprises and other operating activities	8,567
Total current receivables before allowance	69,961
Less allowance for doubtful accounts	3,077
Net current accounts receivable	66,884
Noncurrent receivables	
Capital gifts, grants and other receivables	6,236
Build America bonds interest receivable	162
Accrued investment interest	147
Total noncurrent receivables	6,545
Total receivables	$ 73,429

6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2013, consist of the following *(all dollars in thousands):*

Accounts payable	$ 39,996
Accounts payable, capital projects	25,853
Accrued salaries and wages payable	57,256
Retainage payable	8,833
Total current accounts payable and accrued liabilities	$ 131,938

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

7. Capital Assets

Changes in capital assets for the year ending June 30, 2013 (*all dollars in thousands)*

	Beginning Balance	Additions	Retirements	Ending Balance
Depreciable capital assets				
Buildings	$ 1,167,936	$ 205,751	$ 5,303	$ 1,368,384
Moveable equipment	429,817	43,492	23,963	449,346
Software and intangible assets	8,609	529	-	9,138
Fixed equipment	104,337	1,322	1,489	104,170
Infrastructure	118,546	1,111	88	119,569
Library books	76,233	1,291	1,279	76,245
Total depreciable capital assets, at cost	1,905,478	253,496	32,122	2,126,852
Less accumulated depreciation and amortization				
Buildings	369,222	35,139	2,666	401,695
Moveable equipment	295,138	34,803	22,000	307,941
Software and intangible assets	6,709	605	-	7,314
Fixed equipment	53,004	4,047	679	56,372
Infrastructure	86,014	2,731	88	88,657
Library books	62,554	2,429	1,280	63,703
Total accumulated depreciation and amortization	872,641	79,754	26,713	925,682
Total depreciable capital assets, less accumulated depreciation and amortization	1,032,837	173,742	5,409	1,201,170
Nondepreciable capital assets				
Land	46,184	-	-	46,184
Livestock	833	75	-	908
Construction in progress	256,216	167,264	161,944	261,536
Equipment in process	3,312	7,124	2,993	7,443
Software in development	177	1,780	164	1,793
Total nondepreciable capital assets	306,722	176,243	165,101	317,864
Total capital assets, less accumulated depreciation and amortization	$ 1,339,559	$ 349,985	$ 170,510	$ 1,519,034

8. Unearned Revenue

Unearned revenue consists of the following at June 30, 2013:
(all dollars in thousands):

Grants and contracts	$ 13,388
Prepaid athletic tickets	12,118
Prepaid tuition and fees	9,016
Other auxiliary enterprises	4,415
Total unearned revenue	$ 38,937

9. Commonwealth Capital Reimbursement Programs and Capital Gifts

The commonwealth has established several programs to provide state-supported institutions of higher education with bond proceeds for financing the acquisition and replacement of instructional and research equipment and facilities. During fiscal year 2013, funding has been provided to the university from three programs (21st Century program, Central Maintenance Reserve program and the Equipment Trust Fund program) managed by the Virginia College Building Authority (VCBA). The VCBA issues bonds and uses the proceeds to reimburse the university and other institutions of higher education for expenses incurred in the acquisition of equipment and facilities. The university also receives capital funding for equipment and facilities from private gifts, grants, and contracts.

The *Statement of Revenues, Expenses, and Changes in Net Position* includes the amounts listed below for the year ended June 30, 2013, in the "Capital Grants and Gifts" line item for equipment and facilities. Part of the funding for these programs is a receivable from the commonwealth at June 30, 2013 as shown in the next column *(all dollars in thousands)*:

VCBA 21st Century program	$ 84,519
VCBA Central Maintenance Reserve program	4,364
VCBA Equipment Trust Fund program	12,493
Private gifts	2,096
Grants and contracts for equipment	8,815
	$ 112,287

The line items, "Due from the Commonwealth of Virginia", on the *Statement of Net Position* for the year ended June 30, 2013, represent pending reimbursements from the following programs *(all dollars in thousands):*

	Current	Noncurrent
VCBA Equipment Trust Fund program	$ 12,366	$ -
Credit card rebate/accrued interest	376	-
VCBA 21st Century program	-	10,101
	$ 12,742	$ 10,101

10. Short-term Debt

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

At June 30, 2013 the amount outstanding was $6,395,000. The average days-to-maturity was 28 days with a weighted average effective interest rate of 0.92%.

11. Summary of Long-term Indebtedness

Bonds Payable

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

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

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

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

Notes Payable

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

Capital Leases

Capital leases represent the university's obligation primarily to Virginia Tech Foundation Inc. for lease agreements related to the Student Services building, Southgate Center addition, Hunter Andrews Information Systems building addition, the Integrated Life Sciences building (ILSB), including a separate lease for a Vivarium located in the ILSB and the North End Center building and parking garage. The assets under capital lease are recorded at the net present value of the minimum lease payments during the lease term.

Installment Purchase Obligations

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

Long-term Debt Payable Activity

As of June 30, 2013
(all dollars in thousands)

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
Bonds payable					
Section 9(c) general obligation revenue bonds	$ 178,578	$ 12,224	$ 21,486	$ 169,316	$ 7,877
Section 9(d) revenue bonds	58,310	-	40,161	18,149	6,105
Notes payable	238,748	45,906	10,200	274,454	11,450
Capital lease obligations	25,164	43,929	2,729	66,364	2,525
Installment purchase obligations	104	-	49	55	21
Total long-term debt payable	$ 500,904	102,059	74,625	$ 528,338	$ 27,978
Current year debt defeasance		(46,630)	(46,630)		
Total additions/retirements, net of current year defeasance		$ 55,429	$ 27,995		

Future Principal Commitments

For fiscal years subsequent to 2013
(all dollars in thousands)

	Section 9(c) Bonds	Section 9(d) Bonds	Notes Payable	Capital Lease Obligations	Installment Purchase Obligations	Total Long-term Debt Payable
2014	$ 7,877	$ 6,105	$ 11,450	$ 2,525	$ 21	$ 27,978
2015	8,364	4,815	13,580	2,655	22	29,436
2016	8,655	5,055	14,155	2,790	12	30,667
2017	9,120	635	14,855	2,937	-	27,547
2018	7,977	665	15,540	3,089	-	27,271
2019 – 2023	43,146	1,415	75,084	15,864	-	135,509
2024 – 2028	49,754	-	71,265	16,113	-	137,132
2029 – 2033	19,580	-	33,250	12,036	-	64,866
2034 – 2037	1,735	-	8,121	8,355	-	18,211
Unamortized premium	14,674	50	20,373	-	-	35,097
Deferral on debt defeasance	(1,566)	(591)	(3,219)	-	-	(5,376)
Total future principal requirements	$ 169,316	$ 18,149	$ 274,454	$ 66,364	$ 55	$ 528,338

Future Interest Commitments

For fiscal years subsequent to 2013
(all dollars in thousands)

	Section 9(c) Bonds	Section 9(d) Bonds	Notes Payable	Capital Lease Obligations	Installment Purchase Obligations	Total Interest
2014	$ 7,116	$ 883	$ 11,425	$ 3,083	$ 2	$ 22,509
2015	6,754	595	10,822	2,963	-	21,134
2016	6,350	356	10,155	2,837	-	19,698
2017	5,979	122	9,445	2,704	-	18,250
2018	5,571	94	8,710	2,564	-	16,939
2019 – 2023	22,455	96	32,357	10,532	-	65,440
2024 – 2028	12,014	-	16,171	6,565	-	34,750
2029 – 2033	2,460	-	4,523	3,077	-	10,060
2034 – 2037	87	-	677	555	-	1,319
Total future interest requirements	$ 68,786	$ 2,146	$ 104,285	$ 34,880	$ 2	$ 210,099

12. Detail of Long-term Indebtedness

Bonds payable

As of June, 30, 2013 *(all dollars in thousands)*

	Interest rates	Maturity	2013
Revenue Bonds			
Dormitory and dining hall system			
Series 2004A, issued $2,710 – refunding series 1996A*	2.00% - 5.00%	2016	$ 940
Series 2004A, issued $1,665 – refunding series 1996A*	2.00% - 5.00%	2016	575
Series 2004B, issued $1,265 – refunding series 1996B*	2.00% - 4.00%	2016	415
University services systems			
Student Health and Fitness Center, Series 2004C, issued $15,105 – refunding series 1996C*	2.00% - 5.00%	2016	5,075
Athletic system			
Athletic facility improvements, Series 2004D, issued $4,155 – refunding series 1996A*	2.00% - 5.00%	2016	1,435
Lane Stadium west sideline expansion, Series 2004D, issued $52,715	3.00% - 5.13%	2014	1,490
Northern Virginia Graduate Center, Series 2004A, issued $7,860 – refunding series 1996A*	2.00% - 5.00%	2020	4,495
Architectural/engineering, Series 2004A, issued $4,685 – refunding series 1996A*	2.00% - 5.00%	2016	1,630
Coal fired boiler facility			
Series 2004A, issued $6,005 – refunding series 1996A*	2.00% - 5.00%	2016	2,085
Series 2004A, issued $1,585 – refunding series 1996A*	2.00% - 5.00%	2016	550
Unamortized premium (discount)			50
Deferral on debt defeasance			(591)
Total revenue bonds			18,149
General Obligation Revenue Bonds			
Dormitory and dining hall system			
Series 2004B, issued $9,995 – partial refunding series 1997*	2.00% - 5.00%	2017	4,523
Series 2004B, issued $1,928 – partial refunding series 1998*	2.00% - 5.00%	2018	1,063
Series 2004B, issued $1,168 – partial refunding series 1999*	2.00% - 5.00%	2019	750
Series 2004A, issued $4,800	3.75% - 5.00%	2014	225
Series 2007A, issued $5,995	4.00% - 5.00%	2018	1,455
Series 2007A, issued $13,130	4.00% - 5.00%	2018	3,180
Series 2008B, issued $17,185	3.00% - 5.00%	2028	14,745
Series 2009D, issued $1,891 – partial refunding series 2004A*	5.00%	2022	1,891
Series 2009B, issued $39,005	4.00% - 5.00%	2029	36,125
Series 2009B, issued $3,720	4.00% - 5.00%	2029	3,445
Series 2011A, issued $18,860	4.34%	2031	18,140
Series 2012A, issued $942 – partial refunding series 2004A*	5.00%	2024	942
Series 2013B, issued $3,576 – partial refunding series 2007A*	4.00% - 5.00%	2027	3,576
Series 2013B, issued $7,842 – partial refunding series 2007A*	4.00% - 5.00%	2027	7,842
Lavery Hall, series 2010A, issued $34,650	3.00% - 5.00%	2030	31,800
Parking facilities			
Series 2004B, issued $951 – partial refunding series 1997*	2.00% - 5.00%	2017	427
Series 2006B, issued $685	4.00% - 5.00%	2016	90
Series 2008B, issued $1,545	3.00% - 5.00%	2028	1,285
Series 2009D, issued $190 – partial refunding series 2006B*	5.00%	2022	190
Series 2009C, issued $276 – partial refunding series 2002*	3.00% - 4.00%	2017	276
Series 2009B, issued $24,590	4.00% - 5.00%	2034	23,356
Series 2010A, issued $745	2.00% - 5.00%	2030	665
Series 2013B, issued $218 – partial refunding series 2006B*	4.00% - 5.00%	2026	217
Unamortized premium (discount)			14,674
Deferral on debt defeasance			(1,566)
Total general obligation revenue bonds			169,316
Total bonds payable			$ 187,465

Notes payable

Notes payable to VCBA under the pooled 9(d) bond program at June 30, 2013
(all dollars in thousands)

	Average coupon rate	Maturity	2013
Dormitory and dining hall system			
Series 2004B, issued $1,120 – partial refunding series 1999*	5.00%	2014	$ 575
Series 2004B, issued $7,420 – partial refunding series 1999A*	3.00% - 5.00%	2020	5,395
Series 2005, issued $2,815	3.50% - 5.00%	2017	735
Series 2007B, issued $3,395 – partial refunding series 1998A*	4.00% - 4.50%	2019	3,390
Series 2012A, issued $1,350 – partial refunding series 2005*	5.00%	2025	1,350
University services system – Smith Career Center			
Series 2007B, issued $1,621 – partial refunding series 2002A*	4.00% - 4.50%	2020	1,580
Series 2010B, issued $1,190 – partial refunding series 2002A*	5.25%	2023	1,190
Utility system			
Series 2004B, issued $870 – partial refunding series 2000A*	3.00% - 5.00%	2017	693
Series 2007B, issued $646 – partial refunding series 2000A*	4.00% - 4.50%	2020	643
Series 2010B, issued $345 – partial refunding series 2000A*	5.00% - 5.75%	2021	215
Series 2007B, issued $1,060 – partial refunding series 2002A*	4.00% - 4.50%	2020	1,033
Series 2010B, issued $770 – partial refunding series 2002A*	5.25%	2023	770
Athletic system - Lane Stadium expansion			
Series 2007B, issued $2,860 – partial refunding series 2001A*	4.00% - 4.50%	2020	2,815
Series 2009B, issued $8,705	2.00% - 5.00%	2030	7,875
Series 2010B, issued $11,540 – partial refunding series 2001A*	4.00% - 5.00%	2027	10,820
Series 2012B, issued $32,365 – refunding series 2004D bonds*	3.00% - 5.00%	2029	31,370
Infectious waste facility			
Series 2004B, issued $480 – partial refunding series 2000A*	3.00% - 5.00%	2017	387
Series 2007B, issued $359 – partial refunding series 2000A*	4.00% - 4.50%	2020	358
Series 2010B, issued $190 – partial refunding series 2000A*	5.00% - 5.75%	2021	120
Biomedical facility			
Series 2007B, issued $5,649 – partial refunding series 2002A*	4.00% - 4.50%	2020	5,506
Series 2010B, issued $10,155 – partial refunding series 2002A*	4.00% - 5.25%	2028	10,155
Holtzman Alumni Center and Skelton Conference Center			
Series 2003A, issued $21,585	4.63%	2014	650
Series 2010B, issued $3,215 – partial refunding series 2003A*	4.38% - 5.00%	2021	3,215
Series 2012A, issued $12,320 – partial refunding series 2003A*	4.75%	2031	12,320
Life Sciences-I			
Series 2005, issued $8,295	3.50% - 5.00%	2017	2,160
Series 2012A, issued $3,985 – partial refunding series 2005*	5.00%	2025	3,985
Kelly Hall, series 2006A, issued $16,145	3.00% - 5.00%	2027	12,830
Boiler pollution controls, series 2006A, issued $1,925	3.00% - 5.00%	2027	1,530
Surge space building, series 2006A, issued $7,025	4.00% - 5.00%	2022	4,815
Campus heating plant			
Series 2007A, issued $3,880	4.50% - 5.00%	2028	3,340
Series 2009B, issued $5,875	2.00% - 5.00%	2030	5,315
McComas Hall exterior repairs			
Series 2009A, issued $1,475	2.75% - 5.00%	2029	1,260
Series 2009B, issued $4,365	2.00% - 5.00%	2030	4,070
ICTAS-II, series 2009B, issued $13,045	2.00% - 5.00%	2030	12,175
McComas Hall recreation, counseling and clinical space, series 2009B, issued $12,420	2.00% - 5.00%	2030	11,590
Moss Arts Center			
Series 2010B, issued $19,445	3.75% - 5.60%	2036	18,950
Series 2011A, issued $19,375	3.00% - 5.00%	2037	19,375
Lavery Hall, series 2010B, issued $9,650	3.75% - 5.50%	2031	9,305
Signature Engineering building			
Series 2011A, issued $13,410	5.00%	2020	13,410
Series 2011A, issued $12,695	3.00% - 5.00%	2032	12,695
Chiller Plant, series 2011A, issued $7,515	3.00% - 5.00%	2032	7,515
Veterinary Medicine Instruction addition, series 2012B, issued $9,820	3.00% - 5.00%	2033	9,820
Unamortized premium (discount)			20,373
Deferral on debt defeasance			(3,219)
Total notes payable			$ 274,454

*See Note 13 – Long-term Debt Defeasance

Other long-term debt

At June 30, 2013 *(all dollars in thousands)*

Capital leases payable	
North End Center building and parking garage	$ 43,650
Integrated Life Sciences (ILSB) building and vivarium	14,964
Student Services building, Southgate Center addition and Hunter Andrews addition	7,750
Total capital leases payable	66,364
Installment purchase obligations for equipment purchases through June 2013	55
Total other long-term debt	$ 66,419

13. Long-term Debt Defeasance

Current Year

The university issued $13,880,000 of section 9(c) bonds and $37,229,000 of section 9(d) notes to refund $12,168,000 of section 9(c) bonds and $34,462,000 of section 9(d) bonds in fiscal year 2013. The resulting net loss of $4,202,000 will be amortized over the life of the new debt. For financial reporting purposes, these bonds are considered an in-substance defeasance and have therefore been removed from the long-term debt payable line item of the *Statement of Net Position*. The assets in escrow have similarly been excluded. The details of each refunded debt issue are presented below.

Debt issues refunded

As of June 30, 2013 *(all dollars in thousands)*	True Interest Cost	Debt Refunded	Refunding Debt Issued	Accounting Gain(Loss)	Reduction in Debt Service	Gain Discounted at TIC	Defeased Debt
Bonds							
Series 2006B, issued $685	1.86%	$ 235	$ 255	$ (19)	$ 18	$ 16	$ 235
Series 2007A, issued $5,995	1.86%	3,737	4,267	(494)	337	300	3,737
Series 2007A, issued $13,130	1.86%	8,196	9,358	(1,085)	740	658	8,196
Series 2004D, issued $52,715	1.85%	34,462	37,229	(2,604)	7,003	5,590	34,462
Total bonds		$ 46,630	$ 51,109	$ (4,202)	$ 8,098	$ 6,564	$ 46,630

Previous Years

In previous fiscal years in accordance with GASB Statement 7, *Advance Refundings Resulting in the Defeasance of Debt*, the university has excluded from its financial statements the assets in escrow and the debt payable that was defeased in-substance. For the year ended June 30, 2013, bonds and notes payable considered defeased in previous years totaled $44,880,000.

14. Change in Other Liabilities

A summary of the changes in other liabilities for the year ended June 30, 2013 *(all dollars in thousands)*

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Accrued compensated absences	$ 38,410	$ 28,516	$ 26,896	$ 40,030	$ 19,330
Federal student loan program contribution refundable	13,501	255	136	13,620	-
Total other liabilities	$ 51,911	$ 28,771	$ 27,032	$ 53,650	$ 19,330

15. Lease Commitments

The university has entered into numerous agreements to lease land, buildings, and equipment. With some of these agreements, the university is committed under various operating leases for equipment and space. In general, the leases are for three- to ten-year terms with renewal options. The university expects similar leases to replace these leases during the normal course of business. The total lease expense was approximately $19,978,000 for the year ended June 30, 2013. This amount includes approximately $13,251,000 in lease payments to the Virginia Tech Foundation Inc. for office and laboratory space. In addition, the total lease expense includes approximately $1,690,000 of short-term equipment rentals that can be terminated at any time. The short-term equipment rental costs are not included in the summary of future lease payments listed in the next table.

A summary of future minimum lease payments under operating leases as of June 30, 2013, follows (*all dollars in thousands*):

2014	$ 19,235
2015	15,715
2016	14,417
2017	11,831
2018	8,617
2019 – 2023	18,114
2024 – 2028	1,343
2029 – 2033	555
2034 – 2038	54
2039 – 2043	54
2044 – 2048	54
2049 – 2053	54
2054 – 2058	54
Total	$ 90,097

16. Capital Improvement Commitments

The amounts listed in the following tables represent the value of obligations remaining on capital improvement project contracts. These obligations are for future effort and as such have not been accrued as expenses or liabilities on the university's financial statements. Outstanding contractual commitments for capital improvement projects at June 30, 2013, are listed below.

Capital commitments by project

(all dollars in thousands)

Signature Engineering Building	$ 17,299
Human & Agriculture Biosciences Building I	8,483
Davidson Hall Renovation	7,475
Moss Arts Center	3,527
Classroom Building	2,351
Other projects	126
Total	$ 39,261

Capital commitments by source of funding

(all dollars in thousands)

Bonds and notes payable	$ 6,850
Capital appropriations	25,185
Private funds	1,938
University cost recoveries and education and general funds	4,651
Auxiliary enterprise funds	637
Total	$ 39,261

17. Contributions to Pension Plans

Virginia Retirement System

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

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

The university's expenses for these contributions to the VRS totaled approximately $20,211,000 for the year ended June 30, 2013.

Optional Retirement Plan

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

Individual contracts issued under the plan provide for full and immediate vesting of both the university's and the employees' contributions. Total pension costs under this plan were approximately $20,406,000 for year ended June 30, 2013. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $204,715,000 for this fiscal year.

Deferred Compensation Plan

Employees of the university are employees of the Commonwealth of Virginia. State employees may participate in the commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the commonwealth matching up to $20 per pay period. The dollar amount match can change depending on the funding available in the commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under section 401(a) of the *Internal Revenue Code*. The university expense for matching contributions to this plan, which is an amount assessed by the commonwealth, was approximately $2,224,000 for the fiscal year 2013.

Federal Pension Plans

Certain Cooperative Extension Service (CES) professional employees are participants in either the Federal Employee Retirement System (FERS) or the Federal Civil Service Retirement System (CSRS). The FERS and CSRS are defined benefit plans in which benefits are based upon the highest base pay over any three consecutive years and the years of creditable service. The costs under these plans were approximately $124,000 for the year ended June 30, 2013. Contributions to the FERS and CSRS were calculated using the base salary amount of approximately $1,218,000 for the fiscal year 2013.

In addition, the university contributed $31,500 in employer contributions to the Thrift Savings Plan for the year ended June 30, 2013. The Thrift Savings Plan is a defined contribution plan in which the university matches employee contributions within certain limitations.

18. Postemployment Benefits

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

19. Appropriations

The Appropriation Act specifies that unexpended general fund appropriations remaining on the last day of the current year, ending on June 30, 2013, shall be reappropriated for expenditure in the first month of the next year, beginning on July 1, 2013, except as may be specifically provided otherwise by the Virginia General Assembly. The governor may, at his discretion, unallot funds from the reappropriated balances that relate to unexpended appropriations for payments to individuals, aid to localities, or any pass-through grants.

Adjustments made to the university's original appropriation during this fiscal year are as follows (*all dollars in thousands*):

Original legislative appropriation

(*per Chapter 806*)

Education and general programs	$ 196,955
Student financial assistance	18,619
Commonwealth research initiative	3,139
Unique military activities	1,484
Engineering research center fund	175
Total appropriation	$ 220,372

Adjustments

One-time employee bonus	$ 8,333
Rolls Royce partnership	2,917
Commonwealth Technology Research grant	274
Student financial assistance	428
Other adjustments	57
Total adjustments	12,009
Adjusted appropriation	$ 232,381

20. Capital Appropriations

Capital project general fund appropriations were not provided to the university by the commonwealth during the year ended June 30, 2013. During the current year, the commonwealth reimbursed the central capital planning fund from current year debt proceeds for general fund appropriations recognized in previous years used to fund on-going capital projects. The amount of general funds appropriated in prior fiscal years reimbursed from debt proceeds was $3,276,000.

21. Grants, Contracts, and Other Contingencies

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

In addition, the university is required to comply with various federal regulations issued by the Office of Management and Budget. Failure to comply with certain system requirements of these regulations may result in questions concerning the allowance of related direct and indirect charges pursuant to such agreements. As of June 30, 2013, the university estimates that no material liabilities will result from such audits or questions.

22. Federal Direct Lending Program

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

These loan proceeds are treated as student payments with the university acting as a fiduciary agent for the student. Therefore, the receipt of the funds from the federal government is not reflected in the federal government grants and contracts total on the *Statement of Revenues, Expenses, and Changes in Net Position*. The activity is included in the noncapital financing section of the *Statement of Cash Flows*. For the fiscal year ended June 30, 2013, cash provided by the program totaled $127,063,000 and cash used by the program totaled $127,069,000.

23. Expenses by Natural Classification within Functional Classification

The university's operating expenses by functional classification for the year ended June 30, 2013 *(all dollars in thousands)*

	Compensation and Benefits	Contractual Services	Other Supplies and Materials	Travel	Operating Expenses	Scholarships and Fellowships	Sponsored Program Subcontracts	Total
Instruction	$ 255,346	$ 10,697	$ 8,513	$ 6,103	$ 1,810	$ 928	$ 138	$ 283,535
Research	189,540	23,128	20,707	13,577	5,793	13,994	35,378	302,117
Public service	57,394	16,851	3,433	5,817	2,944	428	10,398	97,265
Academic support	47,711	3,919	13,611	1,124	1,914	195	3	68,477
Student services	10,595	1,770	813	815	114	129	10	14,246
Institutional support	43,437	255	2,857	2,202	1,244	672	11	50,678
Operation and maintenance of plant	25,067	8,610	13,134	249	23,717	21	50	70,848
Student financial assistance	239	-	22	165	-	11,779	-	12,205
Auxiliary enterprises	83,669	24,351	39,982	10,246	13,518	4,556	12	176,334
Subtotal before other costs	$ 712,998	$ 89,581	$ 103,072	$ 40,298	$ 51,054	$ 32,702	$ 46,000	1,075,705
Depreciation and amortization expense								79,754
Loan administrative fees and collection costs								62
Total operating expenses								$ 1,155,521

24. Component Units

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

24. Component Units (continued)

Consolidating Statement of Net Position

The financial position for the university's component units as of June 30, 2013
(all dollars in thousands)

	Virginia Tech Foundation	Virginia Tech Services	Total Component Units
Assets			
Current assets			
Cash and cash equivalents	$ (4,493)	$ 361	$ (4,132)
Short-term investments	5,457	3,079	8,536
Accounts and contributions receivable, net	32,863	208	33,071
Notes receivable, net	2,307	-	2,307
Inventories	402	7,762	8,164
Prepaid expenses	759	390	1,149
Other assets	2,983	-	2,983
Total current assets	40,278	11,800	52,078
Noncurrent assets			
Cash and cash equivalents	54,042	-	54,042
Accounts and contributions receivable, net	47,572	-	47,572
Notes and deeds of trust receivable, net	29,513	-	29,513
Net investments in direct financing leases	62,601	-	62,601
Irrevocable trusts held by others, net	8,354	-	8,354
Long-term investments	761,007	-	761,007
Depreciable capital assets, net	207,630	616	208,246
Nondepreciable capital assets	86,132	-	86,132
Intangible assets, net	609	-	609
Other assets	4,881	-	4,881
Total noncurrent assets	1,262,341	616	1,262,957
Total assets	1,302,619	12,416	1,315,035
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	13,524	5,745	19,269
Accrued compensated absences	373	277	650
Deferred revenue	8,073	1,287	9,360
Long-term debt payable	11,711	-	11,711
Other liabilities	7,217	710	7,927
Total current liabilities	40,898	8,019	48,917
Noncurrent liabilities			
Accrued compensated absences	271	-	271
Deferred revenue	6,313	-	6,313
Long-term debt payable	236,632	-	236,632
Liabilities under trust agreements	25,677	-	25,677
Agency deposits held in trust	71,439	-	71,439
Other liabilities	10,488	-	10,488
Total noncurrent liabilities	350,820	-	350,820
Total liabilities	391,718	8,019	399,737
Net position			
Net investment in capital assets	129,550	616	130,166
Restricted, nonexpendable	408,644	-	408,644
Restricted, expendable			
Scholarships, research, instruction, and other	280,770	-	280,770
Capital projects	57,868	-	57,868
Unrestricted	34,069	3,781	37,850
Total net position	$ 910,901	$ 4,397	$ 915,298

24. Component Units (continued)

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

The university's component unit activity for the year ended June 30, 2013
(all dollars in thousands)

	Virginia Tech Foundation	Virginia Tech Services	Total Component Units
Operating revenues			
Gifts and contributions	$ 41,487	$ -	$ 41,487
Auxiliary enterprise revenue			
Hotel Roanoke	18,984	-	18,984
River Course	1,256	-	1,256
Bookstore	-	24,139	24,139
Other revenues			
Rental income	34,754	-	34,754
Other	24,066	-	24,066
Total operating revenues	120,547	24,139	144,686
Operating expenses			
Instruction	6,686	-	6,686
Research	10,858	-	10,858
Public service	4,185	-	4,185
Academic support	14,607	-	14,607
Institutional support			
Other university programs	16,447	-	16,447
Fund-raising	7,391	-	7,391
Management and general	10,791	-	10,791
Operation and maintenance of plant			-
Operation and maintenance of plant	5,873	-	5,873
Research cost centers	5,561	-	5,561
Student financial assistance	23,675	-	23,675
Auxiliary enterprises			-
Hotel Roanoke	9,614	-	9,614
River Course	1,452	-	1,452
Bookstore	-	24,046	24,046
Depreciation expense	9,522	-	9,522
Other expenses	7,446	-	7,446
Total operating expenses	134,108	24,046	158,154
Operating income (loss)	(13,561)	93	(13,468)
Non-operating revenues (expenses)			
Investment income, net	9,690	-	9,690
Net gains on investments	60,995	-	60,995
Interest expense on debt related to capital assets	(9,197)	-	(9,197)
Net non-operating revenues	61,488	-	61,488
Income before other revenues, expenses, gains or losses	47,927	93	48,020
Change in valuation of split interest agreements	1,054	-	1,054
Capital grants and gifts	14,418	-	14,418
Loss on disposal of capital assets	(838)	-	(838)
Additions to permanent endowments	21,088	-	21,088
Other expenses	(1,011)	-	(1,011)
Total other revenues, expenses, gains, or losses	34,711	-	34,711
Increase in net position	82,638	93	82,731
Net position - beginning of year	828,263	4,304	832,567
Net position - end of year	$ 910,901	$ 4,397	$ 915,298

24. Component Units (continued)

Notes to Component Units Statements

Restatement of Prior Year Amounts - Virginia Tech Foundation Inc.

An adjustment has been made to the 06/30/2012 net position balances. The debt related to noncapital assets ($22,850,000) was reclassified from Net Investment in Capital Assets to Unrestricted Net Position.

Contributions Receivable – Virginia Tech Foundation Inc.

The following summarizes unconditional promises to give at June 30, 2013 *(all dollars in thousands)*:

Current receivables	
Receivable in less than one year	$ 29,554
Noncurrent receivables	
Receivable in one to five years	38,610
Receivable in more than five years	9,540
Total noncurrent receivables before allowance	48,150
Less allowance for uncollectible contributions	(3,193)
Net noncurrent contributions receivable	44,957
Total contributions receivable	$ 74,511

The discount rates ranged from 0.45% to 1.34% in 2013. As of June 30, 2013, there were no conditional promises to give.

Investments – Virginia Tech Foundation Inc.

Investments by type of security at June 30, 2013 *(all dollars in thousands)*:

	Cost	Fair value
Short-term investments		
Corporate debt securities	$ 4,709	$ 4,649
U.S. Government treasuries	809	808
U.S. Government agencies	-	-
Total short-term	5,518	5,457
Long-term investments		
Cash and cash equivalents	10,643	10,643
U. S. Government treasuries	8,217	8,205
U. S. Government agencies	27,837	28,432
State, county and municipal securities	5,476	5,528
Corporate debt securities	41,112	32,351
Common and preferred stock	151,216	188,630
Partnerships and other joint ventures	366,017	445,503
Foreign securities	7,441	7,698
Real estate	25,684	26,513
Other	7,504	7,504
Total long-term investments	651,147	761,007
Total investments	$ 656,665	$ 766,464

As of June 30, 2013, long-term investments include investment assets held in internally managed trust funds with a carrying value totaling $43,491,000.

The foundation has invested in a communications network infrastructure. Included in other long-term investments as of June 30, 2013 is $6,400,000, related to this communications network infrastructure.

The foundation is required by Maryland state law to maintain segregated assets for all annuities issued in an amount at least equal to the sum of its outstanding deferred giving arrangements liability discounted to present value. As of June 30, 2013, the foundation had recorded annuity obligations of $6,127,000. As of June 30, 2013, the foundation had separately invested cash reserves of $10,791,000, and has met its minimum reserve requirement under Maryland state law.

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

	Fair Value	Cost	Net gains
June 30, 2013	$ 766,464	$ 656,665	$ 109,799
June 30, 2012	716,175	661,837	54,338
Unrealized net gain for the year, including net gain on agency deposits held in trust of $6,112			55,461
Realized net gain for the year, including net gain on agency deposits held in trust of $1,145			4,696
Total net gain for the year, including net gain on agency deposits held in trust of $7,257			$ 60,157

Investment management fees incurred in 2013 totaled $1,184,000

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

A summary of land, buildings, and equipment at cost, less accumulated depreciation for the year ending June 30, 2013 is presented as follows *(all dollars in thousands)*:

Depreciable capital assets	
Buildings	$ 233,944
Equipment and other	37,122
Land improvements	20,452
Total depreciable capital assets, at cost	291,518
Less accumulated depreciation	(83,888)
Total depreciable capital assets, net	207,630
Nondepreciable capital assets	
Land	70,134
Vintage and other collection items	5,251
Livestock	2,237
Construction in progress	8,510
Total nondepreciable capital assets	86,132
Total capital assets, net	$ 293,762

As of June 30, 2013, outstanding contractual commitments for projects under construction approximated $17,800,000.

Long-term Debt Payable - Virginia Tech Foundation Inc.

Notes payable

The following is a summary of outstanding notes payable at June 30, 2013 *(all dollars in thousands)*:

Secured variable rate promissory note payable upon sale of collateral, or receipt of any insurance payment due to destruction of collateral, plus interest at the LIBOR rate plus 300 basis points (3.20% at June 30, 2013) collateralized by interest in a Citation Excel airplane	$ 617
Total VTF notes payable	617
Unsecured note payable upon the sale of the hotel and repayment of all debt of the hotel and the Hotel Roanoke Foundation (HRF)	1,775
Unsecured note payable to the City of Roanoke Redevelopment and Housing Authority due in aggregate annual installments of $497, interest at 4.05%, guaranteed by the U.S. Department of Housing and Urban Development, maturing June 30, 2014	936
Total HRF notes payable	2,711
Secured fixed rate promissory note payable due October 10, 2017, plus interest at 7.00%, collateralized by certain real properties by Virginia Tech Real Estate Foundation, Inc. (VTREF)	7,978
Total VTREF notes payable	7,978
Total notes payable	$ 11,306

The aggregate annual maturities of notes payable for each of the five years and thereafter subsequent to June 30, 2013, are *(all dollars in thousands)*:

2014	$	1,027
2015		98
2016		104
2017		113
2018		121
Later years or as cash becomes available from hotel net operating income		9,843
Total notes payable	$	11,306

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

Bonds payable

The foundation is obligated under Industrial Development Authority of Montgomery County, Virginia Variable Rate Revenue Bonds dated August 25, 2005 (Series 2005). Bond proceeds were used to refinance previously outstanding Series 2001A and Series 2002A bonds. The remainder was used to finance the construction of and equipment purchases for three facilities to be used in support of the university. The bonds, which mature June 1, 2035, bear a variable interest rate, which including remarketing and credit enhancement fees, was 0.495% at June 30, 2013.

The foundation is obligated under Industrial Development Authority of Montgomery County, Virginia Revenue Bonds (Series 2009A) and Taxable Revenue Bonds (Series 2009B) dated February 12, 2009. Bond proceeds were used to refinance the previously outstanding Series 2007 bonds, the unsecured variable rate promissory note payable, and the unsecured variable rate commercial note payable, as well as finance the construction of several facilities, primarily for the National Capital Region facility, to be used in support of the university. During 2012, an additional $3,860,000 was borrowed on the Series 2009A bonds to finance property acquisitions to be used in support of the university. The Series 2009A bonds, which mature on February 1, 2039, bear a variable interest rate, which including remarketing and liquidity fees, was 0.475% on June 30, 2013. The series 2009B bonds, which originally matured on February 1, 2039, bear a variable interest rate, which including remarketing and liquidity fees, was 0.725% on June 30, 2012. The Series 2009B bonds were paid off on June 27, 2013.

The foundation is obligated under the Economic Development Authority of Montgomery County, Virginia Revenue Refunding Bonds (Series 2010A) and Taxable Revenue Refunding Bonds (Series 2010B) dated August 3, 2010. Proceeds were used to refinance a portion of the outstanding Series 2009A, Series 2009B and Series 2005 bonds and to retire certain interest rate swaps. The bonds, which bear a weighted average fixed interest rate of 4.23% and 4.52%, have annual serial and sinking fund maturities beginning June 1, 2011 and concluding June 1, 2039 in varying amounts ranging from $1,320,000 to $3,450,000.

The foundation is obligated under the Economic Development Authority of Montgomery County, Virginia Revenue and Refunding Bonds (Series 2011A) and Taxable Revenue and Refunding Bonds (Series 2011B) dated November 17, 2011. Proceeds were used to refinance all or a portion of the outstanding Series 2000, Series 2005, Series 2009A and Series 2009B bonds, two notes payable, retire certain interest rate swaps, as well as finance the construction of several commercial facilities and several facilities to be used in support of the university. The bonds, which bear a weighted average fixed interest rate of 3.69% and 4.03%, have annual serial and sinking fund maturities beginning June 1, 2012 and concluding June 1, 2039 in varying amounts ranging from $1,505,000 to $5,200,000.

The foundation is obligated under the Economic Development Authority of Montgomery County, Virginia Tax-Exempt Revenue and Refunding Bonds (Series 2012A) and Taxable Revenue and Refunding Bonds (Series 2012B) dated December 1, 2012. Proceeds were used to refinance a portion of the outstanding Series 2009B bonds and to finance the construction of several facilities to be used in support of the university. The Series 2012A bonds, which bear a fixed interest rate of 1.99%, have monthly payments of principal and interest beginning February 1, 2013 and concluding June 1, 2022. The Series 2012B bonds, which bear a variable interest rate of LIBOR plus 125 basis points (1.44% at June 30, 2013), until the final advance date of October 1, 2013, and thereafter bear a fixed interest rate of 3.05%, have monthly interest commencing on February 1, 2013 and will have monthly payments of principal and interest beginning November 1, 2013 and concluding on January 1, 2033. The Series 2012B bonds are subject to mandatory tender on December 27, 2022 at the bondholder's option.

As of June 30, 2013, the majority of the unused proceeds from the Series 2011A and Series 2011B bond offering, which are restricted to investment in land, buildings and equipment, have been temporarily invested in investment securities as disclosed in the investment note above and are separately recorded in the consolidated statement of financial position.

Principal amounts outstanding for these bonds as of June 30, 2013, are as follows *(all dollars in thousands)*:

Series 2005	$	19,260
Series 2009A		20,930
Series 2010A		50,380
Series 2010B		20,380
Series 2011A		51,175
Series 2011B		57,595
Series 2012A		4,180
Series 2012B		5,035
Premium on Series 2010A		3,379
Premium on Series 2011A		2,248
Total bonds payable	$	234,562

The aggregate annual maturities of bonds payable for each of the five years and thereafter subsequent to June 30, 2013, are as follows *(all dollars in thousands)*:

2014	$	10,371
2015		9,662
2016		9,875
2017		10,151
2018		10,390
Later years		184,113
Total	$	234,562

24. Component Units (continued)

Notes to Component Units Statements (continued)

To comply with the terms of the Series 2005 bond agreement, the foundation maintains a letter of credit with a lender in the amount of $19,445,000 at annual fees equal to 0.35% of the total commitment. At June 30, 2013, no funds were outstanding under this commitment.

To comply with the terms of the Series 2009A and Series 2009B bond agreement, the foundation maintains a revolving credit facility in the amount of $21,131,000 at annual fees equal to 0.35% of the total commitment. At June 30, 2013, no funds were outstanding under this commitment.

Total interest expense incurred in the aggregate related to notes payable and bonds payable in 2013 totaled $7,946,000.

Interest Rate Swaps

Effective September 1, 2005, the foundation entered into an interest rate swap agreement (Swap 1) with a lending institution. This agreement was based on the principal balances of the Series 2001A and Series 2002A bond issues, which were refinanced by the Series 2005 bonds. The foundation participates as a fixed rate payer, with a fixed rate of 3.265% for a 17-year term ending June 1, 2022. The lending institution participates as a floating rate payer, with a floating interest rate, which is calculated based on the weighted average of 70% of USD-LIBOR-BBA and was 0.135% at June 30, 2013.

Effective September 1, 2005, the foundation entered into an interest rate swap agreement (Swap 2) with a lending institution. This agreement was based on the principal balances of the Series 2005 bond issue and was effective September 1, 2006. The foundation participates as a fixed rate payer, with a fixed rate of 3.213% ending June 1, 2025. The lending institution participates as a floating rate payer, with a floating interest rate, which is calculated based on the weighted average of 70% of USD-LIBOR-BBA and was 0.135% at June 30, 2013.

Effective March 12, 2007, the foundation entered into two separate interest rate swap agreements (Swap 3) with a lending institution. These agreements were based on the principal balances of the Series 2007 bond issue. The foundation participates as a fixed rate payer, with a fixed rate of 3.737% ending June 1, 2027. The lending institution participates as a floating rate payer, with a floating interest rate, which is calculated based on the weighted average of USD-BMA Municipal Swap Index and was 0.082% at June 30, 2013.

Effective April 1, 2009, the foundation entered into an interest rate swap agreement (Swap 4) with a lending institution. This agreement was based on principal balances of the Series 2009A bond issue. The foundation participates as a floating rate payer, with a floating interest rate, which is calculated on the weighted average of USD-SIFMA Municipal Swap Index, with a rate of 0.180% as of June 30, 2012, ending June 1, 2027. This agreement was terminated on December 13, 2012. The lending institution participated as a floating rate payer, with a floating interest rate, which was calculated based on the weighted average of 90.10% of USD-LIBOR-BBA and was 0.421% at June 30, 2012.

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

	Fair Value	Change in Fair Value
Swap 1	$ (1,020)	$ 1,141
Swap 2	(1,015)	505
Swap 3	(1,996)	920
Swap 4	-	(96)
Total	$ (4,031)	$ 2,470

Agency Deposits Held in Trust - Virginia Tech Foundation Inc.

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

A summary of agency deposits held in trust for the year ending June 30, 2013 is presented as follows *(all dollars in thousands)*:

University—Pratt Estate	$ 40,403
University—Other	20,209
Virginia Tech Alumni Association, Inc.	3,906
Virginia Tech Services, Inc.	3,079
Other	3,842
Total agency deposits held in trust	$ 71,439

Subsequent Event - Virginia Tech Foundation Inc.

The foundation issued fixed-rate tax-exempt and taxable revenue bonds (Series 2013A and 2013B, respectively) through the Economic Development Authority of Montgomery County, Virginia. The series 2013A bonds are being issued for the purpose of: (1) financing or refinancing various costs related to the acquisition, construction and equipping of certain educational facilities; (2) funding capitalized interest; and (3) paying certain costs of issuing the series 2013A bonds. The series 2013B bonds are being issued for the purpose of: (1) financing or refinancing various costs related to certain facilities that do not qualify for tax-exempt financing; (2) funding capitalized interest; and (3) paying certain costs of issuing the series 2013B bonds. The revenue bonds were issued on October 30, 2013 in the amount of $42,210,000.

25. Risk Management and Employee Health Care Plans

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

26. Joint Ventures

The Hotel Roanoke Conference Center Commission was created by a joint resolution of the university and the City of Roanoke. The purpose of the commission is to establish and operate a publicly owned conference center in Roanoke adjacent to the renovated Hotel Roanoke. The powers of the commission are vested in commissioners. Each participating governing body appoints three commissioners for a total of six commissioners. The commission has the authority to issue debt, and such debt is the responsibility of the commission. The intention of the commission is to be self-supporting through its user fees. The university and the City of Roanoke equally share in any operating deficit or additional funding needed for capital expenditures. The university made contributions of $80,000 using private funds to the commission for the fiscal year ended June 30, 2013.

The Virginia Tech Carilion School of Medicine was established as a 501(c)(3) nonprofit organization. This joint venture receives oversight from a board of directors. Virginia Tech and Carilion Health System each appoint two members to the board of directors. The board then appoints six additional independent board members. The commonwealth provided the capital funds to construct a facility on land owned by Carilion Health System under a public-private partnership. Construction of the facility was completed in December 2010. This facility provides space for the Virginia Tech Carilion School of Medicine and the Virginia Tech Carilion Research Institute, a part of Virginia Tech. Approximately one-third of the facility is occupied by the school of medicine with the remaining space allocated to the research institute.

The Virginia Biosciences Health Research Corporation was founded by Virginia Tech and four other state universities – Eastern Virginia Medical School, George Mason University, University of Virginia and Virginia Commonwealth University. This corporation was formed to foster collaborative scientific research innovation and to provide a new program for public/private partnering with Virginia universities. The board of directors for the Virginia Biosciences Health Research Corporation is comprised of one member appointed from each of the five founding universities; five members designated by the Virginia Secretary of Commerce and Trade, including one member from the Virginia Economic Development Partnership, one from the office of Commerce and Trade, two from major statewide health care system providers in Virginia and one from the U.S. Department of Veterans Affairs; one from the private equity/venture capital community; and two members from life sciences companies. The university made contributions of $50,000 using private funds to the corporation for the fiscal year ended June 30, 2013.

27. Jointly Governed Organizations

NRV Regional Water Authority

Created by a concurrent resolution of the university, the towns of Blacksburg and Christiansburg and joined by the county of Montgomery in fiscal year 2013, the authority operates and maintains the water supply system for the university and the other participating governing bodies. A six-member board governs the authority with one member appointed by each governing body and two at-large members appointed by the joint resolution of each of the governing bodies. The authority's indebtedness is not an obligation of the university and is payable solely from the revenues of the authority. The university paid $735,000 to the authority for the purchase of water for the fiscal year ended June 30, 2013.

Blacksburg-VPI Sanitation Authority

Created by a concurrent resolution of the university and the town of Blacksburg, the authority operates and maintains the wastewater treatment system for the participating governing bodies. Each participating governing body appoints one member of the five-member board of directors. Three at-large members are appointed by the joint resolution of each of the governing bodies. The authority's indebtedness is not an obligation of the university and is payable solely from the revenues of the authority. The university paid $731,000 to the authority for the purchase of sewer services for the fiscal year ended June 30, 2013.

Montgomery Regional Solid Waste Authority

Created by a joint resolution of the university, the towns of Blacksburg and Christiansburg, and the county of Montgomery, the authority represents its members in solid waste and recycling issues as well as operating a recycling facility. The authority is governed by its board with each participating governing body appointing one board member, and all governing bodies jointly appointing the fifth at-large member. Each governing body provides collection of solid waste and recyclables from within its jurisdiction and delivers the collected materials to the authority for disposal of the waste, and the processing and marketing of the recyclables. All indebtedness is the obligation of the authority and payable from its revenues. The university paid $187,000 to the authority for tipping fees for the fiscal year ended June 30, 2013.

Virginia Tech/Montgomery Regional Airport Authority

Created by a joint resolution of the university, the towns of Blacksburg and Christiansburg, and the county of Montgomery, this authority serves to develop a regional airport based on the mission of servicing corporate executive markets and other general aviation markets; obtaining grants, loans and other funding for airport improvements and other activities; and in promoting and assisting in regional economic development. The authority is governed by its board, which consists of five members. Each participating governing body appoints one member of the board, and jointly all governing bodies appoint the fifth member. All indebtedness is the obligation of the authority and payable from its revenues. The university's funding commitment for fiscal year 2013 was $50,000, all of which Virginia Tech paid to the authority.

28. Pending Litigation

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

29. Subsequent Events

The university secures short-term financing for capital projects through the Virginia Municipal League/Virginia Association of Counties (VML/VACo) commercial paper program. The university makes monthly draws from this program to meet capital project funding requirements. As of October 31, 2013 the university has a total balance of commercial paper outstanding of $6,395,000, which is unchanged from the balance as of June 30, 2013.

Supplementary Information

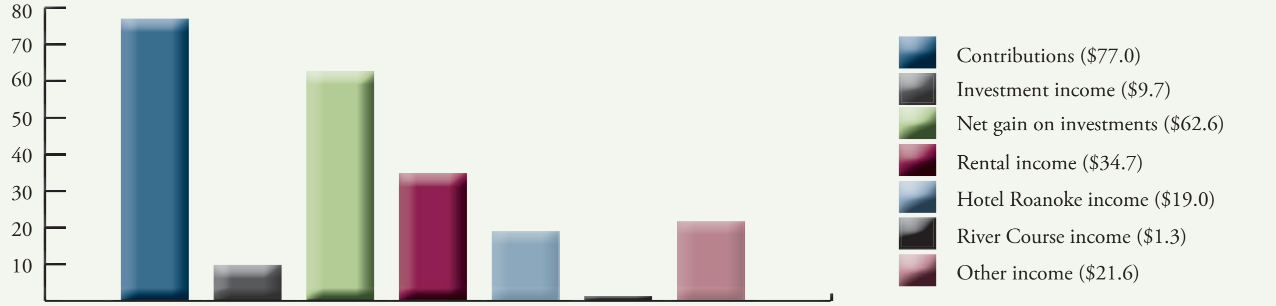
Virginia Tech Foundation, Inc.

The purpose of Virginia Tech Foundation Inc. is to receive, invest, and manage private funds given for the support of programs at Virginia Tech and to foster and promote the growth, progress, and general welfare of the university. During the current fiscal year, the foundation recognized $77.0 million in contributions for support of the university. Investment income of $9.7 million, along with net gains on investments of $62.6 million, resulted in a $72.3 million net gain on investment activity. Property rental, hotel operating, and golf course income totaled $55.0 million. Other income accounted for $21.6 million. Total income of $225.9 million was offset by $143.3 million in expenses that supported the university and its programs. Direct support to various university programs aggregated $93.1 million, which included $23.7 million in scholarship support to students and faculty and $7.6 million towards university capital projects. Additional expenses such as fund-raising, management and general, research center, hotel operating, golf course, and other costs totaled $50.2 million. Total net position increased by $82.6 million over the previous year. The graphs below are categorized as presented in the audited financial statements for the foundation which follows the Financial Accounting Standards Board (FASB) presentation requirements.

Virginia Tech Foundation Inc. Revenues and Investment Gains

For the year ended June 30, 2013

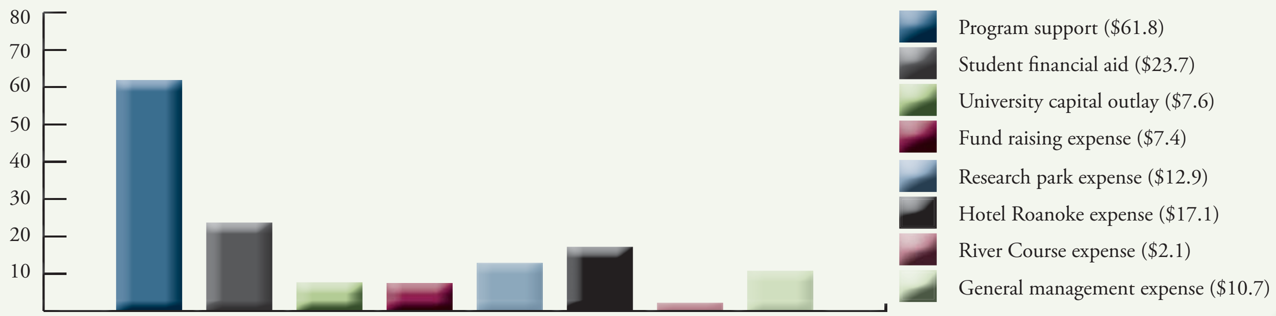
(all dollars in millions)



Virginia Tech Foundation Inc. Expenses

For the year ended June 30, 2013

(all dollars in millions)



Affiliated Corporations Financial Highlights

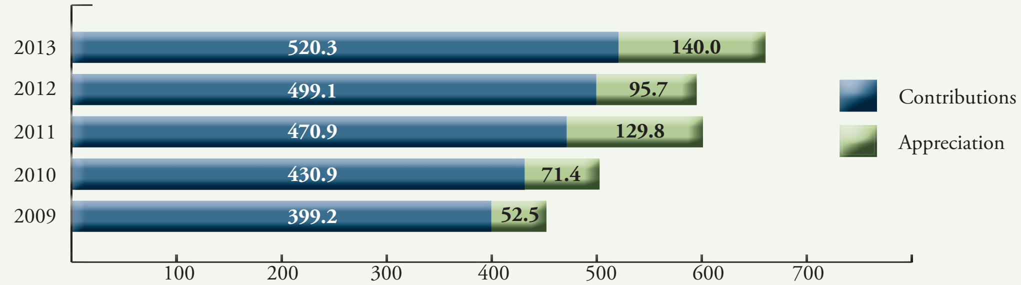
For the years ended June 30, 2013-2009
(all dollars in thousands)

	2013	2012	2011	2010	2009
Assets					
Virginia Tech Foundation Inc.	$ 1,302,619	$ 1,210,709	$ 1,155,100	$ 1,023,604	$ 942,103
Virginia Tech Services Inc.	12,416	11,101	11,815	12,549	12,607
Virginia Tech Applied Research Corporation	5,557	4,323			
Virginia Tech Intellectual Properties, Inc.	1,795	2,073	1,053	2,283	1,012
Total Assets	$ 1,322,387	$ 1,228,206	$ 1,167,968	$ 1,038,436	$ 955,722
Revenues					
Virginia Tech Foundation Inc.	$ 225,897	$ 137,299	$ 242,235	$ 183,748	$ 54,884
Virginia Tech Services Inc.	24,139	25,717	27,523	26,427	27,800
Virginia Tech Applied Research Corporation	2,765	434			
Virginia Tech Intellectual Properties Inc.	2,202	1,998	2,058	2,522	1,873
Total Revenues	$ 255,003	$ 165,448	$ 271,816	$ 212,697	$ 84,557
Expenses					
Virginia Tech Foundation Inc.	$ 143,303	$ 134,916	$ 118,979	$ 124,365	$ 136,313
Virginia Tech Services Inc.	24,047	25,631	27,513	26,384	27,865
Virginia Tech Applied Research Corporation	7,638	4,654			
Virginia Tech Intellectual Properties Inc.	2,162	1,954	2,276	1,911	1,841
Total Expenses	$ 177,150	$ 167,155	$ 148,768	$ 152,660	$ 166,019

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

Virginia Tech Foundation Inc. Endowment Market Value*

For the years 2013 - 2009
(all dollars in millions)



**Market value of endowment funds includes agency deposits held in trust of $71.4 million. (Source: Virginia Tech investment managers, unaudited)*

Consolidating Schedule of Net Position

As of June 30, 2013
(all dollars in thousands)

	Current Funds		Loan	Endowment &	Plant	Agency	
	Unrestricted	Restricted	Funds	Similar Funds	Funds	Funds	Total
Assets							
Current assets							
Cash and cash equivalents	$ 270,139	$ 5,098	$ 1,728	$ -	$ -	$13,561	$ 290,526
Short-term investments	2,960	-	-	-	-	-	2,960
Accounts receivable, net	10,489	56,395	-	-	-	-	66,884
Notes receivable	-	-	1,748	-	-	-	1,748
Due from Commonwealth of Virginia	12,742	-	-	-	-	-	12,742
Inventories	13,321	-	-	-	-	-	13,321
Prepaid expenses	15,943	791	-	-	-	-	16,734
Due to (from) other funds	(7,109)	8,882	(70)	(360)	(1,343)	-	-
Total current assets	318,485	71,166	3,406	(360)	(1,343)	13,561	404,915
Noncurrent assets							
Cash and cash equivalents	-	-	-	-	69,196	-	69,196
Due from Commonwealth of Virginia	-	-	-	-	10,101	-	10,101
Accounts receivable, net	1,051	-	-	-	5,494	-	6,545
Notes receivable	3,099	-	14,079	-	-	-	17,178
Long-term investments	100,260	-	-	51,571	31,089	-	182,920
Depreciable capital assets, net	-	-	-	-	1,201,170	-	1,201,170
Nondepreciable capital assets	-	-	-	-	317,864	-	317,864
Other assets	1,218	-	-	-	-	-	1,218
Total non-current assets	105,628	-	14,079	51,571	1,634,914	-	1,806,192
Total assets	424,113	71,166	17,485	51,211	1,633,571	13,561	2,211,107
Liabilities							
Current liabilities							
Accounts payable	79,905	17,346	1	-	34,686	-	131,938
Accrued compensated absences	15,984	3,346	-	-	-	-	19,330
Unearned revenue	25,345	13,592	-	-	-	-	38,937
Funds held in custody for others	-	-	-	-	-	13,561	13,561
Commercial paper	-	-	-	-	6,395	-	6,395
Long-term debt payable	-	-	-	-	27,978	-	27,978
Total current liabilities	121,234	34,284	1	-	69,059	13,561	238,139
Noncurrent liabilities							
Accrued compensated absences	17,117	3,583	-	-	-	-	20,700
Federal loan program contributions	-	-	13,620	-	-	-	13,620
Long-term debt payable	-	-	-	-	500,360	-	500,360
Other liabilities	3,113	-	-	-	-	-	3,113
Total noncurrent liabilities	20,230	3,583	13,620	-	500,360	-	537,793
Total liabilities	141,464	37,867	13,621	-	569,419	13,561	775,932
Net position							
Net investment in capital assets	-	-	-	-	994,272	-	994,272
Restricted, nonexpendable	-	-	-	357	-	-	357
Restricted, expendable							
Scholarships, research & instruction	-	33,299	3,864	50,854	-	-	88,017
Capital projects	-	-	-	-	11,024	-	11,024
Debt service and auxiliary operations	-	-	-	-	58,856	-	58,856
Unrestricted	282,649	-	-	-	-	-	282,649
Total net position	$ 282,649	$ 33,299	$ 3,864	$ 51,211	$ 1,064,152	$ -	$ 1,435,175

Consolidating Schedule of Revenues, Expenses, and Changes in Net Position

For the year ended, June 30, 2013
(all dollars in thousands)

	Current Funds		Loan	Endowment &	Plant	
	Unrestricted	Restricted	Funds	Similar Funds	Funds	Total
Operating revenues						
Student tuition and fees	$ 358,114	$ 2,700	$ -	$ -	$ -	$ 360,814
Federal appropriations	-	16,747	-	-	-	16,747
Federal grants and contracts	48,573	170,738	-	-	742	220,053
Federal ARRA grants and contracts	-	6,561	-	-	-	6,561
State grants and contracts	722	11,945	-	-	-	12,667
Local grants and contracts	182	12,722	-	-	-	12,904
Nongovernmental grants and contracts	6,371	28,334	-	-	-	34,705
Sales and services of educational departments	14,979	30	-	-	-	15,009
Auxiliary enterprise revenue	213,669	14	-	-	-	213,683
Other operating revenues	4,658	2,153	57	-	-	6,868
Total operating revenues	647,268	251,944	57	-	742	900,011
Operating expenses						
Instruction	275,968	6,628	-	-	939	283,535
Research	102,589	199,528	-	-	-	302,117
Public service	45,394	51,871	-	-	-	97,265
Academic support	66,924	1,553	-	-	-	68,477
Student services	13,090	1,156	-	-	-	14,246
Institutional support	44,770	4,804	-	-	1,104	50,678
Operation and maintenance of plant	64,886	289	-	-	5,673	70,848
Student financial assistance	103	12,102	-	-	-	12,205
Auxiliary enterprises	174,304	-	-	-	2,030	176,334
Depreciation and amortization	-	-	-	-	79,754	79,754
Other operating expenses	-	-	62	-	-	62
Total operating expenses	788,028	277,931	62	-	89,500	1,155,521
Operating loss	(140,760)	(25,987)	(5)	-	(88,758)	(255,510)
Non-operating revenues (expenses)						
State appropriations	208,237	24,144	-	-	-	232,381
Gifts	13,253	40,977	208	-	-	54,438
Non-operating grants and contracts	-	1,660	-	-	-	1,660
Federal student financial aid (PELL)	-	16,606	-	-	-	16,606
Investment income, net of investment expense	1,355	(703)	-	5,671	172	6,495
Other additions and deductions	-	-	-	-	532	532
Interest expense on debt for capital assets	5	-	-	-	(16,118)	(16,113)
Net non-operating revenues	222,850	82,684	208	5,671	(15,414)	295,999
Income (loss) before other revenues, expenses, gains, or losses	82,090	56,697	203	5,671	(104,172)	40,489
Capital appropriations	-	-	-	-	(3,276)	(3,276)
Capital grants and gifts	(1,780)	1,719	-	-	112,348	112,287
Loss on disposal of capital assets	-	-	-	-	(3,268)	(3,268)
Total other revenues, expenses, gains and losses	(1,780)	1,719	-	-	105,804	105,743
Increase in net position before transfers	80,310	58,416	203	5,671	1,632	146,232
Mandatory transfers	(51,875)	-	-	-	51,875	-
Nonmandatory transfers	(40,198)	739	-	280	39,179	-
Equipment and library book transfers	(21,763)	(5,873)	-	-	27,636	-
Scholarship allowance transfer	50,527	(50,527)	-	-	-	-
Total transfers	(63,309)	(55,661)	-	280	118,690	-
Increase in net position after transfers	17,001	2,755	203	5,951	120,322	146,232
Net position – beginning of year	265,648	30,544	3,661	45,260	943,830	1,288,943
Net position – end of year	$ 282,649	$ 33,299	$ 3,864	$ 51,211	$ 1,064,152	$ 1,435,175

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

October 31, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
Virginia Polytechnic Institute and State University

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

We have audited, in accordance with the 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, the financial statements of the business-type activities and aggregate discretely presented component units of Virginia Polytechnic Institute and State University as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated October 31, 2013. Our report includes a reference to other auditors. We did not consider internal controls over financial reporting or test compliance with certain provisions of laws, regulations, contracts, and grant agreements for the financial statements of the component units of the University, which were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Audit Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We discussed this report with management at an exit conference held on November 8, 2013.

AUDITOR OF PUBLIC ACCOUNTS

JMR/alh

Business and Financial Leadership

M. Dwight Shelton Jr.	Vice President for Finance and Chief Financial Officer
John J. Cusimano	University Treasurer
Sherwood G. Wilson	Vice President for Administration
Vacant	Associate Vice President and Chief Facilities Officer
Kenneth E. Miller	Assistant Vice President for Finance and University Controller
Sharon M. Kurek	Director of Internal Audit

Financial report prepared by
Office of the University Controller
Virginia Tech, Blacksburg, VA 24061

www.co.vt.edu/Financial_Reporting/financial_reporting