

# VIRGINIA MILITARY INSTITUTE



**Audited Financial Statements  
For the year ended 30 June 2009**

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**VIRGINIA MILITARY INSTITUTE**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
For the Year Ended 30 June 2009  
(Unaudited)

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**Overview**

Virginia Military Institute (VMI) is pleased to present its financial statements for the fiscal year ended 30 June 2009, along with the financial statements of its affiliates as required under Governmental Accounting Standards Board Statement Number 39. This management discussion and analysis is designed to facilitate the reader's understanding of the accompanying financial statements and to provide an objective, easily readable analysis of the Institute's financial activities based on currently known facts, decisions and conditions. This discussion focuses primarily on VMI's fiscal year 2009 and includes highly summarized data that should be read in conjunction with the accompanying financial statements, notes to the financial statements, and other supplementary information.

VMI's financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) standards and include three basic statements: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. The affiliates' financial statements are prepared in accordance with Financial Accounting Standards Board (FASB) standards and include the Statement of Financial Condition and the Statement of Activities. The following analysis discusses elements from VMI's statements and provides an overview of the Institute's activities. It also includes a separate section that addresses the financial statements of VMI's affiliates.

**Financial Highlights**

The overall financial position of the Institute improved slightly in FY 2009 due in large part to funding received for capital improvements. Net assets (the residual interest in assets after liabilities are deducted) increased by \$15.1 million over the previous fiscal year to \$214 million. The Institute's fall enrollment numbers for the Corps increased from 1,408 cadets for FY 2008 to 1,456 cadets for FY 2009.

Once again the State converted funding for certain capital projects (Mallory Hall, Kilbourne Hall and Renovation of Barracks) from general funds to Virginia College Building Authority (VCBA) 21<sup>st</sup> Century bond proceeds which resulted in an appropriation reduction of \$3.2 million. During the 2008 fiscal year, the State converted \$37.1 million of general fund appropriation to VCBA bond proceeds for the Barracks project. VMI recognized as revenue the full amount of State general funds appropriated for these projects in a previous fiscal year, but the change to bond financing in FY 2009 required us to reflect a reduction in capital appropriations. For VCBA bond funded projects, revenue is recognized as expenditures are incurred or obligated for the project. This change results in a loss for accounting purposes, but it does not result in any loss of funding for the project.

State appropriations for operations totaled \$13.8 million in FY 2009, a decrease of \$.8 million or 5.3% from the previous fiscal year.

VMI incurred a net investment loss of \$3.9 million for FY 2009 after incurring a net loss of \$.8 million in FY 2008 as a result of the declining stock market.

VMI made substantial progress on several major capital projects during FY 2009 consisting of the expansion and renovation of the Barracks (\$63 million) and the renovation of the Maury House (\$1.2 million). The expansion and renovation of Kilbourne Hall (\$24 million) and the construction of the new Center for Leadership and Ethics, Marshall Hall, (\$22 million), were completed during FY 2009. The Barracks is scheduled for completion in fall 2010. Planning for the renovation of the Science Building (\$.8 million) and the VMI Hospital (\$.2 million) as well as construction of the Military and Leadership Field Training Grounds (\$15.1 million) are underway.

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**Statement of Net Assets**

The Statement of Net Assets presents the financial position of the Institute at the end of the fiscal year and includes all assets and liabilities of the Institute. The difference between total assets and total liabilities—net assets—is one indicator of the current financial condition of the Institute, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Readers of the Statement of Net Assets should be able to determine the assets available to continue the Institute’s operations. They should also be able to determine how much the Institute owes vendors, creditors, and others.

Net Assets are divided into three major categories. The first category, “Invested in capital assets, net of related debt,” provides the Institute’s equity in property, plant, and equipment. The next category is “Restricted” net assets which comprise two subcategories, expendable and nonexpendable. Expendable restricted resources are available for expenditure by the Institute in accordance with stipulation of donors and/or other entities that have placed time or purpose restrictions on the use of the assets. Nonexpendable restricted resources typically represent the corpus of endowments and are available only for investment purposes. The final category is “Unrestricted” net assets which are available for any lawful purpose of the Institute.

<b>Statement of Net Assets</b>				
	30 June 2009	30 June 2008	Variance	
Assets:				
Current assets	\$ 19,983,129	\$ 20,792,622	\$ (809,493)	-3.9%
Capital assets, net	208,305,471	185,635,263	22,670,208	12.2%
Other noncurrent assets	16,637,159	26,412,499	(9,775,340)	-37.0%
 Total assets	 \$ 244,925,759	 \$ 232,840,384	 \$ 12,085,375	 5.2%
Liabilities:				
Current liabilities	\$ 13,560,675	\$ 15,179,674	\$ (1,618,999)	-10.7%
Noncurrent liabilities	17,410,956	18,833,300	(1,422,344)	-7.6%
 Total liabilities	 \$ 30,971,631	 \$ 34,012,974	 \$ (3,041,343)	 -8.9%
Net assets:				
Invested in capital assets, net of related debt	\$ 194,263,958	\$ 170,644,678	\$ 23,619,280	13.8%
Restricted - expendable	8,911,373	17,565,381	(8,654,008)	-49.3%
Restricted - nonexpendable	1,265,690	1,265,690	-	0.0%
Unrestricted	9,513,107	9,351,662	161,445	1.7%
 Total net assets	 \$ 213,954,128	 \$ 198,827,411	 \$ 15,126,717	 7.6%

VMI’s current assets as of 30 June 2009 decreased by \$.8 million or 3.9% from the 30 June 2008 balance. The Institute converted \$2.8 million of endowment assets designated for the Marshall Hall capital project to cash during the 2008 fiscal year. This cash was used during FY 2009 to complete this project which caused the decrease to current assets.

Capital assets, net of depreciation, increased by \$22.7 million or 12.2% to \$208.3 million. This increase can be attributed to additional amounts spent during FY 2009 on Marshall Hall, \$.6 million, Barracks, \$14.1 million and Kilbourne Hall \$1.7 million.

Other noncurrent assets decreased by \$9.8 million to \$16.6 million. A loss on investments coupled with the sale of investments to fund operations accounted for \$4.9 million of this decrease. The reduction in

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appropriations available from the State related to the \$3.2 million switch in funding sources for certain capital projects explained above accounted for a portion of the decrease to noncurrent assets. Additionally, as a result of this funding switch, VMI must first incur expenses before being reimbursed with VCBA 21<sup>st</sup> Century bond proceeds. As of 30 June, the Institute had \$1.5 million of expenses for which we had not yet been reimbursed.

Current liabilities decreased 10.7% or \$1.6 million from the previous year to \$13.6 million as a result of fewer amounts payable to contractors for various capital projects. Noncurrent liabilities decreased by \$1.4 million or 7.6% due primarily to the completion of the Kilbourne and Marshall Hall capital projects which resulted in paying off amounts retained from contractor payments.

As a result of the changes explained above, net assets increased by \$15.1 million or 7.6% over the previous fiscal year to \$214 million.

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

Changes in the total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of this statement is to present the Institute's operating and nonoperating revenues recognized and expenses paid and any other revenues, expenses, gains, and losses received or incurred by the Institute.

Operating revenues are generally recognized when goods and services are provided to cadets and other constituencies of the Institute. Operating expenses are the cost incurred to acquire or produce the goods and services provided and to carry out the Institute's programs and activities.

Nonoperating revenues generally represent income and support for which goods and services are generally not provided. For example, it includes State appropriations for VMI's Educational and General and Unique Military Activities Programs for which goods and services are not directly provided to the State by VMI.

<b>Statement of Revenues, Expenses, and Changes in Net Assets</b>				
	30 June 2009	30 June 2008	Variance	
Operating revenues:				
Tuition and fees	\$ 13,743,061	\$ 12,718,166	\$ 1,024,895	8.1%
Grants and contracts	491,621	297,022	194,599	65.5%
Auxiliary enterprises	12,146,364	11,050,124	1,096,240	9.9%
Unique military activities	1,794,074	1,614,686	179,388	11.1%
Other sources	1,056,833	1,153,188	(96,355)	-8.4%
Total operating revenues	29,231,953	26,833,186	2,398,767	8.9%
Operating expenses:				
Educational and general	42,878,855	40,828,927	2,049,928	5.0%
Auxiliary enterprises	\$ 16,851,022	\$ 16,582,169	268,853	1.6%
Unique military activity	5,583,768	5,848,168	(264,400)	-4.5%
Total expenses	65,313,645	63,259,264	2,054,381	3.2%
Operating loss	(36,081,692)	(36,426,078)	344,386	-0.9%

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**Statement of Revenues, Expenses, and Changes in Net Assets (continued)**

	30 June 2009	30 June 2008	Variance	
Nonoperating revenues (expenses):				
State appropriations	13,787,087	14,562,865	(775,778)	-5.3%
Gifts, grants and contributions	16,198,887	16,127,625	71,262	0.4%
Investments	(3,896,880)	(763,176)	(3,133,704)	410.6%
Other	(858,746)	(688,761)	(169,985)	24.7%
Net nonoperating revenues	25,230,348	29,238,553	(4,008,205)	-13.7%
Income (loss) before other revenues	(10,851,344)	(7,187,525)	(3,663,819)	51.0%
Other revenues/reductions	25,978,061	(16,842,151)	42,820,212	-254.2%
Increase (decrease) in net assets	15,126,717	(24,029,676)	39,156,393	-163.0%
Net assets - beginning of year	198,827,411	222,857,087	(24,029,676)	-10.8%
Net assets - end of year	\$213,954,128	\$198,827,411	\$ 15,126,717	7.6%

Operating revenues increased by 8.9% or \$2.4 million to \$29.2 million while operating expenses increased by 3.2% or \$2.1 million to \$65.3 million. The increase to operating revenues can be attributed to tuition and fee increases. The largest portion of the increase in operating expenses is attributable to non-capitalizable costs within capital projects that were classified as operation and maintenance of physical plant for the current fiscal year along with contractual service cost and utility cost increases associated with Post wide capital improvements.

Non-operating revenues decreased \$4 million or 13.7% to \$25.2 million as the result of investment losses of \$3.1 million and a reduction of \$.8 million in state appropriations.

Other revenues and/or reductions changed by \$42.8 million from a reduction of \$16.8 million during fiscal year 2008 to an increase of \$26 million during the 2009 fiscal year. In FY 2008, VMI received \$2.1 million of general fund support for capital projects from the Commonwealth while receiving none during FY 2009. The State changed the funding source for the Barracks capital project from general funds to VCBA bond funds during FY 2008 resulting in a \$37.1 million loss. During FY 2009 the State changed the funding source from general funds to VCBA bond funds for the Barracks, Mallory and Kilbourne Hall capital projects resulting in another loss of \$3.2 million. VMI received \$11.1 million more in FY 2009 from grants and contributions for capital projects largely due to the work done on the Barracks addition and renovation project.

**Statement of Cash Flows**

This statement presents detailed information about the Institute's cash activity during the year. Cash flows from operating activities will always differ from the operating loss on the Statement of Revenues, Expenses and Changes in Net Assets (SRECNA). The SRECNA is prepared on the accrual basis of accounting and includes noncash items such as accounts receivable and accrued liabilities as well as such expenses as depreciation, whereas the Statement of Cash Flows presents cash inflows and outflows without regard to accrual items. The Statement of Cash Flows helps the reader assess the Institute's ability to generate cash flows sufficient to meet its obligations. It is divided into five parts: operating activities, noncapital financing activities, investing activities, capital and related financing activities, and reconciliation of the net cash used, to the operating income or loss reflected on the SRECNA.

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	<b>Statement of Cash Flows</b>			
	30 June 2009	30 June 2008	Variance	
Net cash used by operating activities	\$ (30,183,588)	\$ (30,805,559)	\$ 621,971	-2.0%
Net cash provided by noncapital financing activities	29,261,138	29,148,587	112,551	0.4%
Net cash used by capital and related financing activities	(4,693,765)	766,526	(5,460,291)	-712.3%
Net cash provided by investing activities	1,090,641	4,253,301	(3,162,660)	-74.4%
Net increase (decrease) in cash	(4,525,574)	3,362,855	(7,888,429)	-234.6%
Cash - beginning of year, as restated	12,982,695	9,619,840	3,362,855	35.0%
Cash - end of year	\$ 8,457,121	\$ 12,982,695	\$ (4,525,574)	-34.9%

Cash provided and/or (used) by operating activities will always result in a net use for the Institute because all state appropriations and private gifts are treated as cash sources for noncapital or capital financing activities rather than sources for operating activities. Tuition and fees (\$13.8 million) and auxiliary enterprise revenues (\$12.2 million) represent the largest sources of operating cash, while compensation and benefits (\$36 million) and payments for supplies and services (\$22.4 million) are the most significant uses of operating cash. Overall, cash sources increased slightly more than cash uses for operations by approximately \$.6 million during FY 2009 over the previous fiscal year.

Net cash provided by noncapital financing activities for operations consists largely of State appropriations (\$13.8 million) and private fund support (\$14.8 million). Overall, cash provided by noncapital financing activities increased only slightly (\$.1 million) during FY 2009 over FY 2008.

Net cash provided by capital and related financing activities consists primarily of gifts and contributions from the VMI Development Board and State VCBA bond funding (\$28 million). The purchase and construction of capital assets (\$32.5 million) and principal and interest paid on capital debt (\$1.6 million) account for the largest uses of cash for capital and related financing activities.

Net cash provided by investing activities decreased by \$3.2 million from \$4.3 million in FY 2008 to \$1.1 million in FY 2009 as a result of the sale of the Gillis endowment assets during FY 2008 to fund construction of the Center for Leadership and Ethics.

**Capital Asset and Debt Administration**

FY 2009 was the seventh year of implementing VMI's Vision 2039 master plan. Vision 2039 is a leadership plan rather than a construction plan; however, construction of new facilities and the renovations of older buildings on Post are essential components of Vision 2039. During the year, planning and/or renovation and construction continued on a number of academic as well as other mission essential facilities: Kilbourne Hall, Marshall Hall (Center for Leadership and Ethics), the Barracks Expansion and Renovation, VMI Museum (Jackson Memorial Hall) casework, the Military and Leadership Field Training Grounds, Commandant's Quarters (Maury House), Science Building renovation, and Post Hospital renovation.

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The Kilbourne Hall project consisted of three components: the construction of a new Physical Plant facility; the renovation and expansion of Kilbourne Hall and the renovation of the old Buildings and Grounds facility; and improvements to storm water lines along Main Street (this storm water project also included additional funding of \$1.3 million from a separate storm water project). The new Physical Plant facility was completed in September 2006 and the storm water project was completed in December 2006. The renovation of the old Buildings and Grounds facility and expansion of Kilbourne Hall was completed in March 2008 and renovation of Kilbourne Hall was completed in December of 2008. The Kilbourne Hall project was funded predominantly by State general funds and some support from private funds, but during FY 2009, the State converted \$1.5 million of the general funds to Virginia College Building Authority (VCBA) 21<sup>st</sup> Century bond proceeds.

The Marshall Hall (Center for Leadership and Ethics) project began construction in October 2006 and was completed in December 2008. This project was financed with bonds issued through the Lexington Industrial Development Authority by the VMI Development Board, Inc.

The VMI Barracks Expansion and Renovation project has been on-going since the 2005 General Assembly appropriated \$1.9 million of State funds to begin planning. The 2006 General Assembly appropriated \$46.8 million for construction and the 2007 General Assembly appropriated supplemental funding of \$14 million. During FY 2008, the State changed the funding source for this project from general funds to VCBA 21<sup>st</sup> Century bond proceeds. This project provides much needed repairs and upgrades to this historic facility and allows VMI to grow the Corps to 1,500 cadets. The Barracks expansion was completed in December 2008 and the renovation is scheduled for completion in August 2010.

The 2008 General Assembly appropriated VCBA bond financing for two new VMI capital projects beginning in FY 2009 consisting of \$15.1 million for VMI's Military Leadership and Field Training Grounds (MLFTG) project and \$816,000 in detailed planning funds to renovate the Science Building. Construction of the MLFTG project commenced in September 2009 and will be completed in the summer of 2011. The Institute is now requesting through the State's new capital outlay process funds to complete the Science Building Renovation project in FY 2011. Renovations of the Science Building will support changes in VMI's revised Core Curriculum, increases in the size of the Corps of Cadets, and support increases in the number of Science, Technology, Engineering and Math (STEM) graduates and energy conservation and life safety measures.

Authorized by the 2008 General Assembly, in the amount of \$400,000 of auxiliary funds and \$800,000 of private funds, is the renovation of the Commandant's Quarters (Maury House). The historic Maury House was last renovated in 1956 and all building systems are in need of renovation. Significant restoration efforts will be expended as the quarters is a contributing historical building to the VMI Historic District (listed as both a National Register property and a National Historic Landmark since 1974). The 2008 General Assembly also appropriated bond financing for two parking projects totaling \$4.8 million, South Institute Hill Parking and Lackey Park Parking, which are in the planning stage.

Detailed planning on the Post Hospital was initiated, with authorization granted from the 2009 General Assembly, to utilize \$205,000 of non-general funds. This planning will result in completion of drawings to the preliminary phase. A final step in funding in the State's new capital outlay process will authorize funds to complete construction drawings and begin construction. Improvements to the Post Hospital were recommended in Group 1.B of SCHEV's 2008-2010 Capital Outlay Recommendations for Higher Education.

VMI had seven capital projects totaling \$85.3 million in progress or in the planning stages at the end of FY 2009. These projects are all financed with State funds or private funds from VMI's alumni agencies resulting in no debt obligations for VMI. Since VMI began its Vision 2039 capital program, it has incurred debt on only the Jackson Memorial Hall, the Cocke Hall Annex, and the Crozet Hall capital projects. The debt on these projects totals approximately \$14.9 million with annual debt service payments of \$1.3 million, most of which is being funded by the VMI Foundation and VMI Development Board. VMI's Board of Visitors adopted debt guidelines in August 2005 to help ensure sound management and control of debt.



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**Affiliates' Financial Statements**

VMI's affiliates consist of the VMI Alumni Agencies (VMIAA) and the VMI Research Laboratories, Inc. (VMIRL). The VMIAA is comprised of four separate entities: the VMI Alumni Association, the VMI Foundation, Inc., the VMI Development Board, Inc., and the VMI Keydet Club, Inc. These entities share a common purpose of raising funds, investing funds, and performing other activities in support of VMI, and accordingly, present their financial statements on a combined basis. The VMIRL exists to administer grant and contract research, symposia, and other educational programs at VMI.

Total net assets of the VMIAA and the VMIRL amounted to \$216 million and \$.5 million, respectively, as of 30 June 2009 as compared to \$307 million and \$.4 million as of 30 June 2008. VMIAA net assets consist of \$40.5 million in unrestricted net assets and \$175.5 million in temporarily and permanently restricted net assets. VMIAA revenues totaled \$27.1 million for FY 2009 and \$24.1 million for FY 2008. The amount the VMIAA remitted directly to or on behalf of VMI for FY 2009 was \$20.8 million compared to \$31.6 million for FY 2008, a 34.2% decrease. This \$10.8 million decrease is attributable to less funding being provided for capital projects as a result of the completion Marshall and Kilbourne Halls.

**Economic Outlook**

State appropriations for operations totaled \$13.8 million in FY 2009 and \$14.6 million in FY 2008 for a decrease of \$0.8 million or 5.3%. State appropriations represented 24.9% of VMI's total revenue and support for operations in FY 2009 compared to 25.7% in FY 2008. State appropriations for FY 2009 were reduced approximately \$983,000 by the Governor in October 2008 due to continuing shortfalls in State general fund revenues resulting from the beginnings of the current nationwide economic recession. State appropriations for FY 2010 are projected to total approximately \$10.7 million for a decrease of \$3.1 million or 22% compared to FY 2009. This decrease includes a \$1.8 million or 15% reduction in State general funds announced by the Governor in September 2009 due to continuing State revenue shortfalls (this marks the third straight year of mid-year reductions in State funding). However, State appropriations are being supplemented with approximately \$2.1 million in Federal Stabilization Funds (federal "stimulus" funds) for FY 2010; this includes approximately \$0.8 million in Federal Stabilization Funds (pending federal approval) that were set aside for FY 2011, but that is being transferred to FY 2010 to offset the impact of the 15% reduction. VMI plans to address the State reductions primarily by supplanting State revenues with enrollment growth revenue, deferring discretionary expenses, achieving employee vacancy and turnover savings, and using Auxiliary Program fund balances as necessary. State general fund support for FY 2011 may decline from FY 2010 levels due to the continuing impact of the current economic recession. Some Federal Stabilization Funds are anticipated to be available to institutions in FY 2011, but the amount is uncertain and will not continue beyond FY 2011. The continuing impact of the current economic recession on State revenues creates significant uncertainty as to the level of State support for the next few years.

Gifts and contributions in support of operations totaled \$15.5 million in FY 2009 and \$15.6 million in FY 2008 for a decrease of \$0.1 million or 0.8%. This support represented 28.1% of VMI's total revenues and support for operations in FY 2009 compared to 27.6% in FY 2008. Gifts and contributions consist primarily of donations and endowment income from VMI's alumni agencies. This support is projected to decrease some in FY 2010 and for several years thereafter due largely to the effects of the significant drop in the stock market since FY 2008, the continuing economic recession, and increasing debt service costs of the VMI alumni agencies beginning in 2012 that is related to past capital project bond financing for VMI projects.

State funding for capital projects totaled \$25.6 million in FY 2009 and \$6.0 million in FY 2008 and consists of State general funds and bond financing. State funding for FY 2010 is projected to approximate \$21.0 million and consists primarily of bond financing for existing on-going capital projects. VMI submitted requests in June 2009 for State funding for new capital projects totaling \$188.6 million for the next biennium (FY 2011 and FY 2012); however, any significant State funding for new projects is considered unlikely for

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the next few years due to the current economic recession and its impact on the State's funding capacity. Private funding for capital projects totaled \$3.6 million in FY 2009 and \$14.3 million in FY 2008 and consisted primarily of bond financing. Private funding for FY 2010 is projected to total \$1.6 million as ongoing projects are completed. Any significant private funding for new capital projects is uncertain for the next several years also due to the current economic recession.

VMI increased tuition and fees in FY 2010 by 5.8% for in-state cadets and 4.8% for out-of-state cadets. VMI estimates that increases for FY 2011 will be similar or greater depending upon State general fund appropriations and unavoidable cost increases primarily from rising energy costs and program enhancements mandated by accreditation standards.

VMI enrolled a record-high 1,527 cadets in fall 2009 (FY 2010) which compares to 1,456 cadets in fall 2008 (FY 2009) for an increase of 71 cadets or 4.9%. The enrollment consisted of 58.6% in-state cadets in fall 2009 compared to 59.6% in fall 2008. VMI is planning for approximately 1,550 cadets in fall 2010 consisting of 59.0% in-state cadets. VMI's Six-Year Institutional Plan projects enrollment to be maintained at approximately 1,500 cadets with the proportion of in-state cadets targeted to approximate and hold steady at 55% of the Corps by FY 2014.

VMI's executive management believes that the Institute is well positioned to continue to provide excellent programs and services to its cadets as it maintains a clear educational focus and a well-established niche in the higher education marketplace. VMI continues to be nationally recognized especially for its engineering programs. Reductions in State support and in private support for the next few years will impact operations and programs for the near term; however, VMI plans to keep its tuition and fees competitive and continue to offer attractive financial assistance packages that will help to sustain enrollment and the quality of its programs and services. Steady numbers of cadets who receive Reserve Officers Training Corps (ROTC) scholarships also continues to help bolster the enrollment of out-of-state cadets. A Corps size of at least 1500 cadets with growth in the proportion of out-of-state cadets to 45% will mitigate some of the impact of reduced State and private funding. VMI will also continue to improve the efficiency and the effectiveness of all its operations and programs through regular assessments in accordance with its internal initiatives, the mandates of its accrediting body, and the State's Agency Risk Management and Internal Control Systems policies.

# **FINANCIAL STATEMENTS**

**VIRGINIA MILITARY INSTITUTE**  
**Statement of Net Assets**  
**As of 30 June 2009**

<b>ASSETS</b>	
<b>Current assets</b>	
Cash and cash equivalents (Note 2)	\$ 9,090,170
Cash equivalent held by Treasurer of Virginia (Note 2)	1,381,417
Collateral held for securities lending (Note 2)	1,657,398
Accounts receivable, <i>Net of allowance for doubtful accounts of \$48,865</i> (Note 3)	2,413,888
Due from the Commonwealth	214,495
Prepaid expenditures	864,351
Inventory (Note 4)	4,269,472
Loans receivable	91,937
Total current assets	<u>19,983,128</u>
<b>Noncurrent assets</b>	
Cash and cash equivalents (Note 2)	(633,049)
Investments held with trustees (Note 2)	10,652,168
Appropriations available\Due from Commonwealth	5,114,668
Accounts receivable (Note 3)	364,937
Loans receivable, <i>Net of allowance for doubtful accounts of \$24,317</i>	1,138,437
Nondepreciable capital assets (Note 5)	16,536,869
Depreciable capital assets, <i>Net of accumulated depreciation</i> (Note 5)	191,768,601
Total noncurrent assets	<u>224,942,631</u>
<b>Total assets</b>	<u><u>244,925,759</u></u>
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Accounts payable and accrued expenses (Note 6)	7,615,972
Unearned revenue	1,263,798
Obligations under securities lending	3,038,815
Deposits held for others	114,924
Long-term liabilities-current portion: (Note 7)	
Compensated absences	888,677
Bonds payable (Note 8)	415,000
Notes payable (Note 8)	185,000
Capital lease payable (Note 8)	6,515
Installment purchase obligations (Note 8)	31,974
Total current liabilities	<u>13,560,675</u>
<b>Noncurrent liabilities</b>	
Accrued liabilities (Note 6)	622,685
Federal loan program contributions refundable	1,307,780
Retainage payable (Note 10)	1,635,527
Long-term liabilities-noncurrent portion: (Note 7)	
Compensated absences	441,940
Bonds payable (Note 8)	9,822,193
Notes payable (Note 8)	3,555,320
Capital lease payable (Note 8)	7,689
Installment purchase obligations (Note 8)	17,822
Total noncurrent liabilities	<u>17,410,956</u>
<b>Total liabilities</b>	<u><u>30,971,631</u></u>
<b>NET ASSETS</b>	
<b>Invested in capital assets, net of related debt</b>	194,263,958
<b>Restricted-nonexpendable</b>	
Endowment	1,265,690
<b>Restricted-expendable</b>	
Scholarships and other	1,163,637
Loan funds	523,816
Quasi-endowment-restricted	7,223,920
<b>Unrestricted</b>	9,513,107
Total net assets	<u><u>213,954,128</u></u>
<b>Total liabilities and net assets</b>	<u><u>\$ 244,925,759</u></u>

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

**COMBINED STATEMENT OF FINANCIAL POSITION**  
**Component Units of Virginia Military Institute**  
**As of 30 June 2009**

**ASSETS**

**Current assets:**

Cash and cash equivalents	\$ 16,496,482
Contributions receivable (Note 18)	5,125,464
Accounts receivable	268,843
Other	760,269
Total current assets	<u>22,651,058</u>

**Noncurrent assets:**

Contributions Receivable (Note 18)	9,306,749
Investments held by trustees (Note 18)	219,033,145
Investments, other (Note 18)	13,808,055
Investment securities	93,091
Cash surrender of life insurance	4,794,740
Property and equipment, net of accumulated depreciation	26,250
Total noncurrent assets	<u>247,062,030</u>

<b>Total assets</b>	<u><u>269,713,088</u></u>
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**LIABILITIES**

**Current liabilities:**

Accounts payable and accrued expenses	1,287,682
Unearned revenue	12,907
Long-term liabilities-current portion:	
Trust and annuity obligations	683,369
Total current liabilities	<u>1,983,958</u>

**Noncurrent liabilities:**

Other liabilities	337,336
Long-term liabilities-noncurrent portion:	
Bonds payable (Note 18)	46,965,604
Trust and annuity obligations	3,957,980
Total noncurrent liabilities	<u>51,260,920</u>

<b>Total liabilities</b>	<u>53,244,878</u>
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**NET ASSETS**

Unrestricted	40,935,829
Temporarily restricted	75,821,993
Permanently restricted	99,710,388
Total net assets	<u>216,468,210</u>

<b>Total liabilities and net assets</b>	<u><u>\$ 269,713,088</u></u>
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**VIRGINIA MILITARY INSTITUTE**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**For the Year Ended 30 June 2009**

***Operating revenues:***

Tuition and fees, <i>Net of scholarships allowances of \$4,298,590</i>	\$ 13,743,061
Federal grants and contracts	467,201
State and private grants and contracts	24,420
Sales and services of educational departments	129,231
Auxiliary enterprise, <i>Net of scholarship allowances of \$3,602,782</i>	12,146,364
Unique military activities, <i>Net of scholarships allowances of \$573,767</i>	1,794,074
Other sources:	
Museum programs	503,203
Rents and commissions	237,673
Miscellaneous	186,726
Total operating revenues	<u>29,231,953</u>

***Operating expenses:***

Educational and general	
Instruction	17,947,745
Research	379,039
Public service	1,356,587
Academic support	5,861,469
Student services	3,830,044
Institutional support	4,662,437
Operation and maintenance of physical plant	7,694,737
Scholarships and related expense	1,146,797
Auxiliary enterprises	16,851,022
Unique military activities	5,583,768
Total operating expenses (Note 11)	<u>65,313,645</u>
Net operating income (loss)	<u>(36,081,692)</u>

***Nonoperating revenues/(expenses):***

State appropriations (Note 12)	13,787,087
Gifts and contributions	15,532,383
Federal student financial aid (Pell)	666,504
Investment income (loss)	(3,896,880)
Interest on capital asset - related debt	(620,126)
Loss on disposal of plant assets	(238,620)
Net nonoperating revenues	<u>25,230,348</u>
Income (loss) before other revenues and extraordinary items	<u>(10,851,344)</u>

***Other revenues and reductions:***

Grants and contributions-capital	29,199,028
Investment income-capital	3,468
Reduction in capital appropriation	(3,224,435)
Total other revenues and reductions	<u>25,978,061</u>
Increase/(Decrease) in net assets	15,126,717
Net assets beginning of the year	<u>198,827,411</u>
Net assets end of year	<u><u>\$ 213,954,128</u></u>

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

**COMBINED STATEMENT OF ACTIVITIES**  
**Component Units of Virginia Military Institute**  
**For the Year Ended 30 June 2009**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>REVENUES</b>				
Amounts raised on behalf of VMI	\$ 8,127,432	\$ 2,390,248	\$ 13,817,330	\$ 24,335,010
Grants, contributions and contracts	693,980	98,451	-	792,431
Event sponsorships, registrations and fees	271,073	-	-	271,073
Investment income	3,846,204	533	-	3,846,737
Actuarial gain/( loss) on trust and annuity obligations	(323,846)	406,506	82,064	164,724
Unrealized loss on swap contract	-	(1,274,582)	-	(1,274,582)
Administrative fees	43,000	-	-	43,000
Other income	77,013	-	-	77,013
Net assets released from restrictions and reclassifications	7,672,319	(7,672,319)	-	-
Total revenues	<u>20,407,175</u>	<u>(6,051,163)</u>	<u>13,899,394</u>	<u>28,255,406</u>
<b>EXPENSES</b>				
Amounts remitted directly to or on behalf of VMI:				
Unrestricted	9,648,395	-	-	9,648,395
Designated	11,146,300	-	-	11,146,300
Cost of operations	5,877,601	-	-	5,877,601
Conference, research and education	1,008,916	-	-	1,008,916
Total expenses	<u>27,681,212</u>	<u>-</u>	<u>-</u>	<u>27,681,212</u>
Change in net assets before net realized and unrealized gain/(loss) on investments	(7,274,037)	(6,051,163)	13,899,394	574,194
NET REALIZED AND UNREALIZED GAINS/(LOSS) ON INVESTMENTS	<u>(33,989,695)</u>	<u>(57,618,643)</u>	<u>-</u>	<u>(91,608,338)</u>
Change in net assets	(41,263,732)	(63,669,806)	13,899,394	(91,034,144)
<b>NET ASSETS</b>				
Beginning	<u>82,095,913</u>	<u>139,595,447</u>	<u>85,810,994</u>	<u>307,502,354</u>
Ending	<u>\$ 39,639,920</u>	<u>\$ 79,413,614</u>	<u>\$ 97,414,676</u>	<u>\$ 216,468,210</u>

# **VIRGINIA MILITARY INSTITUTE**

## **Statement of Cash Flows**

**For the Year Ended 30 June 2009**

### **Cash provided/(used) by operating activities:**

Tuition and fees	\$ 13,789,028
Federal grants and contracts	469,749
State and private grants and contracts	25,145
Sales and services-educational and general	134,089
Auxiliary charges	12,151,785
Unique military activity charges	1,798,873
Other operating receipts	928,646
Payments to employees for salaries and benefits	(36,010,396)
Payments for supplies and services	(22,427,832)
Payments for scholarships and fellowships	(1,039,645)
Loan funds issued to students	(248,117)
Collections of loans from students	245,087
Net cash provided/(used) by operating activities	<u>(30,183,588)</u>

### **Cash provided/(used) by noncapital financing activities:**

State appropriations	13,787,087
Nonoperating grants and contracts	666,504
Gifts and contributions for other than capital purposes	14,763,786
Federal Direct Lending Program-receipts	3,924,296
Federal Direct Lending Program-disbursements	(3,924,296)
Agency receipts	4,126,228
Agency disbursements	(4,082,467)
Net cash provided/(used) by noncapital financing activities	<u>29,261,138</u>

### **Cash provided/(used) by capital and related financing activities:**

Capital appropriations	1,354,052
Capital gifts and contributions	27,980,916
Proceeds from sale of capital assets	40,334
Purchase and construction of capital assets	(32,494,709)
Principal paid on capital debt, leases and installments	(905,173)
Interest paid on capital debt, leases and installments	(676,012)
Investment income-capital	6,827
Net cash provided/(used) by capital and relating financing activities	<u>(4,693,765)</u>

### **Cash provided/(used) by investing activities:**

Interest on investments	275,479
Investment/Endowment income	116,467
Sale of investments	721,195
Purchase of investments	(22,500)
Net cash provided/(used) by investing activities	<u>1,090,641</u>
Net increase/(decrease) in cash	(4,525,574)
Cash-beginning of year	12,982,695
Cash-end of year	<u>\$ 8,457,121</u>



**VIRGINIA MILITARY INSTITUTE**  
**Statement of Cash Flows**  
**For the Year Ended 30 June 2009**

**Reconciliation of net operating expenses to net cash used by operating activities:**

Net operating expenses	\$ (36,081,692)
Adjustments to reconcile net operating expenses to cash used by operating activities:	
Depreciation expense	6,228,863
Changes in assets and liabilities:	
Accounts receivable	(175,740)
Inventories	(277,897)
Prepaid expenditures	(22,207)
Due from Commonwealth	(14,998)
Loans receivable	(20,037)
Accounts payable and accrued liabilities	(57,639)
Unearned revenue	191,146
Compensated absences	29,606
Federal loan program contributions refundable	17,007
Net cash used in operating activities	<u><u>\$ (30,183,588)</u></u>

**Noncash investing, noncapital financing, and capital related financing transactions:**

Change in fair value of investments recognized as a component of investment loss	(1,040,753)
	<u><u>\$ (1,040,753)</u></u>

**Reconciliation of cash and cash equivalents to the Statement of Net Assets:**

Cash and cash equivalents classified as current assets	9,090,170
Cash and cash equivalents classified as noncurrent assets	(633,049)
	<u><u>\$ 8,457,121</u></u>

## **- NOTES TO FINANCIAL STATEMENTS -**

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**VIRGINIA MILITARY INSTITUTE**  
NOTES TO THE FINANCIAL STATEMENTS  
For The Year Ended 30 June 2009

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Virginia Military Institute (VMI) have been prepared in accordance with generally accepted accounting principles for colleges and universities. The significant accounting policies followed by the Institute are as follows:

**A. Reporting Entity**

The Virginia Military Institute believes that the measure of a college lies in the quality and performance of its graduates and their contributions to society. Therefore, it is the mission of the Virginia Military Institute to produce educated, honorable men and women prepared for the varied work of civil life, imbued with love of learning, confident in the functions and attitudes of leadership, possessing a high sense of public service, advocates of the American Democracy and free enterprise system, and ready as citizen-soldiers to defend their country in time of national peril.

To accomplish this result, Virginia Military Institute shall provide to qualified young men and women undergraduate education of highest quality – embracing engineering, science, and the arts – conducted in, and facilitated by, the unique VMI system of military discipline.

Virginia Military Institute is part of the Commonwealth of Virginia's statewide system of public higher education. The Board of Visitors, appointed by the Governor, is responsible for overseeing the Institute's governance. A separate report is prepared for the Commonwealth of Virginia which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Institute is a component unit of the Commonwealth of Virginia and is included in the general purpose financial statements of the Commonwealth.

The Governmental Accounting Standards Board (GASB) Statement 39, *Determining Whether Certain Organizations Are Component Units*, became effective for the fiscal year ended 30 June 2004. GASB Statement 39 provides guidance to determine whether certain organizations for which the Institute is not financially accountable should be reported as component units. Generally, it requires reporting as a component unit, an organization that raises and holds economic resources for the direct benefit of the Institute.

The VMI Alumni Agencies is a legally separate, tax-exempt entity whose purpose is to organize the alumni of the Institute and to aid in the promotion of its welfare and the successful prosecution of its educational purposes. It accomplishes this through fund-raising to supplement the support VMI receives from the Commonwealth of Virginia and the tuition and fees charged to cadets. Because the VMI Alumni Agencies' resources are held almost entirely for the benefit of the Institute and these resources are considered significant to the Institute, we have determined that the Alumni Agencies should be included as a component unit.

**VIRGINIA MILITARY INSTITUTE**  
NOTES TO THE FINANCIAL STATEMENTS  
For The Year Ended 30 June 2009

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The VMI Research Laboratories (VMIRL) is a legally separate, tax-exempt entity whose purpose is to administer contract and grant research at the Institute. Because of the VMIRL's close relationship to the Institute, we believe in our professional judgment, it should be included as a component unit in our financial statements. Both the VMI Alumni Agencies and the VMIRL have been discretely presented in these statements.

Because the VMI Alumni Agencies and the VMIRL report under a different reporting model, the Financial Accounting Standards Board (FASB) standards, the VMI Board of Visitors and the administration of the Institute believe the Institute's financial statements should be presented on a page separate from the Institute's component units as allowed by GASB Statement 39. Separate financial statements for the VMI Alumni Agencies may be obtained by writing the Chief Financial Officer, VMI Foundation, Inc., P.O. Box 932, Lexington, Virginia 24450. Separate financial statements for the VMI Research Laboratories, Inc., may be obtained by writing the Treasurer, VMI Research Laboratories, Inc., Virginia Military Institute, Lexington, Virginia 24450.

**B. Financial Statement Presentation**

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

The VMI Alumni Agencies and the VMI Research Laboratories, Inc. are private, nonprofit organizations that report under FASB standards including FASB Statement 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the VMI Alumni Agencies' or the VMI Research Laboratories' financial information in the Institute's financial report for these differences.

**C. Basis of Accounting**

For financial statement purposes, the Institute is considered a special-purpose government engaged only in business-type activities. Accordingly, the Institute'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.

**VIRGINIA MILITARY INSTITUTE**  
NOTES TO THE FINANCIAL STATEMENTS  
For The Year Ended 30 June 2009

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**D. Investments**

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, purchased investments, interest-bearing temporary investments classified with cash, and investments received as gifts are recorded at fair value. All investment income, including changes in the fair value of investments (unrealized gains and losses), is reported as nonoperating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

**E. Capital Assets**

Capital assets include land, buildings and other improvements, library materials, equipment and infrastructure assets such as sidewalks, steam tunnels, and electrical and computer network cabling systems. Capital assets are generally defined by the Institute as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of two years. Buildings and equipment are stated at appraised value or actual cost where determinable. Land is stated at cost. Library materials are valued using published average prices for library acquisitions. Expenses for major capital assets and improvements are capitalized (construction in progress) as projects are constructed. Operating expenditures of \$10,000 or greater for renewals and replacement are capitalized only to the extent that such expenditures represent long-term improvement to properties. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. The costs of normal maintenance and repairs that do not add to an asset's value or materially extend its useful life are not capitalized.

Depreciation is computed using the straight-line method over the estimated useful life of the asset. Useful lives by asset categories are listed below:

Buildings	50 years
Other improvements	10-30 years
Equipment	5-25 years
Library materials	10 years

The Institute does not capitalize works of art, historical treasures and similar assets. Such items are held for public exhibition, education or research in the furtherance of public service rather than financial gain. Institute collections may be sold but the proceeds must be used for the acquisition of similar type Institute collections. Exceptions to this requirement must be pre-approved by the Deputy Superintendent for Finance, Administration and Support.

**VIRGINIA MILITARY INSTITUTE**  
NOTES TO THE FINANCIAL STATEMENTS  
For The Year Ended 30 June 2009

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**F. Inventories**

Inventory cost values for the museum, post hospital and physical plant are determined by using the weighted average method. The military store inventory is valued at cost using the first-in first-out method.

**G. Unearned Revenue**

Unearned revenue represents revenues collected but not earned as of 30 June 2009. This is primarily composed of revenue for student tuition and fees received in advance of the next semester or term.

**H. 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 Institute incurred interest expense totaling \$620,126 for the fiscal year ended 30 June 2009, of which none was capitalized as construction period interest.

**I. Accrued Compensated Absences**

Nonfaculty salaried employee's attendance and leave regulations make provisions for the granting of a specified number of days of leave with pay each year. Instructional personnel do not earn leave. The amount of leave earned but not taken as of 30 June 2009 is recorded as a liability on the Statement of Net Assets. The liability reflects all earned vacation, compensatory and overtime leave not taken as well as the amount payable under the Commonwealth of Virginia's sick leave payout policy upon termination which is the lesser of 25% of sick leave not taken or \$5,000 per employee with five or more years of service. Also included is an estimation of sick leave for those employees who, while not currently vested, will probably attain the 5 years of service required to vest. The last element reflected in the liability is Social Security and Medicaid taxes to be paid by the Institute on all accrued compensated absences.

**J. Federal Financial Assistance Programs**

The Institute participates in federally funded Pell Grants, Supplemental Educational Opportunity Grants, Federal Work-Study and Perkins Loans programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the Office of Management and Budget Revised Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*, and the Compliance Supplement.

**K. Net Assets**

GASB Statement 34 requires that the Statement of Net Assets report the difference between assets and liabilities as net assets, not fund balances.

**VIRGINIA MILITARY INSTITUTE**  
NOTES TO THE FINANCIAL STATEMENTS  
For The Year Ended 30 June 2009

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The Institute's net assets are classified as follows:

*Invested in capital assets, net of related debt:* This represents the Institute's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

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

*Restricted net assets – expendable:* Restricted expendable net assets include resources in which the Institute is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

*Unrestricted net assets:* Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the Institute, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff. Also included in unrestricted net assets are funds that have been set aside by the Board of Visitors as quasi-endowments. These funds are treated the same as true endowment funds; however, unlike true endowments they may be expended.

The Institute has no policy regarding flow assumption to determine which assets (restricted or unrestricted) are being used when both restricted and unrestricted assets are available for the same purpose. Our practice is to allow Department Heads to make this determination and they typically spend unrestricted assets prior to spending restricted resources.

**L. Classification of Revenues**

The Institute has classified its revenues as either operating or nonoperating 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 discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state and local grants and contracts, and (4) interest on student loans.

*Nonoperating revenues:* Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other

**VIRGINIA MILITARY INSTITUTE**  
NOTES TO THE FINANCIAL STATEMENTS  
For The Year Ended 30 June 2009

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revenue sources that are defined as nonoperating revenues by GASB Statement 9 *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, GASB Statement 33 *Accounting and Financial Reporting for Nonexchange Transactions*, and GASB Statement 34, such as state appropriations and investment income.

*Scholarship Discounts and Allowances:* Student tuition and fee revenues are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the Institute, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the Institute's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees, the Institute has recorded a scholarship discount and allowance.

**NOTE 2: CASH AND CASH EQUIVALENTS AND INVESTMENTS**

The following information is provided with respect to the Institute's cash, cash equivalents, and investments as of 30 June 2009. 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 risk for deposits is the risk that, in the event of a 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 possession of an outside party. The Institute had no category 3 deposits or investments for fiscal year 2009.

Credit risk – 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 ratings of all 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 a credit risk. GASB Statement 40 requires disclosure of any issuer with more than five percent of total investments.

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 Institute does not have an interest rate risk policy.

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.



**VIRGINIA MILITARY INSTITUTE**  
NOTES TO THE FINANCIAL STATEMENTS  
For The Year Ended 30 June 2009

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The Institute's credit risk, concentration of credit risk, interest rate risk, and foreign currency risk are described in the Investments Note below.

**Cash and Cash Equivalents**

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of VMI are maintained by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Cash deposits held by VMI 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. In accordance with the GASB Statement Number 9 *Definition of Cash and Cash Equivalents*, cash represents cash with the Treasurer, cash on hand, and cash deposits including certificate of deposits, and temporary investments with original maturities of three months or less.

Cash and cash equivalents consist of the following balances as of 30 June 2009:

Cash with Treasurer of Virginia	\$ 7,185,639
SunTrust NOW checking	1,233,362
Securities under securities lending	1,381,417
Petty cash	10,120
Wachovia Bank time deposit	28,000
Total cash and cash equivalents	<u>\$ 9,838,538</u>

**Investments**

Investments include endowment and similar funds pooled and invested with VMI affiliates and retirement fund investments for selected employees. It also includes VMI's allocated share of securities held for security lending transactions conducted by the Commonwealth. Investments consist of the following balances as of 30 June 2009:

Investments with the Treasurer of Virginia:	
Securities under Securities Lending	\$ 1,657,398
Investments with Trustees:	
Investments pooled with VMI Affiliates	10,131,483
Mutual fund investments (retirement accounts)	<u>520,685</u>
Total with Trustees	<u>10,652,168</u>
Total investments	<u>\$ 12,309,566</u>

VMI's endowment, loan and similar funds are pooled for investment purposes with the endowment funds of its affiliates consisting of the VMI Alumni Agencies (the VMI Foundation, Inc., the VMI Development Board, Inc., and the VMI Keydet Club) and the George C. Marshall Foundation. VMI owns units in the pooled fund that operates similar to a mutual fund. Prior to

**VIRGINIA MILITARY INSTITUTE**  
NOTES TO THE FINANCIAL STATEMENTS  
For The Year Ended 30 June 2009

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29 April 2009, the Board of Trustees of the VMI Foundation, Inc. was responsible for the management of these endowment funds (the Fund) and had appointed an Investment Committee to supervise the Fund's assets. The Committee was responsible for setting and implementing the investment policies and guidelines adopted by the Committee. On 29 April 2009, VMI Investment Holdings, LLC (LLC) was formed to manage the investments held by VMI and its affiliates. On 1 June 2009, all investments held by trustees for VMI and its affiliates were transferred to the LLC with BNY Mellon serving as custodian. The VMI Foundation, Inc. is the sole member of the LLC and acts as an intermediary between the LLC and VMI and the other agencies. The LLC will operate the unitized investment pool and issue a number of units in the pool to each depositor based on the amount of its deposit divided by the then unit value. Each depositor is entitled to its pro rata share of the value, taking into account aggregate investment returns. Deposits to and withdrawals from the pool by VMI and the other agencies will be made through the VMI Foundation. A separate board of directors was established to manage the LLC. Authorized investments are set forth in the Uniform Prudent Management of Institutional Funds Act, Section 55-268 et seq. of the Code of Virginia and may include any real or personal property, whether or not it produces a current return, including mortgages, stocks and bonds, debentures, and other securities of profit or nonprofit corporations, shares in or obligations of associations, partnerships, or individuals, and obligations of any government or subdivision.

The market value of the Fund as of 30 June 2009 was \$234.7 million, of which, VMI owned \$10.1 million or 4.3 percent of the Fund assets. The Fund held \$43.4 million in debt securities with an average maturity of 5.8 years. The average quality rating was AA+ (Moody's). Bonds must be rated above investment grade by two of the following rating agencies: Moody's, Fitch Rating, and Standard and Poors at the time of purchase and cannot be more than 20 percent of the total assets invested in bonds (at market). No stock may be in excess of five percent of the equity portfolio at cost or ten percent at market. No more than 25 percent of the equity portfolio at market value may be invested in any one general industry as defined by the S&P 500 industry classifications. No more than three percent of the outstanding shares of any company may be owned in the equity portfolio. The Fund held \$53.9 million in international equities denominated primarily in the Euro, the Pound, and the Yen. The custodians for the Fund are independently audited annually.

### **Securities Lending Transactions**

Collateral held for securities lending and the securities lending transactions reported on the financial statements represent the Institute's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*. The Commonwealth's policy is to record unrealized gains and losses in the General Fund in the Commonwealth's basic financial statements. When gains or losses are realized, the actual gains and losses are recorded by the affected agencies.

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**Funds Held In Trust By Others**

Assets of funds held by trustees for the benefit of the Institute are not reflected in the accompanying Statement of Net Assets. The Institute has irrevocable rights to all or a portion of the income of these funds. However, assets of the funds are not under the management discretion of the Institute according to the trust agreements. Income from funds held by trustees for the benefit of the Institute totaled \$117,391 and is included in the endowment income.

**NOTE 3: ACCOUNTS RECEIVABLE**

Accounts receivable consisted of the following at 30 June 2009:

<i>Current:</i>	
Student tuition and fees	\$ 428,865
Other educational and general	23,279
Auxiliary enterprises	50,143
Unique military activity	3,856
Private gifts	1,883,866
Other	4,554
Retirement of indebtedness	68,190
	<hr/>
	\$ 2,462,753
Less: Allowance for doubtful accounts	<hr/> (48,865)
Total current accounts receivable, net	<hr/> \$ 2,413,888
<i>Noncurrent:</i>	
Private gifts	\$ 250,000
Other operating	114,937
	<hr/>
Total noncurrent accounts receivable	<hr/> \$ 364,937
Total accounts receivable	<hr/> <hr/> \$ 2,778,825

**NOTE 4: INVENTORIES**

Inventories consisted of the following at 30 June 2009:

Physical Plant	\$ 390,557
Military Store	3,712,367
Museums	143,483
VMI Hospital	23,065
	<hr/>
Total	<hr/> <hr/> \$ 4,269,472

**VIRGINIA MILITARY INSTITUTE**  
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**NOTE 5: CAPITAL ASSETS**

A summary of changes in the various capital asset categories is presented as follows:

	Beginning Balance 1 July 2008	Additions	Reductions	Ending Balance 30 June 2009
<b>Nondepreciable capital assets:</b>				
Land	\$ 2,523,476	\$ -	\$ -	\$ 2,523,476
Construction in progress	60,299,492	5,041,088	(51,327,187)	14,013,393
Total nondepreciable capital assets	62,822,968	5,041,088	(51,327,187)	16,536,869
<b>Depreciable capital assets:</b>				
Buildings	159,308,361	73,779,723	(423,500)	232,664,584
Improvements other than buildings	13,650,952	305,873	(23,141)	13,933,684
Equipment	12,607,286	1,131,234	(266,984)	13,471,536
Library books	10,732,602	229,691	(71,301)	10,890,992
Total depreciable capital assets	196,299,201	75,446,521	(784,926)	270,960,796
<b>Less accumulated depreciation for:</b>				
Buildings	54,047,681	4,063,059	(201,639)	57,909,101
Improvements other than buildings	2,493,253	619,230	(10,799)	3,101,684
Equipment	7,716,914	1,286,270	(239,837)	8,763,347
Library books	9,229,058	260,306	(71,301)	9,418,063
Total accumulated depreciation	73,486,906	6,228,865	(523,576)	79,192,195
Depreciable capital assets, net	122,812,295	69,217,656	(261,350)	191,768,601
<b>Total capital assets, net</b>	<b>\$ 185,635,263</b>	<b>\$ 74,258,744</b>	<b>\$ (51,588,537)</b>	<b>\$ 208,305,470</b>

**NOTE 6: ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses consisted of the following at 30 June 2009:

**Current liabilities:**

Employee salaries, wages and benefits payable	\$ 3,317,516
Vendors and supplies accounts payable	4,190,143
Accrued interest payable	93,313
Other accrued liabilities	15,000
Total current-accounts payable and accrued expenses	<u>\$ 7,615,972</u>

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**Noncurrent liabilities:**

Retirement annuities	\$ 520,685
Deferred compensation	102,000
Total noncurrent-accrued liabilities	<u>\$ 622,685</u>

**NOTE 7: LONG-TERM LIABILITIES SUMMARY**

The Institute's long-term liabilities primarily consist of long-term debt (further described in Note 8) and accrued compensated absences. A summary of changes in long-term liabilities for the year ending 30 June 2009 is presented as follows:

	Beginning Balance 1 July 2008	Additions	Reductions	Ending Balance 30 June 2009	Current Portion 30 June 2009
<b>Long-term debt:</b>					
Bonds payable	\$ 10,669,673	-	(432,480)	\$ 10,237,193	\$ 415,000
Notes payable	4,220,098	-	(479,778)	3,740,320	185,000
Capital leases	20,205	-	(6,001)	14,204	6,515
Installment purchases	83,969	-	(34,173)	49,796	31,974
Total long-term debt	\$ 14,993,945	\$ -	\$ (952,432)	\$ 14,041,513	\$ 638,489
<b>Accrued compensated absences</b>	1,301,011	1,014,450	(984,844)	1,330,617	888,677
Total long-term liabilities	<u>\$ 16,294,956</u>	<u>\$ 1,014,450</u>	<u>\$ (1,937,276)</u>	<u>\$ 15,372,130</u>	<u>\$ 1,527,166</u>

**NOTE 8: LONG-TERM INDEBTEDNESS DETAIL**

**Bonds payable:**

In August 2004, pursuant to Section 9(c) of Article X of the Constitution of Virginia, \$11,240,000 of revenue bonds, Series 2004A, were issued by the Department of Treasury for the Commonwealth of Virginia, on behalf of the Institute for renovation and expansion of Crozet Hall, the Institute dining facility, and parking. The bonds bear interest at an average coupon rate of 4.8% and are payable over 20 years through June 2025. Net proceeds after the cost of issuance total \$11,889,591 and included a premium realized on the sale. The revenue bonds are secured by the net revenues of the facility which is comprised primarily of cadet fees.

<b>Bonds Payable:</b>	<b>Interest Rates (%)</b>	<b>Maturity</b>	<b>Balance 30 June 2009</b>
Crozet Hall, Series 2004A, issued \$11,240,000	4.63 - 5.00	2025	<u>\$ 10,237,193</u>

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**Notes payable:**

Notes payable are debt obligations between the Virginia College Building Authority (VCBA) and the Institute. The VCBA issues bonds through the Pooled Bond Program and uses the proceeds to purchase debt obligations (notes) of the Institute. The Barracks Wiring and JM Hall Renovation notes are secured by funds paid by the VMI Foundation, Inc. on a year-to-year basis as a gift to the Institute. Should the gift be discontinued, repayment will be made from the general revenues of the Institute. The Cocke Hall Annex note will be paid from auxiliary reserve funds which consist predominantly of cadet fees.

<b>Notes Payable:</b>	<b>Interest Rates (%)</b>	<b>Maturity</b>	<b>Balance 30 June 2009</b>
Cocke Hall Annex:			
Series 2002A, issued \$2,025,000 - partial refunding *	4.00 - 5.25	2022	966,131
Series 2007B, issued \$735,000 - refunding Series 2002A *	4.00 - 4.50	2020	772,954
Jackson Memorial Hall Renovation:			
Series 2002A, issued \$2,335,000 - partial refunding *	4.00 - 5.25	2022	1,107,376
Series 2007B, issued \$850,000 - refunding Series 2002A *	4.00 - 4.50	2020	893,859
			<u>\$ 3,740,320</u>

\* See Note 9 Long-Term Debt Defeasance

Maturities on notes and bonds payable for years succeeding 30 June 2009 are as follows:

<b>Year</b>	<b>Bonds Payable</b>	<b>Notes Payable</b>	<b>Total</b>
2010	\$ 415,000	\$ 185,000	\$ 600,000
2011	440,000	200,000	640,000
2012	455,000	210,000	665,000
2013	475,000	220,000	695,000
2014	500,000	230,000	730,000
2015-2019	2,910,000	1,305,000	4,215,000
2020-2024	3,710,000	1,280,000	4,990,000
2025	845,000	-	845,000
Unamortized premium	487,193	117,479	604,672
Deferral on debt defeasance	-	(7,159)	(7,159)
Total future principal requirements	<u>\$ 10,237,193</u>	<u>\$ 3,740,320</u>	<u>\$ 13,977,513</u>

A summary of future interest commitments for fiscal years subsequent to 30 June 2009 is presented as follows:

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<b>Year</b>	<b>Bonds Payable</b>	<b>Notes Payable</b>	<b>Total</b>
2010	\$ 470,856	\$ 166,825	\$ 637,681
2011	450,106	157,275	607,381
2012	433,606	147,125	580,731
2013	410,856	136,475	547,331
2014	387,106	125,050	512,156
2015-2019	1,533,781	463,319	1,997,100
2020-2024	734,182	136,494	870,676
2025	39,082	-	39,082
Total future interest requirements	\$ 4,459,575	\$ 1,332,563	\$ 5,792,138

### **Installment Purchase Obligations**

The Institute has future obligations under installment purchase agreements. The book value of the assets capitalized under these installment purchase agreements is \$176,468 with no interest. A summary of future obligations under these agreements as of 30 June 2009 follows:

<b>Year Ending 30 June</b>	<b>Principal</b>
2010	31,974
2011	14,889
2012	2,200
2013	733
Total	\$ 49,796

### **Capital Leases Payable**

VMI is the lessee of equipment under capital leases expiring in 2012. The assets acquired under capital leases are recorded as property, plant, and equipment at the lower of the net present value of the minimum lease payments during the lease term or the fair market value of the asset.

For all capital leases, the minimum lease payments together with the present value of the net minimum lease payments as of 30 June 2009 are as follows.

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Year Ending 30 June	Other Capital Leases
2010	\$ 9,925
2011	9,925
2012	<u>827</u>
Total Minimum lease payments	20,677
Less: Executory costs	(5,169)
Less: Interest	<u>(1,304)</u>
Present value of net minimum lease payments	<u><u>\$ 14,204</u></u>

### **Equipment Trust Fund**

The Equipment Trust Fund (ETF) program was established to provide state-supported institutions of higher education bond proceeds for financing the acquisition and replacement of instructional and research equipment. The Virginia College Building Authority (VCBA) manages the program. The VCBA issues bonds and uses the proceeds to reimburse the Institute and other institutions of higher education for equipment purchased. For fiscal years prior to 1999, the VCBA purchased the equipment and leased it to the Institute. For fiscal years 1999 and following, financing agreements for ETF were changed so that the Institute now owns the equipment from the date of purchase.

The Statement of Net Assets line-Current assets "Due from the Commonwealth of Virginia" includes \$123,564 representing equipment purchased by the Institute that was not reimbursed by the VCBA as of 30 June 2009.

### **Operating Leases**

VMI is committed under various operating leases for equipment. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the Institute's Statement of Net Assets. In general, the leases are for a three year term and the Institute has renewal options. In most cases, the Institute expects these leases will be replaced by similar leases in the normal course of business. Rental expense was approximately \$91,669 for the year ended 30 June 2009. Rental expense commitments for subsequent fiscal years are as follows:



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Year Ending 30 June	Amount
2010	73,987
2011	62,227
2012	36,850
2013	8,254
Total	<u>\$ 181,318</u>

**Capital Improvement Commitments**

As of 30 June 2009, the Institute had outstanding construction contract commitments of \$11,518,106. This amount represents the value of obligations remaining on capital improvement project contracts. These obligations are for future efforts and as such have not been accrued as expenses or liabilities on the Institute's financial statements.

**NOTE 9: LONG-TERM DEBT DEFEASANCE**

In previous fiscal years, in accordance with GASB Statement 7, *Advance Refundings Resulting in the Defeasance of Debt*, the Institute has excluded from its financial statements the assets in escrow and the Section 9(d) notes payable that were defeased in-substance. For the year ended 30 June 2009, notes payable considered defeased in previous years totaled \$1,585,000.

**NOTE 10: RETAINAGE PAYABLE**

At 30 June 2009, \$1,635,527 was held by the Institute as retainage on various contracts for work, which had been performed. The retainage will be remitted to the various contractors upon satisfactory completion of the projects.

**NOTE 11: EXPENSES BY NATURAL CLASSIFICATIONS**

The Institute's operating expenses by natural classification were as follows for the year ended 30 June 2009:

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Program	Personal Services	Supplies	Contractual Services	Equipment	Utilities	Student Aid	Other Operating Expenses	Depreciation Expense	TOTAL
Instruction	\$ 14,855,040	\$ 195,014	\$ 442,003	\$ 339,370			\$ 90,847	\$ 2,025,471	\$ 17,947,745
Research	202,511	17,823	100,957	5,221			15,000	37,527	\$ 379,039
Public service	720,282	152,955	249,806	8,268			7,553	217,723	\$ 1,356,587
Academic support	3,550,314	135,915	1,059,543	289,901			82,146	743,650	\$ 5,861,469
Student services	2,564,220	111,883	794,188	31,747			106,506	221,500	\$ 3,830,044
Institutional support	3,353,918	77,401	879,498	144,124	3,860		88,916	114,720	\$ 4,662,437
Operation & maintenance of plant	2,689,116	1,029,544	932,056	1,232,205	915,975		355,740	540,101	\$ 7,694,737
Student aid	3,452	1,690	114,105	4,219		1,023,331			\$ 1,146,797
Auxiliary enterprises	4,462,769	450,685	5,940,340	432,751	191,032	9,871	3,289,756	2,073,818	\$ 16,851,022
Unique military activities	3,718,860	1,104,897	161,973	31,051		5,768	306,866	254,353	\$ 5,583,768
Total operating expenditures	\$ 36,120,482	\$ 3,277,807	\$ 10,674,469	\$ 2,518,857	\$ 1,110,867	\$ 1,038,970	\$ 4,343,330	\$ 6,228,863	\$ 65,313,645

**NOTE 12: STATE APPROPRIATIONS**

Virginia Military Institute receives state appropriations from the General Fund of the Commonwealth of Virginia. The Appropriation Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of the biennium. For years ending at the middle of the biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to VMI for disbursement. Fiscal year 2010 ends the biennium.

During the fiscal year ended 30 June 2009, the Institute received the following supplemental appropriations and reversions in accordance with the Appropriation Act:

**Original legislative appropriation:**

Educational and general programs	\$ 9,915,336
Unique military activity	3,139,904
Student financial assistance	721,762

**Adjustments:**

Compensation adjustments	(102,115)
Tuition incentive	272,121
ETF lease payment - NGF portion	(88,844)
Student financial assistance	4,802
Debt service fee - Non-Virginia cadets	(65,262)

**Appropriations transfers:**

Authorized transfer - E&G	(34,697)
SCHEV programs	24,080

Adjusted appropriations	<u>\$ 13,787,087</u>
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**NOTE 13: RETIREMENT AND PENSION SYSTEMS**

Employees of the Institute are employees of the Commonwealth of Virginia. Most full-time classified salaried employees of the Institute participate in the defined benefit retirement plan administered by the Virginia Retirement System (VRS). The Institute Post Police officers participate in the Virginia Law Officers Retirement System, (VaLORS), instead of VRS. Both VRS and VaLORS are agent multiple-employer public employee retirement systems (PERS) that act as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions.

The Institute's payroll costs for employees covered by VRS totaled \$13,852,417 for the year ended 30 June 2009. The Institute's total payroll costs were \$28,898,711 for the year ended 30 June 2009.

Information regarding types of employees covered, benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions as well as employer and employee obligations to contribute are established, can be found in the Commonwealth's Comprehensive Annual Financial Report (CAFR).

The Institute's total VRS contribution was \$1,808,174 for the year ended 30 June 2009, which included the 5% employee contribution assumed by the employer. These contributions represent 13.17% of covered payrolls for 2009.

The Institute's payroll cost for employees covered by VaLORS was \$273,686 for the year ended 30 June 2009. The Institute's total VaLORS contribution was \$57,815 for the year ended 30 June 2009, which represents 21.17% of the covered payroll for the 2009 fiscal year.

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at 30 June 2009. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

**TIAA/CREF Insurance Company Optional Retirement Plan**

Some full-time faculty and contracted administrative staff participate in a retirement annuity program through TIAA/CREF Insurance Companies rather than the VRS. This is a fixed-contribution program where the retirement benefits received are based entirely upon the employer's (10.4%) contributions, plus interest and dividends, with the employer assuming the employee's contribution share.

Individual contracts issued under the plan provide for full and immediate vesting of both the Institute's and the employees' contributions. Total pension costs under this plan were approximately \$906,407 year ended 30 June 2009. Contributions to the TIAA/CREF Insurance Companies were calculated using the base salary amount of approximately \$8,715,459 for fiscal year 2009.

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**Fidelity Investments**

The Institute also contributed to one other defined contribution pension plan, which is insignificant in relation to VRS and TIAA/CREF. Full-time faculty, certain administrative staff that hold academic rank, and athletic coaches are eligible to participate in this program (ORP) other than VRS and TIAA/CREF. Retirement benefits received are based entirely upon the employer's (10.4%) contributions, plus interest and dividends, with the employer assuming the employee's contribution share.

Amounts contributed to Fidelity Investments were calculated using the base salary amount of approximately \$1,340,990 for fiscal year ended 30 June 2009. Total pension costs under this plan were approximately \$139,463 for fiscal year 2009.

**Deferred Compensation Plan**

Employees of the Commonwealth 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. Employer contributions under the Deferred Compensation Plan were approximately \$117,468 for the fiscal year 2009.

**NOTE 14: POST-EMPLOYMENT BENEFITS**

The Commonwealth participates in the VRS administered statewide group life insurance program which provides postemployment life insurance benefits to eligible retired and terminated employees. The Commonwealth also provides health care credits against the monthly health insurance premiums of its retirees who have at least 15 years of service and participate in the State's health plan. Information related to these plans is available at the statewide level in the Commonwealth's *Comprehensive Annual Financial Report*.

**NOTE 15: RISK MANAGEMENT**

The Institute is exposed to various risks of loss related to torts; theft or, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Institute participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The Institute pays premiums to each of these Departments for its insurance coverage. Information relating to the

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Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

**NOTE 16: CONTINGENCIES**

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

In addition, the Institute is required to comply with various federal regulations issued by the Office of Management and Budget. Failure to comply with certain systems requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. As of 30 June 2009 the Institute estimates that no material liabilities will result from such audits or questions.

In October 2003, VMI entered into a contract modification with ARAMARK Educational Services, VMI's contracted dining services vendor. Under this agreement, ARAMARK provided \$1,200,000 to VMI to support the expansion and renovation of the Crozet Hall dining facility. The agreement requires ARAMARK to amortize this cost on a straight-line basis over a ten-year period. In the event that VMI or ARAMARK terminates the contract, VMI must re-pay any unamortized balance to ARAMARK within 90 days of termination.

In August 2007, the Institute entered into a five year contract (with the option of one additional renewal term of five years) with ARAMARK to provide dining services to cadets. Under this agreement, ARAMARK agreed to provide a \$750,000 financial commitment for food service facility renovations and for the purchase and installation of food service equipment, area treatment, signage and marketing materials and other costs associated with the Campus Food Service Program on our premises. During the first year of this contract (2008 fiscal year), the Institute received \$500,000 of this commitment with the remaining balance (\$250,000) to be paid during the fourth year (2011 fiscal year). In accordance with the agreement, ARAMARK agrees to amortize this commitment on a straight-line basis over a ten year period through 2017. Upon expiration or termination of this agreement by either party prior to 2017, VMI agrees to pay ARAMARK the unamortized balance plus all accrued but unbilled interest (prime rate plus two percentage points per annum, compounded monthly) within 30 days.

**NOTE 17: LITIGATION**

The renovation of Crozet Hall project was substantially completed on 27 July 2006, 270 days after the original contracted completion date. On 23 May 2007, the contractor filed a claim in Rockbridge County Court, suing the Institute for damages in the amount of \$430,242 as a result of these delays. On 26 July 2007, the Institute paid the contractor \$99,646, the amount to which the Institute believed the contractor was entitled, leaving an outstanding claim against the Institute of \$330,596. On 1 May 2008, the trial court granted final judgment in favor of VMI.

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The contractor filed a Petition for Appeal in the Supreme Court of Virginia. The Supreme Court found in favor of the contractor and on 1 July 2009 the Supreme Court denied the Virginia Office of the Attorney General petition for reconsideration. VMI, with the assistance of the Virginia Office of the Attorney General, is working to settle the claim with the contractor in lieu of further litigation.

**NOTE 18: VMI ALUMNI AGENCIES**

The VMI Alumni Agencies (the “Agencies”) are comprised of four organizations that share the common purpose of raising funds, investing funds, and performing other activities on behalf of VMI alumni and other donors in support of Virginia Military Institute (“VMI”). Significant sources of revenue consist of contributions and investment return. Due to their shared purpose, the Agencies have elected to present their financial statements on a combined basis. All significant interagency accounts and transactions have been eliminated in combination. The individual organizations comprising the Agencies and their purposes are as follows:

**The VMI Alumni Association**

The purpose of The VMI Alumni Association is to organize the alumni of VMI into one general body.

**VMI Foundation, Incorporated**

The purposes of the VMI Foundation, Incorporated are to solicit and to accept various funds and to disburse such funds, or income earned from those funds, for the advancement of VMI and the Alumni Association.

**VMI Development Board, Incorporated**

The purposes of the VMI Development Board, Incorporated are to support VMI by coordinating development and fundraising efforts conducted on behalf of VMI Alumni and other donors.

**VMI Keydet Club, Incorporated**

The purposes of the VMI Keydet Club, Incorporated are to support, strengthen, and develop the intercollegiate athletic program at VMI.

**Contributions receivable**

Contributions receivable consist of the following:

	<b>2009</b>
Unconditional promises to give	\$ 14,290,808
Charitable trust held by others	141,405
	<u>14,432,213</u>
Less: current portion	<u>(5,125,464)</u>
	<u><u>\$ 9,306,749</u></u>

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Gross amounts expected to be collected in:	
Less than one year	\$ 5,694,959
One to five years	9,646,744
More than five years	<u>2,870,822</u>
	18,212,525
Less:	
Discount net present value at 3% - 6%	\$ (1,973,200)
Allowance for uncollectible contributions	<u>\$ (1,807,112)</u>
	<u><u>\$ 14,432,213</u></u>

The ownership of contributions receivable for each class of net assets as of 30 June is as follows:

Temporarily restricted	\$ 10,548,036
Permanently restricted	<u>3,884,177</u>
	<u><u>\$ 14,432,213</u></u>

At 30 June 2009, the Agencies had also received bequest and other intentions of approximately \$93.1 million. These intentions to give are not recognized as assets and, if they are received, they will generally be restricted for specific purposes stipulated by the donors.

For the year ended 30 June 2009 approximately 31% of the contributions receivable balance was from three donors.

#### **Investments held by trustees**

The Agencies participate in a combined investment fund (the "Fund") controlled by the VMI Investment Committee, a committee comprised of representatives from each agency. BNY Mellon, N.A. serves as custodian for the Fund's assets. The Fund's investments consist of the following:

	<b>2009</b>	
Equities	\$ 138,455,561	62.5%
Fixed income	44,615,182	20.1%
Cash and cash equivalent	<u>38,509,584</u>	<u>17.4%</u>
	221,580,327	<u>100.0%</u>
Less: Amount payable for securities purchased, net	<u>(2,547,182)</u>	
	<u><u>\$ 219,033,145</u></u>	

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These investments, which comprise the majority of the Agencies' assets, are subject to market risk. However, the Agencies' investment funds are managed by a number of investment managers, which limits the amount of risk in any one fund. The Agencies' Investment Committee establishes investment guidelines and performance standards which further reduce its exposure to market risk.

Investments held by trustees activity is reflected in the table below:

Investments held by trustees	
	<b>2009</b>
Investments, beginning	<u>\$ 307,230,564</u>
Investments returns:	
Dividends and interest	5,594,429
Net realized and unrealized gains (losses)	(87,319,214)
Less: investment fees	<u>(2,382,704)</u>
	<u>(84,107,489)</u>
Net receipts (disbursements) from Mellon account used to fund operations	(4,089,930)
Investment, ending	<u><u>\$ 219,033,145</u></u>

The Agencies employ a total return spending policy that establishes the amount of investment return that is available to support current needs and restricted purposes. This policy is designed to insulate program spending from capital market fluctuations and increase the amount of return that is reinvested in the corpus of the fund in order to enhance its long-term value. For the year ended 30 June 2009, the Board-approved spending formula for the endowment provided for an annual spending rate of 4.5% of the average of the prior twelve quarters' December 31 market values adjusting these market values upward to reflect subsequent receipt of gifts, or downward to reflect extraordinary withdrawals. If cash yield (interest and dividends) is less than the spending rate, realized gains can be used to make up the deficiency. Any income in excess of the spending rate is to be reinvested in the endowment. The primary investment objective is long-term capital appreciation and total return. The Agencies utilize diversified investment classes that provide the opportunity to achieve the return objective without exposing the funds to unnecessary risk.

**Investments, Other**

Investments, other, consist of the following:



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	<b>2009</b>			
	Held by Agent	Held by Foundation	Held in Irrevocable Trusts*	Total at Fair Value**
Equities	\$ 1,365,621	\$ 9	\$ 6,402,541	\$ 7,768,171
Fixed income	21,103	5,891	3,516,139	3,543,133
Real estate	-	2,199,333	-	2,199,333
Cash and cash equivalents	41,216	783	238,204	280,203
Limited partnerships	87	17,128	-	17,215
	<u>\$ 1,428,027</u>	<u>\$ 2,223,144</u>	<u>\$ 10,156,884</u>	<u>\$ 13,808,055</u>

\*Investments held in irrevocable trusts are not available for use until the occurrence of a future event as noted in the applicable trust agreements.

\*\*For certain components of these investments, primarily real estate, limited partnerships, and common stocks of closely held companies, where fair values were not readily determinable, cost was used.

### **Bonds Payable**

Bonds payable consists of the following:

	<b>2009</b>
Variable Rate Educational Facilities Revenue Bonds, Series 2006, payable in varying installments from \$1,080,000 to \$2,770,000, commencing 2012 through 2036. Interest payments commenced August 2006, rate is variable and ranged from .12% to 5.5% during the year ended June 30, 2009. Interest is subject to an interest rate swap agreement which requires a fixed rate payment by the Agencies of 3.42% (3.92780% through March 31, 2008) on \$30,000,000 of the debt. Collateralized by a \$45.4 million letter of credit.	45,000,000
Mark-to-market estimate of bank swap transaction related to Industrial Development Authority Bonds	1,965,604
	<u>\$ 46,965,604</u>
Less: current maturities	-
	<u>\$ 46,965,604</u>

Year ending 30 June:	
2010-2011	\$ -
2012	1,080,000
2013	1,125,000
Thereafter	42,795,000
Mark-to-market on interest rate swap	1,965,604
	<u>\$ 46,965,604</u>

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The Agencies entered into an interest rate swap agreement in May 2006. The swap agreement has a notational amount of \$30,000,000 that effectively converts the variable rate based payments on \$30,000,000 of bond debt to a fixed rate interest payment at 3.92780%. This swap was effective beginning 1 August 2006 and expires 1 August 2013. Terms of the swap were revised effective 1 April 2008 including a change in the fixed rate payment to 3.42%.

**Prior Period Adjustment**

During the year, the Agencies conducted a detailed analysis of endowment funds and determined that misclassifications occurred in previous years. As a result, the 30 June 2007 unrestricted net assets increased by \$55,310,373, temporarily restricted net assets decreased by \$36,726,682, and permanently restricted net assets decreased \$18,583,691. This prior period adjustment has no effect on total net assets.

**NOTE 19: COMPONENT UNITS**

Condensed financial statements for the component units of the Institute are as follows:

CONDENSED STATEMENTS OF NET ASSETS As of 30 June 2009	VMI Research Laboratories Inc.	VMI Alumni Agencies	TOTAL
Assets:			
Current assets	\$ 553,690	\$ 22,097,368	\$ 22,651,058
Noncurrent assets	93,091	246,968,939	247,062,030
Total assets	646,781	269,066,307	269,713,088
Liabilities:			
Current liabilities	74,342	1,909,616	1,983,958
Noncurrent liabilities	114,937	51,145,983	51,260,920
Total liabilities	189,279	53,055,599	53,244,878
Net Assets:			
Unrestricted	399,756	40,536,073	40,935,829
Temporarily restricted	47,746	75,774,247	75,821,993
Permanently restricted	10,000	99,700,388	99,710,388
Total net assets	457,502	216,010,708	216,468,210
Total net assets and liabilities	\$ 646,781	\$ 269,066,307	\$ 269,713,088

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<b>CONDENSED STATEMENTS OF REVENUES EXPENSES AND CHANGES IN NET ASSETS As of 30 June 2009</b>	<b>VMI Research Laboratories Inc.</b>	<b>VMI Alumni Agencies</b>	<b>TOTAL</b>
Total revenues	\$ 1,146,193	\$ 27,109,213	\$ 28,255,406
Total expenses	(1,082,455)	(26,598,757)	(27,681,212)
Total net realized and unrealized losses on investments	(21,318)	(91,587,020)	(91,608,338)
Total change in net assets	42,420	(91,076,564)	(91,034,144)
Total beginning net assets	415,082	307,087,272	307,502,354
Total ending net assets	\$ 457,502	\$ 216,010,708	\$ 216,468,210



# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

**Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218**

April 9, 2010

The Honorable Robert F. McDonnell  
Governor of Virginia

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

Board of Visitors  
Virginia Military Institute

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of Virginia Military Institute, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2009, which collectively comprise the Institute's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Institute's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the Institute, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the Institute is based on the reports of the other auditors.

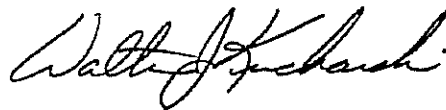
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and discretely presented component units of the Institute as of June 30, 2009, and the respective changes in

financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 8 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated April 9, 2010 on our consideration of the Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

A handwritten signature in black ink, appearing to read "Walter J. Kucharski".

AUDITOR OF PUBLIC ACCOUNTS

EMS: allh

VIRGINIA MILITARY INSTITUTE

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