

financial  
report

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2010-11

 **VirginiaTech**  
*Invent the Future®*

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



Virginia Tech is emerging from a challenging economic environment as a strong and resilient institution focused on achieving its core mission of learning, discovery, and engagement while fulfilling its commitments to its students, employees, the board of visitors, and the citizens of the commonwealth.

Adoption of prudent financial budgeting and management practices coupled with strong undergraduate and graduate enrollments and a robust research program has enabled the university to continue investment in its strategic initiatives. Some of the significant initiatives include the growth of the Virginia Tech Carilion School of Medicine and Research Institute, funding for the construction of the Signature Engineering building and the Center for the Arts, and establishment of the Virginia Tech Applied Research Corporation. These investments are particularly notable considering they were achieved while maintaining a structurally balanced budget and increasing the size of unrestricted net assets and capital assets.

The university's strategic initiatives are supported by a robust ongoing capital program that seeks to significantly enhance research and instructional facilities as well as continue the modernization of student recreation, dining, and housing facilities. The university uses a long-range strategic capital financing program that optimizes the commonwealth's funding program, using conservative debt capacity allocations with targeted limits, and includes university cash flows dedicated to capital outlay. A disciplined implementation of the strategy supports a portfolio of over \$100 million in expenditures annually. The current portfolio, which resulted in expenditures of approximately \$118 million in fiscal year 2011, is particularly robust because of the university's success in obtaining state resources in past biennial budgets. This trend is expected to continue because of significant state funding for new university construction projects that will start in fiscal year 2012. The university was highly successful in obtaining state funding of \$144 million for four of our critical academic capital projects – the Signature Engineering Building, the Human Agriculture and Biosciences Building, the Davidson Hall renovation, and a Central Chiller Plant. The expenditures in fiscal year 2012 for these projects are expected to be \$120 million with a total cost, including university resources, of approximately \$200.2 million by completion within the next two years.

The university has been aided in the expansion of its capital program in part due to its strong bond rating. In the fall of

2011, Moody's Investor Services re-affirmed the university's Aa1 debt rating with equivalent ratings from Standard and Poor's. The university retains a significant level of unallocated debt capacity to support future projects as reflected by the year-end debt ratio of 3.44 percent, which is well below the university's seven percent management performance agreement with the state and its more conservative internal leverage cap of five percent of total operating expenditures.

The university recently announced the conclusion of its capital fundraising campaign, which surpassed the \$1 billion goal. The campaign, which concluded on June 30, 2011, resulted in \$1.11 billion in outright gifts, pledge payments, or commitments of future support from our generous alumni, friends, faculty and staff, and other supporters. These private funds will provide a significant boost in the university's ability to support a wide array of university programs including undergraduate and graduate student scholarships and fellowships, professorships, research opportunities for faculty and the growth of several research institutes, and university libraries.

The university continues to experience the impact of reductions in general funds (state taxpayer funds) assigned by the commonwealth in the fall of 2009. Overall, the university has lost approximately \$53.6 million in state support during fiscal years 2008 through 2011 for our instructional, land grant, and research programs. Fiscal year 2012 will be the culmination of the budget reductions currently assigned to the university by the commonwealth, with the university absorbing an additional \$21.1 million in general fund reductions. Thus, the cumulative reductions in general fund support will be \$74.7 million as of the end of fiscal year 2012. The general fund support as a percentage of total budget remains at an all-time low of 18.4 percent.

Through diligent management of its financial resources, the university has managed to limit the impact of these reductions on its operating units and has implemented plans to accommodate the expiration of federal stimulus funds while building its liquidity position. We realized an overall increase in unrestricted net assets of \$66.8 million. As state funding for the university's operations continues to decline, the shortfall has been addressed in part by disciplined increases in student tuition and fee rates. The university is highly cognizant of the impact of these increases on the students and their families. To mitigate the impact of the increases, and to maintain access and affordability to a Virginia Tech education, the university has continued to increase the institutional financial aid made available to students with need. Accordingly, the university has gradually increased the institutional aid available for undergraduate students from \$1.1 million in fiscal year 2002 to \$11.8 million in fiscal year 2011, with an additional \$1.5 million budgeted for fiscal year 2012. We continue to honor our institutional commitment to support student financial aid.

As the revenue structure at the university shifts, our endowment provides increasing financial support for the financial aid programs and the flexibility to fund new initiatives and maintain measures of excellence. The Virginia Tech Foundation recently received the *2011 Award for Excellence for Mid-size Nonprofit of the Year* from The Foundation and Endowment Intelligence daily (FEI). The foundation was cited for an endowment performance over the past several years placing it among the “top quartile of performers” reflecting the strategic decisions that resulted in endowment returns of 19.6 percent for fiscal year 2011. The overall market value of the university’s endowment topped \$600 million in fiscal year 2011.

Virginia Tech has established its reputation as a world class research institution and the university continues to expand its research footprint with the opening of the Virginia Tech Research Center in the northern Virginia region. The university plans to leverage the proximity of the center to federal agencies and private industries to build on its research program. The university reported National Science Foundation research expenditures of \$398.2 million for fiscal year 2010 (most recent available data), which represents an increase of \$1.5 million from fiscal year 2009. We anticipate reporting NSF research expenditures reflecting a growth of at least \$50 million for fiscal year 2011 based on the university’s internal investment in research initiatives and continued growth in externally sponsored research.

The university has implemented cost containment strategies over many years that maximize the use of resources for our academic and instructional programs while maintaining a lean administrative structure. The university examined its administrative costs in a recent study based on industry standard studies using data from the Integrated Postsecondary Education Data system. The review confirmed the university’s cost-conscious culture. For the year ended June 30, 2010 (the most recent data available), the university expended only 13 percent of its total core expenditures on administrative costs as compared to 15 percent expended by our peer institutions and other similar public research institutions. The study results further reflect that the university’s administrative costs as a percent of its core expenditures have declined over the most recent five years. Another perspective of the study adopts a student-centric lens measuring the administrative costs per full time equivalent (FTE) student. In fiscal year 2010, Virginia Tech spent \$3,343 per student FTE on administrative costs. In comparison to the university’s peer group, Virginia Tech spends approximately one-half of the average State Council for Higher Education for Virginia (SCHEV) peer institution in administrative costs per student FTE. The results of this study are further evidence of the university’s proactive financial management and resource allocation decisions, which result in resources allocated primarily to enhancing the quality of academic and instructional programs.

The overall fiscal environment continues to be uncertain at both the national and state levels. While the economy seems

to be recovering at a slow pace, there is considerable uncertainty surrounding the future actions the federal government may take to address the federal budget deficits. Due to the state economy’s close ties to the federal government, Virginia will experience the ripple effects of federal cost cutting measures. The coming years will further challenge the university to develop innovative solutions to provide quality instructional and research programs with constrained resources. The university is currently engaged in a comprehensive assessment of its long term vision and strategies to address the changing environment of higher education. We look forward to the challenges and opportunities that the new environment presents and plan to capitalize on the strengths of the university moving forward.

The higher education environment in the commonwealth is at a crucial juncture with the passage of the landmark Virginia Higher Education Opportunity Act of 2011 (also known as the Top Jobs of the Twenty-first Century Act). The governor has laid out broad and ambitious goals for Virginia higher education institutions focused on enrollment growth, degree production in STEM (Science, Technology, Engineering and Mathematics) disciplines and health care fields, economic development, accessibility, and new incentivized funding models. We are optimistic about the goals and outcomes envisioned by the commonwealth for higher education, and we are confident that Virginia Tech is well-positioned to be a leading participant in these program initiatives.

Virginia Tech has made great strides in providing quality instructional programs and superior service to our constituents due to the high caliber and dedication of our faculty and staff, the strong support of our alumni and friends, and a shared vision of making Virginia Tech a world class institution. The finance and administrative functions stand as strong as ever in support of the continued advancement of the academic, research, and outreach missions of the university.



M. Dwight Shelton Jr.

## Contents

Message from the Vice President for Finance and CFO	2
Management’s Responsibility	4
Report of the Independent Auditor	5
Management’s Discussion and Analysis	6
Financial Statements	14
Notes to Financial Statements	18
Supplementary Information	36
Business and Financial Leadership	40

## Management's Responsibility for Financial Reporting and Internal Controls

The information in this annual *Financial Report*, including the accompanying basic financial statements, notes, management's discussion and analysis, and other information is the responsibility of Virginia Tech executive management. Responsibility for the accuracy of the financial information and fairness of its presentation, including all disclosures, rests with the management of the university. Management believes the information is accurate in all material respects and fairly presents the university's revenues, expenses, and changes in net assets as well as its overall financial position. This report was prepared in accordance with generally accepted accounting principles for public colleges and universities in the United States of America as prescribed by the Governmental Accounting Standards Board. Management is responsible for the objectivity and integrity of all representations herein. The annual *Financial Report* includes all disclosures necessary for the reader of this report to gain a broad understanding of the university's operations for the year ended June 30, 2011.

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

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

The Auditor of Public Accounts (APA), the office of the Commonwealth of Virginia's auditors, has examined these annual financial statements and the report thereon appears on the facing page. The APA examination includes a study and evaluation of the university's system of internal controls, financial systems, policies, and procedures, resulting in the issuance of a management letter describing various issues considered worthy of management's attention. The university has implemented policies and procedures for the adequate and timely resolution of such issues. No material weaknesses were found on internal control matters by the APA for the fiscal year ended June 30, 2011.



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



# Commonwealth of Virginia

## Auditor of Public Accounts

Walter J. Kucharski  
Auditor of Public Accounts

P.O. Box 1295  
Richmond, Virginia 23218

November 17, 2011

The Honorable Robert F. McDonnell, Governor of Virginia

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

The Board of Visitors, Virginia Polytechnic Institute and State University

### 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 Polytechnic Institute and State University, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2011, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the University, which are discussed in note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the University is based on the reports of the other auditors. The prior year summarized comparative information has been derived from the University's fiscal year 2010 financial statements, and in our report dated November 4, 2010, we expressed an unqualified opinion on the respective financial statements of the University.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of the University as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming opinions on the basic financial statements of Virginia Polytechnic Institute and State University. The consolidating schedules and affiliated corporations' financial highlights are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The consolidating schedules and affiliated corporations' financial highlights have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with Government Auditing Standards, we have also issued our report dated November 17, 2011 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

  
AUDITOR OF PUBLIC ACCOUNTS

## Management's Discussion and Analysis (Unaudited)

Virginia Polytechnic Institute and State University, popularly known as Virginia Tech, is a comprehensive, land-grant university located in Blacksburg, Virginia. The university offers 196 graduate, undergraduate, and professional degree programs through its eight academic colleges (Agriculture and Life Sciences, Architecture and Urban Studies, Engineering, Liberal Arts and Human Sciences, Natural Resources and Environment, Pamplin College of Business, Science, and the Virginia-Maryland Regional College of Veterinary Medicine).

Virginia Tech has evolved into a position of increasing national prominence since its founding in 1872, consistently ranking among the nation's top universities for undergraduate and graduate programs. The university's research program was ranked 44th among the top research institutions in the United States by the National Science Foundation in its latest survey measuring annual research expenditures.

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

### Overview

This unaudited *Management's Discussion and Analysis* (MD&A) is required supplemental information under the Governmental Accounting Standards Board's (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an overall view of the university's financial activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the university's financial condition and results of operations for the fiscal year ended June 30, 2011. Comparative numbers are included for the fiscal year ended June 30, 2010. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying basic financial statements, including notes and other supplementary information. The university's management is responsible for all of the financial information presented, including this discussion and analysis.

The university's financial statements have been prepared in accordance with GASB Statement 35, *Basic Financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities*, as amended by GASB Statements 37 and 38. The three required financial statements are the *Statement of Net Assets* (balance sheet), the *Statement of Revenues, Expenses, and Changes in Net Assets* (operating statement), and the *Statement of Cash Flows*. These statements are summarized and analyzed in the following sections. Combining schedules included in *Supplementary Information* indicate

how major fund groups were aggregated to arrive at the single column totals on the *Statement of Net Assets* and the *Statement of Revenues, Expenses, and Changes in Net Assets*.

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

The following GASB statements of standards became effective in fiscal year 2011: Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and Statement 59, *Financial Instruments Omnibus*. The university reports as a business-type entity, the changes required by Statement 54 do not apply. The updates to existing standards included in Statement 59 do not require additional disclosures by the university.

### Statement of Net Assets

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

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

The university's net assets are classified as follows:

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

**Restricted net assets, expendable** — Expendable restricted net assets include resources the university is legally or contractually obligated to expend, with restrictions imposed by external third parties. These assets partially consist of quasi-endowments totaling \$52.7 million. The investment of quasi-endowments is managed by VTF.

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

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

Total university assets rose by \$190.3 million or 11.5% during fiscal year 2011, bringing the total to \$1,844.3 million at year end. Growth in current assets and the major components of noncurrent assets (capital assets and long-term investments) accounted for the majority of the increase to total assets. The largest increases in current assets were in the cash and cash equivalents (\$52.3 million) and accounts and contributions receivable (\$13.1

million) categories. Smaller increases, totaling \$10.9 million, are attributed to the remaining current asset categories. The increase in capital assets, net, of \$101.1 million reflects the ongoing construction of research buildings and the capitalization of completed research and instructional facilities discussed in detail in the following section, Capital Asset and Debt Administration. Additionally, the long-term investments category increased by \$27.0 million. These increases in noncurrent assets, included in the Other assets category of the Assets, Liabilities and Net Assets chart below, were partially offset by reductions in noncurrent cash and cash equivalents (\$11.5 million) reflecting funds used in the completion of major building projects.

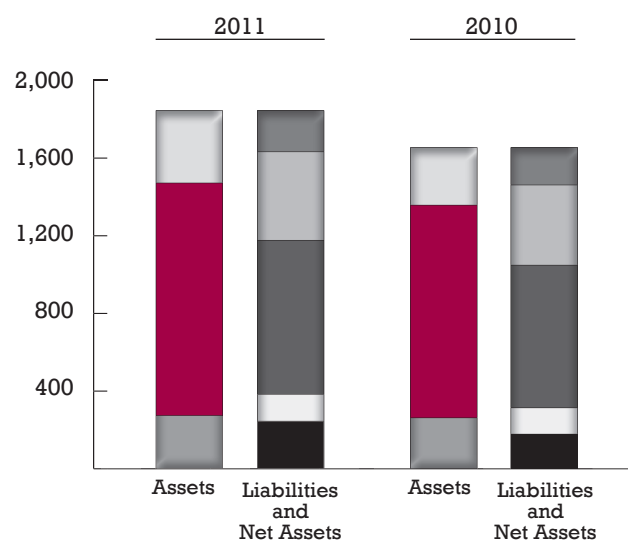
Total university liabilities grew by \$62.1 million or 10.3% during fiscal year 2011. The current liabilities category increased by \$19.5 million and the noncurrent liabilities category increased by \$42.6 million. The majority of the rise in current liabilities was in the accounts payable (\$12.7 million), accrued compensated absences (\$5.0 million) and current portion of long-term debt (\$4.1 million) categories. The increase in current liabilities was partially offset by a reduction in the commercial paper (\$2.1 million) category. Growth in the noncurrent liabilities category primarily resulted from net additions to long-term debt (\$44.4 million) partially offset by a reduction in accrued compensated absences. For more detailed information, see the Capital Asset and Debt Administration section.

The increase in total assets was greater than the corresponding increase in total liabilities, thus improving the university's net asset position by \$128.2 million (12.2%). Net assets in the categories of invested in capital assets —net of related debt, unrestricted assets and restricted assets increased \$59.7 million, \$66.8 million, and \$1.7 million, respectively. This reflects the university's continued investment in new facilities and equipment in support of the university's missions as well as prudent management of the university's fiscal resources.

## Assets, Liabilities and Net Assets

For the years ended June 30, 2011 and 2010  
(all dollars in millions)

	2011	2010	Increase	
			Amount	Percent
Current assets	\$ 372.5	\$ 296.2	\$ 76.3	25.8%
Capital assets, net	1,196.6	1,095.5	101.1	9.2%
Other assets	275.2	262.3	12.9	4.9%
<b>Total assets</b>	<b>1,844.3</b>	<b>1,654.0</b>	<b>190.3</b>	<b>11.5%</b>
Current liabilities	212.0	192.5	19.5	10.1%
Noncurrent liabilities	455.4	412.8	42.6	10.3%
<b>Total liabilities</b>	<b>667.4</b>	<b>605.3</b>	<b>62.1</b>	<b>10.3%</b>
Invested in capital assets, net	794.6	734.9	59.7	8.1%
Restricted	137.0	135.3	1.7	1.3%
Unrestricted	245.3	178.5	66.8	37.4%
<b>Total net assets</b>	<b>\$ 1,176.9</b>	<b>\$ 1,048.7</b>	<b>\$ 128.2</b>	<b>12.2%</b>



## Capital Asset and Debt Administration

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

Note 8 of the *Notes to Financial Statements* describes the university's significant investment in depreciable capital assets with gross additions of \$206.7 million during fiscal year 2011. The completion of the Virginia Tech Carilion School of Medicine and Research Institute (\$60.7 million), the Institute for Critical Technologies and Applied Sciences II (\$30.3 million), and the new parking structure

(\$23.3 million) projects were the significant components of the \$150.3 million in building additions this fiscal year. Ongoing investments in instructional, research, and computer equipment totaled \$46.1 million. Depreciation and amortization expense related to capital assets was \$66.4 million with net asset retirements of \$2.4 million. The net increase in depreciable capital assets for this period was \$137.9 million. The decrease in nondepreciable capital assets resulted from the net decrease of construction in progress, reflecting the capitalization of major building projects discussed previously in this section. Proceeds from the sale of commercial paper were used to provide temporary funding for projects under construction. The majority of this temporary financing was replaced with permanent debt financing through the issuance of long-term bonds and long-term notes.

## Funding For Authorized Current and Future Capital Projects

As of June 30, 2011

(all dollars in millions)

	State Funds (1)	Other Funds (2)	University Debt Issued Before June 30, 2011	University Debt To Be Issued After June 30, 2011	Total Funding	Cash Basis Project-To-Date Expenses
Current education and general	\$ 198.2	\$ 41.6	\$ 112.1	\$ 41.4	\$ 393.3	\$ 79.0
Current auxiliary enterprise	-	19.7	81.0	-	100.7	53.5
Total current	198.2	61.3	193.1	41.4	494.0	132.5
Future education and general	12.1	19.5	-	22.4	54.0	5.2
Future auxiliary enterprise	-	4.4	-	92.0	96.4	0.2
Total future	12.1	23.9	-	114.4	150.4	5.4
Total authorized	\$ 210.3	\$ 85.2	\$ 193.1	\$ 155.8	\$ 644.4	\$ 137.9

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

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

Noncurrent liabilities sustained a net increase of \$42.6 million during fiscal year 2011. The majority of the net increase in noncurrent liabilities resulted from the issuance of debt for ongoing construction of the Academic and Student Affairs building (\$44.3 million) and the Center for the Arts (\$19.4 million). The increase in the amount of long-term debt outstanding in the noncurrent liability category was partially offset by the reclassification of long-term debt from the noncurrent to current liability category and the previously mentioned reduction in noncurrent accrued compensated absences. See Notes 12 and 13 of the *Notes to Financial Statements* for more details.

The educational and general (E&G) portion of the university's capital outlay program represents five projects currently in various stages of completion. Three of the largest projects in this category are the Signature Engineering building (\$95.2 million), the Center for the Arts (\$94.0 million), and the Human and Agriculture Biosciences Building I (\$53.8 million). In addition to the capital projects underway, there were several new construction

and renovation projects approved for instructional and research facilities. The larger of the approved new projects are the phase 1 construction of the Chiller Plant (\$20.1 million) and the construction of a vivarium as part of the completion of the third floor of the Virginia Tech Carilion Research Institute (\$15.0 million). The Commonwealth of Virginia will provide partial funding for several of these E&G projects.

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

Virginia Tech had a total authorization of \$644.4 million in capital building projects as of June 30, 2011, requiring approximately \$155.8 million in additional debt financing.

Capital projects in progress carried commitments to construction contractors, architects, and engineers totaling \$122.7 million at June 30, 2011. These obligations are for future effort and as such have not been accrued as expenses or liabilities on the university's financial statements. The majority of the financial commitment is attributed to three projects: the Center for the Arts (\$63.5

million), the Academic and Student Affairs building (\$20.2 million), and the Ambler Johnston Hall renovation (\$18.5 million). These commitments represent only a portion of the university's capital projects currently under construction or authorized by the commonwealth.

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

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

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

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

### Operating Revenues

Total operating revenues increased by \$65.6 million or 9.2% from the prior fiscal year. The growth in operating revenues came primarily from two categories: student

tuition and fees, and grants and contracts. The increase in student tuition and fees (\$26.3 million or 9.2%) was expected given an increasing student population and the rise in both in-state and out-of-state tuition and fees rates. The growth in grants and contracts operating revenue (\$22.8 million or 9.5%) came primarily from federal grants and contracts (\$21.1 million), with smaller increases contributed by commercial grants and contracts (\$1.0 million) and state and local grants and contracts (\$0.7 million).

The remaining notable revenue increase occurred in the auxiliary enterprise category (\$14.6 million or 8.5%). Auxiliary enterprise revenue grew primarily from increased student fees (\$9.3 million) and athletic conference game revenue (\$2.4 million). Overall, the university's operating revenues increased to \$780.7 million in fiscal year 2011, compared to \$715.1 million in fiscal year 2010.

### Non-operating and Other Revenues and Expenses

Non-operating revenues and expenses totaled \$324.2 million, an increase of \$32.4 million from the previous year's total. The revenue increase in this category resulted primarily from increasing state appropriations (\$9.3 million) and additional federal fiscal stabilization funding (\$10.9 million). There were smaller increases in federal student financial aid (\$3.5 million) and investment income (\$3.6 million).

## Revenues, Expenses, and Changes in Net Assets

For the years ended June 30, 2011 and 2010

(all dollars in millions)

	2011	2010	Change	
			Amount	Percent
Operating revenues	\$ 780.7	\$ 715.1	\$ 65.6	9.2 %
Operating expenses	1,025.5	967.3	58.2	6.0 %
Operating loss	(244.8)	(252.2)	7.4	(2.9)%
Non-operating revenues and expenses	324.2	291.8	32.4	11.1 %
Income before other revenues, expenses, gains or losses	79.4	39.6	39.8	100.5 %
Other revenues, expenses, gains or losses	48.8	90.1	(41.3)	(45.8)%
Increase in net assets	128.2	129.7	(1.5)	(1.2)%
Net assets – beginning of year	1,048.7	919.0	129.7	14.1 %
Net assets – end of year	\$ 1,176.9	\$ 1,048.7	\$ 128.2	12.2 %

Total other revenue, expenses, gains and losses decreased by \$41.3 million compared to the prior year. The completion of capital projects funded from the 21st Century bond program (\$39.5 million) accounted for the majority of the revenue reduction in this category.

As shown in the chart below, revenues from all sources (operating, non-operating, and other) for fiscal year 2011

### Increase (Decrease) in Revenue

For the years ended June 30, 2011 and 2010  
(all dollars in millions)

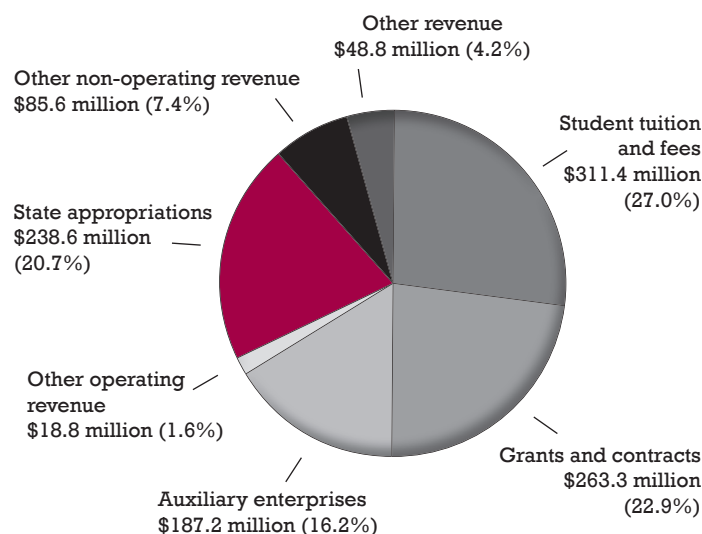
	2011	2010	Change	
			Amount	Percent
<b>Operating revenue</b>				
Student tuition and fees, net	\$ 311.4	\$ 285.1	\$ 26.3	9.2 %
Grants and contracts	263.3	240.5	22.8	9.5 %
Auxiliary enterprises	187.2	172.6	14.6	8.5 %
Other operating revenue	18.8	16.9	1.9	11.2 %
Total operating revenue	780.7	715.1	65.6	9.2 %
<b>Non-operating revenue</b>				
State appropriations	238.6	229.3	9.3	4.1 %
Other non-operating revenue*	85.6	62.5	23.1	37.0 %
Total non-operating revenue	324.2	291.8	32.4	11.1 %
<b>Other revenue</b>				
Capital grants and gifts	50.4	91.2	(40.8)	(44.7)%
Loss on disposal of capital assets	(1.6)	(1.1)	(0.5)	45.5 %
Total other revenue	48.8	90.1	(41.3)	(45.8)%
<b>Total revenue</b>	<b>\$ 1,153.7</b>	<b>\$ 1,097.0</b>	<b>\$ 56.7</b>	<b>5.2 %</b>

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

totaled \$1,153.7 million, increasing by \$56.7 million from the prior year. Operating expenses (shown in the charts on the facing page) totaled \$1,025.5 million for fiscal year 2011, reflecting a year-over-year increase of \$58.2 million. Total revenues, shown in the chart below, less total operating expenses resulted in an increase to net assets of \$128.2 million.

### Total Revenue by Source

For the year ended June 30, 2011



### Total Expenses

The university is committed to recruiting and retaining outstanding faculty and staff. The personnel compensation package is one way to successfully compete with peer institutions and nonacademic employers. The natural expense category, compensation and benefits, comprised \$638.2 million or 62.2% of the university's total operating expenses. This category increased by \$23.1 million (3.8%) over the previous year. Generally, changes to expenses in this category come from three sources: increases or reductions in the number of personnel, annual salary increases, and the general trends in the costs of fringe benefits. No general salary increases were funded by the commonwealth in FY2011. However one-time bonuses (\$11.0 million), increased administrative faculty and general wages (\$5.2 million), and graduate student compensation (\$2.7 million) contributed to the increases reflected in this category. A second category with a significant increase over the prior year was sponsored program subcontracts (\$11.1 million). This was attributed to the growth in sponsored grants and contracts discussed later in this section.

Operating expenses for fiscal year 2011 totaled \$1,025.5 million, up \$58.2 million from fiscal year 2010. The net change resulted primarily from the significant increases in expenses in the functional categories of research (\$39.1

million) and auxiliary enterprises (\$11.1 million). The overall increase in direct operating expenses reflects the university's successful efforts competing for extramural sponsored research programs, continuing its investment of internal funds into new research initiatives, and increasing demand for university auxiliary programs.

The university's research program expenses (\$39.1 million) supported projects from multiple federal agencies. Agencies with significant increased year-over-year project activity were the Department of Health and Human Services (\$5.5 million), the National Science Foundation (\$3.4 million), the Department of Transportation (\$2.2 million), and the Department of the Interior (\$2.1 million). The university also increased research activity supporting various federal agencies through industry sponsors (\$8.4 million). Additionally, increased expense for departmental research and faculty research startup packages (\$8.0 million) was funded using internal university resources. Finally, commercial and foundation reimbursement of research grants and contracts expenditures increased by \$2.7 million and \$2.4 million respectively.

The auxiliary enterprises category sustained the second largest increase in operating expenses (\$11.1 million) representing the increased cost of services provided to students, faculty, and staff.

## Increase in Expenses by Natural Classification

For the years ended June 30, 2011 and 2010  
(all dollars in millions)

	2011	2010	Change	
			Amount	Percent
Compensation and benefits	\$ 638.2	\$ 615.1	\$ 23.1	3.8%
Contractual services	81.8	72.5	9.3	12.8%
Supplies and materials	90.2	86.7	3.5	4.0%
Travel	34.9	32.2	2.7	8.4%
Other operating expenses	49.2	46.7	2.5	5.4%
Scholarships and fellowships	32.3	30.0	2.3	7.7%
Sponsored program subcontracts	32.4	21.3	11.1	52.1%
Depreciation and amortization	66.5	62.8	3.7	5.9%
Total operating expenses	<u>\$ 1,025.5</u>	<u>\$ 967.3</u>	<u>\$ 58.2</u>	6.0%

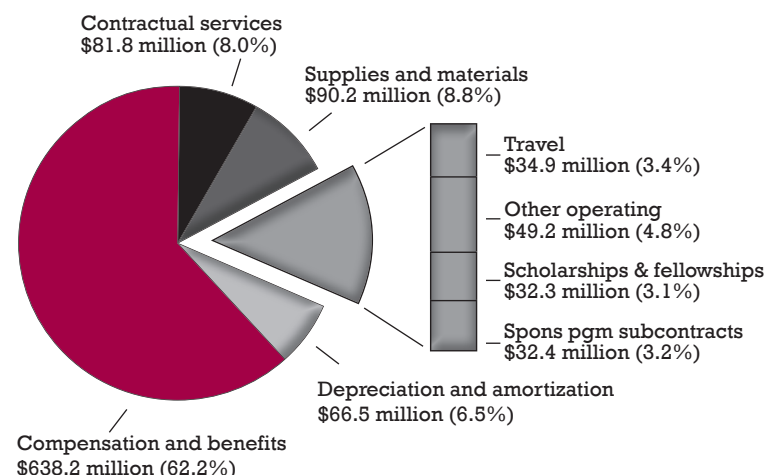
The largest percentage growth in operating expenses was in the research expense category (16.8%) reflecting the success in the competition for extramural grants and contracts described in the preceding paragraph and in new university research initiatives.

In the functional categories for support activities, there were moderate increases in academic support, institutional support, and student services of \$4.4 million, \$3.7 million, and \$1.2 million, respectively. These increases were substantially offset by reduction in the operations and maintenance (\$10.6 million) and student financial assistance (\$1.6 million) categories.

The largest percentage decrease was in the operations and maintenance category (16.2%). Cost reductions in faculty and staff salaries and fringe benefits (\$4.3 million), contract labor and professional services (\$3.1 million), and supplies (\$3.2 million) comprised the expense reduc-

## Total Expenses by Natural Classification

For the year ended June 30, 2011



tion in this category. These cost reductions are a direct result of a sharp decline in annual repair and maintenance projects (\$6.9 million). Additionally, recovery of prior period renovation costs (\$1.0 million) offset current period expenses and one-time professional services in FY2010 (\$1.9 million) did not repeat in the current period.

The reduction in student financial assistance (\$1.6 million) for fiscal year 2011 might be somewhat misleading. The net student financial assistance expense represents the amount of institutional resources refunded to the student in excess of tuition and fees, not the gross amount of financial aid provided by the university. The decrease in net expenses was actually due to increased waivers and scholarships provided to students, reflected in the \$11.6 million growth in scholarship discounts and allowances (from \$83.8 million to \$95.4 million) which netted against the gross total of financial aid expenses.

## Increase (Decrease) in Expenses by Function

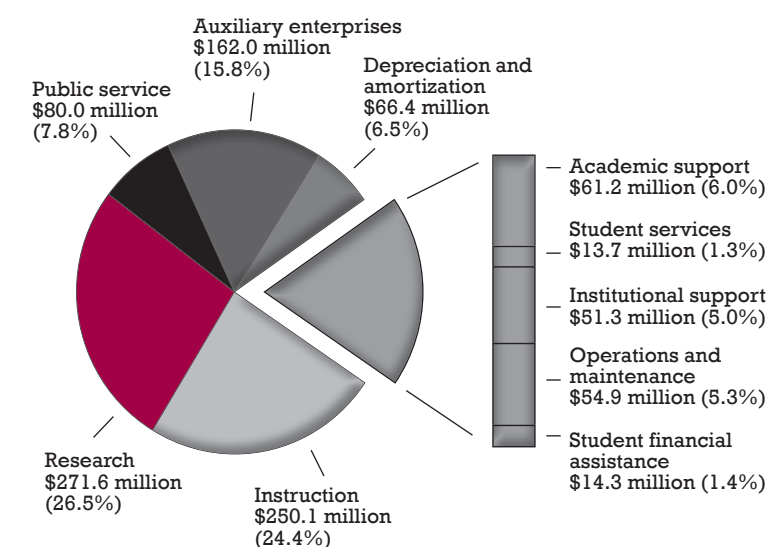
For the years ended June 30, 2011 and 2010  
(all dollars in millions)

	2011	2010	Change	
			Amount	Percent
Instruction	\$ 250.1	\$ 247.4	\$ 2.7	1.1 %
Research	271.6	232.5	39.1	16.8 %
Public service	80.0	75.0	5.0	6.7 %
Auxiliary enterprises	162.0	150.9	11.1	7.4 %
Depreciation and amortization	66.4	62.8	3.6	5.7 %
Subtotal	830.1	768.6	61.5	8.0 %
Support, maintenance, other				
Academic support	61.2	56.8	4.4	7.7 %
Student services	13.7	12.5	1.2	9.6 %
Institutional support	51.3	47.6	3.7	7.8 %
Operations and maintenance of plant	54.9	65.5	(10.6)	(16.2)%
Student financial assistance*	14.3	16.3	(2.0)	(12.3)%
Total support, maintenance, other	195.4	198.7	(3.3)	(1.7)%
Total operating expenses	<u>\$ 1,025.5</u>	<u>\$ 967.3</u>	<u>\$ 58.2</u>	6.0 %

\* Includes loan administrative fees and collection costs.

## Total Expenses by Function

For the year ended June 30, 2011



In summary, the university's operating revenues grew by \$65.6 million or 9.2% over the preceding year, while operating expenses increased by \$58.2 million or 6.0%. This resulted in a smaller operating loss for the current fiscal year (\$244.8 million) in comparison to the operating loss (\$252.2 million) generated during the past year. The primary reason for the decrease in the operating loss was the growth in revenues across all major operating areas with the largest increases in the student tuition and fees and external grants and contracts operating areas. State appropriations, federal ARRA stabilization funds, and other net non-operating revenues were used to meet operating expenses not offset by operating revenues.

## Statement of Cash Flows

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

The statement is divided into five sections. The first section, *Cash flows from operating activities*, deals with op-

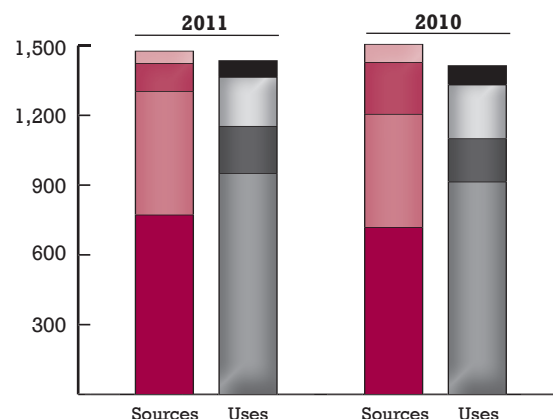
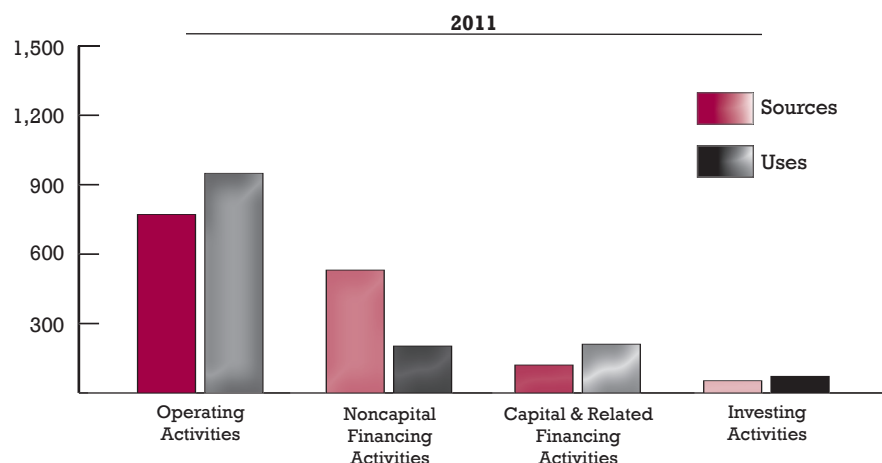
erating cash flows and shows net cash used by operating activities of the university. The *Cash flows from noncapital financing activities* section reflects cash received and disbursed for purposes other than operating, investing, and capital financing. GASB requires general appropriations from the commonwealth and noncapital gifts be shown as cash flows from noncapital financing activities. *Cash flows from capital and related financing activities* presents cash used for the acquisition and construction of capital and related items. Plant funds and related long-term debt activities (except depreciation and amortization), as well as gifts to endowments, are included in cash flows from capital financing activities. *Cash flows from investing activities* reflect the cash flows generated from investments which include purchases, proceeds, and interest. The last section reconciles the operating income or loss reflected on the *Statement of Revenues, Expenses, and Changes in Net Assets* for fiscal year 2011 to net cash used by operating activities.

Major operating activity sources of cash for the university included student tuition and fees (\$313.4 million), grants and contracts (\$243.7 million), and auxiliary enterprise revenues (\$180.1 million). Major operating activity uses of cash included compensation and benefits (\$633.6 million) and operating expenses (\$297.3 million). Operating activity uses of cash significantly exceed operating activity sources of cash due to classification of state appropriations (\$237.4 million) and gifts (\$49.1 million) as noncapital financial activities.

## Summary of Cash Flows

For the years ended June 30, 2011 and 2010  
(all dollars in millions)

	2011	2010	Change	
			Amount	Percent
Net cash used by operating activities	\$ (178.4)	\$ (195.9)	\$ 17.5	8.9%
Net cash provided by noncapital activities	328.5	300.7	27.8	9.2 %
Net cash used by capital and related financing activities	(90.3)	(8.2)	(82.1)	(1001.2)%
Net cash used by investing activities	(19.0)	(5.2)	(13.8)	(265.4)%
Net increase in cash and cash equivalents	40.8	91.4	(50.6)	(55.4)%
Cash and cash equivalents – beginning of year	347.9	256.5	91.4	35.6 %
Cash and cash equivalents – end of year	<u>\$ 388.7</u>	<u>\$ 347.9</u>	<u>\$ 40.8</u>	11.7 %



(The graphs above demonstrate the relationship between sources and uses of cash. The graph on the left shows activity for fiscal year 2011 only, grouped by related sources and uses of cash, while the graph on the right displays that same activity for fiscal years 2011 and 2010 in a stacked format.)

## Economic Outlook

The university, as a public institution, is subject to many of the economic conditions impacting the Commonwealth of Virginia. The commonwealth currently supports approximately 20% of the university's budget through general fund appropriations. The 2011 legislative session did not assign any new reductions in general fund support for fiscal year 2012 beyond those reductions assigned for the 2010-12 biennium during the 2010 session. Instead, the 2011 session began to reinvest in higher education for fiscal year 2012, but the pace of the new state support is well below the rate of reductions assigned over the past several years. The Commonwealth of Virginia maintained the university's board of visitors' authority to establish tuition and fees rates. The university anticipates that there will be continued pressure on general fund support from the state given the demands on the state budget and constrained state revenues.

The university is working with a new Higher Education Advisory Commission to enact the *Virginia Higher Education Opportunity Act of 2011*, a product of the Governor's Commission on Higher Education Reform, Innovation, and Investment. The six year academic, enrollment, and financial planning process defined by this legislation has potential implications for future state support and tuition rates. For example, the commonwealth is currently considering how to incentivize certain activities in support of state goals such as increased STEM-H (science, technology, engineering, mathematics, and health) degree completion. Virginia Tech is well positioned in terms of this goal due to the university's current designation as the largest producer of STEM graduates in the commonwealth.

The university is closely watching the federal budget process unfold as this holds potential implications for the economy, as well as university program funding such as externally-sponsored research, land grant activities, and student financial aid. The university continues to employ cost containment and income enhancement techniques which have helped to successfully advance the institution in the past. In addition, the university will continue to employ strategic planning processes to achieve its core missions of instruction, research, and public service.

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

with the commonwealth in an attempt to build on the prior successes of restructuring and gain additional efficiencies for higher education in Virginia in the future.

The university has managed its exposure to risk through the implementation of its investment policy. The university's investment policy, established by the board of visitors and monitored by the board's Finance and Audit Committee, requires that its public funds be invested in accordance with the *Investment of Public Funds Act*, Section 2.2-4500 through 2.2-4516, et seq., *Code of Virginia*. The university has limited its investment in securities outside the scope of the *Investment in Public Funds Act* to restricted gift funds, local funds, and nongeneral fund reserves and balances designated by management as quasi-endowments. These funds are invested in the Virginia Tech Foundation's consolidated endowment fund and managed in accordance with the provisions of the *Uniform Prudent Management of Institutional Funds Act* (Section 55-268.11 et seq.). At the end of the fiscal year, the value of the university's quasi-endowments invested in the foundation totaled \$52.7 million, an increase of \$8.7 million over the preceding year.

The university continually monitors the valuation of its investments. At September 30, 2011 the market value for the university's non-endowed cash, cash equivalents, and investments totaled \$495.3 million including unrealized losses on investments of \$0.08 million as compared to the market value of its investments, at June 30, 2011, of \$411.0 million and unrealized gains of \$0.9 million.

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

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

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

# Statement of Net Assets

As of June 30, 2011, with comparative financial information as of June 30, 2010  
(all dollars in thousands)

## Assets

### Current assets

Cash and cash equivalents (Note 4)	
Short-term investments (Note 4,24)	
Accounts and contributions receivable, net (Notes 1,5,24)	
Notes receivable, net (Note 1)	
Due from Commonwealth of Virginia (Note 9)	
Inventories	
Prepaid expenses	
Other assets	
Total current assets	

### Noncurrent assets

Cash and cash equivalents (Note 4)	
Due from Commonwealth of Virginia (Note 9)	
Accounts and contributions receivable, net (Notes 1,5,24)	
Notes receivable, net (Note 1)	
Net investments in direct financing leases	
Irrevocable trusts held by others, net	
Long-term investments (Notes 4, 24)	
Depreciable capital assets, net (Notes 8,24)	
Nondepreciable capital assets (Notes 8,24)	
Intangible assets, net	
Other assets	
Total noncurrent assets	
Total assets	

2011		2010	
Virginia Tech	Component Units	Virginia Tech	Component Units
\$ 272,367	\$ (11,766)	\$ 220,065	\$ (14,527)
2,228	14,896	1,387	17,111
57,414	29,780	44,363	27,381
1,817	401	1,601	232
9,449	-	6,761	-
12,998	7,018	11,354	7,211
16,248	725	10,634	938
-	2,967	-	2,934
372,521	44,021	296,165	41,280
116,306	49,185	127,813	64,761
3,279	-	6,495	-
4,938	57,728	6,517	43,706
13,225	17,033	12,927	18,156
-	23,165	-	24,066
-	8,899	-	7,968
134,723	706,474	107,741	608,251
1,004,639	175,063	866,782	124,844
191,984	80,346	228,730	98,350
-	676	-	680
2,686	4,351	841	4,091
1,471,780	1,122,920	1,357,846	994,873
1,844,301	1,166,941	1,654,011	1,036,153

## Liabilities

### Current liabilities

Accounts payable and accrued liabilities (Note 6)	
Accrued compensated absences (Notes 1,14)	
Deferred revenue (Notes 1,7)	
Funds held in custody for others	
Commercial paper (Note 10)	
Long-term debt payable (Notes 11,12,24)	
Other liabilities	
Total current liabilities	

### Noncurrent liabilities

Accrued compensated absences (Notes 1,14)	
Federal student loan program contributions refundable (Note 14)	
Deferred revenue	
Long-term debt payable (Notes 11,12,24)	
Liabilities under trust agreements	
Agency deposits held in trust (Note 24)	
Other liabilities	
Total noncurrent liabilities	
Total liabilities	

125,549	12,796	112,833	15,165
19,880	551	14,837	586
38,220	5,724	38,749	1,833
6,323	-	6,092	-
870	-	2,975	-
21,173	6,166	17,070	14,238
-	4,940	-	6,395
212,015	30,177	192,556	38,217
16,483	88	19,330	38
13,426	-	13,260	-
-	6,066	-	6,050
423,100	197,487	378,671	188,296
-	27,233	-	25,231
-	65,367	-	55,972
2,376	9,666	1,535	14,006
455,385	305,907	412,796	289,593
667,400	336,084	605,352	327,810

## Net Assets

Invested in capital assets, net of related debt	
Restricted, nonexpendable	
Restricted, expendable	
Scholarships, research, instruction, and other	
Capital projects	
Debt service	
Unrestricted	
Total net assets	

794,583	71,546	734,875	63,045
364	369,213	363	327,775
75,766	288,267	65,813	247,267
12,837	45,768	14,074	37,011
48,035	-	55,063	-
245,316	56,063	178,471	33,245
\$ 1,176,901	\$ 830,857	\$ 1,048,659	\$ 708,343

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

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

For the year ended June 30, 2011 with comparative financial information for the year ended June 30, 2010

(all dollars in thousands)

	2011		2010	
	Virginia Tech	Component Units	Virginia Tech	Component Units
<b>Operating revenues</b>				
Student tuition and fees, net (Note 1)	\$ 311,371	\$ -	\$ 285,135	\$ -
Gifts and contributions	-	51,874	-	51,893
Federal appropriations	11,087	-	14,466	-
Federal grants and contracts	191,348	-	171,705	-
Federal ARRA grants and contracts	9,491	-	4,641	-
State grants and contracts	12,775	-	11,179	-
Local grants and contracts (Note 3)	13,240	-	14,133	-
Nongovernmental grants and contracts	25,418	-	24,401	-
Sales and services of educational activities	13,824	-	12,732	-
Auxiliary enterprise revenue, net (Note 1)	187,164	47,339	172,629	45,374
Other operating revenues	5,025	40,724	4,118	30,011
Total operating revenues	780,743	139,937	715,139	127,278
<b>Operating expenses</b>				
Instruction	250,128	4,773	247,389	4,882
Research	271,550	5,647	232,543	4,858
Public service	79,958	5,339	74,913	4,608
Academic support	61,194	13,735	56,829	13,692
Student services	13,735	-	12,524	-
Institutional support	51,308	29,961	47,632	31,072
Operation and maintenance of plant	54,871	10,024	65,472	9,344
Student financial assistance	14,318	21,583	15,925	21,330
Auxiliary enterprises	161,955	40,524	150,933	39,067
Depreciation and amortization (Note 8)	66,446	5,992	62,800	5,579
Other operating expenses	76	9,307	318	14,897
Total operating expenses	1,025,539	146,885	967,278	149,329
<b>Operating loss</b>	(244,796)	(6,948)	(252,139)	(22,051)
<b>Non-operating revenues (expenses)</b>				
State appropriations (Note 19)	238,579	-	229,305	-
Gifts	49,063	-	48,542	-
Non-operating grants and contracts	2,097	-	1,755	-
Federal student financial aid (PELL)	17,237	-	13,693	-
Federal fiscal stabilization (ARRA)	22,455	-	11,531	-
Investment income, net	8,976	8,147	5,379	8,557
Net gain on investments	-	75,078	-	39,401
Other additions	331	-	456	-
Nongeneral fund reversion	(1,189)	-	(4,507)	-
Interest expense on debt related to capital assets	(13,380)	(5,068)	(14,405)	(3,583)
Net non-operating revenues (expenses)	324,169	78,157	291,749	44,375
<b>Income before other revenues, expenses, gains, or losses</b>	79,373	71,209	39,610	22,324
Change in valuation of split interest agreements	-	5,459	-	2,164
Capital grants and gifts (Note 9)	50,491	9,223	91,193	15,135
Gain (loss) on disposal of capital assets	(1,622)	19	(1,095)	(114)
Additions to permanent endowments	-	37,354	-	19,917
Other expenses	-	(750)	-	(980)
Total other revenues, expenses, gains, and losses	48,869	51,305	90,098	36,122
<b>Increase in net assets</b>	128,242	122,514	129,708	58,446
<b>Net assets—beginning of year</b>	1,048,659	708,343	918,951	649,897
<b>Net assets—end of year</b>	\$ 1,176,901	\$ 830,857	\$ 1,048,659	\$ 708,343

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

# Statement of Cash Flows

For the year ended June 30, 2011, with comparative financial information for the year ended June 30, 2010  
(all dollars in thousands)

	2011	2010
<b>Cash flows from operating activities</b>		
Student tuition and fees	\$ 313,386	\$ 284,812
Federal appropriations	11,087	14,466
Grants and contracts	243,713	227,130
Sales and services of educational activities	13,824	12,732
Auxiliary enterprises	180,103	171,671
Other operating receipts	5,025	4,066
Payments for compensation and fringe benefits	(633,645)	(619,650)
Payments for operating expenses	(297,337)	(275,630)
Payments for scholarships and fellowships	(14,104)	(15,606)
Loans issued to students	(4,643)	(2,488)
Collection of loans from students	4,219	2,570
Net cash used by operating activities	(178,372)	(195,927)
<b>Cash flows from noncapital financing activities</b>		
State appropriations	237,390	224,798
Federal fiscal stabilization (ARRA)	22,455	11,531
Gifts received for other than capital purposes	49,097	48,634
Non-operating grants and contracts	2,097	1,755
Federal student financial aid (PELL)	17,237	13,693
Federal Direct Lending Program—receipts	128,914	122,792
Federal Direct Lending Program—disbursements	(128,187)	(122,794)
Funds held in custody for others—receipts	74,085	63,627
Funds held in custody for others—disbursements	(74,581)	(63,373)
Net cash provided by noncapital financing activities	328,507	300,663
<b>Cash flows from capital and related financing activities</b>		
Capital grants and gifts	49,628	93,917
Proceeds from capital debt	70,499	128,831
Proceeds from the sale of capital assets and insurance recoveries	759	(639)
Acquisition and construction of capital assets	(168,360)	(176,570)
Principal paid on capital debt and leases	(22,354)	(18,955)
Short-term debt, commercial paper	(2,105)	(17,835)
Interest paid on capital debt and leases	(18,406)	(16,886)
Net cash used by capital and related financing activities	(90,339)	(8,137)
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	51,909	76,284
Interest on investments	1,028	1,845
Purchase of investments and related fees	(71,938)	(83,370)
Net cash used by investing activities	(19,001)	(5,241)
Net increase in cash and cash equivalents	40,795	91,358
Cash and cash equivalents—beginning of year	347,878	256,520
Cash and cash equivalents—end of year	\$ 388,673	\$ 347,878

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

## Statement of Cash Flows (continued)

For the year ended June 30, 2011 with comparative financial information for the year ended June 30, 2010  
(all dollars in thousands)

	2011	2010
<b>Reconciliation of operating loss to net cash used by operating activities</b>		
Operating loss	\$ (244,796)	\$ (252,139)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation and amortization expense	66,446	62,800
Changes in assets and liabilities		
Receivables, net of allowance for doubtful accounts	(13,085)	(2,777)
Inventories	(1,644)	(899)
Prepaid items and other assets	(7,458)	45
Notes receivable, net of allowance for doubtful accounts	(514)	298
Accounts payable and accrued liabilities	18,456	(1,358)
Accrued payroll and other liabilities	2,381	(952)
Compensated absences	2,196	(3,562)
Deferred revenue	(529)	2,586
Credit card rebate	9	(19)
Federal loan program contributions refundable	166	50
Total adjustments	66,424	56,212
Net cash used by operating activities	\$ (178,372)	\$ (195,927)

## Noncash investing, capital, and financing activities

Change in accounts receivable related to non-operating income	\$ (1,465)	\$ 1,812
Capital assets acquired through in-kind donations as a component of capital gifts and grants income	\$ 3,114	\$ 2,395
Change in fair value of investments recognized as a component of investment income	\$ 6,953	\$ 2,638
Change in fair value of interest payable affecting interest paid	\$ 109	\$ 1,164
Capital assets acquired through installment purchase agreements	\$ 4,500	\$ -
Change in interest receivable affecting interest received	\$ 161	\$ (62)

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

## Notes to Financial Statements

1. Summary of Significant Accounting Policies	18
2. Related Parties	20
3. Local Government Support	21
4. Cash, Cash Equivalents, and Investments	21
5. Accounts Receivable	22
6. Accounts Payable and Accrued Liabilities	22
7. Deferred Revenue	22
8. Capital Assets	23
9. Commonwealth Capital Reimbursement Programs and Capital Gifts	23
10. Short-term Debt	23
11. Summary of Long-term Indebtedness	24
12. Detail of Long-term Indebtedness	25
13. Long-term Debt Defeasance	27
14. Change in Other Liabilities	27
15. Lease Commitments	27
16. Capital Improvement Commitments	28
17. Contributions to Pension Plans	28
18. Postemployment Benefits	28
19. Appropriations	28
20. Grants and Contracts Contingencies	29
21. Federal Direct Lending Program	29
22. Risk Management and Employee Health Care Plans	29
23. Expenses by Natural Classification within Functional Classification	29
24. Component Units Financial Statements and Notes	29
25. Joint Ventures	34
26. Jointly Governed Organizations	35
27. Pending Litigation	35
28. Subsequent Events	35

### 1. Summary of Significant Accounting Policies

#### Reporting Entity

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

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

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

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

#### Virginia Tech Foundation Inc.

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

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

During the year ended June 30, 2011, the foundation distributed \$62,955,000 to the university, for both restricted and unrestricted purposes. The university paid approximately \$8,607,000 to the foundation for lease payments related to office and laboratory space in VTF-owned facilities.

#### Virginia Tech Services Inc.

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

During the year ended June 30, 2011, VTS paid \$1,282,000 to the university, primarily for the rental of facilities.

#### Financial Statement Presentation

GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and*

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

In fiscal year 2011 the following GASB statements of standards became effective, Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and Statement 59, *Financial Instruments Omnibus*. Statement 54 provides clearer fund balance classifications that can be more consistently applied and clarifies existing governmental fund type definitions. The university operates as a business-type activity and is not affected by the requirements of Statement 54. Statement 59 amends various existing standards regarding certain financial instruments and external investment pools. The university's operations were not changed or impacted by the update to existing standards included in Statement 59.

### **Basis of Accounting**

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

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

### **Cash Equivalents**

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

### **Investments**

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

### **Accounts Receivable**

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

accounts. See Note 5 for a detailed list of accounts receivable amounts by major categories.

### **Notes Receivable**

Notes receivable consist of amounts due from the Federal Perkins Loan Program, the Health Professional Student Loan Program, and from other student loans administered by the university. Notes receivable are recorded net of allowance for doubtful accounts for current and noncurrent notes receivable, which totaled \$54,000 and \$347,000, respectively, as of June 30, 2011.

### **Inventories**

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

### **Noncurrent Cash and Investments**

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

### **Capital Assets**

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

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

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

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

### **Interest Capitalization**

Interest expense incurred during the construction of capital assets is capitalized, if material, net of interest income earned on resources set aside for this purpose. The university incurred and capitalized net interest expense related to the construction of capital assets totaling \$5,742,000 for this fiscal year.

### **Accrued Compensated Absences**

Certain salaried employees' attendance and leave regulations make provisions for the granting of a specified number of days

of leave with pay each year. The amount reflects all unused vacation leave, sabbatical leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave pay out policy. The applicable share of employer related taxes payable on eventual termination payments is also included. The university's liability and expense for the amount of leave earned by employees but not taken, as of June 30, 2011, is recorded in the *Statement of Net Assets*, and is included in the various functional categories of operating expenses in the *Statement of Revenues, Expenses, and Changes in Net Assets*.

### Deferred Revenues

Deferred revenue represents revenue collected but not earned as of June 30, 2011, primarily composed of revenue from grants and contracts, prepaid athletic ticket sales, and prepaid student tuition and fees. Summer Session I tuition and fees received during the fiscal year are considered earned at the end of the refund period, approximately June 15<sup>th</sup> of each year. Tuition and fees received prior to year end for Summer Session II are deferred and recognized as revenue in the next fiscal year. See Note 7 for a detailed list of deferred revenue amounts.

### Noncurrent Liabilities

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

### Net Assets

The university's net assets are classified as follows:

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

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

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

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

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

### Income Taxes

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

### Classifications of Revenues

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

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

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

### Scholarship Allowance

Student tuition and fees, certain auxiliary revenues, and student financial assistance expenses are reported net of scholarship allowance in the *Statement of Revenues, Expenses, and Changes in Net Assets*. Scholarship allowance is the difference between the stated charge for goods and services provided by the university and the amount paid by students and/or third parties making payments on the students' behalf. For the fiscal year ended June 30, 2011, the scholarship allowance for student tuition and fee revenue and auxiliary enterprise revenue totaled \$77,505,000 and \$17,857,000, respectively. Scholarship allowance to students is reported using the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). The alternative method is an algorithm that computes scholarship allowance on a university-wide basis rather than on an individual student basis.

### Comparative Data

The university presents its financial information on a comparative basis. The basic financial statements include certain prior year summarized comparative information in total, but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, the prior year information should be read in conjunction with the university's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

## 2. Related Parties

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

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

### 3. Local Government Support

The university, through the operation of its Cooperative Extension Service, maintains offices in numerous cities and counties throughout the Commonwealth of Virginia. Personnel assigned to these locations receive a portion of their compensation from local governments. Also included in the expenses of these extension offices are unit support services, which include such items as rent, telephone, supplies, equipment, and extension program expenses. The estimated amount contributed by the various local governments totaled \$11,616,000 in 2011, and has been included in revenues and expenses of the accompanying financial statements. The university received other local government support of \$1,624,000 in 2011.

### 4. Cash, Cash Equivalents, and Investments

The following information is provided with respect to the university's cash, cash equivalents, and investments as of June 30, 2011. The following risk disclosures are required by GASB Statement 40, *Deposit and Investment Risk Disclosures*:

**Custodial credit risk** (Category 3 deposits and investments)—The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside

party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The university had no category 3 deposits or investments for 2011.

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

#### Categorization of credit quality and interest rate risk

Investments held on June 30, 2011 (all dollars in thousands)

	Credit Rating	Less than 1 Year	1–5 Years	6–10 Years	Fair Value
U.S. Treasury and Agency securities (1)	N/A	\$ 256,504	\$ 6,995	\$ -	\$ 263,499
Debt securities					
Corporate notes and bonds	A3	-	944	-	944
Corporate notes	A2	901	1,561	-	2,462
Corporate notes	A1	-	808	-	808
Corporate notes	Aa3	350	1,706	-	2,056
Corporate notes	Aa2	609	2,205	-	2,814
Corporate notes	Aaa	2,217	2,163	-	4,380
Corporate bonds	A3	776	-	-	776
Corporate bonds	A2	1,483	4,340	-	5,823
Corporate bonds	A1	807	4,264	-	5,071
Corporate bonds	Aa3	-	2,216	-	2,216
Corporate bonds	Aa2	762	-	-	762
Corporate bonds	Aa1	-	1,570	-	1,570
Corporate bonds	Aaa	-	2,779	-	2,779
Repurchase agreements	N/A	29,098	-	-	29,098
Asset backed securities	Aaa	4,042	18,006	-	22,048
Asset backed securities (2)	AAA	797	2,082	-	2,879
Federal agency securities					
Unsecured bonds and notes	Aaa	4,724	5,461	-	10,185
Mortgage backed securities (2)	AAA	1,454	760	-	2,214
Mortgage backed securities	Aaa	842	4,709	-	5,551
Money market & mutual funds (2)	AAA	2,228	-	-	2,228
Money market & mutual funds	Aaa	1,270	-	-	1,270
Other investments					
Deposits with VTF	N/A	1,178	-	-	1,178
Dairymen's Equity (2)	BBB+	-	-	60	60
Short-term investment fund (2)	AAAm	215	-	-	215
SNAP (2)	AAAm	63,288	-	-	63,288
Subtotal		<u>\$ 373,545</u>	<u>\$ 62,569</u>	<u>\$ 60</u>	<u>436,174</u>
Investments without specific maturities, held with VTF					52,329
Total					<u>\$ 488,503</u>

(1) Credit quality ratings are not required for U.S. Government securities that are explicitly guaranteed by the United States Government.

(2) Credit ratings are from Moody's Investors Service except for these investments which are rated by Standard & Poor's.

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

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

**Foreign currency risk** — This risk refers to the possibility that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The university had no foreign investments or deposits for 2011.

### Cash and Cash Equivalents

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

### Investments

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

All gifts, local funds, and nongeneral fund reserves and balances that the university determines appropriate and permitted by law may be invested in the VTF Consolidated Endowment Program. These funds are governed by the foundation's invest-

ment and spending policies, and managed in accordance with the provisions of the *Virginia Uniform Prudent Management of Institutional Funds Act*.

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

### Summary of investments

As of June 30, 2011 (all dollars in thousands)

	Current Assets	Noncurrent Assets	Total
Cash and cash equivalents	\$ 272,367	\$ 116,306	\$ 388,673
Short-term investments	2,228	-	2,228
Long-term investments	-	134,723	134,723
Cash and investments	<u>\$ 274,595</u>	<u>\$ 251,029</u>	<u>525,624</u>
Less cash			37,121
Total investments			<u>\$ 488,503</u>

## 5. Accounts Receivable

### Accounts receivable

As of June 30, 2011 (all dollars in thousands)

#### Current receivables

Grants and contracts	\$ 50,351
Accrued investment interest	443
Student tuition and fees	2,458
Auxiliary enterprises and other operating activities	<u>7,105</u>
Total current receivables before allowance	60,357
Less allowance for doubtful accounts	<u>2,943</u>
Net current accounts receivable	<u>57,414</u>

#### Noncurrent receivables

Capital gifts, grants, and other receivables	4,641
Build America bonds interest receivable	148
Accrued investment interest	<u>149</u>
Total noncurrent receivables	<u>4,938</u>
Total receivables	<u>\$ 62,352</u>

## 6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2011, consist of the following (all dollars in thousands):

Accounts payable	\$ 66,083
Accrued salaries and wages payable	55,266
Retainage payable	<u>4,200</u>
Total current accounts payable and accrued liabilities	<u>\$ 125,549</u>

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

## 7. Deferred Revenue

Deferred revenue consists of the following at June 30, 2011 (all dollars in thousands):

Grants and contracts	\$ 17,457
Prepaid athletic tickets	11,861
Prepaid tuition and fees	8,064
Other auxiliary enterprises	<u>838</u>
Total deferred revenue	<u>\$ 38,220</u>

## 8. Capital Assets

### Changes in capital assets

For the year ending June 30, 2011 (all dollars in thousands)

	Beginning Balance (restated)	Additions	Retirements	Ending Balance
<b>Depreciable capital assets</b>				
Buildings	\$ 961,994	\$ 150,287	\$ 64	\$ 1,112,217
Moveable equipment	376,698	46,120	14,977	407,841
Software and intangible assets	8,524	-	189	8,335
Fixed equipment	100,059	2,276	20	102,315
Infrastructure	112,890	3,561	14	116,437
Library books	71,797	4,444	142	76,099
Total depreciable capital assets, at cost	1,631,962	206,688	15,406	1,823,244
<b>Less accumulated depreciation and amortization</b>				
Buildings	311,404	28,725	4	340,125
Moveable equipment	262,704	28,279	12,667	278,316
Software and intangible assets	5,813	664	189	6,288
Fixed equipment	45,326	3,465	16	48,775
Infrastructure	80,351	2,946	3	83,294
Library books	59,582	2,367	142	61,807
Total accumulated depreciation and amortization	765,180	66,446	13,021	818,605
Total depreciable capital assets, less accumulated depreciation and amortization	866,782	140,242	2,385	1,004,639
<b>Nondepreciable capital assets</b>				
Land	45,546	511	-	46,057
Livestock	579	86	-	665
Construction in progress	180,468	114,430	153,077	141,821
Equipment in process	2,075	3,162	2,075	3,162
Software in development	62	217	-	279
Total nondepreciable capital assets	228,730	118,406	155,152	191,984
Total capital assets, net of accumulated depreciation and amortization	\$ 1,095,512	\$ 258,648	\$ 157,537	\$ 1,196,623

Note: The university contracted, during fiscal year 2011, with a professional engineering firm to conduct a building componentization study of research buildings constructed since the prior study was completed in fiscal year 2008. This engineering study resulted in a discrete reclassification of building components, providing a more accurate calculation of annual depreciation expense attributed to research intensive buildings. The results of the survey are used to reclassify assets primarily between building and fixed equipment categories, along with any required adjustments to accumulated depreciation. This activity is conducted approximately every three years as part of the federal facilities and administrative cost proposal process.

## 9. Commonwealth Capital Reimbursement Programs and Capital Gifts

The commonwealth has established several programs to provide state-supported institutions of higher education with bond proceeds for financing the acquisition and replacement of instructional and research equipment and facilities. During fiscal year 2011, funding has been provided to the university from two programs (21<sup>st</sup> Century program and the Equipment Trust Fund) managed by the Virginia College Building Authority (VCBA). The VCBA issues bonds and uses the proceeds to reimburse the university and other institutions of higher education for expenses incurred in the acquisition of equipment and facilities. The university also receives capital funding for equipment and facilities from private gifts, grants, and contracts.

The *Statement of Revenues, Expenses, and Changes in Net Assets* includes the amounts listed below for the year ended June 30, 2011, in the "Capital Grants and Gifts" line item for equipment and facilities. Part of the funding for these programs is a receivable from the commonwealth at June 30, 2011 as shown in the subsequent paragraph (all dollars in thousands):

VCBA 21 <sup>st</sup> Century program	\$ 28,120
VCBA Equipment Trust Fund program	9,441
Private gifts	6,419
Grants and contracts	6,511
	<u>\$ 50,491</u>

The line items, "Due from the Commonwealth of Virginia", on the *Statement of Net Assets* for the year ended June 30, 2011, represent pending reimbursements from the following programs (all dollars in thousands):

	Current	Noncurrent
Capital appropriations receivable	\$ -	\$ 13
VCBA Equipment Trust Fund program	8,993	-
Credit card rebate/accrued interest	456	-
VCBA 21 <sup>st</sup> Century program	-	3,266
	<u>\$ 9,449</u>	<u>\$ 3,279</u>

## 10. Short-term Debt

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

At June 30, 2011 the amount outstanding was \$870,000. The average days-to-maturity was 31 days with a weighted average effective interest rate of 1.05%.

## 11. Summary of Long-term Indebtedness

### Bonds Payable

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

Section 9(d) bonds are revenue bonds which are limited obligations of the university, payable exclusively from pledged general revenues, and which are not legal or moral debts of the Commonwealth of Virginia. Pledged general revenues include general fund appropriations, student tuition and fees, facilities and administrative (indirect) cost recoveries, auxiliary enterprise revenues, and other revenues not required by law to be used for another purpose. The university has issued section 9(d) bonds directly through underwriters and also participates in the Public Higher Education Financing Program (Pooled Bond Program) created by the Virginia General Assembly in 1996. Through the Pooled Bond Program, the Virginia College Building Authority issues section 9(d) bonds with the proceeds used to purchase debt obligations (notes) of the university and other institutions of higher education. The notes are secured by pledged general revenues of the university. For more information, see the following description of notes payable and Note 12, Detail of Long-term Indebtedness.

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

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

### Notes Payable

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

### Capital Leases

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

### Installment Purchase Obligations

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

### Long-term Debt Payable Activity as of June 30, 2011

(all dollars in thousands)

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
Bonds payable					
Section 9(c) general obligation revenue bonds	\$ 134,922	\$ 36,032	\$ 4,789	\$ 166,165	\$ 7,417
Section 9(d) revenue bonds	68,958	-	5,224	63,734	5,540
Notes payable	164,706	59,768	35,667	188,807	6,785
Capital lease obligations	26,406	-	1,162	25,244	1,229
Installment purchase obligations	749	4,500	4,926	323	202
Total long-term debt payable	<u>\$ 395,741</u>	<u>100,300</u>	<u>51,768</u>	<u>\$ 444,273</u>	<u>\$ 21,173</u>
Current year debt defeasance		(29,801)	(29,415)		
Total additions/retirements, net of current year defeasance		<u>\$ 70,499</u>	<u>\$ 22,353</u>		

### Future principal commitments for fiscal years subsequent to 2011

(all dollars in thousands)

	Section 9(c) Bonds	Section 9(d) Bonds	Notes Payable	Capital Lease Obligations	Installment Purchase Obligations	Total Long-term Debt Payable
2012	\$ 7,417	\$ 5,540	\$ 6,785	\$ 1,229	\$ 202	\$ 21,173
2013	7,723	5,815	7,970	1,299	68	22,875
2014	7,192	6,105	8,354	1,377	21	23,049
2015	7,592	6,380	8,800	1,458	21	24,251
2016	7,860	6,700	9,205	1,542	11	25,318
2017 – 2021	37,687	12,245	50,450	9,242	-	109,624
2022 – 2026	42,790	12,180	49,240	5,945	-	110,155
2027 – 2031	30,075	8,795	33,185	3,152	-	75,207
2032 – 2036	4,960	-	5,500	-	-	10,460
Unamortized premium	12,612	897	10,179	-	-	23,688
Deferral on debt defeasance	257	(923)	(861)	-	-	(1,527)
Total future principal requirements	<u>\$ 166,165</u>	<u>\$ 63,734</u>	<u>\$ 188,807</u>	<u>\$ 25,244</u>	<u>\$ 323</u>	<u>\$ 444,273</u>

**Future interest commitments for fiscal years subsequent to 2011**  
(all dollars in thousands)

	Section 9(c) Bonds	Section 9(d) Bonds	Notes Payable	Capital Lease Obligations	Installment Purchase Obligations	Total Interest
2012	\$ 7,090	\$ 3,086	\$ 8,312	\$ 1,389	\$ 6	\$ 19,883
2013	6,770	2,820	7,970	1,327	2	18,889
2014	6,404	2,533	7,570	1,260	1	17,768
2015	6,068	2,245	7,151	1,190	1	16,655
2016	5,691	1,927	6,719	1,115	-	15,452
2017 – 2021	23,410	6,852	26,572	4,339	-	61,173
2022 – 2026	14,630	3,896	14,872	2,065	-	35,463
2027 – 2031	4,594	849	4,913	240	-	10,596
2032 – 2036	504	-	792	-	-	1,296
Total future interest requirements	\$ 75,161	\$ 24,208	\$ 84,871	\$ 12,925	\$ 10	\$ 197,175

## 12. Detail of Long-term Indebtedness

**Bonds payable as of June 30, 2011**  
(all dollars in thousands)

	Interest rates	Maturity	2011
<b>Revenue bonds</b>			
Dormitory and dining hall system			
Series 2004A, issued \$2,710 – refunding series 1996A*	2.00% - 5.00%	2016	\$ 1,495
Series 2004A, issued \$1,665 – refunding series 1996A*	2.00% - 5.00%	2016	915
Series 2004B, issued \$1,265 – refunding series 1996B*	2.00% - 4.00%	2016	665
University services systems			
Student Health and Fitness Center			
Series 2004C, issued \$15,105 – refunding series 1996C*	2.00% - 5.00%	2016	8,095
Athletic system			
Athletic facility – improvements			
Series 2004D, issued \$4,155 – refunding series 1996A*	2.00% - 5.00%	2016	2,285
Lane Stadium west sideline expansion			
Series 2004D, issued \$52,715	3.00% - 5.13%	2029	37,985
Northern Virginia Graduate Center			
Series 2004A, issued \$7,860 – refunding series 1996A*	2.00% - 5.00%	2020	5,545
Architectural/engineering			
Series 2004A, issued \$4,685 – refunding series 1996A*	2.00% - 5.00%	2016	2,585
Coal-fired boiler facility			
Series 2004A, issued \$6,005 – refunding series 1996A*	2.00% - 5.00%	2016	3,320
Series 2004A, issued \$1,585 – refunding series 1996A*	2.00% - 5.00%	2016	870
Unamortized premium (discount)			897
Deferral on debt defeasance			(923)
Total revenue bonds			63,734
<b>General obligation revenue bonds</b>			
Dormitory and dining hall system			
Series 2004B, issued \$9,995 – partial refunding series 1997*	2.00% - 5.00%	2017	6,472
Series 2004B, issued \$1,928 – partial refunding series 1998*	2.00% - 5.00%	2018	1,422
Series 2004B, issued \$1,168 – partial refunding series 1999*	2.00% - 5.00%	2019	957
Series 2004A, issued \$4,800	3.75% - 5.00%	2024	1,590
Series 2007A, issued \$5,995	4.00% - 5.00%	2027	5,545
Series 2007A, issued \$13,130	4.00% - 5.00%	2027	12,150
Series 2008B, issued \$1,813 – refunding series 1998R*	4.38% - 4.70%	2013	756
Series 2008B, issued \$969 – refunding series 1998R*	4.38% - 4.70%	2013	403
Series 2008B, issued \$1,010 – refunding series 1998R*	4.38% - 4.70%	2013	423
Series 2008B, issued \$17,185	3.00% - 5.00%	2028	16,020
Series 2009D, issued \$1,891 – partial refunding series 2004A*	5.00%	2022	1,891
Series 2009B, issued \$39,005	4.00% - 5.00%	2029	39,005
Series 2009B, issued \$3,720	4.00% - 5.00%	2029	3,720
Academic and Student Affairs building, series 2010A, issued \$34,650	3.00% - 5.00%	2030	34,650
Parking facilities			
Series 2002, issued \$975	2.50% - 5.00%	2017	140
Series 2004B, issued \$951 – partial refunding series 1997*	2.00% - 5.00%	2017	611
Series 2006B, issued \$685	4.00% - 5.00%	2026	365
Series 2008B, issued \$1,545	3.00% - 5.00%	2028	1,395
Series 2009D, issued \$190 – partial refunding series 2006B*	5.00%	2022	190
Series 2009C, issued \$276 – partial refunding series 2002*	3.00% - 4.00%	2017	276

Series 2009B, issued \$24,590	4.00% - 5.00%	2034	24,590
Series 2010A, issued \$745	2.00% - 5.00%	2030	725
Unamortized premium (discount)			12,612
Deferral on debt defeasance			257
Total general obligation revenue bonds			166,165
Total bonds payable			<u>\$ 229,899</u>

**Notes payable as of June 30, 2011***(all dollars in thousands)*

	Average coupon rate	Maturity	2011
Dormitory and dining hall system			\$ 540
Series 1998A, issued \$10,145 – partial refunding*	4.53%	2019	
Series 2004B, issued \$1,120 – partial refunding series 1999*	5.00%	2014	1,120
Series 2004B, issued \$7,420 – partial refunding series 1999A*	3.00% - 5.00%	2020	6,630
Series 2005, issued \$2,815	3.50% - 5.00%	2026	2,350
Series 2007B, issued \$3,395 – partial refunding series 1998A*	4.00% - 4.50%	2019	3,390
University services system – Smith Career Center			
Series 2002A, issued \$4,405*	5.19%	2023	400
Series 2007B, issued \$1,621 – partial refunding series 2002A*	4.00% - 4.50%	2020	1,598
Series 2010B, issued \$1,190 – partial refunding series 2002A*	5.25%	2023	1,190
Utility system			
Series 2002A, issued \$2,875*	5.19%	2023	265
Series 2004B, issued \$870 – partial refunding series 2000A*	3.00% - 5.00%	2017	843
Series 2007B, issued \$646 – partial refunding series 2000A*	4.00% - 4.50%	2020	646
Series 2010B, issued \$345 – partial refunding series 2000A*	5.00% - 5.75%	2021	345
Series 2007B, issued \$1,060 – partial refunding series 2002A*	4.00% - 4.50%	2020	1,045
Series 2010B, issued \$770 – partial refunding series 2002A*	5.25%	2023	770
Athletic system – Lane Stadium expansion			
Series 2001A, issued \$26,285*	4.70%	2027	680
Series 2007B, issued \$2,860 – partial refunding series 2001A*	4.00% - 4.50%	2020	2,835
Series 2009B, issued \$8,705	2.00% - 5.00%	2030	8,435
Series 2010B, issued \$11,540 – partial refunding series 2001A*	4.00% - 5.00%	2027	11,540
Infectious waste facility			
Series 2004B, issued \$480 – partial refunding series 2000A*	3.00% - 5.00%	2017	471
Series 2007B, issued \$359 – partial refunding series 2000A*	4.00% - 4.50%	2020	359
Series 2010B, issued \$190 – partial refunding series 2000A*	5.00% - 5.75%	2021	190
Biomedical facility			
Series 2002A, issued \$21,930	5.11%	2028	1,405
Series 2007B, issued \$5,649 – partial refunding series 2002A*	4.00% - 4.50%	2020	5,567
Series 2010B, issued \$10,155 – partial refunding series 2002A*	4.00% - 5.25%	2028	10,155
Alumni and conference center			
Series 2003A, issued \$21,585	4.63%	2031	15,630
Series 2010B, issued \$3,215 – partial refunding series 2003A*	4.38% - 5.00%	2021	3,215
Life Sciences–I, Series 2005, issued \$8,295	3.50% - 5.00%	2026	6,925
ICTAS–I, Series 2006A, issued \$16,145	3.00% - 5.00%	2027	14,040
Boiler pollution controls, Series 2006A, issued \$1,925	3.00% - 5.00%	2027	1,675
Surge space building, Series 2006A, issued \$7,025	4.00% - 5.00%	2022	5,625
Campus heating plant			
Series 2007A, issued \$3,880	4.50% - 5.00%	2028	3,625
Series 2009B, issued \$5,875	2.00% - 5.00%	2030	5,695
McComas exterior repairs			
Series 2009A, issued \$1,475	2.75% - 5.00%	2029	1,365
Series 2009B, issued \$4,365	2.00% - 5.00%	2030	4,365
ICTAS–II, Series 2009B, issued \$13,045	2.00% - 5.00%	2030	13,045
McComas recreation, counseling and clinical space			
Series 2009B, issued \$12,420	2.00% - 5.00%	2030	12,420
Center for the Arts, Series 2010B, issued \$19,445	3.75% - 5.60%	2036	19,445
Academic and Student Affairs building, Series 2010A, issued \$9,650	3.75% - 5.50%	2031	9,650
Unamortized premium (discount)			10,179
Deferral on debt defeasance			(861)
Total notes payable			<u>\$ 188,807</u>

\*See Note 13 – Long-term Debt Defeasance

**Other long-term debt as of June 30, 2011***(all dollars in thousands)*

Capital leases payable for agreements related to the Student Services building, Southgate Center addition, Hunter Andrews addition, Integrated Life Sciences (ILSB) buildings, separate Vivarium lease, and equipment	\$ 25,244
Installment purchase obligations for equipment through June 2011, various interest rates and maturing through 2016	323
Total other long-term debt	<u>\$ 25,567</u>

### 13. Long-term Debt Defeasance

#### Current Year

The university issued \$29,801,000 of section 9(d) notes to refund \$29,415,000 of section 9(d) notes in fiscal year 2011. The resulting net loss of \$386,000 will be amortized over the life of the new debt. For financial reporting purposes, these notes are considered an in-substance defeasance and have therefore been removed from the long-term debt payable line item of the *Statement of Net Assets*. The assets in escrow have similarly been excluded. The details of each refunded debt issue are presented below.

#### Debt issues refunded as of June 30, 2011

(all dollars in thousands)

	True Interest Cost	Debt Refunded	Refunding Debt Issued	Accounting Gain (Loss)	Reduction in Debt Service	Gain Discounted at TIC	Defeased Debt
Series 2002A, issued \$21,930	3.02%	\$ 11,120	\$ 10,679	\$ 441	\$ 3,404	\$ 2,598	\$ 11,120
Series 2003A, issued \$21,585	3.02%	3,365	3,802	(437)	192	159	3,365
Series 2002A, issued \$4,405	3.02%	1,195	1,375	(180)	49	43	1,195
Series 2000A, issued \$1,640	3.02%	210	212	(2)	30	26	210
Series 2000A, issued \$2,925	3.02%	375	385	(10)	46	41	375
Series 2002A, issued \$2,875	3.02%	775	890	(115)	33	29	775
Series 2001A, issued \$26,285	3.02%	12,375	12,458	(83)	2,585	1,966	12,375
Total		\$ 29,415	\$ 29,801	\$ (386)	\$ 6,339	\$ 4,862	\$ 29,415

#### Previous Years

In previous fiscal years in accordance with GASB Statement 7, *Advance Refundings Resulting in the Defeasance of Debt*, the university has excluded from its financial statements the assets in escrow and the debt payable that was defeased in-substance. For the year ended June 30, 2011, debt payable considered defeased in previous years totaled \$13,310,000.

### 14. Change in Other Liabilities

A summary of the changes in other liabilities for the year ended June 30, 2011 (all dollars in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Accrued compensated absences	\$ 34,167	\$ 27,484	\$ 25,288	\$ 36,363	\$ 19,880
Federal student loan program contribution refundable	13,260	261	95	13,426	-
Total other liabilities	\$ 47,427	\$ 27,745	\$ 25,383	\$ 49,789	\$ 19,880

### 15. Lease Commitments

The university has entered into numerous agreements to lease land, buildings, and equipment. With some of these agreements, the university is committed under various operating leases for equipment and space. In general, the leases are for three- to ten-year terms with renewal options. The university expects similar leases to replace these leases during the normal course of business. The total lease expense was approximately \$19,342,000 for the year ended June 30, 2011. This amount includes approximately \$8,607,000 in lease payments to the Virginia Tech Foundation Inc. for office and laboratory space. In addition, the total lease expense includes approximately \$2,268,000 of short-term equipment rentals that can be terminated at any time. The short-term equipment rental costs are not included in the summary of future lease payments listed in the tables below.

The table on the left below presents a summary of future minimum lease payments under operating leases as of June 30, 2011. The table on the right reflects future lease commitments after renegotiation of a land lease for the Virginia Tech Carilion School of Medicine and Research Institute facility. For more information, see Note 28, Subsequent Events.

#### Operating lease commitments, as of June 30, 2011

(all dollars in thousands)

2012	\$ 17,519
2013	12,530
2014	11,029
2015	9,120
2016	8,166
2017 - 2021	30,504
2022 - 2026	4,576
2027 - 2031	3,569
2032 - 2036	2,554
2037 - 2041	2,554
2042 - 2046	2,554
2047 - 2051	2,554
2052 - 2056	2,554
2057 - 2060	2,554
Total	\$ 112,337

#### Operating lease commitments after land lease conversion

(all dollars in thousands)

2012	\$ 17,019
2013	12,030
2014	10,529
2015	8,620
2016	7,666
2017 - 2021	28,004
2022 - 2026	2,076
2027 - 2031	1,069
2032 - 2036	54
2037 - 2041	54
2042 - 2046	54
2047 - 2051	54
2052 - 2056	54
2057 - 2060	54
Total	\$ 87,337

## 16. Capital Improvement Commitments

The amounts listed in the following tables represent the value of obligations remaining on capital improvement project contracts. These obligations are for future effort and as such have not been accrued as expenses or liabilities on the university's financial statements. Outstanding contractual commitments for capital improvement projects at June 30, 2011, are listed below.

### Capital commitments by project

(all dollars in thousands)

Center for the Arts	\$ 63,524
Academic & Student Affairs building	20,195
Ambler Johnston Hall renovation	18,533
Technology Research and Innovation Center	5,471
Owens and West End renovations	2,992
Signature Engineering Building	2,251
Infectious Disease Research Facility	2,231
Campus Heating Plant	2,105
Human and Agriculture Biosciences Building I	1,472
Virginia Tech Carilion School of Medicine and Research Institute	923
Davidson Hall renovation	879
Other projects	2,138
Total	<u>\$ 122,714</u>

### Capital commitments by source of funding

(all dollars in thousands)

Bonds and notes payable proceeds	\$ 81,851
Capital appropriations	27,313
Private funds	5,328
Facilities and administrative (indirect) cost recoveries, university education and general funds	4,204
Auxiliary enterprise funds	3,438
State general appropriations	580
Total	<u>\$ 122,714</u>

## 17. Contributions to Pension Plans

### Virginia Retirement System

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

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

The university's expenses include the amount assessed by the commonwealth for contributions to the VRS, which totaled approximately \$17,215,000 for the year ended June 30, 2011.

### Optional Retirement Plan

Full-time faculty and certain administrative staff participate in a defined contribution plan administered by three different providers other than the VRS. The three different providers are TIAA/CREF Insurance Companies, Fidelity Investments Tax-Exempt Services Co., and the Variable Annuity Life Insurance Company (VALIC). This plan is a defined contribution program where the retirement benefits received are based upon the employer's (5.4%) and employees' (5.0%) contributions, plus interest and dividends.

Individual contracts issued under the plan provide for full and immediate vesting of both the university's and the employees' contributions. Total pension costs under this plan were approximately \$18,329,000 for year ended June 30, 2011. Contributions to the optional retirement plan were calculated using the base salary amount of approximately \$178,105,000 for this fiscal year.

### Deferred Compensation Plan

Employees of the university are employees of the Commonwealth of Virginia. State employees may participate in the commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the commonwealth matching up to \$10 per pay period. The dollar amount match can change depending on the funding available in the commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under section 401(a) of the *Internal Revenue Code*. The university expense for contributions under the Deferred Compensation Plan, which is an amount assessed by the commonwealth, was approximately \$1,131,000 for the fiscal year 2011.

### Federal Pension Plans

Certain Cooperative Extension Service (CES) professional employees are participants in either the Federal Employee Retirement System (FERS) or the Federal Civil Service Retirement System (CSRS). The FERS and CSRS are defined benefit plans in which benefits are based upon the highest base pay over any three consecutive years and the years of creditable service. Pension costs under these plans were approximately \$145,000 for the year ended June 30, 2011. Contributions to the FERS and CSRS were calculated using the base salary amount of approximately \$1,554,000 for the fiscal year 2011.

In addition, the university contributed \$33,000 in employer contributions to the Thrift Savings Plan for the year ended June 30, 2011. The Thrift Savings Plan is a defined contribution plan in which the university matches employee contributions within certain limitations.

## 18. Postemployment Benefits

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

## 19. Appropriations

The Appropriation Act specifies that unexpended general fund appropriations that remain on the last day of the current year, ending on June 30, 2011, shall be reappropriated for expenditure in the first month of the next year, beginning on July 1, 2011, except as may be specifically provided otherwise by the Virginia General Assembly. The governor may, at his discretion, unallot funds from the reappropriated balances that relate to unexpended appropriations for payments to individuals, aid to localities, or any pass-through grants.

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

**Original legislative appropriation per Chapter 874**

Education and general programs	\$ 207,287
Student financial assistance	17,661
Commonwealth research initiative	2,389
Unique military activities	1,334
Eminent scholar program	164
Engineering research center fund	51
Total appropriation	<u>228,886</u>

**Adjustments**

Budget reductions	(15)
One-time employee bonus	5,529
Rolls Royce partnership	3,750
Transfer from student financial assistance program for undergraduate internships	221
Student financial assistance	178
Other adjustments	30
Total adjustments	<u>9,693</u>
Adjusted appropriation	<u>\$ 238,579</u>

**20. Grants and Contracts Contingencies**

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

In addition, the university is required to comply with various federal regulations issued by the Office of Management and Budget. Failure to comply with certain system requirements of these regulations may result in questions concerning the allowance of related direct and indirect charges pursuant to such agreements. As of June 30, 2011, the university estimates that no material liabilities will result from such audits or questions.

**21. Federal Direct Lending Program**

The university participates in the Federal Direct Lending Program. Under this program, the university receives funds from

the U.S. Department of Education for Stafford and Parent PLUS Loan Programs and disburses these funds to eligible students. The funds can be applied to outstanding student tuition and fee charges or refunded directly to the student.

The loan proceeds are treated as student payments with the university acting as a fiduciary agent for the student. Therefore, the receipt of the funds from the federal government is not reflected in the federal government grants and contracts total on the *Statement of Revenues, Expenses, and Changes in Net Assets*. The activity is included in the noncapital financing section of the *Statement of Cash Flows*. For the fiscal year ended June 30, 2011, cash provided by the program totaled \$128,914,000 and cash used by the program totaled \$128,187,000.

**22. Risk Management and Employee Health Care Plans**

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

**23. Expenses by Natural Classification within Functional Classification**

The university's operating expenses by functional classification for the year ended June 30, 2011 (*all dollars in thousands*):

	Compensation and Benefits	Contractual Services	Other Supplies and Materials	Travel	Operating Expenses	Scholarships and Fellowships	Sponsored Program Subcontracts	Total
Instruction	\$ 228,174	\$ 8,734	\$ 6,042	\$ 4,319	\$ 1,518	\$ 1,193	\$ 148	\$ 250,128
Research	168,017	25,661	24,735	11,284	3,641	12,311	25,901	271,550
Public service	47,082	15,353	3,619	5,891	1,460	229	6,324	79,958
Academic support	43,346	4,573	9,759	941	2,405	170	-	61,194
Student services	10,460	1,542	835	631	145	114	8	13,735
Institutional support	45,405	1,698	713	2,198	834	435	25	51,308
Operation and maintenance of plant	20,603	3,105	12,211	198	18,739	15	-	54,871
Student financial assistance	214	-	19	135	-	13,950	-	14,318
Auxiliary enterprises	74,921	21,168	32,195	9,327	20,415	3,917	12	161,955
Subtotal before other costs	<u>\$ 638,222</u>	<u>\$ 81,834</u>	<u>\$ 90,128</u>	<u>\$ 34,924</u>	<u>\$ 49,157</u>	<u>\$ 32,334</u>	<u>\$ 32,418</u>	<u>959,017</u>
Depreciation and amortization expense								66,446
Loan administrative fees and collection costs								76
Total operating expenses								<u>\$ 1,025,539</u>

**24. Component Units Financial Statements and Notes**

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

## 24. Component Units Financial Statements and Notes (continued)

### Consolidating Statement of Net Assets

The financial position for the university's component units as of June 30, 2011  
(all dollars in thousands)

	Virginia Tech Foundation	Virginia Tech Services	Total Component Units
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ (12,433)	\$ 667	\$ (11,766)
Short-term investments	11,382	3,514	14,896
Accounts and contributions receivable, net	29,484	296	29,780
Notes receivable, net	401	-	401
Inventories	459	6,559	7,018
Prepaid expenses	558	167	725
Other assets	2,967	-	2,967
Total current assets	32,818	11,203	44,021
<b>Noncurrent assets</b>			
Cash and cash equivalents	49,185	-	49,185
Accounts and contributions receivable, net	57,728	-	57,728
Notes and deeds of trust receivable, net	17,033	-	17,033
Net investments in direct financing leases	23,165	-	23,165
Irrevocable trusts held by others, net	8,899	-	8,899
Long-term investments	706,474	-	706,474
Depreciable capital assets, net	174,451	612	175,063
Nondepreciable capital assets	80,346	-	80,346
Intangible assets, net	676	-	676
Other assets	4,351	-	4,351
Total noncurrent assets	1,122,308	612	1,122,920
Total assets	1,155,126	11,815	1,166,941
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	7,486	5,310	12,796
Accrued compensated absences	281	270	551
Deferred revenue	4,507	1,217	5,724
Long-term debt payable	6,166	-	6,166
Other liabilities	4,140	800	4,940
Total current liabilities	22,580	7,597	30,177
<b>Noncurrent liabilities</b>			
Accrued compensated absences	88	-	88
Deferred revenue	6,066	-	6,066
Long-term debt payable	197,487	-	197,487
Liabilities under trust agreements	27,233	-	27,233
Agency deposits held in trust	65,367	-	65,367
Other liabilities	9,666	-	9,666
Total noncurrent liabilities	305,907	-	305,907
Total liabilities	328,487	7,597	336,084
<b>Net Assets</b>			
Invested in capital assets, net of related debt	70,934	612	71,546
Restricted, nonexpendable	369,213	-	369,213
Restricted, expendable			
Scholarships, research, instruction, and other	288,267	-	288,267
Capital projects	45,768	-	45,768
Unrestricted	52,457	3,606	56,063
Total net assets	\$ 826,639	\$ 4,218	\$ 830,857

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

The university's component unit activity for the year ended June 30, 2011  
(all dollars in thousands)

	Virginia Tech Foundation	Virginia Tech Services	Total Component Units
<b>Operating revenue</b>			
Gifts and contributions	\$ 51,874	\$ -	\$ 51,874
Auxiliary enterprise revenue			
Hotel Roanoke	18,590	-	18,590
River Course	1,226	-	1,226
Bookstore	-	27,523	27,523
Other revenue			
Rental income	19,641	-	19,641
Other	21,083	-	21,083
Total operating revenue	<u>112,414</u>	<u>27,523</u>	<u>139,937</u>
<b>Operating expenses</b>			
Instruction	4,773	-	4,773
Research	5,647	-	5,647
Public service	5,339	-	5,339
Academic support	13,735	-	13,735
Institutional support			
Other university programs	18,963	-	18,963
Fund-raising	8,141	-	8,141
Management and general	2,857	-	2,857
Operation and maintenance of plant			
Operation and maintenance of plant	4,475	-	4,475
Research cost centers	5,549	-	5,549
Student financial assistance	21,583	-	21,583
Auxiliary enterprises			
Hotel Roanoke	11,569	-	11,569
River Course	1,442	-	1,442
Bookstore	-	27,513	27,513
Depreciation expense	5,992	-	5,992
Other expenses	9,307	-	9,307
Total operating expenses	<u>119,372</u>	<u>27,513</u>	<u>146,885</u>
<b>Operating income (loss)</b>	<u>(6,958)</u>	<u>10</u>	<u>(6,948)</u>
<b>Non-operating revenue (expenses)</b>			
Investment income, net	8,147	-	8,147
Net gains on investments	75,078	-	75,078
Interest expense on debt related to capital assets	(5,068)	-	(5,068)
Net non-operating revenues	<u>78,157</u>	<u>-</u>	<u>78,157</u>
<b>Income before other revenues, expenses, gains, or losses</b>	<u>71,199</u>	<u>10</u>	<u>71,209</u>
Change in valuation of split interest agreements	5,459	-	5,459
Capital grants and gifts	9,223	-	9,223
Gain on disposal of capital assets	19	-	19
Additions to permanent endowments	37,354	-	37,354
Other expenses	(750)	-	(750)
Total other revenues, expenses, gains, or losses	<u>51,305</u>	<u>-</u>	<u>51,305</u>
Increase in net assets	122,504	10	122,514
Net assets – beginning of year	704,135	4,208	708,343
Net assets – end of year	<u>\$ 826,639</u>	<u>\$ 4,218</u>	<u>\$ 830,857</u>

## 24. Component Units Financial Statements and Notes (continued)

### Notes to Component Units Statements

#### Contributions Receivable – Virginia Tech Foundation Inc.

The following summarizes unconditional promises to give at June 30, 2011 (all dollars in thousands):

##### Current receivables

Receivable in less than one year	\$ 27,282
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##### Noncurrent receivables

Receivable in one to five years	39,965
Receivable in more than five years	16,381
Total noncurrent receivable before allowance	56,346
Less allowance for uncollectible contributions	(2,714)
Net noncurrent contributions receivable	53,632
Total contributions receivable	\$ 80,914

The discount rates ranged from 0.39% to 1.69% in 2011. As of June 30, 2011, there were no conditional promises to give.

#### Investments – Virginia Tech Foundation Inc.

Investments by type of security at June 30, 2011 (all dollars in thousands):

	Cost	Fair Value
<b>Short-term investments</b>		
Corporate debt securities	\$ 2,403	\$ 2,454
U.S. Government treasuries	1,045	1,018
U.S. Government agencies	7,909	7,909
Total short-term investments	11,357	11,381

##### Long-term investments

Cash and cash equivalents	16,710	16,710
U.S. Government treasuries	5,375	5,439
U.S. Government agencies	26,618	27,188
State, county, and municipal securities	2,651	2,784
Corporate debt securities	54,987	55,122
Common and preferred stock	127,326	151,767
Partnerships and other joint ventures	349,350	386,114
Foreign securities	14,315	20,215
Real estate	26,710	27,716
Other	7,504	7,504
Total long-term investments	631,546	700,559

##### Restricted to investment in land, buildings, and equipment

Cash and cash equivalents	5,916	5,916
Total restricted investments	5,916	5,916
Total investments	\$ 648,819	\$ 717,856

As of June 30, 2011, long-term investments include investment assets held in internally managed trust funds with a carrying value totaling \$45,133,000.

The foundation has invested in a communications network infrastructure. Included in other long-term investments as of June 30, 2011, is \$6,400,000 related to this communications network infrastructure.

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

	Fair Value	Cost	Net gains (losses)
June 30, 2011	\$ 717,856	\$ 648,819	\$ 69,037
June 30, 2010	643,499	658,006	(14,507)
Unrealized net gain for the year, including net gain on agency deposits held in trust of \$8,408			83,544
Realized net loss for the year, including net gain on agency deposits held in trust of \$831			(8,485)
Total net gain for the year, including net gain on agency deposits held in trust of \$9,239			\$ 75,059

Investment management fees totaled \$2,017,000 in 2011.

#### Land, Buildings, and Equipment – Virginia Tech Foundation Inc.

A summary of land, buildings, and equipment at cost, less accumulated depreciation for the year ending June 30, 2011 is presented as follows (all dollars in thousands):

##### Depreciable capital assets

Buildings	\$ 203,453
Equipment and other	22,032
Land improvements	15,316
Total depreciable capital assets, at cost	240,801
Less accumulated depreciation	(66,350)
Total depreciable capital assets, net	174,451

##### Nondepreciable capital assets

Land	65,597
Vintage and other collection items	4,589
Livestock	1,858
Construction in progress	8,302
Total nondepreciable capital assets	80,346
Total capital assets, net	\$ 254,797

As of June 30, 2011, outstanding contractual commitments for projects under construction approximated \$7,200,000.

#### Long-Term Debt Payable – Virginia Tech Foundation Inc.

##### Notes payable

The following is a summary of outstanding notes payable at June 30, 2011 (all dollars in thousands):

Unsecured commercial note payable due September 10, 2014, plus interest at 4.65%	\$ 551
Secured variable rate promissory note payable upon sale of collateral, or receipt of any insurance payment due to destruction of collateral, plus interest at the LIBOR rate plus 300 basis points (3.19% at June 30, 2011) collateralized by interest in a Citation Excel airplane	617
Unsecured fixed rate promissory note payable maturing on December 1, 2019, including interest at 6.59%	1,854
Total VTF notes payable	3,022

Unsecured note payable upon the sale of the hotel and repayment of all debt of the hotel and the Hotel Roanoke Foundation (HRF)	1,775
Unsecured note payable to the City of Roanoke Redevelopment and Housing Authority due in aggregate annual installments of \$497, interest at 4.05%, guaranteed by the U.S. Department of Housing and Urban Development, maturing June 30, 2014	1,801
Total HRF notes payable	<u>3,576</u>
Secured fixed rate promissory note payable October 10, 2017, plus interest at 7.00%, collateralized by certain real properties by Virginia Tech Real Estate Foundation Inc. (VTREF)	8,141
Total VTREF notes payable	<u>8,141</u>
Total notes payable	<u>\$ 14,739</u>

During 2003, the foundation used proceeds from borrowings on notes payable totaling \$13,800,000 to provide a loan to an unrelated party through a promissory note receivable. The unrelated party used the proceeds to purchase the University Mall building located in Blacksburg, Virginia. The promissory note receivable, which requires interest payments only until maturity, earns interest at a fixed rate of 6.18% through June 30, 2013 and 6.96% thereafter through June 30, 2023, the maturity date. The promissory note receivable is secured by a first deed of trust in the real property of the University Mall building, as well as the assignment of leases and rents, security agreements, and fixture filing statements.

During 2009, the foundation entered into a capital lease obligation with an unrelated party. During 2010, the foundation amended the lease agreement to include additional properties. During 2011, the foundation terminated the lease and purchased the properties.

The aggregate annual maturities of notes payable for each of the five years and thereafter subsequent to June 30, 2011, are *(all dollars in thousands)*:

2012	\$ 1,193
2013	900
2014	946
2015	356
2016	332
Later years or as cash becomes available from hotel net operating income	11,012
Total notes payable	<u>\$ 14,739</u>

#### Bonds payable

HRF is obligated under City of Roanoke Redevelopment and Housing Authority Taxable Redevelopment Revenue Term Bonds (Series 1998). Bond proceeds were used to prepay the first mortgage notes payable to a lender group and provide long-term financing for the renovation of the Hotel Roanoke. On June 1, 2003, the bonds were remarketed to VTREF and the new term rate of 4.10% extended through May 31, 2008. On June 1, 2008, the bonds were remarketed and the new term rate of 5.00% will extend through May 31, 2013. The Term Bonds are subject to mandatory annual sinking fund redemption through 2018 in varying amounts ranging from \$310,000 to \$490,000 and are guaranteed by HRLLC. The Term Bonds are eliminated for consolidation purposes as of June 30, 2011.

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

The foundation is obligated under Industrial Development Authority of Montgomery County, Virginia Variable Rate Revenue Bonds dated August 25, 2005 (Series 2005). Bond proceeds were used to refinance previously outstanding Series 2001A and Series 2002A bonds. The remainder was used to finance the construction of and equipment purchases for three facilities to be used in support of the university. The bonds, which mature June 1, 2035, bear a variable interest rate, which including remarketing and credit enhancement fees, was 0.365% at June 30, 2011.

The foundation is obligated under Industrial Development Authority of Montgomery County, Virginia Revenue Bonds (Series 2009A) and Taxable Revenue Bonds (Series 2009B) dated February 12, 2009. Bond proceeds were used to refinance the previously outstanding Series 2007 bonds, the unsecured variable rate promissory note payable, and the unsecured variable rate commercial note payable, as well as finance the construction of several facilities, primarily for the National Capital Region facility, to be used in support of the university. During 2011, an additional \$18,350,000 was requisitioned on the Series 2009B bonds to finance property acquisitions to be used in support of the university. The Series 2009A bonds, which mature on February 1, 2039, bear a variable interest rate, which including remarketing and liquidity fees, was 0.605% on June 30, 2011. The Series 2009B bonds, which mature on February 1, 2039, bear a variable interest rate, which including remarketing and liquidity fees, was 0.645% on June 30, 2011.

As of June 30, 2011, the majority of the unused proceeds from the Series 2009A and Series 2009B bond offering, which are restricted to investment in land, buildings, and equipment, have been temporarily invested in investment securities as disclosed in the investment note above and are separately recorded in the consolidated statement of financial position.

Principal amounts outstanding for these bonds as of June 30, 2011, are as follows *(all dollars in thousands)*:

Bond series	
Series 2000	\$ 2,223
Series 2005	34,235
Series 2009A	20,985
Series 2009B	52,005
Series 2010A	52,760
Series 2010B	22,915
Premium on Series 2010A	3,791
Total bonds payable	<u>\$ 188,914</u>

The aggregate annual maturities of bonds payable for each of the five years and thereafter subsequent to June 30, 2011, are as follows *(all dollars in thousands)*:

2012	\$ 5,164
2013	5,360
2014	5,618
2015	5,782
2016	5,963
Later years	161,027
Total	<u>\$ 188,914</u>

To comply with the terms of the Series 2005 bond agreement, the foundation maintains a letter of credit with a lender in the amount of \$36,845,000 at annual fees equal to 0.20% of the total commitment. At June 30, 2011, no funds were outstanding under this commitment.

To comply with the terms of the Series 2009A and Series 2009B bond agreement, the foundation maintains a revolving credit facility in the amount of \$149,996,000 at annual fees equal to 0.45% of the total commitment. At June 30, 2011, no funds were outstanding under this commitment.

## 24. Component Units Financial Statements and Notes (continued)

### Interest rate swaps

Effective September 1, 2005, the foundation entered into an interest rate swap agreement (Swap 2) with a lending institution. This agreement was based on the principal balances (notional amount of \$21,535,000) of the Series 2001A and Series 2002A bond issues, which were refinanced by the Series 2005 bonds. The foundation participates as a fixed rate payer, with a fixed rate of 3.265% for a 17-year term ending June 30, 2022. The lending institution participates as a floating rate payer, with a floating interest rate, which is calculated based on the weighted average of 70% of USD-LIBOR-BBA and was 0.132% at June 30, 2011. The change in fair value of Swap 2 was a gain of approximately \$253,000 for fiscal year 2011. The fair value of the interest rate swap agreement approximated \$1,560,000 in favor of the lending institution as of June 30, 2011.

Effective September 1, 2005, the foundation entered into two separate interest rate swap agreements (Swap 3) with a lending institution.

These agreements were based on the principal balances (notional amounts of \$17,065,000) for the Series 2005 bond issue and were effective September 1, 2006. The foundation participates as a fixed rate payer, with a fixed rate of 3.213% ending June 1, 2025. The lending institution participates as a floating rate payer, with a floating interest rate, which is calculated based on the weighted average of 70% of USD-LIBOR-BBA and was 0.132% at June 30, 2011. The change in fair value of Swap 3 was a gain of approximately \$211,000 for fiscal year 2011. The fair value of the interest rate swap agreements approximated \$875,000 in favor of the lending institution as of June 30, 2011.

Effective March 12, 2007, the foundation entered into two separate interest rate swap agreements (Swap 4) with a lending institution. These agreements were based on the principal balances (notional amounts of \$24,480,000) of the Series 2007 bond issue. The foundation participates as a fixed rate payer, with a fixed rate of 3.737% and 3.467% ending June 1, 2027 and June 1, 2012, respectively. The lending institution participates as a floating rate payer, with a floating interest rate, which is calculated based on the weighted average of USD-BMA Municipal Swap Index and was 0.128% at June 30, 2011. The change in fair value of Swap 4 was a gain of approximately \$227,000 for fiscal year 2011. The fair value of the interest rate swap agreements approximated \$1,712,000 in favor of the lending institution as of June 30, 2011.

Effective April 1, 2009, the foundation entered into three separate interest rate swap agreements (Swap 5) with two lending institutions. These agreements were based on principal balances (notional

amounts of \$103,380,000) for Series 2009A and Series 2009B bond issue. For two of the agreements, the foundation participates as a fixed rate payer, with a fixed rate of 1.165% and 1.486% ending June 11, 2011. For the third agreement, the foundation participates as a floating rate payer, with a floating interest rate, which is calculated on the weighted average of USD-SIFMA Municipal Swap Index, with a rate of 0.128% as of June 30, 2011, ending June 1, 2027. The lending institutions participate as a floating rate payer, with a floating interest rate, which is calculated based on the weighted average of 90.10% of USD-LIBOR-BBA and was 0.223% at June 30, 2011. The change in fair value of Swap 5 was a gain of approximately \$885,000 for fiscal year 2011. The fair value of the interest rate swap agreements approximated \$353,000 in favor of the lending institution as of June 30, 2011.

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

	Fair Value	Change in Fair Value
Swap 2	\$ 1,560	\$ (253)
Swap 3	875	(211)
Swap 4	1,712	(227)
Swap 5	(353)	(885)
Total	<u>\$ 3,794</u>	<u>\$ (1,576)</u>

Total interest expense incurred in the aggregate related to notes payable and bonds payable in 2011 totaled \$4,913,000.

### Agency Deposits Held in Trust – Virginia Tech Foundation Inc.

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

A summary of agency deposits held in trust for the year ending June 30, 2011 is presented as follows (*all dollars in thousands*):

University—Pratt Estate	\$ 40,443
University—Other	13,061
Virginia Tech Alumni Association Inc.	3,915
Virginia Tech Services Inc.	3,514
Other	4,434
Total agency deposits held in trust	<u>\$ 65,367</u>

## 25. Joint Ventures

The Hotel Roanoke Conference Center Commission was created by a joint resolution of the university and the City of Roanoke. The purpose of the commission is to establish and operate a publicly owned conference center in Roanoke adjacent to the renovated Hotel Roanoke. The powers of the commission are vested in commissioners. Each participating governing body appoints three commissioners for a total of six commissioners. The commission has the authority to issue debt, and such debt is the responsibility of the commission. The intention of the commission is to be self-supporting through its user fees. The university and the City of Roanoke equally share in any operating deficit or additional funding needed for capital expenditures. The university made contributions of \$80,000 using private funds to the commission for the fiscal year ended June 30, 2011.

The Virginia Tech Carilion School of Medicine was established as a 501(c)(3) nonprofit organization. This joint venture receives oversight from a board of directors. Virginia Tech and Carilion Health System each appoint a specific number of board members. These board members elect the remaining members of the board of directors. The commonwealth provided the capital funds for the building's construction on land owned by Carilion Health System under a public-private partnership. Construction of the \$59 million, 154,000 square foot facility was completed in December 2010. This facility provides space for the Virginia Tech Carilion School of Medicine and the new Virginia Tech Carilion Research Institute, a part of Virginia Tech. Approximately two-thirds of the building will be occupied by the university's research institute with the remaining space allocated to the School of Medicine.

## 26. Jointly Governed Organizations

### **Blacksburg-Christiansburg & VPI Water Authority**

Created by a concurrent resolution of the university and the towns of Blacksburg and Christiansburg, the authority operates and maintains the water supply system for the university and the other participating governing bodies. A five-member board governs the authority with one member appointed by each governing body and two at-large members appointed by the joint resolution of each of the governing bodies. The authority's indebtedness is not an obligation of the university and is payable solely from the revenues of the authority. The university paid \$715,000 to the authority for the purchase of water for the fiscal year ended June 30, 2011.

### **Blacksburg-VPI Sanitation Authority**

Created by a concurrent resolution of the university and the town of Blacksburg, the authority operates and maintains the wastewater treatment system for the participating governing bodies. Each participating governing body appoints one member of the five-member board of directors. Three at-large members are appointed by the joint resolution of each of the governing bodies. The authority's indebtedness is not an obligation of the university and is payable solely from the revenues of the authority. The university paid \$600,000 to the authority for the purchase of sewer services for the fiscal year ended June 30, 2011.

### **Montgomery Regional Solid Waste Authority**

Created by a joint resolution of the university, the towns of Blacksburg and Christiansburg, and the county of Montgomery, the authority represents its members in solid waste and recycling issues as well as operating a recycling facility. The authority is governed by its board with each participating governing body appointing one board member, and all governing bodies jointly appointing the fifth at-large member. Each governing body provides collection of solid waste and recyclables from within its jurisdiction and delivers the collected materials to the authority for disposal of the waste, and the processing and marketing of the recyclables. All indebtedness is the obligation of the authority and payable from its revenues. The university paid \$202,000 to the authority for tipping fees for the fiscal year ended June 30, 2011.

### **Virginia Tech/Montgomery Regional Airport Authority**

Created by a joint resolution of the university, the towns of Blacksburg and Christiansburg, and the county of Montgomery, this authority serves to develop a regional airport based on the mission of servicing corporate executive markets and other general aviation markets; obtaining grants, loans, and other funding for airport improvements and other activities; and promoting and assisting in regional economic development. The authority is governed by its board, which consists of five members. Each participating governing body appoints one member of the board, and jointly all governing bodies appoint the fifth member. All indebtedness is the obligation of the authority and payable from its revenues. The university's funding commitment for fiscal year 2011 was \$50,000, all of which Virginia Tech paid to the authority.

## 27. Pending Litigation

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

## 28. Subsequent Events

On July 1, 2011 the Virginia Tech Carilion School of Medicine (VTCsOM), initially formed as a joint venture between Virginia Tech and the Carilion Health System, became an independent entity. The Memorandum of Understanding between Virginia Tech, Carilion and the VTCsOM restructured VTCsOM's Board of Directors so that its operations would not be controlled by Virginia Tech or Carilion or the two jointly. The ten-member governing board is comprised of two members appointed by Virginia Tech, two members appointed by Carilion and six independent members appointed by the VTCsOM's board of directors. None of the independent board members shall be employed by or affiliated with Virginia Tech or Carilion.

As referenced in Note 15, Lease Commitments, the university has renegotiated the land lease related to the Virginia Tech Carilion School of Medicine and Research Institute. Effective September 30, 2011 the annual lease amount has reduced from \$500,000 per annum to \$1 per annum.

On October 13, 2011, the Virginia Department of the Treasury, on behalf of the university, issued Series 2011A 9(c) bonds at par totaling \$18,860,000. Proceeds from the bonds will fund the continuing Ambler Johnston Hall renovation project. These bonds are an obligation of the university and are secured by the net revenues of the completed project and the full faith, credit, and taxing power of the Commonwealth of Virginia.

The Virginia College Building Authority (VCBA) issued Series 2011A 9(d) bonds on October 18, 2011 through the Pooled Bond Program and uses the proceeds from the bond issue to purchase university debt obligations (notes). University notes funded by VCBA will be used to provide financing for the construction of three capital projects: Signature Engineering building (\$26,105,000), Center for the Arts (\$19,375,000), and new Chiller plant (\$7,515,000).

The university has secured short-term financing for capital projects through the Virginia Municipal League/Virginia Association of Counties (VML/VACo) commercial paper program. The university makes monthly draws from this program to meet capital project funding requirements. As of October 31, 2011, the university has a total balance of commercial paper outstanding of \$3,870,000.

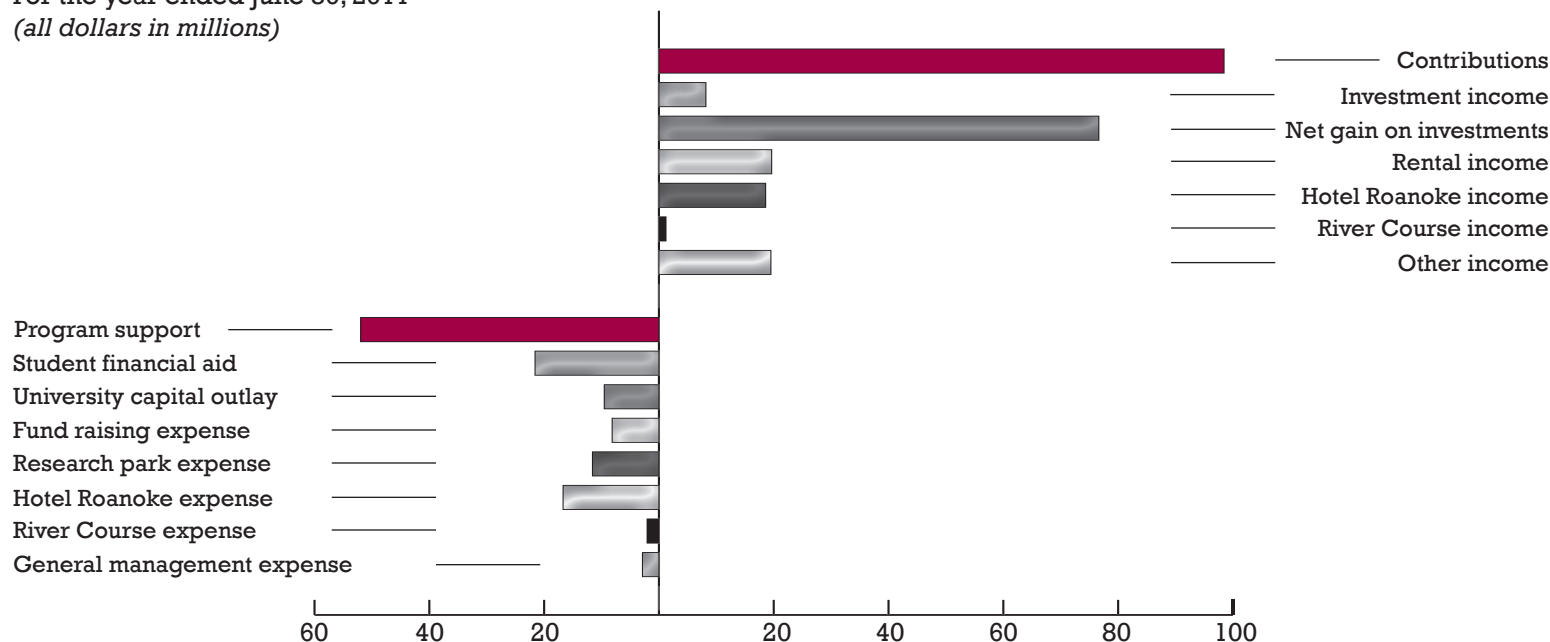
## Virginia Tech Foundation Inc.

The purpose of Virginia Tech Foundation Inc. is to receive, invest, and manage private funds given for the support of programs at Virginia Tech and to foster and promote the growth, progress, and general welfare of the university. During the current fiscal year, the foundation recognized \$98.5 million in contributions for support of the university. Investment income of \$8.2 million, along with net gains on investments of \$76.6 million, resulted in an \$84.8 million net gain on investment activity. Property rental, hotel operating, and golf course income totaled \$39.5 million. Other income accounted for \$19.5 million. Total income of \$242.2 million was offset by \$124.4 million in expenses that supported the university and its programs. Direct support to various university programs aggregated \$83.1 million, which included \$21.6 million in scholarship support to students and faculty and \$9.5 million towards university capital projects. Additional expenses such as fund-raising, management and general, research center, hotel operating, golf course, and other costs totaled \$41.4 million. Total net assets increased by \$122.5 million over the previous year. The graphs below are categorized as presented in the audited financial statements for the foundation which follows the Financial Accounting Standards Board (FASB) presentation requirements:

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

For the year ended June 30, 2011

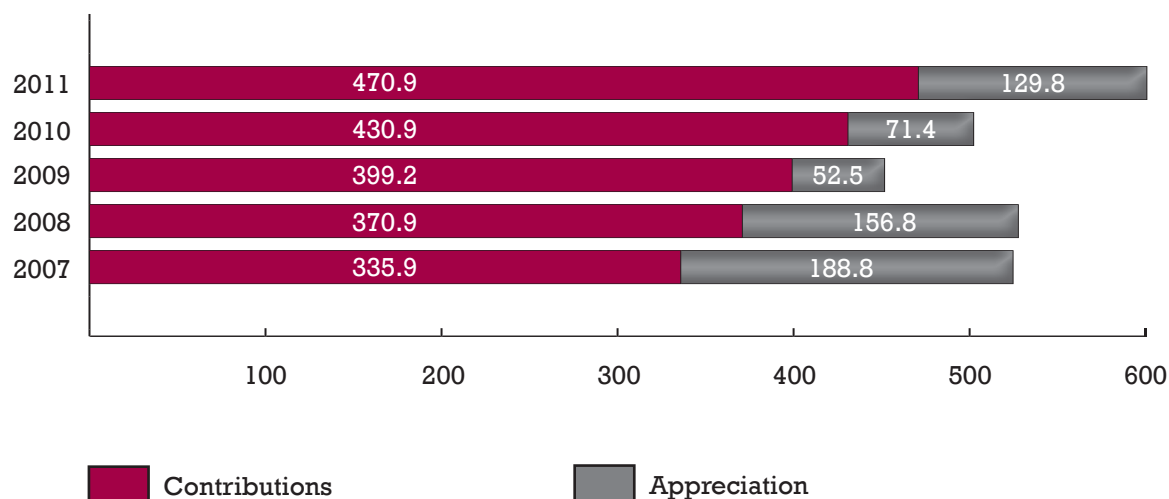
(all dollars in millions)



### Virginia Tech Foundation Inc. Endowment Market Value\*

Fiscal years 2011 – 2007

(all dollars in millions)



\*Market value of Endowment Funds includes agency deposits held in trust of \$65.4 million.

(Source: Virginia Tech Investment Managers, unaudited)

## Affiliated Corporations Financial Highlights

For the years ended June 30, 2011 – 2007  
(all dollars in thousands)

	2011	2010	2009	2008	2007
<b>Assets</b>					
Virginia Tech Foundation Inc.	\$ 1,155,100	\$ 1,023,604	\$ 942,103	\$ 925,994	\$ 940,879
Virginia Tech Services Inc.	11,815	12,549	12,607	13,021	11,713
Virginia Tech Intellectual Properties Inc.	1,053	2,283	1,012	1,035	726
Total Assets	<u>\$ 1,167,968</u>	<u>\$ 1,038,436</u>	<u>\$ 955,722</u>	<u>\$ 940,050</u>	<u>\$ 953,318</u>
<b>Revenues</b>					
Virginia Tech Foundation Inc.	\$ 242,235	\$ 183,748	\$ 54,884	\$ 145,715	\$ 201,521
Virginia Tech Services Inc.	27,523	26,427	27,800	29,917	24,918
Virginia Tech Intellectual Properties Inc.	2,058	2,522	1,873	1,183	1,193
Total Revenues	<u>\$ 271,816</u>	<u>\$ 212,697</u>	<u>\$ 84,557</u>	<u>\$ 176,815</u>	<u>\$ 227,632</u>
<b>Expenses</b>					
Virginia Tech Foundation Inc.	\$ 118,979	\$ 124,365	\$ 136,313	\$ 130,894	\$ 103,393
Virginia Tech Services Inc.	27,513	26,384	27,865	29,607	23,312
Virginia Tech Intellectual Properties Inc.	2,276	1,911	1,841	1,558	1,708
Total Expenses	<u>\$ 148,768</u>	<u>\$ 152,660</u>	<u>\$ 166,019</u>	<u>\$ 162,059</u>	<u>\$ 128,413</u>

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

During fiscal year 2011, the university established an affiliation agreement with the Virginia Tech Applied Research Corporation (VT-ARC), a non-stock, non-profit corporation. The organization's financial transactions for this period were processed through the Virginia Tech Foundation and with board approval an audit was not conducted this year.

## Consolidating Schedule Of Net Assets

As of June 30, 2011  
(all dollars in thousands)

	Current Funds		Loan	Endowment and	Plant	Agency	Total
	Unrestricted	Restricted	Funds	Similar Funds	Funds	Funds	
<b>Assets</b>							
<b>Current assets</b>							
Cash and cash equivalents	\$ 249,263	\$ 13,666	\$ 2,443	\$ -	\$ -	\$ 6,995	\$ 272,367
Short-term investments	2,228	-	-	-	-	-	2,228
Accounts receivable, net	8,715	48,658	1	-	-	40	57,414
Notes receivable	-	-	1,817	-	-	-	1,817
Due from Commonwealth of Virginia	9,449	-	-	-	-	-	9,449
Inventories	12,998	-	-	-	-	-	12,998
Prepaid expenses	15,766	482	-	-	-	-	16,248
Due to (from) other funds	9,071	7,775	(71)	(7)	(16,765)	(3)	-
Total current assets	307,490	70,581	4,190	(7)	(16,765)	7,032	372,521
<b>Noncurrent assets</b>							
Cash and cash equivalents	-	-	-	(2)	116,308	-	116,306
Due from Commonwealth of Virginia	-	-	-	-	3,279	-	3,279
Accounts receivable, net	-	-	-	-	4,938	-	4,938
Notes receivable	-	250	12,975	-	-	-	13,225
Long-term investments	67,828	-	-	46,138	20,757	-	134,723
Depreciable capital assets, net	-	-	-	-	1,004,639	-	1,004,639
Nondepreciable capital assets	-	-	-	-	191,984	-	191,984
Other assets	2,686	-	-	-	-	-	2,686
Total noncurrent assets	70,514	250	12,975	46,136	1,341,905	-	1,471,780
Total assets	378,004	70,831	17,165	46,129	1,325,140	7,032	1,844,301
<b>Liabilities</b>							
<b>Current liabilities</b>							
Accounts payable and accrued expenditures	79,427	20,869	-	-	24,542	711	125,549
Accrued compensated absences	16,638	3,242	-	-	-	-	19,880
Deferred revenue	20,450	17,770	-	-	-	-	38,220
Funds held in custody for others	2	-	-	-	-	6,321	6,323
Commercial paper	-	-	-	-	870	-	870
Long-term debt payable	-	-	-	-	21,173	-	21,173
Total current liabilities	116,517	41,881	-	-	46,585	7,032	212,015
<b>Noncurrent liabilities</b>							
Accrued compensated absences	13,795	2,688	-	-	-	-	16,483
Federal student loan program contributions	-	-	13,426	-	-	-	13,426
Long-term debt payable	-	-	-	-	423,100	-	423,100
Other liabilities	2,376	-	-	-	-	-	2,376
Total noncurrent liabilities	16,171	2,688	13,426	-	423,100	-	455,385
Total liabilities	132,688	44,569	13,426	-	469,685	7,032	667,400
<b>Net Assets</b>							
Invested in capital assets, net	-	-	-	-	794,583	-	794,583
Restricted, nonexpendable	-	-	-	364	-	-	364
Restricted, expendable							
Scholarships, research & instruction	-	26,262	3,739	45,765	-	-	75,766
Capital projects	-	-	-	-	12,837	-	12,837
Debt service	-	-	-	-	48,035	-	48,035
Unrestricted	245,316	-	-	-	-	-	245,316
Total net assets	\$ 245,316	\$ 26,262	\$ 3,739	\$ 46,129	\$ 855,455	\$ -	\$ 1,176,901

# Consolidating Schedule of Revenues, Expenses, and Changes in Net Assets

For the year ended, June 30, 2011  
(all dollars in thousands)

	Current Funds		Loan	Endowment and	Plant	
	Unrestricted	Restricted	Funds	Similar Funds	Funds	Total
<b>Operating revenues</b>						
Student tuition and fees	\$ 309,002	\$ 2,369	\$ -	\$ -	\$ -	\$ 311,371
Federal appropriations	-	11,087	-	-	-	11,087
Federal grants and contracts	40,867	150,005	-	-	476	191,348
Federal ARRA grants and contracts	-	9,491	-	-	-	9,491
State grants and contracts	846	11,929	-	-	-	12,775
Local grants and contracts	239	13,001	-	-	-	13,240
Nongovernmental grants and contracts	5,145	20,273	-	-	-	25,418
Sales and services, educational departments	13,780	44	-	-	-	13,824
Auxiliary enterprise revenue	187,164	-	-	-	-	187,164
Other operating revenues	3,197	1,769	59	-	-	5,025
Total operating revenues	560,240	219,968	59	-	476	780,743
<b>Operating expenses</b>						
Instruction	229,240	20,888	-	-	-	250,128
Research	85,407	186,143	-	-	-	271,550
Public service	40,380	39,578	-	-	-	79,958
Academic support	59,423	1,771	-	-	-	61,194
Student services	12,710	1,025	-	-	-	13,735
Institutional support	47,232	4,076	-	-	-	51,308
Operation and maintenance of plant	49,737	61	-	-	5,073	54,871
Student financial assistance	101	14,217	-	-	-	14,318
Auxiliary enterprises	161,955	-	-	-	-	161,955
Depreciation and amortization	-	-	-	-	66,446	66,446
Other operating expenses	-	-	76	-	-	76
Total operating expenses	686,185	267,759	76	-	71,519	1,025,539
<b>Operating loss</b>	(125,945)	(47,791)	(17)	-	(71,043)	(244,796)
<b>Non-operating revenues (expenses)</b>						
State appropriations	216,802	21,777	-	-	-	238,579
Gifts	12,301	36,443	319	-	-	49,063
Non-operating grants and contracts	-	2,097	-	-	-	2,097
Federal student financial aid (PELL)	-	17,237	-	-	-	17,237
Federal fiscal stabilization (ARRA)	-	22,455	-	-	-	22,455
Investment income, net	2,138	(672)	-	7,037	473	8,976
Other additions and deductions	-	-	-	-	331	331
Nongeneral fund reversion	(1,184)	(5)	-	-	-	(1,189)
Interest expense on debt for capital assets	-	-	-	-	(13,380)	(13,380)
Net non-operating revenues	230,057	99,332	319	7,037	(12,576)	324,169
<b>Income (loss) before other revenues, expenses, gains, or losses</b>	104,112	51,541	302	7,037	(83,619)	79,373
Capital grants and gifts	(220)	3,397	-	-	47,314	50,491
Loss on disposal of capital assets	-	-	-	-	(1,622)	(1,622)
Total other revenues, expenses, gains, losses	(220)	3,397	-	-	45,692	48,869
<b>Change in net assets before transfers</b>	103,892	54,938	302	7,037	(37,927)	128,242
Mandatory transfers	(42,240)	-	-	-	42,240	-
Nonmandatory transfers	(18,421)	4,197	-	42	14,182	-
Equipment and library book transfers	(24,948)	(8,000)	-	-	32,948	-
Scholarship allowance transfer	48,562	(48,562)	-	-	-	-
Total transfers	(37,047)	(52,365)	-	42	89,370	-
<b>Increase in net assets after transfers</b>	66,845	2,573	302	7,079	51,443	128,242
Net assets – beginning of year	178,471	23,689	3,437	39,050	804,012	1,048,659
Net assets – end of year	\$ 245,316	\$ 26,262	\$ 3,739	\$ 46,129	\$ 855,455	\$ 1,176,901

## ***Business and Financial Leadership***

### **Vice President for Finance and Chief Financial Officer**

M. Dwight Shelton Jr.

### **University Treasurer**

Raymond D. Smoot Jr.

### **Vice President for Administrative Services**

Sherwood G. Wilson

### **Associate Vice President for Facilities**

Michael J. Coleman

### **University Controller**

Kenneth E. Miller

### **Director of Internal Audit**

Sharon M. Kurek

### **Associate Treasurer**

John J. Cusimano