VIRGINIA STATE UNIVERSITY

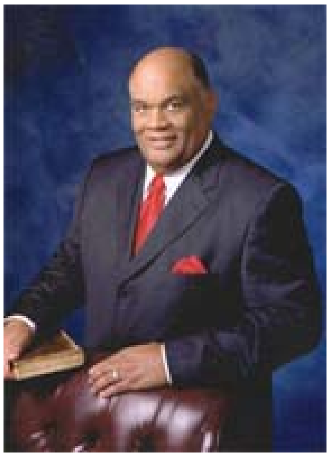
FINANCIAL STATEMENTS

For Year Ended June 30, 2009

Table of Contents

THIS PAGE LEFT INTENTIONAL BLANK

LETTER FROM THE PRESIDENT



It has been my honor to serve the Commonwealth of Virginia over the past 17 years in the capacity of the 12th President of Virginia State University. It has been a productive time for our beloved VSU. As I reminisce about where we were in 1993 and where we are today, I cannot help but have pride and gratitude for all that we have accomplished together. When I took office in 1993, Virginia State University's operating budget totaled $48 million. Today that figure has nearly tripled to close to $130 million. We have secured these funds in part through extensive capital campaigns. We have worked hard to provide a solid base of funding for VSU. I have shared before that when I began at VSU, I identified three goals: Financial Stability, Academic Excellence, and Technology Superiority. I am very pleased at how far we have come in those areas. Below are some of the milestones that together we have accomplished:

Financial Stability

- Capital Campaigns raised $11.6 million between 1994 and 2000 and surpassed the $20 million goal between 2006 and 2009.
- Endowment grew from $2.5 million in 1993 to over $20 million in 2009.
- The annual endowment match from the U.S. Department of Education totaled over $5,743,370, beginning with the innovative use of Title III matching funds in 1999.
- Since 1992, VSU increased Title III funds from $1.2 million to $3.1 million annually.
- The President's Club, created in 1995, grew to more than 170 members.
- New initiatives created and fostered a working partnership with Fort Lee.
- VSU added nearly $118 million and 2,080 jobs to the economy.
- VSU generates more than $6.2 million in state and local taxes.

Academic Excellence

- Since 1993, VSU has created more than a dozen new scholarship programs.
- Scholarship funding grew from $93,000 in 1993 to more than $2.3 million in 2009.
- In 1994, VSU established the Faculty Awards to recognize outstanding faculty members.
- In 1994, The Presidential and Provost Scholars Program was established and has provided financial assistance to more than 850 students.
- In 2002, VSU added undergraduate degree programs in computer science, manufacturing engineering, computer engineering, criminal justice, and mass communication.
- VSU added a doctoral degree program in educational administration and supervision in 2003 and health psychology in 2008.
- In 2003, VSU formed the University Council to facilitate governance.
- In 2003, the 20/20 long-range strategic plan was developed.
- In 2004, VSU earned reaffirmation for its music program from the National Association of Schools of Music.
- In 2005, VSU added master's degree programs in criminal justice, plant science, sport management, computer science, and media management (fall 2010).
- In 2005, the American Association of State Colleges and Universities recognized VSU as one of 12 universities nationwide to report higher-than-predicted graduation rates or rate improvement.
- In 2006, The LIFTS Scholarship Program (for Low Income Families with Talented Students) was created to meet 75% of a qualifying student's education costs; it became the first of its kind at any Historically Black College and University nationwide.
- In 2006-2007, VSU ranked 25th nationwide for bachelor's degrees awarded to African American students.
- In 2007-2008, VSU achieved third tier ranking in the southern region of best universities in the master's category as published in *U.S. News & World Report.*
- In 2008, VSU earned reaccreditation from the Southern Association of Colleges and Schools.
- In 2008, VSU earned reaffirmation of the Accreditation from the National Association of Schools of Art and Design.
- In 2008, VSU earned accreditation from the Association to Advance Collegiate Schools of Business.
- In 2008, the teacher education program was re-accredited by the National Council for Accreditation of Teacher Education.
- In 2008-2009, in its national rankings of Historically Black Colleges and Universities, *U.S. News & World Report* named VSU the top public master's program, the 5th best overall, and the 15th best (public or private).

- In 2009, a National Science Foundation survey ranked VSU research in the top 10% of universities nationwide.
- In 2009, VSU earned accreditation from the Accreditation Board for Engineering and Technology (retroactive to 2006).
- In 2009, VSU received certification from the Virginia Board of Nursing.
- In 2009, enrollment grew to 5,400, up from 3,400 in 1993.
- In 2009, the average SAT score of incoming freshmen improved to 890, up from 677 in 1993.
- In 2009, the VSU Army ROTC Program, with more than 210 commissioned lieutenants, was voted by the U.S. Army as the number one program at an HBCU (Historically Black Colleges and Universities).

Construction and Technology

- In 2007, VSU created a campus master plan to guide it in the development of its buildings and grounds through 2020.
- Since 1993, nearly $50 million worth of renovations and expansions have given new life to existing buildings.
- Major new construction resulted in the Gateway Village Complex; the University Apartments at Ettrick; the Science, Engineering and Technology Building; the L. Douglas Wilder Building; and the Facilities Building.
- Renovation improved the baseball and softball fields, track, tennis courts, basketball courts, football stadium, the president's box, the press box, locker rooms, and weight rooms.
- VSU secured funding for Gateway II, Quad Phase II, and general land acquisition for future expansion of the campus.
- In 2006, VSU implemented the SCT Banner Enterprise Resource System to provide secure, self-service access to reliable historical data.
- VSU integrated Sungard SCT Banner Finance with the eVA procurement system.
- VSU created 20 new multimedia and "smart classrooms."
- In 2001, VSU instituted computer labs in every residence hall.
- VSU added automated switchboard and electronic message boards.
- VSU built an electronic scoreboard at Rogers Stadium.
- The VSU 1Card became the official card for identification, security, on and off-campus purchases, access to dorms and athletic events.
- Alumni were connected through the Alumni Relations Online Community.
- VSU integrated the emergency notification and text alert systems.

Our ***20/20 Vision Plan*** is coming into focus. We have accomplished much, but there is still much to be done. On the horizon, we will continue to advance the University with new academic programs, maintain affordable tuition and fees, continue growth in enrollment, and build new buildings and facilities to accommodate the growth. Virginia State University remains a school filled with history and tradition. We will remain true to our mission: to provide opportunities to a diverse population of underserved students and to be the best educational value in Virginia. I am very excited about the future of Virginia State University.

Sincerely,

Eddie N. Moore, Jr.

Eddie N. Moore, Jr.
President

MESSAGE FROM THE VICE PRESIDENT FOR ADMINISTRATION AND FINANCE

Virginia State University is facing a period of unprecedented change as we move closer to the end of the first decade of this 21st century. Beginning in fiscal year 2008, Virginia State University began to see a steady erosion in funding appropriations from the Commonwealth. As of fiscal year end 2007, Virginia State's general fund support from the Commonwealth was \$31.7 million. Factoring out increases specifically designated to general personnel salary adjustments or restricted program funding, by fiscal year 2012 VSU will see its state support decreased by \$8.4 million, to \$27.5 million. While the Commonwealth's steady decline in financial support continues to have a dampening effect on our ability to provide a sustained and comprehensive educational environment for our students, we are optimistic about our ability to weather these challenges that lie ahead and excited about the strategic decisions the university has put in place to minimize the impact of these dire financial times.

In 2008, we anticipated that the next three years would be extremely difficult for all agencies of the Commonwealth, and particularly for institutions of higher education like Virginia State University who receive 48% of their E&G revenue from the Commonwealth. The operational impact of these cumulative budget reductions have been marginally mitigated through rigorous evaluations of all university programs, assessing the necessity of each vacant position, collaborating with our many vendors to hone in on ways to reduce costs, and ensuring there is a strong commitment to effective internal controls through programs such as the Agency Risk Management and Internal Controls Systems (ARMICS).

Key to our success in weathering this economic storm will be to ensure that we remain vigilant and focused on maintaining our academic excellence, growing those programs and sectors of the university that position us to take advantage of economic opportunities within the geographic region, and continuing to build on our sound financial strength and prudent allocation of resources. On June 30th of 2010, Virginia State University will bid farewell to our beloved President Eddie N. Moore, Jr. President Moore will retire from the university that sits high up on the Appomattox after serving this institution faithfully for seventeen years. The entire Trojan family is grateful for his leadership, vision and steadfast loyalty to this university, and wishes him, First Lady Elisia Moore and the entire Moore family all the best in this new chapter of their life. To that end, the Board of Visitors began a nationwide search for a successor to President Moore, which culminated on November 30, 2009 with the announcement that Dr. Keith T. Miller, President of Lock Haven University in the Pennsylvania State System of Higher Education would become the 13th President of Virginia State University on July 1, 2010.

At the same time we are experiencing the impact of a national economic downturn and reductions in state funding in the form of lower appropriations, there is positive news to highlight. During the past year, a number of key contracts, critical to the ongoing success of our Vision 20/20 Plan, have been reengineered to generate much improved performance and cost savings in the years to come. Notably, a new Facilities Management and Information Technology RFP were begun, with an emphasis on better utility cost containment, more robust preventive maintenance reporting, in-sourcing of critical IT functions, and standardizing such areas as help desk, server support and security. On the academic side, financial success will continue to come from our ongoing evaluation of each and every program, offering and service provided to our students, and determining if their progress meets the high level of standards and performance. Through ongoing enrollment management focus, our enrollment growth continues to funnel outstanding scholars to our campus and allow us to make investments in infrastructure, academic research and regional economic development opportunities.

This year we took a significant step in our ongoing commitment to research through the Commonwealth's allocation of \$1.0 million for the Rolls Royce Logistics and Manufacturing Engineering program. Our proximity to the proposed Rolls-Royce facility in Prince George County along with our ABET accredited manufacturing engineering program will create an opportunity to contribute to the technological workforce needs, particularly among groups traditionally underrepresented in the science, engineering and technology workforce and will ultimately have a positive impact on the number of graduates in high need degrees offered by Virginia State University.

MESSAGE FROM THE VICE PRESIDENT FOR ADMINISTRATION AND FINANCE

At the April 2009 Board of Visitors meeting, we approved a modest $271.00 tuition and fee increase for in-state undergraduate students and a $490.00 increase for out of state students. This action reflects our long standing tradition and mission of offering an outstanding higher education experience at an affordable price. We remain cognizant of the worsening financial situation that our students and their parents continue to face, and we will always look to make adjustments to this revenue source in moderation in the coming years.

While the Commonwealth's budget picture is still uncertain, and the economic picture is still unclear, Virginia State University continues to be prepared to address every unknown contingency through leadership, fiscal prudence and academic excellence. Go Trojans!

Very truly yours,

David J. Meadows

David J. Meadows
Vice President for Administration and Finance

Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

June 23, 2010

The Honorable Robert F. McDonnell
Governor of Virginia

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

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

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and discretely presented component units of the University as of June 30 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 8 through 22 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United

States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated June 23, 2010, on our consideration of Virginia State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

AUDITOR OF PUBLIC ACCOUNTS

SAH/clj

MANAGEMENT'S RESPONSIBILITY FOR REPORTING AND INTERNAL CONTROLS

The information in this Annual Financial Report, including the accompanying basic financial statements, notes, management's discussion and analysis, and other information is the responsibility of Virginia State University executive management. Responsibility for the accuracy of the financial information and fairness of its presentation, including all disclosures, rests with the management of the University. Management believes the information is accurate in all material respects and fairly presents the University's revenues, expenses, and changes in net assets as well as its overall financial position. This report was prepared in accordance with generally accepted accounting principles for public colleges and universities in the United States of America as prescribed by the Governmental Accounting Standards Board. Management is responsible for the objectivity and integrity of all representations herein. The Annual Financial Report includes all disclosures necessary for the reader of this report to gain a broad understanding of the university's operations for the year ended June 30, 2009.

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

The Finance, Audit and Facilities Committee of the Virginia State University Board of Visitors reviews the University's accounting practices. The Board meets with external independent auditors annually to review the Annual Financial Report and results of audit examinations. The committee also meets with internal auditors and University financial officers quarterly. These meetings include a review of the scope, quality, and results of the internal audit program.

The Auditor of Public Accounts (APA), the office of the Commonwealth of Virginia's auditors, has examined these annual financial statements and their report thereon appears on the facing page. Their examination includes a study and evaluation of the University's system of internal controls, financial systems, policies, and procedures, resulting in the issuance of a management letter describing various issues they consider worthy of management's attention. The University has implemented policies and procedures for the adequate and timely resolution of such issues. No material weaknesses were found on internal control matters by the APA for the fiscal year ended June 30, 2009.

MANAGEMENT DISCUSSION AND ANALYSIS
(UNAUDITED)

INTRODUCTION

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

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

HIGHLIGHTS FOR FISCAL YEAR 2008-2009

1. *U.S. News & World Report* (USN&WR), in its 2009 ranking of 81 Historically Black Colleges and Universities (HBCUs), named Virginia State University (VSU) the second-best, public HBCU in the country among master's-level institutions; fourth best public HBCU overall; and 14th best HBCU, public or private, in America. In the three years in which *USN&WR* has ranked HBCU's, VSU has ranked first twice and second once.

2. Virginia State University received an unqualified audit from the Commonwealth of Virginia's Auditor of Public Accounts for the fiscal year ended June 30, 2009. This marks the 16th consecutive unqualified audit for VSU, corresponding with the first audit completed in President Eddie N. Moore, Jr.'s tenure with the University.

3. The State Council of Higher Education for Virginia (SCHEV) approved VSU's request to launch the Commonwealth of Virginia's first Ph.D. program in Health Psychology. The program began in Fall 2008 and is led by Dr. Oliver W. Hill, Jr., chair of VSU's Psychology Department. The venture marks the first-ever Ph.D. program at VSU, although the University has offered the Ed.D. in Educational Administration and Supervision since 2002.

4. Dominion Resources, Inc. named VSU President Eddie N. Moore, Jr. as a 2009 honoree in the company's Strong Men & Women: Excellence in Leadership series. President Moore joins eight other notable African-American leaders as this year's honorees. Strong Men & Women is a unique program by Dominion to provide youth with positive role models, African-American men and women whose accomplishments and determination demonstrate true excellence in leadership.

5. Virginia State University was awarded the $3 million U.S. Department of Education's Historically Black College or University (HBCU) Master's Degree Program Award. The total will be paid in $500,000 increments over a six-year period and will fund the VSU School of Engineering, Science and Technology's Biology, Computer Science and Mathematics Master's programs. The goal of VSU's HBCU Master's Degree Program is to strengthen each graduate program and enhance the educational opportunities of graduate students, particularly African-American and low income students.

6. Virginia State University was awarded a $1 million National Science Foundation (NSF) grant to study the effectiveness of interventions on the mathematics performance of minority middle and high school students. The goal is to increase participation of minorities within the science, technology, engineering and mathematics (STEM) fields. The three-year initiative, to be led by Dr. Oliver Hill, chair of the Department of Psychology, will promote partnerships between VSU and local school districts, while developing pedagogical modules to develop students' capabilities to perform successfully in the targeted STEM areas.

7. The U.S. Agency for International Development (USAID) and Higher Education for Development (HED) selected a partnership application including VSU as a winner of the Africa-U.S. Higher Education Initiative Planning Grant Competition. Nearly 300 applications were submitted for capacity-building partnerships between U.S. colleges and universities and higher education institutions in Sub-Saharan African nations. Virginia State University will be included in a partnership with Virginia Tech, the Catholic University of Sudan and the University of Juba in Sudan. The partnership will develop a plan that enhances Sudan's agricultural sector and will be funded by a planning grant from USAID of $50,000.

8. The Thurgood Marshall College Fund (TMCF) presented Virginia State University's Trojan Battalion Reserved Officers' Training Corps (ROTC) program the Thurgood Marshall Outstanding ROTC Program Award. This honor is presented to ROTC programs that embody the commitment to service and leadership inspired by the late Supreme Court Justice Thurgood Marshall.

9. Virginia State University launched a pilot run for an online Logistics Certificate program. Designed to train the regional workforce for careers in transportation, distribution, and logistics, the program has been awarded a $63,860 grant from Opportunity, Inc. to train 15 participants through a basic foundation in logistics. The program consists of a total of six three-credit hour courses, such as Introduction to Logistics, Technology and Society, and Materials Handling and Inventory Control.

10. Virginia State University was selected by the International Research and Exchanges Board (IREX) to host a Muskie Fellow beginning fall semester 2009. The Fellowship is a program of the Bureau of Educational and Cultural Affairs of the U.S. Department of State (ECA) and administered through IREX. The program aims to promote mutual understanding, build democracy and foster the transition to market economies in Eurasia through intensive academic study and professional training for Muskie Fellows from 12 countries of the former Soviet Union.

11. Mr. and Mrs. William H. Goodwin, Jr. of Richmond, VA pledged $200,000 to VSU to establish a scholarship in honor of Mr. Millard D. "Pete" Stith, Jr. Mr. Stith, Deputy County Administrator of Chesterfield County, VA, is a long-time supporter of VSU. He served on the University's Board of Visitors from 1994-1998 and as Rector of the Board from 1996-1997. He led VSU's first capital campaign, which ended in 2001 after having exceeded its $10 million goal by more than $1.5 million.

12. The Virginia State University's men's and women's basketball teams were honored by the Central Intercollegiate Athletic Association (CIAA) for having the highest cumulative grade point average (GPA) in the conference for the 2008-09 season.

13. For the second consecutive year, the men's athletic program at VSU was awarded the C.H. Williams Trophy, awarded annually to the best men's program in the CIAA. This marked the sixth time the Trojans have won the award since it was created in 1978.

14. The VSU baseball team won its third CIAA title in 2009, while the men's cross-country program won the CIAA title. The men's tennis team was second in the CIAA Tournament and the VSU golf team finished second in the CIAA Championship. Both teams went on to the National Collegiate Athletics Association (NCAA) Tournament. Virginia State University also sent two men to the NCAA Outdoor Track and Field Championships.

15. Mr. Ernest Moss was named the CIAA cross-country coach of the year while Dr. Linda Person was named the CIAA Women's Tennis Coach of the Year. Mr. James Hill was named the Women's Basketball Coach of the Year.

16. The University met all five SCHEV Financial Requirements/Standards.

17. The University purchased/closed seven properties surrounding the University campus for future growth in accordance with Campus Master Plan.

18. The University received the Governor's Small Women and Minority Owned (SWaM) Achievement Award.

19. The Agricultural Research Station is implementing externally funded multi-year grants worth $2,222,554. The University will receive two competitive grants for nearly half a million dollars from the Virginia Tobacco Commission to research alternative crops for former tobacco and other small farmers in Southside Virginia. The University was awarded a five year $524,970 research grant from the U.S. Agency for International Development to develop an integrated weed management system in Africa to reduce the adverse impact of the pervasive weed Parthenium.

20. The Nursing Program was certified by the Virginia Board of Nursing through 2016.

21. The Department of Engineering Technology received accreditation from Accreditation Board for Engineering and Technology (ABET) for the University's Engineering Technology Programs.

22. The Department of Psychology received an Innovative Technology Experiences for Students and Teachers (ITEST) grant of $1.1 million administered by the National Science Foundation (NSF).

23. The National Association of Schools of Art and Design Commission on Accreditation has voted to continue VSU in good standing. The next full review of the program will take place in the 2017-2018 academic year.

24. The Department of Computer Science received a grant from the U.S. Department of Homeland Security in the amount of $250,000 under the Scientific Leadership Awards for Minority Serving Institutions Granting Graduate Degrees program. The funding will support the development of a new concentration, Establishment of Information Assurance, for the Computer Science master's degree program.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis provides an overview of the financial position and results of activities of Virginia State University (the University) for the fiscal year ended June 30, 2009. This overview has been prepared by management and should be read in conjunction with the financial statements and footnotes that follow this section. Comparative information for the fiscal year ended June 30, 2008, has been provided where applicable. The financial statements were prepared in accordance with applicable pronouncements and statements of the Governmental Accounting Standards Board (GASB).

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

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

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

The University's financial position although remaining strong at the close of FY2009, did suffer from the effects of the economy and the Commonwealth's budget shortfall. As a result of a change in the funding of capital projects from appropriated funds to bond funding, there was a decrease in capital appropriations of $13.8 million. Overall, this combined with other negative changes, primarily a reduction in investment income and an increase in debt service, resulted in a net reduction of $18.2 million in net assets.

Summary of the Change in Net Assets

	Year Ended June 30,		Increase/(Decrease)	
	2009	2008	Amount	Percent
Total Operating Revenues	$ 63,788,449	$ 55,259,296	$ 8,529,153	15.4%
Total Operating Expenses	119,113,908	110,905,438	8,208,470	7.4%
Operating loss	(55,325,459)	(55,646,142)	320,683	0.6%
Nonoperating revenues	46,649,581	50,568,496	(3,918,915)	(7.7%)
Other revenue	(9,492,373)	2,995,255	(12,487,628)	(416.9%)
Total Increase/(Decrease)	$ (18,168,251)	$ (2,082,391)	$ (16,085,860)	(772.5%)

On a summary basis, operating revenues increased by $8.5 million or 15.4%, in FY2009 over the previous fiscal year. Similarly, operating expenses increased by $8.2 million or 7.4%. This resulted in a reduction of the University's operating loss from $55.6 million in FY2008 to $55.3 million in FY2009, a reduction of almost $321 thousand.

The operating loss was offset by $46.6 million in nonoperating revenues (primarily composed of state appropriations). However, this was down from $50.6 million in the prior fiscal year, a $3.9 million or 7.7% decline. In addition, other revenues were down by a difference of $12.5 million from FY2008.

STATEMENT OF NET ASSETS

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

Comparing the FY2009 Statement of Net Assets (SNA) to the previous fiscal year, total assets decreased by $17.8 million or 7.5% from the prior fiscal year.

Currents assets increased by $10 million during FY2009. Current assets are comprised of cash and cash equivalents, short term investments, notes and loans receivables, due from the Commonwealth, and securities lending. This increase was primarily due to changes in three categories. Cash and cash equivalents increased by $6.1 million. Due from the Commonwealth (primarily capital projects and the equipment trust fund) increased by $1.7 million. Lastly, securities lending increased by $2.8 million.

Noncurrent assets decreased by $27.8 million during FY2009. Noncurrent assets are comprised of restricted cash and cash equivalents, state appropriations available, investments, and capital assets net of depreciation. This decrease was primarily the result of changes in two categories. Restricted cash and cash equivalents decreased by $9.8 million and there was a reduction in state appropriations available of $17.7 million.

Compared to the previous fiscal year, total liabilities remained about the same during FY2009, increasing by $384 thousand or 0.4%

Current liabilities increased by $3.4 million during FY2009. Current liabilities are comprised of accounts payable and other accrued liabilities, deferred revenues, obligations under securities lending, deposits held in custody, the current portion of long term liabilities, and retainage payable. Most of this increase was the result of changes in two categories. Obligations under securities lending increased $2.7 million and the current portion of long term debt increased by $1.2 million (primarily for the Gateway Residence Hall and Howard Quad Residence Hall).

Noncurrent liabilities decreased by $3.0 million during FY2009. Noncurrent liabilities are comprised primarily of the noncurrent portion of long term debt (bonds and notes payable). This decrease in noncurrent liabilities was primarily due to a $2.8 million decrease in the noncurrent portion of general obligation revenue bonds.

A summary of the University's assets, liabilities, and net assets at June 30, 2009 and 2008 follows:

Summary of the Statement of Net Assets

	Year Ended June 30,		Increase/(Decrease)	
	2009	2008	Amount	Percent
Assets:				
Current Assets:	$ 45,451,683	$ 35,475,154	$ 9,976,529	28.1%
Noncurrent assets:				
Restricted cash and cash equivalents	33,029,093	42,791,440	(9,762,347)	(22.8%)
State appropriations available	594,991	18,290,413	(17,695,422)	(96.7%)
Investments	14,581,994	16,106,138	(1,524,144)	(9.5%)
Capitals assets, net	122,398,251	121,191,139	1,207,112	1.0%
Other	2,118,965	2,104,946	14,019	0.7%
Total assets	218,174,977	235,959,230	(17,784,253)	(7.5%)
Liabilities:				
Current liabilities	27,816,192	24,425,364	3,390,828	13.9%
Noncurrent liabilities	65,964,519	68,971,349	(3,006,830)	(4.4%)
Total liabilities	93,780,711	93,396,713	383,998	0.4%
Net assets:				
Invested in capital assets, net of related debt	59,898,927	85,023,280	(25,124,353)	(29.5%)
Restricted:				
Nonexpendable	4,172,051	3,835,711	336,340	8.8%
Expendable	36,887,684	31,080,740	5,806,944	18.7%
Unrestricted	23,435,604	22,622,786	812,818	3.6%
Total net assets	$ 124,394,266	$ 142,562,517	$ (18,168,251)	(12.7%)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses, and Changes in Net Assets presents the University's results of activities for the fiscal year. Presented below is a summarized statement of the University's Revenues, Expenses, and Changes in Net Assets for the years ended June 30, 2009 and 2008.

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

	Year Ended June 30,		Increase/(Decrease)	
	2009	2008	Amount	Percent
Operating revenues	$ 63,788,449	$ 55,259,296	$ 8,529,153	15.4%
Operating expenses	119,113,908	110,905,438	8,208,470	7.4%
Operating loss	(55,325,459)	(55,646,142)	320,683	0.6%
Nonoperating revenues/(expenses)				
State appropriations	40,623,539	41,735,044	(1,111,505)	(2.7%)
Federal Student Financial Aid	9,044,612	7,306,702	1,737,910	23.8%
Other nonoperating revenues and expenses	(3,018,570)	1,526,750	(4,545,320)	(297.7%)
Net nonoperating revenues and expenses	46,649,581	50,568,496	(3,918,915)	(7.7%)
Income/(loss) before other revenues and reductions	(8,675,878)	(5,077,646)	(3,598,232)	(70.9%)
Capital appropriations	-	5,883,000	5,883,000	100.0%
Capital grants and gifts	1,063,473	1,803,327	(739,854)	(41.0%)
Additions to permanent endowments	131,298	431,502	(300,204)	(69.6%)
Other capital revenues and reductions	(10,687,144)	(5,122,574)	(5,564,570)	(108.6%)
Total other revenues	(9,492,373)	2,995,255	(12,487,628)	(416.9%)
Total decrease in net assets	(18,168,251)	(2,082,391)	(16,085,860)	(772.5%)
Net assets, beginning of year	142,562,517	144,644,908	(2,082,391)	(1.4%)
Net assets, end of year	$ 124,394,266	$ 142,562,517	$(18,168,251)	(12.7%)

As reflected above, operating revenues for the University increased by $8.5 million or 15.4% from the previous fiscal year. Operating expenses increased by $8.2 million or 7.4%. The operating loss for the University decreased by $321 thousand in FY2009. The operating loss of $55.3 million was offset by nonoperating revenues of $46.6 million. The largest item of nonoperating revenue is State appropriations, which decreased by $1.1 million or

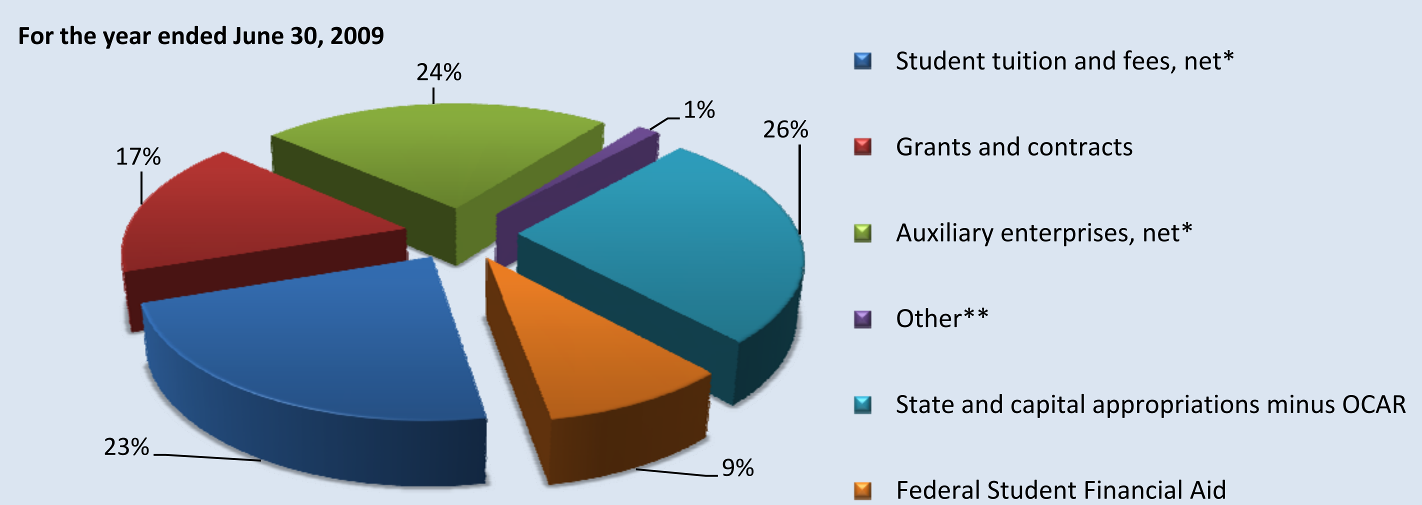
2.7% in FY2009. There was also an increase in nonoperating revenues for Federal student financial aid (Pell Grants) of $1.7 million or 23.8%. Investment income went from a positive $1.4 million in FY2008 to a negative $1.3 million in FY2009, a reduction of $2.7 million. Lastly, interest on indebtedness increased by approximately $1.8 million, going from $1.2 million in FY2008 to $3.0 million in FY2009. This all resulted in income before other revenues of a negative $8.7 million in FY2009, an increase in the loss of $3.6 million from the previous year.

There was a significant decrease overall in "other" revenues between FY2009 and 2008. Total other revenues in FY2009 was a negative $9.5 million. In FY2008 these revenue sources totaled $3.0 million, a reduction of $12.5 million. Almost all of this change is attributable to a reduction in capital appropriations. The reduction in capital appropriations was partially offset by an increase in the 21st Century Bond Reimbursement Program.

In summary, there was a decrease in net assets of $18.2 million in FY2009. The decrease in Net Assets in the previous fiscal year totaled $2.1 million.

A summary of the University's revenues for the years ended June 30, 2009 and 2008 appears below:

SUMMARY OF REVENUES



Summary of Revenues
Increase (Decrease) in Revenues
For the years ended June 30, 2009 and 2008

	2009	2008	Increase/Decrease Amount	Increase/Decrease Percent
Student tuition and fees, net*	$ 22,770,446	$ 19,488,363	$ 3,282,083	16.8%
Grants and contracts	16,972,263	15,590,792	1,381,471	8.9%
Auxiliary enterprises, net*	23,946,567	20,087,072	3,859,495	19.2%
Other operating revenue**	99,173	93,069	6,104	6.6%
Total operating revenues	63,788,449	55,259,296	8,529,153	15.4%
Non operating revenues/(expenses):				
State appropriations	40,623,539	41,735,044	(1,111,505)	(2.7%)
Federal Student Financial Aid	9,044,612	7,306,702	1,737,910	23.8%
Other non operating revenues, net**	(3,018,570)	1,526,750	(4,545,320)	(297.7%)
Total non operating revenues	46,649,581	50,568,496	(3,918,915)	(7.7%)
Capital revenues and gains:				
Capital appropriations	-	5,883,000	(5,883,000)	(100.0%)
Capital gifts**	1,063,473	1,803,327	(739,854)	(41.0%)
Additions to permanent endowment**	131,298	431,502	(300,204)	(69.6%)
Other capital appropriation reduction (OCAR)	(13,822,584)	(5,709,668)	(8,112,916)	(142.1%)
Other capital revenues**	3,135,440	587,094	2,548,346	434.1%
Total other revenues	(9,492,373)	2,995,255	(12,487,628)	(416.9%)
Total revenues	$ 100,945,657	$ 108,823,047	$ (7,877,390)	(7.2%)

* Net of Scholarship Allowance
** Other includes: – Sales and services, other operating revenues, capital gifts, investment income, interest on indebtness, loss on disposal of assets, other Nonoperating revenues and expenses.

As noted earlier, overall total operating revenues increased in FY2009 from $55.3 million in the previous year to $63.8 million. There are three major components of the increase. Student tuition and fees, net of scholarship allowance, increased by $3.3 million to a total of $22.8 million. This increase was due to fee and enrollment increases. Similarly, there was an increase in auxiliary enterprise revenue, net of scholarship allowance. This item increased by $3.9 million. Again this was due to fee and enrollment increases. Lastly, federal, state and local grants and contracts revenue increased by $1.4 million as the University continues to grow this revenue source in accordance with the 20/20 plan.

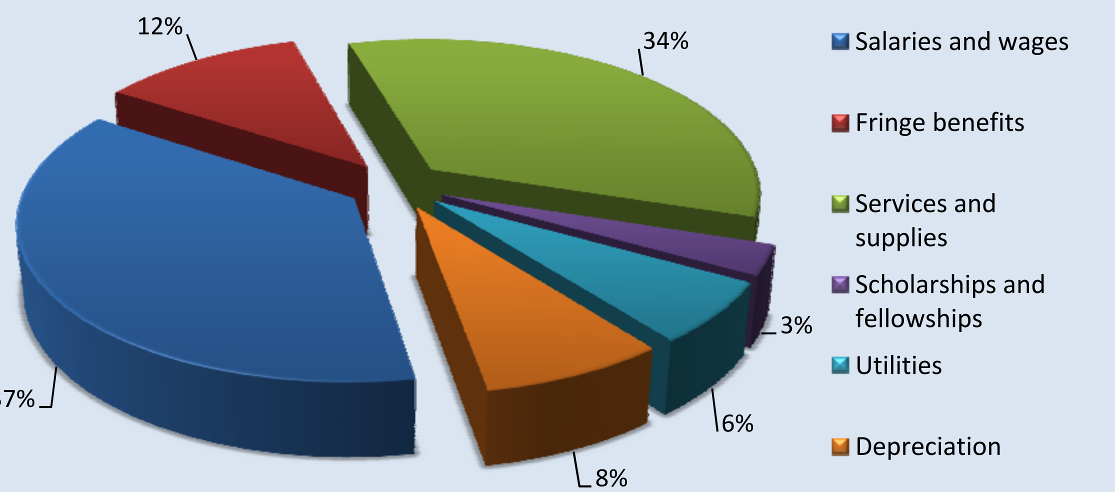
As noted earlier, non-operating revenues decreased by $3.9 million overall. This was attributed to a reduction in State appropriations, a reduction in investment income, and an increase in debt interest. This was partially offset by an increase in federal student financial aid.

SUMMARY OF EXPENSES

A summary of the University's operating expenses for the years ended June 30, 2009 and 2008 appears below. Overall, total operating expenses increased by $8.2 million in FY2009 compared to the previous fiscal year. This represents a 7.4% increase.

SUMMARY OF EXPENSES BY NATURAL CLASSIFICATION

For the year ended June 30, 2009



Increase in Operating Expenses by Natural Classification
For the years ended June 30, 2009 and 2008

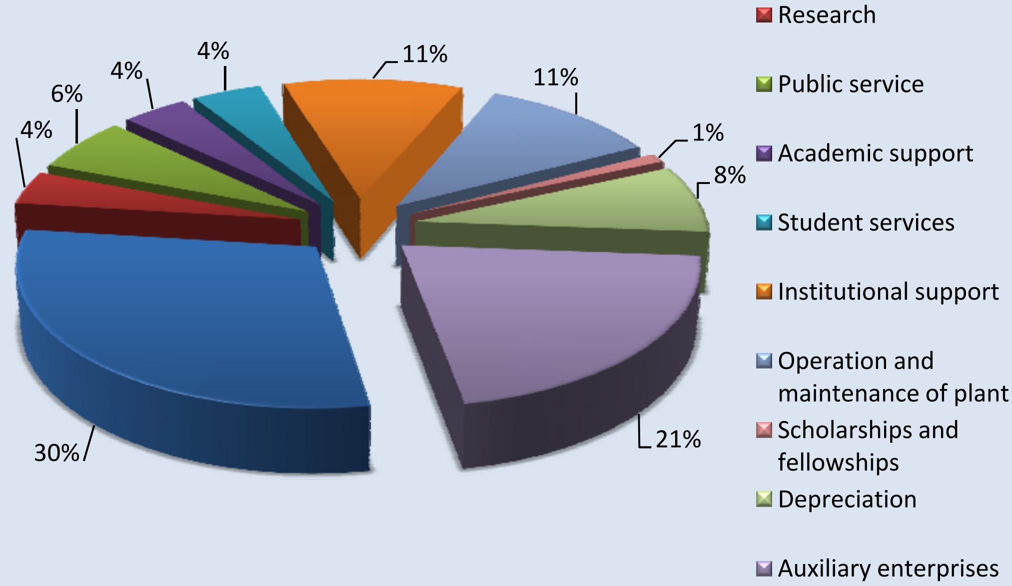
	2009	2008	Increase	
			Amount	Percent
Salaries and wages	$ 44,011,666	$ 43,238,396	$ 773,270	1.8%
Fringe benefits	13,616,067	13,886,868	(270,801)	(2.0%)
Services and supplies	40,904,298	34,008,854	6,895,444	20.3%
Scholarships and fellowships	3,708,637	2,812,135	896,502	31.9%
Utilities	7,574,592	7,074,855	499,737	7.1%
Depreciation	9,298,648	9,884,330	(585,682)	(5.9%)
Total operating expenses	$ 119,113,908	$ 110,905,438	$ 8,208,470	7.4%

SUMMARY OF EXPENSES BY FUNCTION

Increase in Operating Expenses by Function
For the years ended June 30, 2009 and 2008

	2009	2008	Increase/Decrease Amount	Increase/Decrease Percent
Operating expenses:				
Instruction	$ 35,239,768	$ 35,089,250	$ 150,518	0.4%
Research	4,560,323	3,691,846	868,477	23.5%
Public service	7,371,763	7,541,669	(169,906)	(2.3%)
Academic support	4,781,439	5,756,375	(974,936)	(16.9%)
Student services	4,993,373	4,987,753	5,620	0.1%
Institutional support	13,179,358	10,607,065	2,572,293	24.3%
Operation and maintenance of	13,021,091	7,642,472	5,378,619	70.4%
Scholarships and fellowships	1,201,295	1,055,050	146,245	13.9%
Depreciation	9,298,648	9,884,330	(585,682)	(5.9%)
Auxiliary enterprises	24,950,561	24,602,494	348,067	1.4%
Other	516,289	47,134	469,155	995.4%
Total operating expenses	$ 119,113,908	$ 110,905,438	$8,208,470	7.4%

For the year ended June 30, 2009



The major drivers in the overall increase in operating expenses of $8.2 million from FY08 were: research- an increase of $868 thousand, academic support - a decrease of $975 thousand, institutional support - an increase of $2.6 million, operation of maintenance of plant - an increase of $5.4 million and depreciation - a decrease of $586 thousand.

The overall increase in research expenses of $868 thousand was due primarily to an increase in salaries and fringe benefits of approximately $241 thousand and an increase in supply expenses of approximately $594 thousand. This change resulted from an increase in grants and contracts revenue available for this purpose.

Academic support expenses decreased $975 thousand in FY2009 compared to FY2008. The majority of this decrease was for services and supplies expenditures.

Overall, institutional services expenses in FY2009 increased by $2.6 million from the prior year. The two major components of this increase were salaries and fringe benefits increases and supplies and services. Overall, salaries and fringe benefits increased by approximately $900 thousand. Supplies and services expenses increased by $1.7 million. These increases related to expenses for Information Technology Management Services.

Operation and maintenance of plant expenses increased by $5.4 million during FY2009 from FY2008. There were a number of factors which drove up these expenses. First, utility expenses increased $639 thousand. Services and supplies expenses increased $5.1 million. Within this broad category of expenses, the physical plant contract was up approximately $413 thousand. There were also increased expenses associated with Gandy Hall of $183 thousand. Lastly, there were various maintenance reserve projects which were up approximately $3.0 million, and insurance expenses went up $272 thousand.

STATEMENT OF CASH FLOWS

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

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

Statement of Cash Flows

	Year Ended June 30,		Increase/(Decrease)	
	2009	2008	Amount	Percent
Cash flows from:				
Operating activities	$ (46,197,158)	$ (45,479,707)	$ (717,451)	(1.6%)
Noncapital financing activities	51,801,332	51,147,728	653,604	1.3%
Capital and related financing activities	(9,517,851)	7,755,588	(17,273,439)	(222.7%)
Investing activities	233,619	138,734	94,885	68.4%
Net increase/(decrease) in cash and cash equivalents	(3,680,058)	13,562,343	(17,242,401)	(127.1%)
Cash and cash equivalents, beginning of year	63,727,067	50,164,724	13,562,343	27.0%
Cash and cash equivalents, end of year	$ 60,047,009	$ 63,727,067	$ (3,680,058)	(5.8%)

Overall, there was approximately a $717 thousand increase in net cash used by operating activities in FY2009 compared to FY2008. This overall increase resulted from increases in operating revenue and increases in expenditures. On the revenue side, there were increases in tuition and fees of $2.9 million and auxiliary enterprises of $4.2 million. On the expenditure side, there were increases in payments to employees ($948 thousand), payments to suppliers ($5.6 million), payments for utilities ($500 thousand) and payments for scholarships and fellowships ($897 thousand).

There was an increase of $654 thousand from cash flows from noncapital financing activities. There was a reduction of $1.1 million from state appropriations which was offset by an increase of $1.7 million from federal student financial aid.

There was a significant decrease in capital and related financing activities, going from a positive $7.8 million in FY2008 to a negative $9.5 million in FY2009. There were three major items which accounted for most of this difference. First, receipts from 21st century bonds increased by $1.1 million. Secondly, the purchase of capital assets went down by $10.7 million. Lastly, principal accrued on capital debt, leases and installments went down by $28.5 million.

The last major category on the cash flow statement is cash flows from investing activities. There was a significant drop in investment income from the prior year totaling $2.7 million. Overall, the proceeds from sales and maturities of investments changed by $4.2 million. Lastly, the purchase of investments increased by $1.4 million.

In summary, there was a $3.7 million reduction in cash overall between FY2008 and FY2009.

CAPITAL AND DEBT ACTIVITIES

The renewal and replacement of the University's capital assets is crucial to sustaining the quality of its Academic, Research and Public Service programs. The University continues to invest in capital assets in accordance with its master plan, modernizing its current and older facilities, purchasing new equipment and building new facilities. Capital assets, net of depreciation increased by $1.2 million in FY2009.

During FY2009, the construction of the Howard Quad Residence Hall was begun. There was also a major renovation of the heating plant and work on the Gateway Dining Facility continued.

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

As of June 30, 2009, the University had $51.9 million in outstanding general obligation bonds. In addition to that, the University had a total of $10.6 million in outstanding notes payable. Lastly, the University has an installment purchase agreement in the amount of $3.0 million related to energy performance upgrades and MELP vehicles purchased through the Commonwealth's Master Equipment Leasing Program.

FUTURE ECONOMIC OUTLOOK

The Executive Management of the University believes it is well positioned to face the future. Having said that, there are significant challenges facing the Commonwealth which has a direct impact on the operation of the University. The University has suffered state budget cuts in the last several years and faces additional cuts as the State's economy and revenues continue to be well below prior year's revenues and forecasts.

One very positive aspect of the University's operating position is its enrollment growth, which reversed a downward trend in FY2009 and continues to grow in FY2010. The increase in enrollment has resulted in additional tuition and fee revenues. These increases have served to partially offset the reduction in State support.

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

The state of the national economy has significantly impacted the University's endowment and other investments. There were major losses in market value and a reduction in investment income in FY2009. Although the market is starting to recover, it is still well below where it was at the start of the fiscal year. Continued problems in this area will affect future spending, particularly for financial aid.

FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

As of June 30, 2009, with comparative financial information as of June 30, 2008

	2009		2008	
	Virginia State	Component Units	Virginia State	Component Units
ASSETS				
Current assets				
Cash and cash equivalents (Note 2)	$ 27,017,916	$ 4,992,798	$ 20,935,627	$ 4,671,916
Cash and cash equivalents - Securities Lending (Note 2)	4,240,263	-	1,391,573	-
Short-term investments (Note 2)	5,087,384	1,890,175	5,242,067	-
Accounts and loans receivable, net of allowance (Note 3)	3,819,149	806,887	4,113,396	679,547
Due from the Commonwealth (Note 3)	2,839,101	-	1,176,443	-
Due from affiliates	29,471	226,380	114,353	128,486
Prepaid expenses	2,388,750	-	2,479,205	17,836
Notes and mortgages receivable, net of allowance (Note 3)	29,649	-	22,490	-
Total current assets	45,451,683	7,916,240	35,475,154	5,497,785
Noncurrent assets				
Restricted cash and cash equivalents (Note 2)	33,029,093	822,702	42,791,440	1,741,788
Restricted investments (Note 2)	(134,668)	3,790,058	604,389	4,752,595
Endowment investments (Note 2)	14,073,837	-	13,565,326	-
State appropriation available	594,991	-	18,290,413	-
Notes and mortgages receivable, net of allowance (Note 3)	1,962,330	-	1,938,574	-
Other long-term investments (Note 2)	642,825	-	1,936,423	-
Unamortized issuance cost	156,635	116,024	166,372	953,314
Nondepreciable capital assets (Note 4)	25,190,621	542,828	41,344,960	2,580,153
Depreciable capital assets, net (Note 4)	97,207,630	11,490,471	79,846,179	12,210,471
Total noncurrent assets	172,723,294	16,762,083	200,484,076	22,238,321
Total assets	218,174,977	24,678,323	235,959,230	27,736,106
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities (Note 5)	6,775,178	99,321	6,972,759	40,485
Due to affiliates	226,380	29,471	128,486	114,353
Deferred revenue	2,979,317	66,605	3,739,452	108,381
Retainage payable	1,099,095	-	1,534,722	-
Obligations under securities lending (Note 2)	9,327,647	-	6,633,640	-
Deposits held in custody for others	2,624,608	128,251	1,880,851	148,518
Long-term liabilities - current portion (Notes 6 and 7)	4,727,966	200,000	3,492,926	150,000
Other current liabilities	56,001	2,539,914	42,528	514,585
Total current liabilities	27,816,192	3,063,562	24,425,364	1,076,322
Noncurrent liabilities				
Long-term liabilities - noncurrent (Notes 6 and 7)	65,964,519	23,312,815	68,971,349	24,275,377
Total liabilities	93,780,711	26,376,377	93,396,713	25,351,699
NET ASSETS				
Invested in capital assets (net of related debt)	59,898,927	(8,180,677)	85,023,280	(5,031,599)
Restricted for:		-		-
Nonexpendable:		-		-
Scholarships and fellowships	2,622,989	6,669,333	2,918,017	-
Instruction	1,352,230	-	719,009	-
Other	196,832	-	198,685	4,752,595
Expendable:		-		-
Scholarships and fellowships	10,145,871	1,128,286	10,696,115	591,505
Instruction	174,826	-	347,660	-
Loans	793,135	-	852,836	-
Capital projects	24,715,002	-	16,909,299	-
Other	1,058,850	-	2,274,830	-
Unrestricted	23,435,604	(1,314,996)	22,622,786	2,071,906
Total net assets	$ 124,394,266	$ (1,698,054)	$ 142,562,517	$ 2,384,407

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

As of June 30, 2009, with comparative financial information as of June 30, 2008

	2009		2008	
	Virginia State	Component Units	Virginia State	Component Units
Operating revenues				
Student tuition and fees (net of scholarship allowances of $7,826,167)	$ 22,770,446	$ -	$ 19,488,363	$ -
Federal grants and contracts	16,716,467	-	15,151,902	-
State and local grants and contracts	255,796	-	438,890	-
Sales and services - educational departments	21,754	-	6,114	-
Auxiliary enterprises (net of scholarship allowance of $9,295,179)	23,946,567	-	20,087,072	-
Other operating revenues	77,419	2,720,076	86,955	2,805,323
Total operating revenues	63,788,449	2,720,076	55,259,296	2,805,323
Operating expenses: (Note 9)				
Education and general:				
Instruction	35,239,768	-	35,089,250	-
Research	4,560,323	-	3,691,846	-
Public service	7,371,763	-	7,541,669	-
Academic support	4,781,439	-	5,756,375	-
Student services	4,993,373	-	4,987,753	-
Institutional support	13,179,358	2,530,317	10,607,065	1,826,226
Operation and maintenance of plant	13,021,091	-	7,642,472	-
Scholarships and fellowships	1,201,295	191,653	1,055,050	161,019
Depreciation	9,298,648	1,689,186	9,884,330	796,296
Auxiliary enterprises	24,950,561	-	24,602,494	-
Other	516,289	-	47,134	-
Total operating expenses	119,113,908	4,411,156	110,905,438	2,783,541
Operating income/(loss)	(55,325,459)	(1,691,080)	(55,646,142)	21,782
Nonoperating revenues/(expenses)				
State appropriations (Note 8)	40,623,539	-	41,735,044	-
Gifts	855,199	682,107	912,844	1,236,971
Investment income	(1,290,525)	(1,159,128)	1,437,886	(108,028)
Interest on indebtness	(2,991,051)	(2,407,924)	(1,173,364)	(2,410,449)
Loss on disposal of assets	(4,659)	-	(57,851)	-
Federal student financial aid	9,044,612	-	7,306,702	-
Other nonoperating revenues	467,596	39,179	478,631	103,752
Other nonoperating expenses	(55,130)	(221,525)	(71,396)	(53,201)
Net nonoperating revenue	46,649,581	(3,067,291)	50,568,496	(1,230,955)
Income before other revenues	(8,675,878)	(4,758,371)	(5,077,646)	(1,209,173)
				-
Capital appropriations	-	-	5,883,000	-
Capital grants and gifts	1,063,473	-	1,803,327	-
Additions to permanent endowments	131,298	675,910	431,502	800,160
21st Century Bonds Reimbursement Program	2,994,321	-	95,537	-
General Obligation Bonds Reimbursement Program	141,119	-	491,557	-
Other capital appropriation reduction	(13,822,584)	-	(5,709,668)	-
Total other revenues	(9,492,373)	675,910	2,995,255	800,160
Decrease in net assets	(18,168,251)	(4,082,461)	(2,082,391)	(409,013)
Net assets, beginning of year	142,562,517	2,384,407	144,644,908	2,793,420
Net assets, end of year	$ 124,394,266	$ (1,698,054)	$ 142,562,517	$ 2,384,407

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

STATEMENT OF CASH FLOWS

As of June 30, 2009, with comparative financial information as of June 30, 2008

	2009	2008
Cash flows from operating activities		
Tuition and fees	$ 22,023,203	$ 19,096,888
Grants and contracts	16,547,222	16,841,226
Auxiliary enterprises	24,337,383	20,180,082
Departmental Sales and Services, and Other revenues	577,165	343,311
Payments to employees	(58,102,811)	(57,154,903)
Payments to suppliers	(40,425,683)	(34,854,770)
Payments for utilities	(7,574,591)	(7,074,855)
Payments for scholarships and fellowships	(3,708,638)	(2,812,136)
Loans issued to students	(211,522)	(511,778)
Collection of loans from students	180,608	193,380
Other payments	160,506	273,848
Net cash provided/(used) by operating activities	(46,197,158)	(45,479,707)
Cash flows from noncapital financing activities		
State appropriations	40,618,660	41,693,780
Gifts	986,497	1,344,346
Federal Student Financial Aid	9,044,612	7,306,702
Other nonoperating revenue	412,465	407,235
Loss on disposal of assets	(4,659)	(57,851)
Funds held in custody for others - receipts	22,560,156	20,708,122
Funds held in custody for others - disbursements	(22,017,757)	(20,314,455)
Federal direct lending program receipts	22,432,904	14,512,080
Federal direct lending program disbursements	(22,231,546)	(14,452,231)
Net cash provided/(used) by noncapital financing activities	51,801,332	51,147,728
Cash flows from capital financing activities		
Capital appropriations	3,877,717	3,787,692
Capital gifts and grants	1,099,814	1,803,327
21st Century Bonds	1,217,140	95,537
General Obligation Bonds	141,772	491,557
Interest paid on capital debt, leases, and installments	(3,003,821)	(1,259,180)
Principal paid on capital debt, leases, and installments	(2,428,951)	(4,538,364)
Principal received on capital debt, leases, and installments	519,865	28,989,452
Purchase of capital assets	(10,941,387)	(21,614,433)
Net cash provided/(used) by capital financing activities	(9,517,851)	7,755,588
Cash flows from investing activities		
Investment income	(1,290,525)	1,437,886
Proceeds from sales and maturities of investments	2,984,167	(1,204,911)
Purchase of investments	(1,460,023)	(94,241)
Net cash provided/(used) by investing activities	233,619	138,734
Net increase in cash	(3,680,058)	13,562,343
Cash and cash equivalents - beginning of the year	63,727,067	50,164,724
Cash and cash equivalents - end of the year	$ 60,047,009	$ 63,727,067

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

	2009	2008
Operating income (loss)	$ (55,325,459)	$ (55,646,142)
Adjustments to reconcile net cash used by operating activities:		
Depreciation expense	9,298,648	9,884,330
Changes in assets and liabilities		
Receivables	456,658	941,095
Prepaid items	90,455	(222,748)
Other assets	9,737	(64,470)
Accounts payable	(99,686)	(738,624)
Interest payable	12,770	85,816
Deferred revenue	(760,135)	261,116
Other liabilities	150,769	338,318
Net loans	(30,915)	(318,398)
Net cash used by operating activities	$ (46,197,158)	$ (45,479,707)

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

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

During the year ended June 30, 2009, the VSUF distributed $498,086 to the University for both restricted and unrestricted purposes. Separate financial statements for the VSUF can be obtained by writing Virginia State University Foundation c/o Vice President of Development, Storum Hall, P.O. box 9027, Petersburg, VA 23806. Separate financial statements for the VSUREF can be obtained by writing Virginia State University Real Estate Foundation c/o Vice President of Development, Storum Hall, P.O. Box 9027, Petersburg, VA 23806.

B. Basis of Presentation

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

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

C. Basis of Accounting

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

D. Cash Equivalents

The University considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents. Funds invested through the State Non-Arbitrage Program (SNAP) and portions of the funds invested in the State Securities Lending Program are considered cash equivalents.

E. Investments

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments are recorded at fair market value at June 30, 2009. All investment income, including changes in the fair value of investments (unrealized gains and losses), is reported as nonoperating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

F. Prepaid Expenses

Prepaid expenses represent university library books, postage, system maintenance agreements and licenses, liability insurance and property insurance for FY2010, that were paid in advance as of June 30, 2009.

G. Capital Assets

Capital assets consisting of land, buildings, equipment, infrastructure assets, improvements other than buildings, inexhaustible works of art, and construction-in-progress are stated at appraised historical cost or actual cost, where determinable. Purchased or constructed capital assets are reported at actual cost or estimated historical cost. Donated capital assets are reported at fair value on the date of acquisition. Library materials are valued using purchase price for library acquisitions. Equipment is capitalized when the acquisition cost is $5,000 or greater and the estimated useful life is two years or more. Expenses for construction-in-progress are capitalized as they are incurred. Interest expenses relating to construction are capitalized, net of interest income earned on resources set aside for this purpose. For the year ended June 30, 2009, interest expenses exceeded interest earned by $157,267 and was capitalized. Infrastructure assets are recorded at cost.

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

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

H. Restricted and Unrestricted Net Assets

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

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

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

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

I. Deferred Revenue

Deferred revenue represents revenues collected, but not earned as of June 30, 2009. This consists primarily of student tuition and fees received in advance of the academic term and advance payments from grant and contract sponsors.

J. Accrued Compensated Absences

The amount of leave earned, but not taken by 12-month faculty and salaried employees is recorded as a liability on the Statement of Net Assets. The amount reflects all unused vacation leave, overtime leave, compensatory leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave payout policy as of June 30, 2009. The applicable share of employer-related taxes payable on eventual termination payments is also included.

K. Revenue and Expense Classifications

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

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

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

L. Discounts, Premiums, and Bond Issuance Costs

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

M. Scholarship Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowance in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship allowance is the difference between the stated charge for goods and services provided by the University and the amount paid by students and/or third parties making payments on the students' behalf. The scholarship allowance is reported using the alternative method as recommended by the National Association of College and University Business Officer's (NACUBO). The alternative method is a simple proportionality algorithm that computes scholarship allowance on a University-wide basis by allocating the amounts applied to student accounts and the cash payment to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third-party aid.

N. Title IV Federal Financial Assistance Programs

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

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

A. Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all State funds of the University are held by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of State funds. Cash deposits held by the University are maintained in accounts that are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 of the Code of Virginia. In accordance with the GASB Statement 9 *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds,* definition of cash and cash equivalents, cash represents cash with the Treasurer of Virginia, cash on hand, and cash deposits including certificates of deposit and temporary investments with original maturities of three months or less. At June 30, 2009, the carrying amount of cash and cash equivalents was $64,287,272.

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

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

As of June 30, 2009, the University had the following investments:

Investments	
Spider Management Group	$ 14,581,994
Treasurer of Virginia	5,087,384
Total investments	$ 19,669,378

Investments held by the Treasurer of Virginia include the University's allocated share of securities totaling $5,087,384 received for securities lending transactions and held in the General Account of the Commonwealth. The Commonwealth's policy is to record unrealized gains and losses in the General Fund in the Commonwealth's basic financial statements. When gains or losses are realized, the actual gains and losses are recorded by the affected agencies. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's CAFR.

C. Interest Rate Risk

The following information is provided with respect to the credit risk associated with the University's cash and cash equivalents and investments at June 30, 2009. Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. The University's policy for investment of endowment fund assets requires that the investments be allocated as follows as of June 30, 2009:

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

Allocation of Investments	Desired Range	Actual
Domestic Long Only	5 - 25%	5%
Domestic Long/Short	5 - 25%	16%
International Long Only	5 - 15%	10%
International Long/Short	5 - 15%	9%
Opportunistic (P/E, Venture)	10 - 25%	17%
Absolute Return	10 - 25%	27%
Fixed Income	0 - 10%	1%
Real Estate	0 - 10%	5%
Real Assets	0 - 10%	6%
Cash	0 - 5%	4%

D. Credit Risk

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

E. Custodial Credit Risk

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty, the endowment funds will not be able to recover the value of the investments that are in possession of an outside party. The University does not have a formal investment policy for custodial arrangements. At June 30, 2009, the University endowment funds were held at the custodial banks, the Spider Management Group and Wachovia.

F. Concentration of Credit Risk

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

G. VSUF – Cash and Investments

The investments of the VSUF consist primarily of equity securities and mutual funds. All investments are stated at fair value as reported by investment managers and reflect readily determinable market prices. All investments are considered available for sale. Realized gains are calculated based on the difference between the costs and selling price of the security. The amount of cash and investments held by the Foundation at June 30, 2009, was $8,128,858.

H. VSUREF - Cash and Investments

The investments of the VSUREF consist primarily of U.S. government money market funds. All investments are stated at fair value as reported by investment managers and reflect readily determinable market prices. All investments are considered available for sale. Realized gains are calculated based on the difference between the costs and selling price of the security. Cost is determined based on the initial purchase price of each individual investment. The amount of cash and investments held by the Real Estate Foundation at June 30, 2009 was $3,366,875.

3. ACCOUNTS RECEIVABLE AND NOTES

A. Accounts Receivable

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

At June 30, 2009, accounts receivable consisted of the following:

Student tuition and fees	$ 1,398,554
Federal, state and private grants and contracts	2,611,310
Auxiliary enterprises	23,184
University apartments at Ettrick	190,987
Third party receivables - students	137,943
Other receivables	574,864
Total	$ 4,936,842
Less: allowance for doubtful accounts	(1,117,693)
Net accounts receivable	$ 3,819,149

B. Due from Affiliates

Due from VSUF	$	29,471

C. Due from the Commonwealth

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

At June 30, 2009, Due from the Commonwealth consisted of the following:

Equipment Trust Fund Reimbursement	$ 851,005
General Obligation Bond Reimbursement - Construction Engineering Building	11,287
General Obligation Bond Reimbursement - Gandy Hall Renovation	1,632
21st Century Bond Reimbursement - Handicap Access	2,358
21st Century Bond Reimbursement – Maintenance Reserve	675,888
21st Century Bond Reimbursement – Heating Plant	714,598
21st Century Bond Reimbursement – Singleton Hall	206,678
21st Century Bond Reimbursement – Hunter McDaniel	181,830
Interest Earned on Tuition and Fees and other E&G Revenues	162,725
SPCC Rebate	31,100
Total Due from the Commonwealth	$ 2,839,101

D. Notes Receivable

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

At June 30, 2009, notes receivable consisted of the following:

Current notes receivable:	
Federal student loans	$ 31,680
Less: Allowance for doubtful accounts	(2,031)
Net current notes receivable	29,649
Noncurrent notes receivables:	
Federal student loans	2,160,980
Less: Allowance for doubtful accounts	(198,650)
Net noncurrent notes receivables	1,962,330
Total notes receivable	$1,991,979

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2009, is presented as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Nondepreciable capital assets:				
Land	$ 267,084	$ 976,543	$ -	$ 1,243,627
Inexhaustible works of art and historical treasures	354,645	-	-	354,645
Construction in progress	40,723,231	5,774,813	(22,905,695)	23,592,349
Total nondepreciable capital assets	41,344,960	6,751,356	(22,905,695)	25,190,621
Depreciable capital assets:				
Buildings	143,468,573	22,176,429	(9,222)	165,635,780
Equipment	30,904,365 *	2,347,441	(853,963)	32,397,843
Banner administrative systems	3,347,006	-	-	3,347,006
Infrastructure assets	9,180,162	-	(38,752)	9,141,410
Improvements other than buildings	5,618,303	429,398	(941,823)	5,105,878
Library books	19,742,317 *	1,750,241	-	21,492,558
Total depreciable capital assets	212,260,726	26,703,509	(1,843,760)	237,120,475
Less accumulated depreciation for:				
Buildings	82,375,310	4,817,224	(9,222)	87,183,312
Equipment	21,799,932	2,058,740	(849,305)	23,009,367
Banner administrative systems	1,272,216	669,401	-	1,941,617
Infrastructure assets	7,167,524	354,177	(38,752)	7,482,949
Improvements other than buildings	2,401,939	331,512	(941,823)	1,791,628
Library books	17,397,626	1,106,346	-	18,503,972
Total accumulated depreciation	132,414,547	9,337,400	(1,839,102)	139,912,845
Net depreciable capital assets	79,846,179	17,366,109	(4,658)	97,207,630
Total	$ 121,191,139	$ 24,117,465	$ (22,910,353)	$ 122,398,251

*During FY08 a reclassification error occurred on the Capital Asset Footnote between Equipment and Library Books in the amount of 762,630. This resulted in Equipment being overstated and Library Books being understated.

Net capital assets of the VSUREF consist of $542,828 for Land and $11,490,471 (net of accumulated depreciation of $3,871,103) for Buildings, Land Improvements, and Equipment as of June 30, 2009.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following at June 30, 2009:

Employee salaries, wages, and fringe benefits payable	$ 2,690,464
Matured interest payable	338,379
Vendor and supplier accounts payable	3,746,335
Total	$ 6,775,178

6. LONG-TERM LIABILITIES

The University's noncurrent liabilities consist of long-term debt (further described in Note 7) and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ending June 30, 2009 is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent
Long-term debt:						
General obligation revenue bonds	$ 53,690,200	$ -	$ (1,749,139)	$ 51,941,061	$ 2,777,967	$ 49,163,094
Notes payable	11,092,998	-	(512,307)	10,580,691	535,875	10,044,816
Installment purchases	2,605,022	519,865	(167,505)	2,957,382	242,913	2,714,469
Total long-term debt	67,388,220	519,865	(2,428,951)	65,479,134	3,556,755	61,922,379
Other noncurrent liabilities:						
Accrued compensated absences	3,560,529	1,993,931	(1,901,121)	3,653,339	1,171,211	2,482,128
Federal perkins loan contributions	1,515,526	44,486	-	1,560,012	-	1,560,012
Total long-term liabilities	$ 72,464,275	$ 2,558,282	$ (4,330,072)	$ 70,692,485	$ 4,727,966	$ 65,964,519

7. LONG-TERM INDEBTEDNESS

A. Bonds Payable

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

Aggregate annual maturities of bonds payable for fiscal years after 2009 are:

	Interest Rate	Maturity	Total
General obligation revenue bonds:			
Langston Hall-95 Refunded Portion, Series 2002 R	4% - 5%	2010	$ 235,188
Dorm Renovation-95 Refunded Portion, Series 2002 R	4% - 5%	2010	245,196
Foster Hall-95 Refunded Portion, Series 2002 R	4% - 5%	2010	210,168
Jones Dining Hall-96 Refunded Portion, Series 2002 R	4% - 5%	2016	1,204,559
Jones Dining Hall Project, Series 2004 B	4% - 5%	2018	560,666
Construct Residence Halls, Series 2006 B	4% - 5%	2026	15,650,000
Construct Dining Hall, Series 2006 B	4% - 5%	2026	4,035,000
Construct Residence Halls, Series 2007 A	4% - 5%	2027	1,890,000
Construct Two Residence Halls, Series 2007 B	4% - 5%	2027	26,160,000
Add unamortized premiums (net of discounts):			1,750,284
Total bonds payable			$51,941,061

Aggregate annual maturities of bonds payable for fiscal years after 2009 are:

Maturity	Principal	Interest	Total
2010	$ 2,676,521	$ 2,345,820	$ 5,022,341
2011	2,081,191	2,212,694	4,293,885
2012	2,191,047	2,108,635	4,299,682
2013	2,296,281	1,999,082	4,295,363
2014	2,410,436	1,884,268	4,294,704
2015 – 2019	13,235,301	7,542,424	20,777,725
2020 – 2024	15,755,000	4,298,563	20,053,563
2025 – 2027	9,545,000	789,288	10,334,288
Add unamortized premiums (net of discounts):	1,750,284	-	1,750,284
Total	$ 51,941,061	$ 23,180,774	$ 75,121,835

B. Notes Payable

The University entered into a loan agreement with the Department of Housing and Urban Development (HUD) in 1989 and closed the agreement in 1992 to borrow funds to repair seven dormitories. The loan is to be repaid over 30 years at three percent interest and is secured by a lien on the net revenues from the ownership, operation, and use of the seven dormitories under repair. In prior years, the University participated in the Virginia College Building Authority (VCBA) Pooled Bond Program to fund the renovation of Rogers Stadium and the Student Village Housing Renovation Project. At June 30, 2009, the outstanding principal balances were $1,872,488 for the HUD loan and $8,350,000 for the VCBA notes payable.

A summary of future principal and interest requirements of the VCBA notes and HUD loan payable as of June 30, 2009, are as follows:

	Interest Rate	Maturity	Total
Virginia College Building Authority and HUD Notes Payable:			
VSU Pooled Bonds - 2002A Rogers Stadium Ref Portion, Series 2007 B	4%	2019	$ 2,195,000
VSU Pooled Bonds, Series 2002 A	5%	2022	2,670,000
VSU Pooled Bonds - Roger's Stadium, Series 2005 A	3% - 5%	2025	2,300,000
VSU Pooled Bonds - Student Village Housing, Series 2005 A	4% - 5%	2025	1,185,000
Department of Housing and Urban Development	3%	2022	1,872,488
Add unamortized premiums (net of discounts):			358,203
Total notes payable			$ 10,580,691

Aggregate annual maturities of notes payable for fiscal years after 2009 are:

Maturity	Principal	Interest	Total
2010	$ 511,605	$ 447,006	$ 958,611
2011	535,279	424,275	959,554
2012	554,066	399,714	953,780
2013	582,967	374,038	957,005
2014	611,986	346,650	958,636
2015 – 2019	3,444,595	1,316,871	4,761,466
2020 – 2024	3,406,990	498,879	3,905,869
2025 – 2027	575,000	26,359	601,359
Add unamortized premiums:	358,203	-	358,203
Total	$ 10,580,691	$ 3,833,792	$ 14,414,483

C. Installment Purchases

In July 2007, the University entered into a fifteen-year Energy Performance Program lease agreement with First Municipal Credit Corporation through the Department of the Treasury in the amount of $2,729,129. The interest rate for this financing is 4.3 percent. Installment purchase obligations in FY2009 consisted of the Energy Performance Program Lease with $2,465,722 in principal remaining, and two buses through the Commonwealth's Master Equipment Leasing Program with $491,659 in principal remaining.

Principal and interest payment commitments as of June 30, 2009, are as follows:

	Interest Rate	Maturity	Total
Installment purchase obligation:			
Master Equipment Leasing Program - Motor Coach	3.15%	2014	$ 426,165
Master Equipment Leasing Program - Chevy GMT Van	2-2.6%	2013	65,494
Energy Efficiency Program	4.32%	2022	2,465,722
Total Installment Purchase Obligations:			$ 2,957,381

Aggregate maturity of installment purchase obligations for fiscal years after 2009 are:

D. Foundation Debt

Maturity	Principal	Interest	Total
2010	$ 242,913	$ 122,610	$ 365,523
2011	253,389	111,687	365,076
2012	263,131	101,944	365,075
2013	261,408	91,904	353,312
2014	262,993	81,917	344,910
2015 – 2019	978,801	280,603	1,259,404
2020 – 2022	694,746	60,897	755,643
Total	$ 2,957,381	$ 851,562	$ 3,808,943

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

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

Maturity	Principal
2010	$ 200,000
2011	390,000
2012	410,000
2013	490,000
2014	590,000
Thereafter	18,250,000
Total	$ 20,330,000

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

The VSUREF had entered into an interest rate swap agreement as part of the provisions of the Series 2006 bond agreement. When the VSUREF issued the 2008 Series bonds, the original swap contract was satisfied and a new interest rate swap agreement was obtained. Per the terms of the 2008 swap agreement, the VSUREF pays a fixed rate of interest of 4.12%. The interest rate swap agreements qualify as derivative financial instruments and are used to mitigate the effect of interest rate fluctuations. The VSUREF accounts for the interest rate swaps as fair value hedges whereby the fair value of these contracts is reflected in other liabilities in the accompanying statement of financial position with the offsets recorded as expenses. The fair value of these contracts was a negative $3,182,815 and $1,898,448 at June 30, 2009 and 2008, respectively. This is the amount the VSUREF would have to pay to settle the interest rate swaps as of these respective dates.

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

8. STATE APPROPRIATIONS

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

The following is a summary of State appropriations received by the University for the year ended June 30, 2009:

Virginia State University:	
Original legislative appropriation:	
Education and general programs	$ 33,492,880
Higher education student financial assistance	4,596,030
Supplemental adjustments:	
Prior year's due from Commonwealth	230,480
State grants	143,641
VIVA interlibrary loan allocation	4,109
Higher education tuition incentive fund	566,920
Mandatory reappropriation from FY08	178,117
Reduction in sickness and disability contribution	(19,346)
Appropriations decrease general fund	(1,398,074)
Reversal of prior year's due from Commonwealth	(230,480)
Nongeneral fund transfer	(251,022)
Year-end cash reversion	(1,404)
Year-end cash reserve for FY10	(1,500,000)
	$ 35,811,851
Cooperative Extension and Agricultural Research Services:	
Original legislative appropriation:	
Education and general programs	$ 4,785,161
Supplemental adjustments:	
FY08 reappropriation/cash transfer-in	86,510
Reduction in sickness and disability contribution	(4,026)
Appropriations decrease general fund	(55,010)
Year-end cash reversion	(947)
	$ 4,811,688
Total state appropriations	$ 40,623,539

9. CAPITAL APPROPRIATIONS

Capital Project General Fund (GF) appropriations were not provided to the University by the Commonwealth during the fiscal year ended June 30, 2009. During the current year, the Commonwealth converted GF appropriations recognized in the previous year for on-going capital projects to debt funding. This change resulted in the reversion of general funds appropriated in prior fiscal year. The funding for the capital projects affected by the reversions/reductions to GF appropriations will be replaced by proceeds from debt financing by the Commonwealth.

Projects affected by this change were as follows:

Construct Science/Technology Building	$ 1,231,588
Maintenance Reserve	2,051,382
Repair Storm Sewer Line	502,551
Renovate Student Housing	1,314,614
Renovate Singleton Hall	1,880,151
Renovate Heating Plant	4,376,298
Improve Handicapped Access	716,000
Renovate Hunter McDaniel Hall	750,000
Construct Multipurpose Center	1,000,000
Total	$ 13,822,584

Funding for the above projects will be handled on a reimbursement basis in subsequent fiscal years from State financed debt funds as noted above.

10. EXPENSES BY NATURAL CLASSIFICATION

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

	Salaries and Wages	Fringe Benefits	Services and Supplies	Scholarship and Fellowships	Utilities	Depreciation	Total
Instruction	$ 21,454,367	$ 6,212,078	$ 7,251,772	$ 162,782	$ 158,769	$ -	$ 35,239,768
Research	2,179,804	659,415	1,583,245	38,191	99,668	-	4,560,323
Public Service	3,091,861	843,948	3,319,870	23,081	93,003	-	7,371,763
Academic Support	3,298,370	851,490	478,601	107,672	45,306	-	4,781,439
Student Services	2,526,751	827,150	1,534,437	41,813	63,222	-	4,993,373
Institutional Support	7,271,378	2,673,012	3,011,791	34,470	188,706	-	13,179,358
Operation and Maintenance of Plant	84,143	267,590	8,307,611	-	4,361,747	-	13,021,091
Scholarships and Fellowships	-	-	-	1,201,295	-	-	1,201,295
Depreciation	-	-	-	-	-	9,298,648	9,298,648
Auxiliary Enterprises	4,104,992	1,281,383	14,900,682	2,099,333	2,564,170	-	24,950,561
Other	-	-	516,289	-	-	-	516,289
Total	$ 44,011,666	$ 13,616,066	$ 40,904,298	$ 3,708,637	$ 7,574,591	$ 9,298,648	$ 119,113,908

11. COMMITMENTS

As of June 30, 2009, the University was a party to construction contracts totaling $65,281,871 of which $10,585,195 was still outstanding as of June 30, 2009.

12. RETIREMENT PLANS

A. Virginia Retirement System

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

The VRS does not measure assets and pension benefit obligations separately for individual State institutions. Therefore, all information relating to this plan is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report. The Commonwealth, not the University, has the overall responsibility for contributions to this plan. The CAFR discloses the unfunded pension benefit obligation at June 30, 2009, as well as the ten-year historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University's total VRS contributions were $3,501,913 for the year ended June 30, 2009, which included the five percent employee contribution assumed by the employer. These contributions represent 11.3 percent of covered payroll for the year. The University's payroll costs for employees covered by the VRS for the year ended June 30, 2009, were $30,896,172. The University's total payroll costs for the year ended was $44,011,666.

B. Optional Retirement Plans

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

Individual contracts issued under these plans provide full and immediate vesting of both the University and the participants' contributions. Annual pension costs under these plans totaled $811,382 for the year ended June 30, 2009. Contributions to these retirement programs were calculated using the base salary amount of approximately $7,801,750.

C. Deferred Compensation

University employees may also voluntarily participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to $20 per pay period. The matched dollar amount can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under section 401(a) of the Internal Revenue Code. The University expense for contributions under the Deferred Compensation Plan, which is an amount assessed by the Commonwealth, was $199,598 for FY2009.

13. POST-EMPLOYMENT BENEFITS

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

The University in compliance with GASB Statement No.47 – Accounting for Termination Benefits did have some voluntary termination benefits and/or involuntary termination benefits as of June 30, 2009 that were recognized in accordance with this statement. The Virginia State University "Early Retirement

Incentive Plan" (ERIP) is a volunteer early retirement plan for tenured teaching and research faculty which provides supplemental retirement benefits to faculty members. Eligible participant must be 1) Volunteer 2) 50 yrs of age 3) Tenured or contractual right to continued employment 4) Full time employee.

The objectives of the plan include providing the University with increased flexibility in the allocation of positions among programs and helping alleviate the financial strain of retirement that may prevent some employees from retiring. The employee receives 66.6% of the employee's base annual salary and the employer paid portion of healthcare insurance for a 12 month period. The total liability of this plan is $55,500.

In addition, the University has an "Alternative Severance Option" (ASO) program which is a voluntary plan for classified, teaching, and research and administrative faculty. This plan provides supplemental severance and enhanced retirement benefits through VRS based on total number of years of service. The plan also includes 12 months of the employer paid portion of healthcare and life insurance. The total liability of this plan is $95,384.

14. RELATED PARTIES

During 2007, the University entered into an agreement with the Virginia State University Foundation, with intentions to expand the University campus through real property acquisitions in the Ettrick, Virginia area. This agreement was entered into because the University may not be able to successfully meet the demands of the open real estate market in the timely manner necessary to secure contracts to purchase real property. As such, the Foundation agreed to undertake the purchase of certain real property as may be designated by the University from time to time, which the University shall then acquire from the Foundation. Real property acquired to date under this agreement and yet to be acquired by the University totaled $1,890,175 at June 30, 2009. The contract states that the University will reimburse the Foundation for all reasonable expenses incurred as a result of the acquisitions. The contract is in effect for two years from the effective date, but contains an automatic renewal for five one-year terms upon each anniversary unless one of the parties provides written notice to the other of its desire to terminate the agreement at least thirty days prior to the date of the scheduled renewal. Amounts due from the University related to this agreement were $226,380 at June 30, 2009.

15. CONTINGENCIES

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

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

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

16. RISK MANAGEMENT

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

17. SUBSEQUENT EVENT

In FY2007, the University embarked on several construction projects to expand its resident hall and dining capacity. These projects were respectively known as the Gateway I Resident Hall and Gateway Dining/Event Center. The University contracted with the Virginia State University Real Estate Foundation to manage the two projects. The Gateway I Resident Hall was completed and is now occupied. However, the Dining/Event center has not been completed due to various construction related problems. The University recently hired (March 2010) a professional firm specializing in performing forensic analysis and reviews of troubled construction projects to review and assess the Dining Hall. The purpose for this review was to determine the next steps to get the project back on track and to have it completed. As a result of these issues, the University will have to commit additional funds to the project and may have to write down a portion of previous costs of constructing the Dining Hall to correct various deficiencies and problems. Any adjustments necessary will be applied in FY 2010 once a decision has been made on how to proceed and the total costs of corrective action is determined.

BOARD OF VISITORS
As of June 30, 2009

Mr. Earnest J. Edwards
Rector

Dr. Albert W. Thweatt
Vice Rector

Ms. Katherine E. Busser
Secretary

Dr. Mary Hatwood Futrell

Mr. Felix Davis, Jr.

Mr. James H. Starkey

Mr. Christopher H. Holden

Mr. Jerry B. Bias

Mr. Richard D. Legon

Brigadier General (Ret.) Alfred J. Cade

Mrs. Maureen Denlea Massey

Mrs. Erika T. Davis

Mr. E. Ray Murphy

Mrs. Daphne Maxwell Reid

Mr. Spencer L. Timm

Dr. Deborah Goodwyn (Faculty Representative)

Ms. Cora Bianca Brodie (Student Representative)

ADMINISTRATIVE OFFICERS

Mr. Eddie N. Moore, Jr.
President

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

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

Dr. Robert L. Turner, Jr.
Vice President for Development
and
Chief Operating Officer

Virginia State University, 1 Hayden Drive, Petersburg, VA 23806