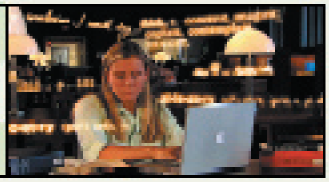
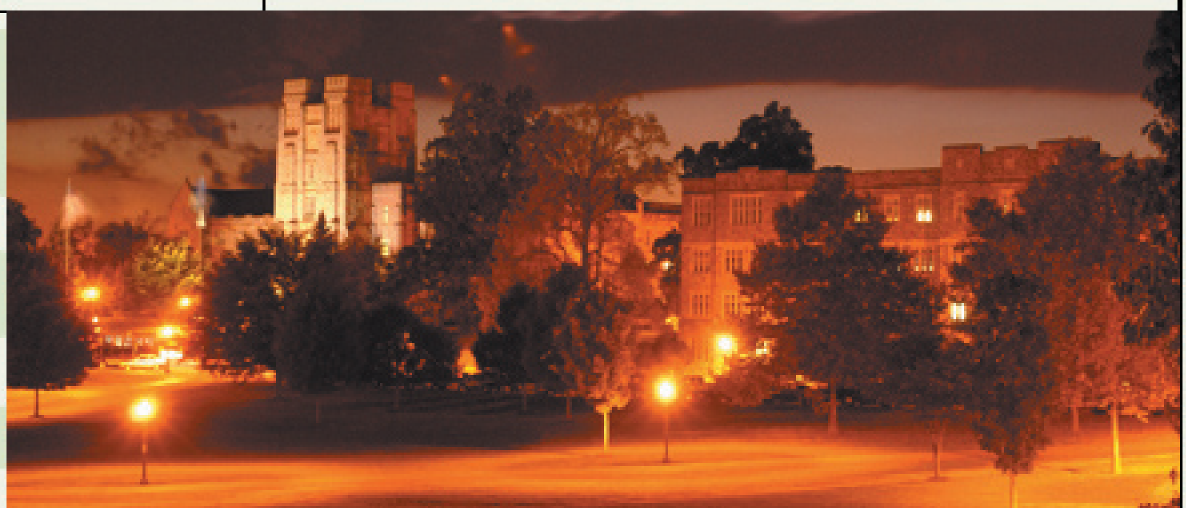
INNOVATION

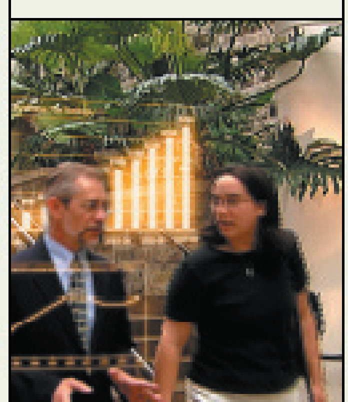


Virginia Tech
Invent the Future



2004/2005

FINANCIAL REPORT



NOTE REGARDING THIS PDF VERSION:

The Table of Contents found on the next page in this version of the university's financial statements is not included in the printed copy. This page is created for ease of use in online viewing of the financial statements.

In this version, the Table of Contents for the entire report and the Table of Contents for Notes to Financial Statements have imbedded links allowing the reader to click on a content item and go to that page. Clicking on a page will return the reader to the Table of Contents page. In the Notes to Financial Statements, click on the page number to return to the main Table of Contents, otherwise the reader is returned to the Table of Contents for Notes to Financial Statements.

The 2004-2005 Financial Report was produced by the Office of the University Controller. Questions about this document or requests for copies of the printed version should be referred to the Controller's Office at (540) 231-6418. This PDF version is available on the University Controller's web site at: http://www.controller.vt.edu under the Financial Reporting section.

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Statement From the Executive Vice President and Chief Operating Officer

James A. Hyatt

The last year at Virginia Tech has been both exciting and rewarding. During this time, significant progress has been made to shape the redefinition of the university's relationship with the Commonwealth of Virginia, allowing greater operating autonomy and flexibility while enhancing accountability to the Commonwealth. A new program, Funds for the Future, was created to keep higher education costs within the means of more Virginia families. New investments in infrastructure were made, exciting new research collaborations were formed, and other financial innovations were implemented to improve Virginia Tech's fiscal flexibility and responsiveness.

FINANCIAL AND ADMINISTRATIVE RESTRUCTURING

The General Assembly approved the Restructured Higher Education Financial and Administrative Operations Act (hereafter referred to as the Restructuring Act) in the spring of 2005, establishing the framework for a changed relationship between the Commonwealth and its colleges and universities. This innovative legislation resulted from efforts initiated by Virginia Tech, the University of Virginia, and the College of William and Mary. The final version of the Restructuring Act identifies three levels of participation by public institutions in Virginia. Level One authority is available to all institutions whose governing boards pass resolutions agreeing to the Act's requirements which reflect the governor's eleven priorities, such as affordability and access to higher education, increased enrollment of Virginia students, additional programmatic support from universities to economic development and K-12 education, and articulation agreements with community colleges to streamline the process for transferring students. Level One status would grant institutions limited additional autonomy, such as the authority to establish tuition and fee rates.

The Restructuring Act also requires all institutions to annually submit six-year enrollment, academic and financial plans to the State Council of Higher Education for Virginia (SCHEV). The six year financial plans will include projected increases for tuition and fees and other university revenues under two scenarios: the first given a specified level of state support under base enhancement funding, and an alternative scenario with tuition and fee increases offsetting reduced levels of state support. These projections would reflect the upper and lower bounds for tuition increases, offering greater predictability of such costs for students and parents. It would also quantify the impact on tuition and fees of funding decisions from the state legislature.

Level Two institutions would be provided expanded authority in one or more specific elements of the financial and administrative operations, as negotiated with state officials through a memorandum of understanding. The 2006 Appropriation Act will identify the areas available for increased autonomy for Level Two institutions.

Virginia Tech, the University of Virginia, and the College of William and Mary worked cooperatively to negotiate the proposed terms of the management agreement required to be a Level Three or "covered university" under the Restructuring Act. The agreement was included in the budget bill submitted to the General Assembly in December 2005 for final approval.

The management agreement includes high level policy statements describing the guiding principles of how the university will operate as a Level Three institution for each area of additional autonomy, and make permanent any decentralization authorities granted in previous years. If the Restructuring Act is approved, increased flexibility will be realized in the areas of: (1) Capital Projects, (2) Real Estate and Leasing, (3) Human Resources, (4) Information Technology, (5) Procurement and (6) Finance and Accounting.

The management agreement will also specify that institutions make additional commitments to provide student financial aid to needy students, increase the number of transfer students, match institutional investments for any state General Fund investments in research, and provide institutional support for economically depressed areas of the state.

KEEPING EDUCATION AFFORDABLE

As mentioned above, the Act requires Virginia Tech to include in its management agreement the university's commitment to provide need-based grant aid for middle and lower-income Virginia students in a manner that encourages student enrollment and progression without respect to potential increases in tuition and fees. The university recognizes that the cost of higher education as a percentage of family income has increased steadily in recent years for low and moderate income families. Since the university anticipates further increases in tuition and fees during the six-year period of 2006-2012, the university developed its Funds for the Future program. This program will increase institutional and other fund sources to moderate the impact of future tuition and fees increases for Virginia undergraduates. Students with adjusted gross family income of $100,000 or less, as determined by federal financial aid regulations, will be eligible for this program.

The university will implement this program in the 2006-2007 academic year. It is estimated that approximately 5,600 students, representing over 36 percent of the university's in-state undergraduate enrollment, will receive incremental benefits under this program. The university will draw upon the full range of available resources to increase grant aid, and has established very aggressive goals for its institutional and private funding resources necessary to create and sustain this program.

FUTURE INFRASTRUCTURE INVESTMENT

Innovative solutions have been developed to provide the necessary infrastructure to support our academic programs as we build for the future. In addition to the various new buildings approved and anticipated over the next six years, the university plans to undertake the major renovation of nine academic buildings in the next twenty years. These renovations will involve significant construction work to improve and optimize instructional space. In 2005, the Commonwealth approved the Surge Space Building project for an amount totaling $8.5 million to temporarily house the displaced academic areas affected by the renovations. The 45,000 square foot surge building will be located in close proximity to the campus for the convenience of programs utilizing the space. To ensure the greatest flexibility for the use of the space by a succession of differing departments, and to provide the surge space in the most economical manner, the building will have an open design, an estimated life cycle of 15 years, and is anticipated to be occupied within 18 months of the start of construction.

RESEARCH COLLABORATIONS AND NEW INITIATIVES

A new research collaboration in the National Capital Region, through a partnership between Virginia Tech and The Institute for Genomic Research (TIGR), will enrich the university's basic research capabilities in the area of life sciences and provide students opportunities to work on critical research applications in this area. The Virginia Tech-TIGR agreement is part of the university's long term commitment to build the biotechnology infrastructure in the Commonwealth of Virginia. This university collaboration, along with others, expands Virginia Tech's emerging research foundation in biomedical and health fields.

In June 2005, phase one of a web-based solution for electronic billings and electronic payments of student tuition and fees was implemented. This innovative paperless process for tuition and fees billings and collections will provide greater convenience to students and parents, reduce costs, and improve cash flows.

The financial and operational initiatives and research collaborations started this year will come to fruition in the coming year, providing enhanced support to the instruction, research and outreach missions of the university as we strive to invent the future.

James A. Hyatt
Executive Vice President and
Chief Operating Officer

Management's Responsibility For Financial Reporting and Internal Controls

The information in this Annual Financial Report, including the accompanying basic financial statements, notes, Management's Discussion and Analysis, and other information is the responsibility of 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 financial position as well as revenues, expenses, and changes in net assets. 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, 2005.

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

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

The Auditor of Public Accounts (APA), the Commonwealth of Virginia's auditors, have examined our 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, and 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 on internal control matters were found by the APA for the fiscal year ended June 30, 2005.

James A. Hyatt
Executive Vice President and Chief Operating Officer

Report of the Independent Auditor

October 28, 2005

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
and Review Commission

The Board of Visitors
Virginia Polytechnic Institute and State University

We have audited the accompanying basic financial statements of Virginia Polytechnic Institute and State University, a component unit of the Commonwealth of Virginia, and its aggregate discretely presented component units as of and for the year then ended June 30, 2005, as shown on pages 14 through 17. 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 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 Virginia Polytechnic Institute and State University and of its aggregate discretely presented component units as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming opinions on the basic financial statements of the University. The Schedule of Auxiliary Enterprises – Revenues, Expenses, and Changes in Fund Balances, affiliated corporations financial highlights, and the consolidating schedules are presented for the purpose of additional analysis and are not a required part of the financial statements. The schedule of auxiliary enterprises on page 39 has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, such information is fairly presented in all material respects in relation to the financial statement taken as a whole. The affiliated corporations financial highlights on pages 40 and 41 and the consolidating schedules on pages 42 and 43 have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2005, on our consideration of the Virginia Polytechnic Institute and State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Walter J. Kucharski
Auditor of Public Accounts

MANAGEMENT'S DISCUSSION AND ANALYSIS

Virginia Polytechnic Institute and State University, popularly known as Virginia Tech, is a comprehensive, land-grant university located in Blacksburg, Virginia. The university offers 181 graduate, undergraduate, and professional degree programs through its eight academic colleges (Agriculture and Life Sciences, Architecture and Urban Studies, Pamplin College of Business, Engineering, Science, Liberal Arts and Human Sciences, Natural Resources, and the Virginia-Maryland Regional College of Veterinary Medicine). The university serves 27,619 students and employs 2,004 full-time teaching and research faculty members.

Virginia Tech has evolved into a position of increasing national prominence since its founding in 1872, consistently ranking among the nation's top universities for undergraduate and graduate programs. The university also ranks among the top 55 institutions in the United States in annual research expenditures as reported by the National Science Foundation.

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

OVERVIEW

This unaudited Management's Discussion and Analysis (MD&A) is required supplemental information under the Governmental Accounting Standards Board's (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective, easily readable analysis of the university's financial activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the university's financial condition and results of operations for the fiscal year ended June 30, 2005. Comparative numbers are included for the fiscal year ended June 30, 2004. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying basic financial statements (including notes), and other supplementary information. The university's management is responsible for all of the financial information presented, including this discussion and analysis.

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

Beginning in fiscal year 2004, the university adopted GASB Statement Number 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement Number 14. Using criteria provided in Statement Number 39, management evaluated the university's six affiliated corporations to determine, based on their nature and significance of their relationship to the university, which organizations should be included. The Virginia Tech Foundation, Inc. and Virginia Tech Services, Inc. were determined to be component units and are presented in a separate column on the university's financial statements. However, transactions between the university and these component units have not been eliminated in this year's financial statements.

During the current year the university also adopted GASB Statement Number 40, *Deposit and Risk Disclosures*, an amendment of GASB Statement No. 3. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Using the guidance provided by Statement Number 40, the university has evaluated and disclosed the risks associated with the university's deposits and investments.

STATEMENT OF NET ASSETS

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

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

The university's net assets are classified as follows:

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

- Restricted net assets, expendable — Expendable restricted net assets include resources the university is legally or contractually obligated to expend in accordance with restrictions imposed by external third parties. These assets partially consist of quasi-endowments totaling $40.5 million. The quasi-endowments are managed by the Virginia Tech Foundation.

- Restricted net assets, nonexpendable — Nonexpendable restricted net assets consist of endowment and similar type funds where donors or other outside sources have stipulated, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be expended or added to principal. The Virginia Tech Foundation, Inc. (VTF) is a component unit that receives gifts to support university programs as described in Note 1 of the Notes to Financial Statements and in the supplementary information. The foundation's nonexpendable restricted net assets for endowments had a market value exceeding $233.7 million at June 30, 2005. The university's nonexpendable endowments of $0.4 million are included in its column on the Statement of Net Assets.

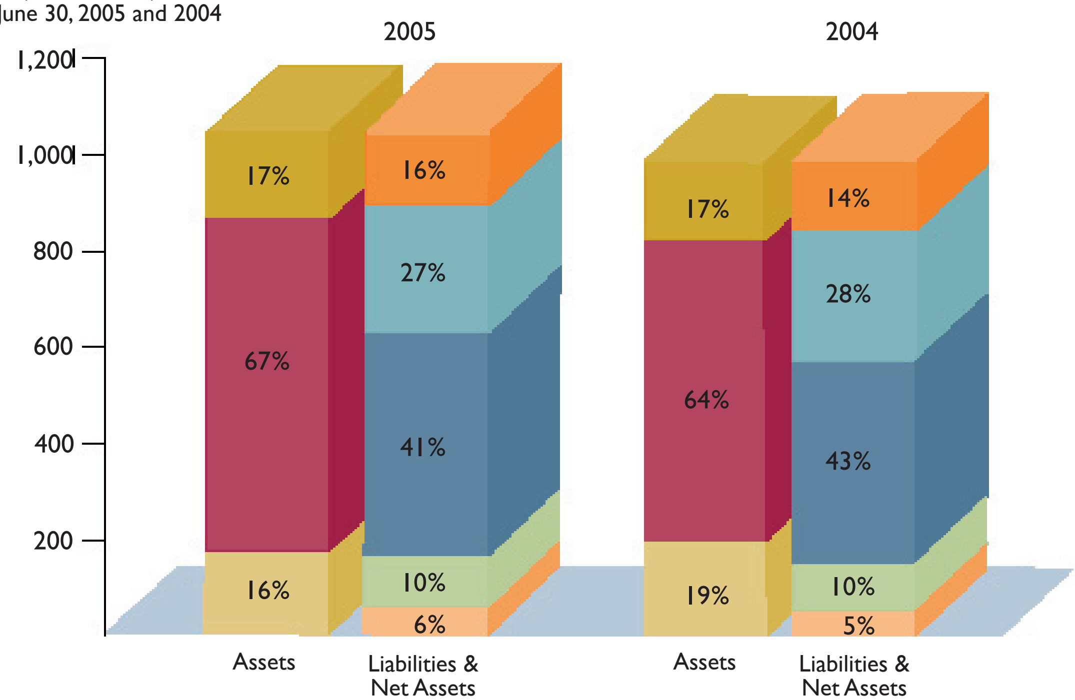
- Unrestricted net assets — Unrestricted net assets represent resources used for transactions relating to academic departments and general operations of the university, and may be used at the discretion of the university's Board of Visitors to meet current expenses for any lawful purpose in support of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

Total university assets increased by $58.2 million or 5.9% during fiscal year 2005, bringing the total to $1,046.2 million at year-end. The growth was directly related to a net increase of $68.2 million in capital assets and a $13.7 million increase in current assets. These increases were partially offset by a reduction of $23.7 million in other non-current assets. The decline in non-current cash and cash equivalents is the result of spending bond proceeds on capital assets evidenced by the increase in the depreciable capital asset category of non-current assets. The rise in current assets is most evident in the cash and cash equivalents category. Current cash and cash equivalents grew by over $11.1 million, mainly due to the growth in accrued expenditures.

Total university liabilities decreased by $0.6 million or 0.1% during fiscal year 2005. The reduction in liabilities is the net effect of the decrease in non-current liabilities, specifically, the non-current accounts payable and accrued liabilities category of $3.3 million and the long-term debt payable category of $8.3 million. The reduction in the accounts payable and accrued liabilities category represents the reclassification of the Big East football conference exit fees ($1.3 million) and entrance fees for the Atlantic Coast Conference ($2.0 million) to the current liability category, of which $1.0 million was paid during fiscal year 2005. Current liabilities had a net increase of $9.9 million. The increase in accounts payable and the current portion of long-term debt were the primary reasons for the increase.

Total assets grew by a greater margin than total liabilities, with the university's net assets increasing by a corresponding amount of $58.8 million. Invested in capital assets, net of related debt, accounted for $44.0 million of the increase in the current fiscal year (see discussion on the following page).

SUMMARY OF ASSETS, LIABILITIES, AND NET ASSETS
For the years ended June 30, 2005 and 2004
(all dollars in millions)



	2005	2004 (as restated)	Increase (Decrease) Amount	Increase (Decrease) Percent
ASSETS				
Current assets	$ 176.7	$ 163.0	$ 13.7	8.4 %
Capital assets and intangibles, net	698.3	630.1	68.2	10.8 %
Other assets	171.2	194.9	(23.7)	(12.1)%
Total assets	1,046.2	988.0	58.2	5.9 %
LIABILITIES				
Current liabilities	150.0	140.1	9.9	7.1 %
Non-current liabilities	267.2	277.7	(10.5)	(3.8)%
Total liabilities	417.2	417.8	(0.6)	(0.1)%
NET ASSETS				
Invested in capital assets, net of debt	464.4	420.4	44.0	10.5 %
Restricted	106.4	100.6	5.8	5.8 %
Unrestricted	58.2	49.2	9.0	18.3 %
Total net assets	$ 629.0	$ 570.2	$ 58.8	10.3 %

CAPITAL ASSET AND DEBT ADMINISTRATION

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

Note 7 of the Notes to Financial Statements describes the university's significant investment in depreciable capital assets with gross additions of over $114.2 million during fiscal year 2005. The capitalization of The Inn at Virginia Tech, Holtzman Alumni Center, and Skelton Conference Center (alumni and conference center) ($37.4 million), the Bioinformatics Phase II project ($20.1 million), the Dairy Science complex ($5.0 million) and the Dietrick Hall renovation project ($6.7 million) were the primary components of building additions during fiscal year 2005, representing over $69.2 million of the $76.4 million gross additions to buildings during fiscal year 2005. Ongoing investments in instructional, research, and computer equipment totaled $30.9 million. Depreciation expense was $47.6 million with net retirements of $2.2 million resulting in a net increase in depreciable capital assets of $64.4 million. The Lane Stadium West Sideline expansion ($25.7 million) and the Agriculture and Natural Resources Research Laboratory ($9.9 million) projects were the major contributors to the increase in the non-depreciable assets category Construction in Progress (CIP). The largest decrease in CIP was from the capitalization of the alumni and conference center and the Bioinformatics Phase II projects.

Non-current liabilities decreased by $10.5 million during fiscal year 2005. The primary reason was that retirements and reclassifications of previously issued long-term debt exceeded new debt issued during the year. The most significant changes in additions and retirements of long-term debt were due to several in-substance defeasances initiated by the Commonwealth of Virginia on behalf of the university to reduce future debt service payments. New long-term debt totaling $23.9 million was issued to defease $23.8 million of previously issued debt, having a negligible effect on the ending balance of long-term debt. Additional new long-term debt totaling $4.8 million was issued to fund the Dietrick Dining Hall Servery renovation project. The normal reclassification of the amount of long-term debt to be retired in the next fiscal year, from the Non-current liabilities category to the Current liabilities category ($13.4 million), offset the increases in non-current liabilities created by the new debt issued for the Dietrick project. (See Notes 11, 12, and 13 of the Notes to Financial Statements for more details.)

Commitments to construction contractors, architects, and engineers for capital projects totaled $17.5 million at June 30, 2005. Three projects constituted the majority of the financial commitment: the Lane Stadium West Sideline Expansion ($8.8 million), the Agriculture and Natural Resources Research Laboratory ($4.4 million), and remaining construction on the alumni and conference center ($1.2 million). These commitments represent only a portion of the university's capital projects authorized by the Commonwealth of Virginia.

The educational and general (E&G) portion of the university's capital outlay program represents 15 projects currently in various stages of completion. Two of the larger projects in progress include the Biology/ Vivarium Building ($37.8 million) and the Agriculture and Natural Resources Research Laboratory ($26.0 million). In addition to the capital projects underway, there are four approved new construction and renovation projects for instructional and research facilities. Larger approved projects include the Henderson Hall renovation and the Institute for Critical Technologies and Applied Science Phase I. The Commonwealth of Virginia will provide the major funding for these E&G projects from the voter-approved Virginia Higher Education Bond Referendum. This referendum provides $900 million in debt-financed capital projects to create quality educational facilities for the Commonwealth's universities and colleges. Virginia Tech will receive a total of $95.3 million from these bond proceeds to provide partial funding for ten capital projects, however these bonds are the obligation of the Commonwealth of Virginia, not the university. During fiscal year 2005, the university received $3.4 million of these bond proceeds from the Commonwealth. The university plans to provide additional funding for these projects by issuing $57.0 million of long-term debt.

The university's auxiliary enterprises have approval for ten capital projects that are also in various stages of completion. Some of the larger projects currently in progress include the Lane Stadium West Sideline expansion and completion of the alumni and conference center. Three future capital projects are also approved for auxiliary enterprises. These include the dining and student union facility and a new residence hall. Since auxiliaries are required to be self-supporting, no state general funds or capital appropriations are provided for these projects. The projects have been or will be funded from a combination of private gifts, student fees, other customer revenues, and debt financing.

FUNDING FOR AUTHORIZED CURRENT AND FUTURE CAPITAL PROJECTS

As of June 30, 2005
(all dollars in millions)

	State Funds (1)	Other Funds (2)	University Debt Issued Before June 30, 2005	University Debt To Be Issued After June 30, 2005	Total Funding	Cash Basis Project-To-Date Expenses
Current education and general	$ 141.8	$ 22.3	$ 6.6	$ 8.8	$ 179.5	$ 88.1
Current auxiliary enterprise	-	50.0	102.5	40.8	193.3	106.0
Total current funding	141.8	72.3	109.1	49.6	372.8	194.1
Future education and general	23.0	3.0	-	57.0	83.0	2.4
Future auxiliary enterprise	-	1.5	-	10.3	11.8	-
Total future funding	23.0	4.5	-	67.3	94.8	2.4
Total authorized funding	$ 164.8	$ 76.8	$ 109.1	$ 116.9	$ 467.6	$ 196.5

(1) Includes the general fund, capital appropriations and the general obligation bonds of the Commonwealth of Virginia.
(2) Includes private gifts, auxiliary surpluses, student fees, and other customer revenues.

Virginia Tech had a total authorization of $467.6 million in capital building projects as of June 30, 2005, requiring approximately $116.9 million in additional debt financing.

The university's bond ratings of Aa3 and AA from Moody's and Standard & Poor's, respectively, reflect strong student demand, balanced operating performance, and adequate reserves to address unforeseen expenses.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

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

Generally, operating revenues are received through providing goods and services to the various customers and constituencies of the university. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the missions of the university. Salaries and fringe benefits for faculty and staff are the largest type of operating expense. Non-operating revenues are revenues received for which goods and services are not directly provided. State appropriations and gifts, while included in this category, still provide substantial support for paying operating expenses of the university. Therefore, the university, like most public institutions, will expect to show an operating loss.

Operating Revenues

Total operating revenues increased by $42.1 million or 9.2% from the prior fiscal year. The growth in student tuition and fee revenue was $17.6 million. This increase was expected given the rise in both in-state and out-of-state tuition rates, effective for the Fall 2004 semester. Grants and contract revenue grew by $13.5 million or 9.0% from the prior year. The increases were primarily from the research areas managed by the Virginia Bioinformatics Institute, Virginia Tech Transportation Institute, the Center for Advanced Separation Technology and programs in conjunction with the Institute for Advanced Learning and Research. Auxiliary enterprise revenue also grew by $9.1 million. The largest areas of growth in auxiliary revenue were in Athletics ($4.6 million) and Dormitory and Dining ($2.3 million). These increased revenues came primarily from student fees and increased ticket sales. Overall, the university's operating revenue increased to $500.9 million in fiscal year 2005, compared to $458.8 million in fiscal year 2004.

Non-operating and Other Revenues

Non-operating revenue increased by over $25.0 million from the previous year's total. This increase was almost solely from additional state appropriations of $22.1 million. State appropriation revenue grew as a result of legislative efforts to partially restore prior years' funding reductions and support the increased cost of salaries and fringe benefits. The increase in state appropriations revenue and gift and investment income, net of interest expense, resulted in net non-operating revenues of $264.4 million.

Total other revenue, expenses, gains and losses decreased by $25.0 million as a result of a decrease in capital appropriations, partially offset by increases in capital gifts and grants. During fiscal year 2004, the university received $26.1 million in funding from voter-approved Virginia Higher Education Bond Referendum and $22.8 million in funding from 21st Century College Program. The funding from these two programs in fiscal year 2005 was only $3.4 million and $7.7 million respectively, reducing capital appropriations by $37.8 million. These programs allow the Commonwealth to issue debt and distribute the proceeds to institutions of higher education to finance specified capital projects. This financing is the debt of the Commonwealth, not the university, with the proceeds allocated to Virginia Tech as non-general fund appropriations. The decline in capital appropriations was partially offset by a $9.9 million increase in capital grants and gifts. The rise in capital grants and gifts was primarily due to the growth in private gifts received from the Virginia Tech Foundation in support of two capital projects, the Lane Stadium West Sideline expansion and the alumni and conference center.

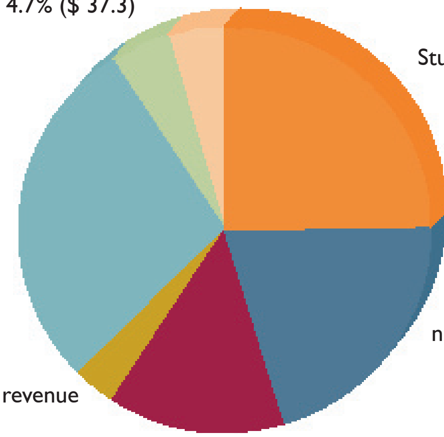
As shown in the chart on the following page, revenues from all sources (operating, non-operating, and other) for fiscal year 2005 totaled $800.7 million, and grew by $42.1 million over the previous year. Similarly, operating expenses totaled approximately $741.9 million for fiscal year 2005 and grew by $44.4 million. The symmetrical growth in total revenues and expenses resulted in an increase in net assets of $58.8 million for fiscal year 2005, which was consistent with the growth in net assets of $61.1 million for fiscal year 2004. (Details about changes in operating expenses are included in the following section.)

SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the years ended June 30, 2005 and 2004
(all dollars in millions)

	2005	2004 (as restated)	Increase (Decrease)
Operating revenues	$ 500.9	$ 458.8	$ 42.1
Operating expenses	741.9	697.5	44.4
Operating loss	(241.0)	(238.7)	(2.3)
Non-operating revenues and expenses	264.4	239.4	25.0
Income before other revenues, expenses, gains or losses	23.4	0.7	22.7
Other revenues, expenses, gains or losses	35.4	60.4	(25.0)
Increase in net assets	58.8	61.1	(2.3)
Net assets - beginning of year	570.2	509.1	61.1
Net assets - end of year	$ 629.0	$ 570.2	$ 58.8

REVENUES BY SOURCE
For the year ended June 30, 2005
(all dollars in millions)



INCREASE (DECREASE) IN REVENUES
For the years ended June 30, 2005 and 2004
(all dollars in millions)

	2005	2004 (as restated)	Increase (Decrease) Amount	Increase (Decrease) Percent
OPERATING REVENUES				
Student tuition and fees, net of scholarship allowance	$ 199.1	$ 181.5	$ 17.6	9.7 %
Federal, state, local, and nongovernmental grants and contracts	163.5	150.0	13.5	9.0 %
Auxiliary enterprises	113.1	104.0	9.1	8.8 %
Other operating revenue	25.2	23.3	1.9	8.2 %
Total operating revenues	500.9	458.8	42.1	9.2 %
NON-OPERATING ACTIVITY				
State appropriations	227.1	205.0	22.1	10.8 %
Gifts, investment income, interest expense on debt related to capital asset and other non-operating revenues	37.3	34.4	2.9	8.4 %
Total non-operating revenues	264.4	239.4	25.0	10.4 %
OTHER REVENUES, GAINS (LOSSES)				
Capital appropriations	11.6	49.5	(37.9)	(76.6)%
Capital grants and gifts	22.4	12.5	9.9	79.2 %
Gain (loss) on disposal of capital assets	1.4	(1.6)	3.0	187.5 %
Total other revenues, gains (losses)	35.4	60.4	(25.0)	(41.4)%
Total revenues	$ 800.7	$ 758.6	$ 42.1	5.5 %

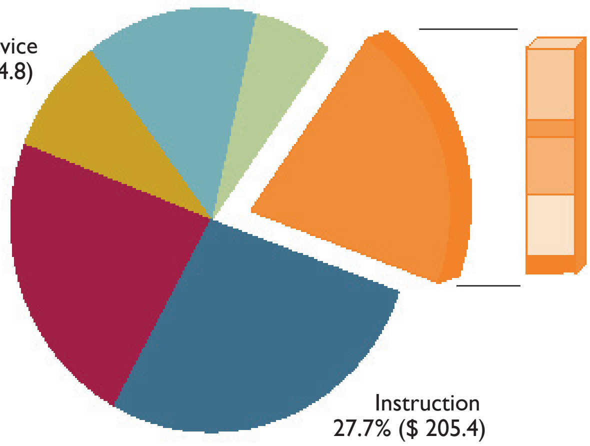
Total Expenses

The university is committed to recruiting and retaining outstanding faculty and staff. The personnel compensation package is one way to successfully compete with peer institutions and nonacademic employers. The natural expense category, compensation and benefits, comprises $488.7 million or 66% of the university's total operating expenses. This category increased by $38.2 million (8.5%) over the previous year. The Commonwealth provides merit based and across-the-board salary increases on a periodic basis. During fiscal year 2005, a 3% increase was provided to classified staff and an average increase of 4.5% was given to faculty members. The balance of the increase in compensation and benefit expenses, which grew by a total of $12.3 million or 13% over the previous year, was due mostly to rises in medical insurance costs (19.8%) and retirement benefit costs (8.6%).

Operating expenses for fiscal year 2005 totaled $741.9 million, up $44.4 million from fiscal year 2004. The net increase was the result of several offsetting variances. The largest growth in operating expenses occurred in the Instruction category which grew by $14.1 million reflecting increases in personnel compensation, fringe benefit costs, and reinvestment in instructional programs and initiatives funded by increased student tuition and fees, and restored state appropriations. Research expenses increased by $9.9 million from the prior fiscal year. The continued expansion of the Virginia Bioinformatics Institute, Virginia Tech Transportation Institute, and new initiatives such as the Center for Advanced Separation Technology and programs in conjunction with the Institute for Advanced Learning and Research were the primary reasons for the growth in research expenses.

The largest percentage increase in expenditures over the prior fiscal year was in the Institutional support category, which increased by $8.9 million or 29.4%. The majority of the growth ($6.8 million) was related to compensation and fringe benefits costs due to university-wide salary increases, fringe benefit cost escalations, and investment in the infrastructure required to support programmatic initiatives.

OPERATING EXPENSES BY FUNCTION
For the year ended June 30, 2005
(all dollars in millions)



INCREASE (DECREASE) IN OPERATING EXPENSES BY FUNCTION
For the years ended June 30, 2005 and 2004
(all dollars in millions)

	2005	2004 (as restated)	Increase (Decrease) Amount	Increase (Decrease) Percent
Instruction	$ 205.4	$ 191.3	$ 14.1	7.4 %
Research	169.6	159.7	9.9	6.2 %
Public service	64.8	59.5	5.3	8.9 %
Auxiliary enterprises	102.0	96.1	5.9	6.1 %
Depreciation and amortization expense	47.7	45.5	2.2	4.8 %
Subtotal	589.5	552.1	37.4	6.7 %
Support, maintenance, and other expenses				
Academic support	48.9	46.4	2.5	5.4 %
Student services	11.6	13.8	(2.2)	(15.9)%
Institutional support	39.2	30.3	8.9	29.4 %
Operations and maintenance of plant	41.5	42.9	(1.4)	(3.3)%
Student financial assistance, net of scholarship discounts and allowances of $43.8 million and $37.1 million, respectively	11.2	12.0	(0.8)	(6.7)%
Total support, maintenance, and other expenses	152.4	145.4	7.0	4.8 %
Total expenses	$ 741.9	$ 697.5	$ 44.4	6.4 %

Increased development personnel were needed to support the fund raising activites of the ongoing capital campaign. Likewise, additional staff resources were added to the Office of Sponsored Programs, the Research Division, the Controller's Office Cost Accounting Section, and other areas to support the growth of sponsored research and the ever-increasing burden of regulations and compliance activities related to sponsored research. Operating cost increases were also experienced by ancillary support functions such as the Computing Center, the Print Shop and Fleet Services.

Expenses in the Student Services category showed a net reduction of $2.2 million from fiscal year 2004 levels. The net reduction in this category was due to the transition of the Career Services activity to auxiliary status ($1.0 million), a reduction in the allocation of central computing costs ($1.6 million), and offsetting increases in personnel compensation costs.

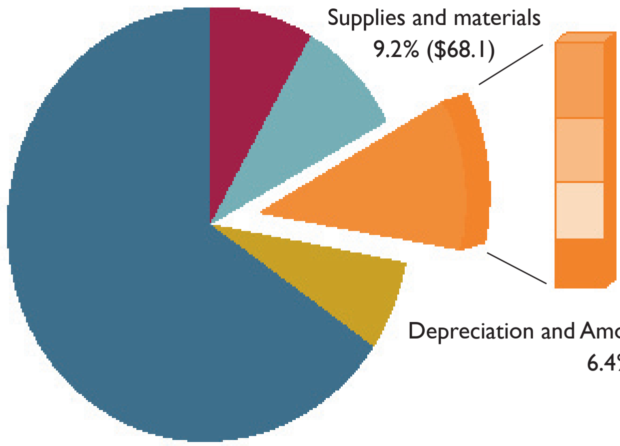
Although the Student Financial Assistance expenses of $11.2 million for fiscal year 2005 were $0.8 million less than fiscal year 2004, this decrease is somewhat misleading. The net Student Financial Assistance expense represents the amount of institutional resources provided (in excess of the tuition and fees owed by the student to the university) that was refunded to the student, not the gross total amount of financial aid provided by the university. The decrease in net expenses was actually due to increased waivers and scholarships provided to students that resulted in the $6.7 million growth of Scholarship Discounts and Allowances (from $37.1 million to $43.8 million) which are netted against the gross total of financial aid expenses. The increased amounts of internal and scholarship funds were provided to students to offset increases in tuition, fees and other costs of attendance.

The year-over-year net reduction of $1.4 million in operation and maintenance expenses is the result of a reduction in auxiliary maintenance projects ($1.8 million) and a reduction in non-capital expenses from completed capital projects ($1.5 million), partially offset by increases in personnel compensation costs.

The university's operating revenues grew by 9.2% or $42.1 million over the preceding year while operating expenses increased by 6.4% or $44.4 million, resulting in a 1.0% or $2.3 million increase in the operating loss for fiscal year 2005. The primary reason for the increase in the operating loss was the growth in personnel compensation expense. State appropriations, recorded as non-operating revenues, are used to meet operating expenses not offset by operating revenues.

OPERATING EXPENSES BY NATURAL CLASSIFICATION

For the year ended June 30, 2005
(all dollars in millions)



INCREASE (DECREASE) IN OPERATING EXPENSES BY NATURAL CLASSIFICATION

For the years ended June 30, 2005 and 2004
(all dollars in millions)

	2005	2004 (as restated)	Increase (Decrease) Amount	Increase (Decrease) Percent
Compensation and benefits	$ 488.7	$ 450.5	$ 38.2	8.5 %
Contractual services	55.4	58.9	(3.5)	(5.9)%
Supplies and materials	68.1	62.4	5.7	9.1 %
Travel	25.2	22.4	2.8	12.5 %
Other operating expenses	21.4	22.6	(1.2)	(5.3)%
Scholarships and fellowships*	19.5	19.3	0.2	0.1 %
Sponsored program subcontracts	15.9	15.9	0.0	0.0 %
Depreciation and amortization	47.7	45.5	2.2	4.8 %
Total operating expenses by natural classification	$ 741.9	$ 697.5	$ 44.4	6.4 %

* *Includes research grant and contract fellowships, see Note 24 in Notes to Financial Statements.*

STATEMENT OF CASH FLOWS

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

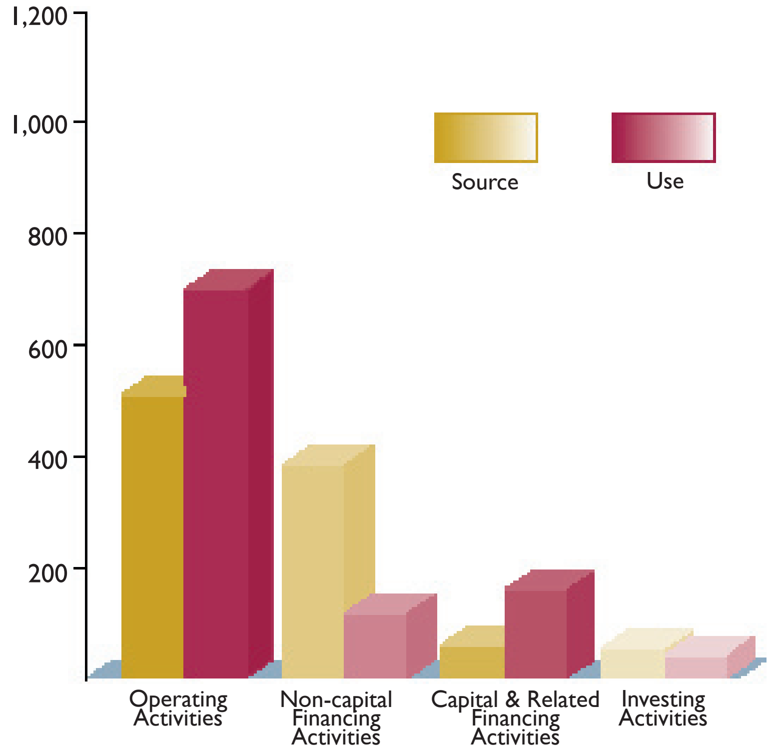
The statement is divided into five sections. The first section, Cash Flows from Operating Activities, deals with operating cash flows and shows the net cash used by the operating activities of the university. The Cash Flows from Non-Capital Financing Activities section is second. GASB requires general appropriations from the Commonwealth and non-capital gifts be shown as cash flows from non-capital financing activities. This section reflects the cash received and spending for items other than operating, investing, and capital financing purposes. Cash Flows from Capital and Related Financing Activities, the third section, presents cash used for the acquisition and construction of capital and related items. Included in cash flows from capital financing activities are all plant funds and related long-term debt activities (except depreciation and amortization), as well as gifts to endowments. Cash Flows from Investing Activities, the fourth section, reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received. The last section reconciles the net cash used to the operating income or loss reflected on the SRECNA.

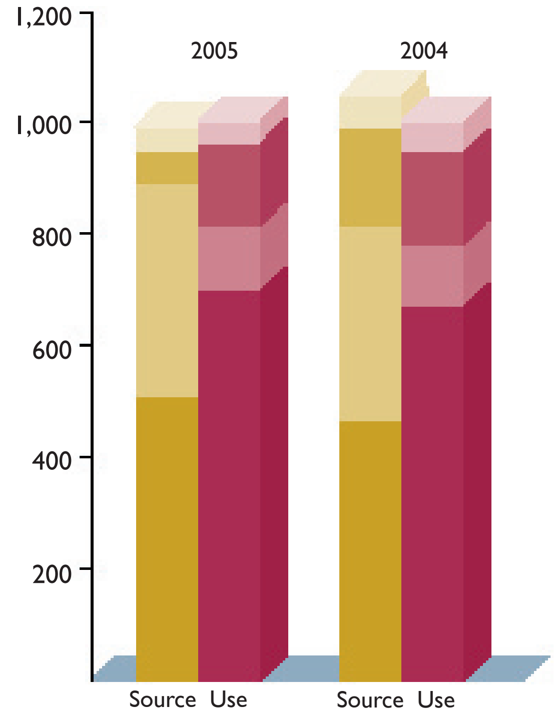
Major operating activity sources of cash for the university included student tuition and fees ($200.0 million), grants and contracts ($165.8 million), and auxiliary enterprise revenues ($111.1 million). Major operating activity uses of cash included compensation and benefits ($483.6 million) and operating expenses ($195.9 million). Operating activity uses of cash significantly exceed operating activity sources of cash due to state appropriations ($227.1 million) and gifts ($36.4 million) being classified as non-capital financial activities. Net cash from capital and related financing activities showed a large decrease due to spending on several large capital projects (Lane Stadium West Sideline expansion, alumni and conference center, Bioinformatics Phase II, Agriculture/Natural Resources Research Laboratory and the Dietrick Hall renovation project) funded from bond proceeds issued in the prior year.

ECONOMIC OUTLOOK

The university is closely tied to the Commonwealth of Virginia. The Commonwealth of Virginia currently supports 28% of the university's budget through general fund appropriations. During 2004-05, the Commonwealth re-invested in higher education by making general fund allocations and returning to the university's Board of Visitors the authority to establish tuition and fees rates. As a result, 2004-05

SUMMARY OF CASH FLOWS
For the years ended June 30, 2005 and 2004
(all dollars in millions)





(The graphs above demonstrate the relationship between sources and uses of cash. The graph on the left shows activity for fiscal year 2005 only, grouped by related sources and uses of cash, while the graph on the right compares that same activity across fiscal years 2005 and 2004 in a stacked format.)

	2005	2004 (as restated)	Increase (Decrease) Amount	Percent
Net cash used by operating activities	$ (188.0)	$ (207.3)	$ 19.3	9.3 %
Net cash provided by non-capital financing activities	266.4	241.5	24.9	10.3 %
Net cash provided (used) by capital and related financing activities	(99.6)	8.4	(108.0)	(1,285.7)%
Net cash provided (used) by investing activities	12.7	2.2	10.5	77.3 %
Net increase (decrease) in cash and cash equivalents	(8.5)	44.8	(53.3)	(119.0)%
Cash and cash equivalents - beginning of year	207.3	162.5	44.8	27.6%
Cash and cash equivalents - end of year	$ 198.8	$ 207.3	$ (8.5)	(4.1)%

marked the first year since prior to the 2002 budget reductions that the Commonwealth made significant unrestricted investments in higher education. This trend is expected to continue in fiscal year 2006. State general fund revenues are strong from a tax increase enacted by the General Assembly and a strengthening economy.

Executive management believes the university will maintain its solid financial foundation and is well positioned to continue its excellence in teaching, research, and public service. Management's policies of cost containment and investing in strategic initiatives will ensure the university is well prepared for continued growth and expansion. The financial position of the university is strong as evidenced by its diversified portfolio of research funding, strong student demand from increasingly talented students, auxiliary enterprises with high customer satisfaction, low total cost of attendance, growing endowment, Aa3 rating from Moody's, and AA rating from Standard and Poor's. These debt ratings allow the university to obtain funding for capital projects with advantageous terms.

Virginia Tech continues the silent phase of the university's largest private capital campaign and anticipates that private support will continue to grow. The university is grounded by an impressive community of students, faculty, and staff. These assets will sustain Virginia Tech's bright future as the Commonwealth's largest university offering more career options than any other Virginia university.

Virginia Tech, along with all other Virginia institutions of higher education, continues discussions with the Commonwealth of Virginia to seek additional decentralized authority through the planned restructuring of higher education. Several of the institutions participating in the restructuring activity have sought and received significant decentralized authority from the Commonwealth over the last decade. The restructuring plan offers the possibility of additional flexibility and authority to the participant institutions with the potential for increased efficiencies and cost savings.

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

STATEMENT OF NET ASSETS

As of June 30, 2005, with comparative financial information as of June 30, 2004
(all dollars in thousands)

	2005		2004	
	Virginia Tech	Component Units	Virginia Tech (as restated)	Component Units
ASSETS				
Current assets				
Cash and cash equivalents (Note 4)	$ 111,092	$ (7,491)	$ 99,947	$ (4,369)
Cash equivalents, securities lending (Note 5)	2,676	-	-	-
Investments, securities lending (Note 5)	568	-	2,080	-
Short-term investments (Notes 4, 25)	396	23,041	1,156	20,617
Accounts and contributions receivable, net (Notes 1, 6, 25)	32,889	18,509	33,520	16,344
Notes receivable, net (Note 1)	1,247	1,638	1,584	384
Due from Commonwealth of Virginia (Note 8)	7,078	-	5,129	-
Inventories	9,588	6,375	9,235	5,756
Prepaid expenses	11,202	381	10,387	399
Other assets	-	599	-	595
Total current assets	176,736	43,052	163,038	39,726
Non-current assets				
Cash and cash equivalents (Note 4)	84,996	37,817	107,293	26,677
Short-term investments (Note 4)	2,608	-	10,907	-
Accounts and contributions receivable, net (Notes 1, 6, 25)	3,203	24,109	445	19,658
Notes receivable, net (Note 1)	13,558	18,014	13,389	16,728
Net investments in direct financing leases	-	8,242	-	8,596
Irrevocable trusts held by others, net	-	10,191	-	8,465
Long-term investments (Notes 4, 25)	65,593	486,238	61,912	453,611
Depreciable capital assets, net (Notes 7, 25)	575,761	86,783	511,329	82,204
Non-depreciable capital assets (Notes 7, 25)	120,685	20,782	116,749	18,404
Intangible assets, net	1,867	756	2,000	3,294
Other assets	1,276	2,357	902	2,750
Total non-current assets	869,547	695,289	824,926	640,387
Total assets	1,046,283	738,341	987,964	680,113
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities (Note 9)	85,747	10,616	80,264	9,499
Obligations under securities lending (Note 5)	3,244	-	2,080	-
Accrued compensated absences (Notes 1, 14)	16,172	386	14,834	398
Deferred revenue (Notes 1, 10)	26,642	3,140	26,555	1,257
Funds held in custody for others	4,785	-	4,986	-
Long-term debt payable (Notes 11, 12, 25)	13,375	19,088	11,371	6,878
Other liabilities	25	1,347	25	1,173
Total current liabilities	149,990	34,577	140,115	19,205
Non-current liabilities				
Accounts payable and accrued liabilities (Note 9)	-	-	3,300	-
Accrued compensated absences (Notes 1, 14)	15,305	77	14,910	36
Federal student loan program contributions refundable (Note 14)	13,265	-	13,184	-
Long-term debt payable (Notes 11, 12, 25)	235,918	63,013	244,050	75,038
Liabilities under trust agreements	-	33,887	-	33,374
Agency deposits held in trust (Note 25)	-	53,238	-	54,139
Other liabilities	2,760	4,989	2,193	4,544
Total non-current liabilities	267,248	155,204	277,637	167,131
Total liabilities	417,238	189,781	417,752	186,336
NET ASSETS				
Invested in capital assets, net of related debt	464,460	29,545	420,387	26,609
Restricted, nonexpendable	358	233,676	368	213,106
Restricted, expendable				
Scholarships, research, instruction, and other	52,971	218,848	50,769	189,837
Capital projects	21,272	31,556	20,837	31,734
Debt service	31,808	-	28,634	-
Unrestricted	58,176	34,935	49,217	32,491
Total net assets	$ 629,045	$ 548,560	$ 570,212	$ 493,777

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the year ended June 30, 2005 with comparative financial information for the year ended June 30, 2004
(all dollars in thousands)

	2005		2004	
	Virginia Tech	Component Units	Virginia Tech (as restated)	Component Units
OPERATING REVENUES				
Student tuition and fees, net (Note 1)	$ 199,052	$ -	$ 181,545	$ -
Gifts and contributions	-	59,935	-	46,290
Federal appropriations	11,012	-	10,653	-
Federal grants and contracts	120,248	-	106,866	-
State grants and contracts	14,079	-	13,372	-
Local grants and contracts (Note 3)	12,497	-	11,576	-
Nongovernmental grants and contracts	16,668	-	18,112	-
Sales and services of educational activities	11,614	-	10,224	-
Auxiliary enterprise revenue, net (Note 1)	113,142	40,085	103,964	37,056
Other operating revenues	2,607	26,948	2,459	22,293
Total operating revenues	500,919	126,968	458,771	105,639
OPERATING EXPENSES				
Instruction	205,355	1,557	191,272	2,777
Research	169,636	6,241	159,751	5,526
Public service	64,787	4,820	59,485	3,817
Academic support	48,944	11,497	46,378	9,573
Student services	11,628	-	13,771	-
Institutional support	39,203	21,508	30,270	17,788
Operation and maintenance of plant	41,474	5,320	42,906	4,315
Student financial assistance	11,152	12,618	11,982	12,811
Auxiliary enterprises	102,016	36,003	96,058	33,010
Depreciation expense (Note 7)	47,561	4,386	45,532	4,612
Amortization expense	133	-	-	-
Other operating expenses	32	11,700	58	7,281
Total operating expenses	741,921	115,650	697,463	101,510
OPERATING INCOME (LOSS)	(241,002)	11,318	(238,692)	4,129
NON-OPERATING REVENUES (EXPENSES)				
State appropriations (Note 19)	227,133	-	205,013	-
Gifts	36,820	-	34,307	-
Non-operating grants and contracts	3,052	-	2,000	-
Investment income, net	5,849	10,013	6,257	9,281
Net gain on investments	-	25,986	-	32,190
Impairment loss on intangibles	-	(2,299)	-	(4,130)
Other additions	248	-	53	-
Interest expense on debt related to capital assets	(8,740)	(2,655)	(8,227)	(1,835)
Net non-operating revenues (expenses)	264,362	31,045	239,403	35,506
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	23,360	42,363	711	39,635
Capital appropriations (Note 20)	11,679	-	49,495	-
Change in valuation of split interest agreements	-	1,137	-	3,439
Capital grants and gifts (Note 8)	22,414	11,649	12,452	7,616
Gain (loss) on disposal of capital assets	1,380	(70)	(1,592)	(460)
Other revenues/expenses	-	(296)	-	(949)
Total other revenues, expenses, gains, and losses	35,473	12,420	60,355	9,646
Increase in net assets	58,833	54,783	61,066	49,281
Net assets—beginning of year (Note 1)	570,212	493,777	509,146	444,496
Net assets—end of year	$ 629,045	$ 548,560	$ 570,212	$ 493,777

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

STATEMENT OF CASH FLOWS

For the year ended June 30, 2005, with comparative financial information for the year ended June 30, 2004
(all dollars in thousands)

	2005	2004 (as restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 200,029	$ 181,514
Federal appropriations	11,012	10,653
Grants and contracts	165,841	147,106
Sales and services of educational activities	11,614	10,224
Auxiliary enterprises	111,128	105,303
Other operating receipts	2,581	2,433
Payments for compensation and fringe benefits	(483,569)	(460,157)
Payments for operating expenses	(195,937)	(192,301)
Payments for scholarships and fellowships	(10,982)	(11,875)
Loans issued to students	(4,098)	(4,447)
Collection of loans from students	4,341	4,251
Net cash used by operating activities	(188,040)	(207,296)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations	227,133	205,013
Gifts received for other than capital purposes	36,449	34,156
Non-operating grants and contracts	3,052	2,000
Federal Direct Lending Program—receipts	78,151	75,500
Federal Direct Lending Program—disbursements	(78,151)	(75,500)
Funds held in custody for others—receipts	35,247	30,725
Funds held in custody for others—disbursements	(35,448)	(30,393)
Net cash provided by non-capital financing activities	266,433	241,501
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	11,679	49,495
Capital grants and gifts	16,293	9,560
Proceeds from capital debt	28,731	121,083
Proceeds from the sale of capital assets and insurance recoveries	407	-
Acquisition and construction of capital assets	(112,192)	(103,598)
Principal paid on capital debt and leases	(35,869)	(60,451)
Interest paid on capital debt and leases	(8,655)	(7,730)
Net cash provided (used) by capital and related financing activities	(99,606)	8,359
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	43,769	50,579
Interest on investments	5,847	6,318
Purchase of investments and related fees	(36,879)	(54,732)
Net cash provided by investing activities	12,737	2,165
Net increase (decrease) in cash and cash equivalents	(8,476)	44,729
Cash and cash equivalents—beginning of year	207,240	162,511
Cash and cash equivalents—end of year	$ 198,764	$ 207,240

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

STATEMENT OF CASH FLOWS (continued)

For the year ended June 30, 2005, with comparative financial information for the year ended June 30, 2004
(all dollars in thousands)

	2005	2004 (as restated)
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (241,002)	$ (238,692)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	47,561	45,532
Amortization expense	133	-
Changes in assets and liabilities		
Receivables, net of allowance for doubtful accounts	1,225	(2,571)
Inventories	(353)	(779)
Prepaid items	(1,186)	(407)
Notes receivable, net of allowance for doubtful accounts	171	(220)
Accounts payable and accrued liabilities	461	(1,579)
Accrued payroll	3,408	1,692
Annuity payable	567	455
Accrued severance liability	(926)	(13,039)
Compensated absences	1,733	1,197
Deferred revenue	87	1,059
Federal loan program contributions refundable	81	56
Total adjustments	52,962	31,396
Net cash used by operating activities	$ (188,040)	$ (207,296)
NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Change in accounts receivable related to non-operating income	$ (3,352)	$ 227
Capital assets acquired through in-kind donations as a component of capital gifts and grants income	$ 2,224	$ 1,413
Change in fair value of investments recognized as a component of interest income	$ 2,232	$ 3,924
Change in fair value of interest payable affecting interest paid	$ (130)	$ 497
Capital assets acquired through installment purchase agreements	$ 1,010	$ 225
Change in interest receivable affecting interest received	$ (2)	$ 61

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

NOTES TO FINANCIAL STATEMENTS

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NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

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

Virginia Tech Foundation, Inc.

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

The foundation serves the university by generating significant funding from private sources and aggressively managing its assets to provide funding which supplements state appropriations. It provides additional operating support to colleges and departments, assists in the funding of major building projects, and provides seed capital for new university initiatives. Although the university does not control the timing or amount of receipts from VTF, the majority of resources, or incomes therefrom, which the foundation holds and invests, are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by or for the benefit of the university, the foundation is considered a component unit of the university and is discretely presented in the financial statements. The administrative offices of Virginia Tech Foundation, Inc. are located at 2000 Kraft Drive, Suite 2100, Blacksburg, Virginia 24061.

During the year ended June 30, 2005, the foundation distributed $46,058,000 to the university for both restricted and unrestricted purposes.

Virginia Tech Services, Inc.

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

During the year ended June 30, 2005, VTS paid $742,000 to the university, primarily for the rental of facilities.

Financial Statement Presentation

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

Basis of Accounting

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

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

Cash Equivalents

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

Investments

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

In fiscal year 2005, the university implemented GASB Statement 40, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement 3*. In addition to custodial risk, the note regarding investments now also addresses interest rate risk, concentration of credit risk, credit risk, and foreign currency risk (see Note 4). This statement is effective for the fiscal year ending June 30, 2005.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff. Accounts receivable also include amounts due from federal, state, and local governments, and nongovernmental sources, in connection with reimbursement of allowable expenses made pursuant to the university's grants and contracts. Accounts receivable are recorded net of allowance for doubtful accounts. See Note 6 for a detailed list of accounts receivable amounts.

Notes Receivable

Notes receivable consists of amounts due from the Federal Perkins Loan Program, the Health Professional Student Loan Program, and from other student loans administered by the university. Notes receivable are recorded net of allowance for doubtful accounts. As of June 30, 2005, the allowance for doubtful accounts for current and non-current notes receivable totaled $36,000 and $262,000, respectively.

Inventories

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

Non-current Cash and Investments

Non-current cash and investments are externally restricted to make debt service payments or purchase other non-current assets.

Capital Assets

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

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

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

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

Interest Capitalization

Interest expense incurred during the construction of capital assets is capitalized, if material, net of interest income earned on resources set aside for this purpose. The university incurred and capitalized net interest expense related to the construction of capital assets totaling $3,232,000 for the fiscal year ended June 30, 2005.

Accrued Compensated Absences

Certain salaried employees' attendance and leave regulations make provisions for the granting of a specified number of days of leave with pay each year. The Accrued Compensated Absences amount reflects, as of June 30, all unused vacation leave, sabbatical leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave pay out policy. The applicable share of employer related taxes payable on the eventual termination payments is also included. The university's liability and expense for this amount of leave earned by employees but not taken, as of June 30, 2005, is recorded in the Statement of Net Assets, and is included in the various functional categories of operating expenses in the Statement of Revenues, Expenses, and Changes in Net Assets.

Deferred Revenues

Deferred revenue represents revenue collected but not earned as of June 30, 2005. This amount is primarily composed of revenue for grants and contracts, prepaid athletic ticket sales, and prepaid student tuition and fees. See Note 10 for a detailed list of deferred revenue amounts.

Non-current Liabilities

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

Net Assets

The university's net assets are classified as follows:

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

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

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

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

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

Income Taxes

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

Classifications of Revenues

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

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

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

Scholarship Allowance

Student tuition and 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. For the fiscal year ended June 30, 2005, the scholarship allowance for student tuition and fee revenue and auxiliary enterprise revenue totaled $32,939,000 and $10,858,000, respectively. Financial aid to students is reported using the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). The alternative method is an algorithm that computes scholarship allowance on a university-wide basis.

Restatement of Prior Year Amounts

The following adjustments were made to the July 1, 2004, net asset balance to reflect the capitalization of capital assets that were acquired in prior fiscal years and to account for the overstatement of revenues reported in the prior fiscal year *(all dollars in thousands)*:

Net Assets, June 30, 2004	$ 568,733
Capitalization of assets acquired in prior fiscal years	7,144
Net increase in capital lease payable	(3,818)
Accumulated depreciation—capital assets	(1,647)
Revenue overstatement	(200)
Net assets, July 1, 2004	$ 570,212

2. RELATED PARTIES

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

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

3. LOCAL GOVERNMENT SUPPORT

The university, through the operation of its Cooperative Extension Service, maintains offices in numerous cities and counties throughout the Commonwealth of Virginia. Personnel assigned to these locations receive a portion of their compensation from local governments. Also included in the expenses of these extension offices are unit support services, which include such items as rent, telephone, supplies, equipment, and extension program expenses. The amount contributed by the various local governments in support of these expenses totaled $11,094,000 in 2005, and has been included in revenues and expenses of the accompanying financial statements. The university received other local government support of $1,403,000 in 2005.

4. CASH, CASH EQUIVALENTS, AND INVESTMENTS

GASB Statement Number 40, *Deposit and Investment Risk Disclosures*, effective for fiscal periods beginning after June 15, 2004, amends GASB Statement Number 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreement), and Reverse Repurchase Agreements*. GASB Statement Number 40 eliminates the custodial credit risk disclosures required for category 1 and 2 deposits and investments, but maintains disclosures for category 3. The following risk disclosures are required by GASB Statement Number 40:

❖ Custodial credit risk (Category 3 deposits and investments) — The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The university had no category 3 deposits or investments for 2005.

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

❖ Concentration of credit risk — The risk of loss attributed to the magnitude of a government's investment in a single issuer is referred to as concentration of credit risk. GASB Statement Number 40 requires disclosure of any issuer with more than 5 percent of total investments.

❖ Interest rate risk — This is the risk that interest rate changes will adversely affect the fair value of an investment. GASB Statement Number 40 requires disclosure of maturities for any investments subject to interest rate risk. The university does not have an interest rate risk policy.

❖ Foreign currency risk — This risk refers to the possibility that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The university had no foreign investments or deposits for 2005.

The university's credit risk, concentration of credit risk, and interest rate risk are categorized in the tables on the following page.

The following information is provided with respect to the risks associated with the university's cash, cash equivalents, and investments as of June 30, 2005.

Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., *Code of Virginia*, all state funds of the university are maintained 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 collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., *Code of Virginia*. Cash and cash equivalents represent cash with the treasurer, cash on hand, certificates of deposit and temporary investments with original maturities of 90 days or less, and cash equivalents with the Virginia State Non-Arbitrage Program (SNAP). SNAP is an open-end management investment company registered with the Securities and Exchange Commission (SEC). Cash and cash equivalents reporting requirements are defined by GASB Statement Number 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting.

Investments

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

Investments fall into two groups: short-term and long-term. Short-term investments have an original maturity of over 90 days but less than or equal to one year. Long-term investments have an original maturity greater than one year. A categorization of university investments is presented below.

SUMMARY OF INVESTMENTS
(all dollars in thousands)

Investment Type	Current	Non-current	Total
Cash equivalents	$ 20,536	$ 57,811	$ 78,347
Short-term investments	396	2,608	3,004
Long-term investments	-	65,593	65,593
Total investments	$ 20,932	$ 126,012	$ 146,944

The categorization of credit and concentration of credit risk follows for investments held on June 30, 2005 *(all dollars in thousands):*

Investment Type	Fair Value	Percent of Investment	Standard & Poor's Credit Rating	Moody's Credit Rating
U.S. government securities				
U.S. Treasury Notes (1)	$ 11,807	8.03%	N/A	N/A
Government sponsored enterprises				
Federal Home Loan Mortgage Corporation	4,282	2.91%	AAA	Aaa
Federal National Mortgage Association	5,533	3.77%	AAA	Aaa
Federal Home Loan Bank	32,908	22.40%	AAA	Aaa
Money market & mutual funds				
Money Market-Fidelity	18,107	12.32%	AAA	Aaa
Hartford Mutual Fund	652	0.44%	AA-	Aa3
Corporate notes				
General Electric Capital	100	0.07%	AAA	Aaa
Other				
Deposits with Virginia Tech Foundation, Inc.	1,719	1.17%	N/A	N/A
Investments held with Virginia Tech Foundation, Inc. (2)	40,465	27.54%	N/A	N/A
Dairy Farmers of America	58	0.04%	BBB	Baa
Short-Term Investment Fund	4,480	3.05%	AAAm	Aaa
SNAP	25,939	17.65%	AAAm	Unrated
TIAA/CREF DC Annuities	564	0.38%	AAA	Aaa
TIAA/CREF DC Annuities – Equities (2)	215	0.15%	N/A	N/A
Investment held with the Bank of New York	115	0.08%	Unrated	Unrated
Total	$ 146,944	100.00%		

(1) Credit quality ratings are not required for U.S. government securities that are explicitly guaranteed by the United States Government.
(2) Credit quality ratings are not required for these investments, which also do not have specified maturities.

The categorization of interest rate risk follows for investments held on June 30, 2005 *(all dollars in thousands):*

Investment Type	0—3 Months	4—12 Months	1—5 Years	6—10 Years	Total
U.S. government securities					
U.S. Treasury Notes	$ -	$ 396	$ 11,411	$ -	$ 11,807
Government sponsored enterprises					
Federal Home Loan Mortgage Corporation	-	-	4,282	-	4,282
Federal National Mortgage Association	499	2,493	2,541	-	5,533
Federal Home Loan Bank	26,893	-	6,015	-	32,908
Money market & mutual funds					
Money Market-Fidelity	18,107	-	-	-	18,107
Hartford Mutual Fund	652	-	-	-	652
Corporate notes					
General Electric Capital	-	-	100	-	100
Other					
Deposits with Virginia Tech Foundation, Inc.	1,719	-	-	-	1,719
Dairy Farmers of America	58	-	-	-	58
Short-Term Investment Fund	4,480	-	-	-	4,480
SNAP	25,939	-	-	-	25,939
TIAA/CREF DC Annuities	-	-	-	564	564
Investments held with the Bank of New York	-	115	-	-	115
Subtotal	78,347	3,004	24,349	564	106,264
Investments Without Specific Maturities					
Investments with Virginia Tech Foundation, Inc.	-	-	-	-	40,465
TIAA/CREF DC Annuities - Equities	-	-	-	-	215
Total	$ 78,347	$ 3,004	$ 24,349	$ 564	$ 146,944

5. SECURITIES LENDING TRANSACTIONS

GASB Statement Number 28, *Accounting and Financial Reporting for Securities Lending Transactions*, establishes standards of accounting and financial reporting for transactions where governmental entities transfer securities to broker-dealers and other entities for collateral and simultaneously agree to return the collateral for the same securities in the future.

The investments under securities lending and the securities lending transactions reported on the financial statements represent the university's allocated share of securities received for securities lending transactions held in the general account of the Commonwealth of Virginia. For the fiscal year ended June 30, 2005, the securities lending cash equivalents and investments totaled $2,676,000 and $568,000, respectively. The corresponding securities lending obligation is shown on the Statement of Net Assets. For the year ended June 30, 2005, securities lending transactions totaled $59,000 of securities lending income and $57,000 of securities lending cost. These totals have been included as investment income on the Statement of Revenues, Expenses, and Changes in Net Assets. Information related to the credit risk of these investments and securities lending transactions held in the general account is available in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*.

6. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following as of June 30, 2005: *(all dollars in thousands)*

Current receivables	
Grants and contracts	$ 26,833
Student tuition and fees	2,321
Auxiliary enterprises and other operating activities	4,681
Total current receivables before allowance	33,835
Less allowance for doubtful accounts	946
Net current accounts receivable	32,889
Non-current receivables	
Grants and contracts	750
Capital gifts and grants	3,059
Auxiliary enterprises and other operating activities	144
Total non-current receivables before allowance	3,953
Less allowance for doubtful accounts	750
Net non-current accounts receivable	3,203
Total receivables	$ 36,092

7. CAPITAL ASSETS

A summary of changes in capital assets follows for the year ending June 30, 2005 *(all dollars in thousands)*:

	Beginning Balance (as restated)	Additions	Retirements	Adjustments	Ending Balance
Depreciable capital assets					
Buildings	$ 565,867	$ 76,421	$ 89	$ (12,001)	$ 630,198
Moveable equipment	291,706	30,933	22,366	-	300,273
Fixed equipment	41,526	3,655	36	12,500	57,645
Infrastructure	87,062	1,043	-	(499)	87,606
Library books	59,807	2,154	174	-	61,787
Total depreciable capital assets, at cost	1,045,968	114,206	22,665	-	1,137,509
Less accumulated depreciation					
Buildings	191,772	15,524	47	-	207,249
Moveable equipment	206,157	24,518	20,208	-	210,467
Fixed equipment	28,770	2,171	23	-	30,918
Infrastructure	63,697	2,459	-	-	66,156
Library books	44,243	2,889	174	-	46,958
Total accumulated depreciation	534,639	47,561	20,452	-	561,748
Total depreciable capital assets, net of accumulated depreciation	511,329	66,645	2,213	-	575,761
Non-depreciable capital assets					
Land	42,771	-	-	-	42,771
Livestock	951	-	190	-	761
Construction in progress	69,499	76,150	72,109	-	73,540
Equipment in process	3,528	3,083	2,998	-	3,613
Total non-depreciable capital assets	116,749	79,233	75,297	-	120,685
Total capital assets, net of accumulated depreciation	$ 628,078	$ 145,878	$ 77,510	$ -	$ 696,446

8. HIGHER EDUCATION EQUIPMENT TRUST FUND

The Equipment Trust Fund (ETF) program was established to provide state-supported institutions of higher education with bond proceeds for financing the acquisition and replacement of instructional and research equipment. The program is managed by the Virginia College Building Authority (VCBA). The VCBA issues bonds and uses the proceeds to reimburse the university and other institutions of higher education for equipment purchased. The Statement of Revenues, Expenses, and Changes in Net Assets includes $7,463,000 for the year ended June 30, 2005, in capital grants and gifts as reimbursement for equipment purchased using the ETF allocation. The "Due from the Commonwealth of Virginia" line item on the Statement of Net Assets totaling $7,078,000 for the year ended June 30, 2005, represents equipment purchased by the university not yet reimbursed by VCBA.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2005, consist of the following *(all dollars in thousands)*:

Accounts payable	$ 38,698
Accrued salaries and wages payable	42,785
Retainage payable	4,264
Total current accounts payable and accrued liabilities	$ 85,747

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

10. DEFERRED REVENUE

Deferred revenue consists of the following as of June 30, 2005 *(all dollars in thousands)*:

Grants and contracts	$ 9,008
Prepaid athletic tickets	9,761
Prepaid tuition and fees	5,994
Other auxiliary enterprises	1,879
Total deferred revenue	$ 26,642

11. SUMMARY OF LONG-TERM INDEBTEDNESS

Bonds Payable

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

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

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

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

Notes Payable

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

Capital Leases

Capital leases represent the university's obligation to Virginia Tech Foundation, Inc. for lease agreements related to the Student Services Building, Southgate Center addition, and Hunter Andrews Information Systems Building addition. The assets under capital leases are recorded at the net present value of the minimum lease payments during the lease term.

Installment Purchase Obligations

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

A summary of changes in long-term debt payable activity for the year ending June 30, 2005 is presented as follows *(all dollars in thousands)*:

	Beginning Balance (as restated)	Additions	Retirements	Ending Balance	Current Portion
Bonds payable					
Section 9 (c) general obligation revenue bonds	$ 36,369	$ 18,841	$ 17,781	$ 37,429	$ 3,801
Section 9 (d) revenue bonds	106,781	-	3,609	103,172	4,920
Notes payable	98,964	9,890	13,615	95,239	3,870
Capital lease obligations	13,061	-	444	12,617	526
Installment purchase obligations	246	1,010	420	836	258
Total long-term debt payable	$ 255,421	$ 29,741	$ 35,869	$ 249,293	$ 13,375
Current year debt defeasance		(23,932)	(23,790)		
Total additions/retirements, net of current year defeasance		$ 5,809	$ 12,079		

A summary of future principal commitments for fiscal years subsequent to June 30, 2005 is presented as follows *(all dollars in thousands)*:

	Section 9 (c) Bonds	Section 9 (d) Bonds	Notes Payable	Capital Lease Obligations	Installment Purchase Obligations	Total Long-Term Debt Payable
2006	$ 3,801	$ 4,920	$ 3,870	$ 526	$ 258	$ 13,375
2007	3,980	8,080	4,355	553	255	17,223
2008	4,124	8,255	3,035	581	261	16,256
2009	3,033	8,390	3,180	614	62	15,279
2010	3,185	5,150	3,330	642	-	12,307
2011 – 2015	11,655	29,180	19,135	3,735	-	63,705
2016 – 2020	5,326	16,850	23,570	4,789	-	50,535
2021 – 2025	1,355	11,605	18,535	1,177	-	32,672
2026 – 2030	-	11,465	13,405	-	-	24,870
2031 – 2035	-	-	1,420	-		1,420
Unamortized premium	281	1,196	1,724	-	-	3,201
Deferral on debt defeasance	689	(1,919)	(320)	-	-	(1,550)
Total future principal requirements	$ 37,429	$ 103,172	$ 95,239	$12,617	$ 836	$ 249,293

A summary of future interest commitments for fiscal years subsequent to June 30, 2005 is presented as follows *(all dollars in thousands)*:

	Section 9 (c) Bonds	Section 9 (d) Bonds	Notes Payable	Capital Lease Obligations	Installment Purchase Obligations	Total Interest
2006	$ 1,765	$ 4,693	$ 4,402	$ 482	$ 19	$11,361
2007	1,580	4,450	4,242	462	12	10,746
2008	1,381	4,192	4,083	441	5	10,102
2009	1,197	3,841	3,942	418	-	9,398
2010	1,050	3,490	3,793	395	-	8,728
2011 – 2015	3,180	13,981	16,323	1,580	-	35,064
2016 – 2020	857	7,661	11,074	787	-	20,379
2021 – 2025	161	4,469	5,850	47	-	10,527
2026 – 2030	-	1,394	1,577	-	-	2,971
2031 – 2035	-	-	34	-	-	34
Total future interest requirements	$ 11,171	$ 48,171	$ 55,320	$ 4,612	$ 36	$ 119,310

12. DETAIL OF LONG-TERM DEBT PAYABLE

Bonds Payable

Bonds payable as of June 30, 2005 consists of the following *(all dollars in thousands)*:

Revenue Bonds	Interest rates	Maturity	2005
Dormitory and dining hall system			
Series 1996B, issued $5,475 **	3.80% - 5.35%	2009	$ 2,055
Series 1996B, issued $1,730 – partial refunding **	3.80% - 5.70%	2006	85
Series 2004B, issued $1,265 – refunding series 1996B **	2.00% - 4.00%	2016	1,250

Revenue Bonds (continued):	Interest rates	Maturity	2005
University services systems			
Student Health and Fitness Center:			
Series 1996C, issued $21,175 – partial refunding **	3.80% - 5.50%	2006	1,045
Series 2004C, issued $15,105 – refunding series 1996C**	2.00% - 5.00%	2016	14,985
Utility system, series 1996D, issued $2,570 **	3.80% - 5.35%	2009	965
Athletic system			
Athletic facility – improvements:			
Series 1996A, issued $6,250 – partial refunding **	3.80% - 5.75%	2006	300
Series 2004D, issued $4,155 – refunding series 1996A **	2.00% - 5.00%	2016	4,150
Lane Stadium West Sideline expansion			
Series 2004D, issued $52,715	3.00% - 5.13%	2029	52,715
Veterinary Medicine, series 1996A, issued $1,040 **	3.80% - 5.75%	2008	330
Northern Virginia Graduate Center			
Series 1996A, issued $10,080 – partial refunding **	3.80% - 5.75%	2006	350
Series 2004A, issued $7,860 – refunding series 1996A **	2.00% - 5.00%	2020	7,850
Architectural/engineering			
Series 1996A, issued $6,805 – partial refunding **	3.80% - 5.50%	2006	335
Series 2004A, issued $4,685 – refunding series 1996A **	2.00% - 5.00%	2016	4,675
Coal fired facility			
Series 1996A, issued $11,035 – partial refunding **	3.80% - 5.50%	2006	550
Series 2004A, issued $6,005 – refunding series 1996A **	2.00% - 5.00%	2016	5,995
Series 2004A, issued $1,585 – refunding series 1996A **	2.00% - 5.00%	2016	1,580
Donaldson Brown Hotel and Conference Center			
Series 1996A, issued $3,945 – partial refunding **	3.80% - 5.50%	2006	195
Series 1996A, issued $2,495 – partial refunding **	3.80% - 5.50%	2006	120
Series 2004A, issued $2,710 – refunding series 1996A **	2.00% - 5.00%	2016	2,705
Series 2004A, issued $1,665 – refunding series 1996A **	2.00% - 5.00%	2016	1,660
Unamortized premium (discount)			1,196
Deferral on debt defeasance			(1,919)
Total revenue bonds			103,172
General Obligation Revenue Bonds			
Dormitory and dining hall system			
Series 1997, issued $15,895 – partial refunding *	3.79% - 5.40%	2007	1,500
Series 1998, issued $3,158 – refinanced 1992C **	3.50% - 4.70%	2013	2,726
Series 1998, issued $1,380 – refinanced 1992D **	3.50% - 4.70%	2013	1,313
Series 1998, issued $1,440 – refinanced 1992D **	3.50% - 4.70%	2013	1,370
Series 2000, issued $3,255 – partial refunding *	4.00% - 5.50%	2008	435
Series 2000A, issued $1,800 – partial refunding *	4.75% - 5.25%	2009	325
Series 2002, issued $538 – refunding series 1992D **	2.50% - 4.00%	2006	147
Series 2002, issued $558 – refunding series 1992D **	2.50% - 4.00%	2006	152
Series 2003A, issued $2,694 – refunding series 1993B **	2.50% - 4.00%	2011	2,098
Series 2004B, issued $9,995 – partial refunding series 1997 *	2.00% - 5.00%	2017	9,787
Series 2004B, issued $1,928 – partial refunding series 2000 *	2.00% - 5.00%	2018	1,891
Series 2004B, issued $1,168 – partial refunding series 2000A *	2.00% - 5.00%	2019	1,143
Series 2004A, issued $4,800	3.75% - 5.00%	2024	4,650
University services system – student center			
Series 2003A, issued $5,457 – refunding series 1993A **	2.50% - 5.50%	2008	3,393
Series 2003A, issued $684 – refunding series 1993B **	2.50% - 5.50%	2010	506
Series 2003A, issued $1,755 – refunding series 1993B **	2.50% - 5.50%	2011	1,365
Parking facilities			
Series 1997, issued $1,550 – partial refunding *	5.00%	2007	145
Series 2002, issued $975	5.00%	2017	815
Series 2003A, issued $2,268 – refunding series 1993B **	2.50% - 5.50%	2011	1,767
Series 2004B, issued $951 – partial refunding series 1997 *	2.00% - 5.00%	2017	931
Unamortized premium (discount)			281
Deferral on debt defeasance			689
Total general obligation revenue bonds			37,429
Total bonds payable			$ 140,601

Notes Payable

Notes payable to VCBA under the pooled 9 (d) bond program as of June 30, 2005 *(all dollars in thousands)*:

	Average coupon rate	Maturity	2005
Dormitory and dining hall system:			
Series 1999, issued $10,145 – partial refunding *	4.53%	2019	$ 6,760
Series 1999A, issued $10,905 – partial refunding *	5.73%	2010	2,340
Series 2004B, issued $1,120 – partial refunding series 1999 *	5.00%	2014	1,120
Series 2004B, issued $7,420 – partial refunding series 1999A *	3.00% - 5.00%	2020	7,420
University services system – career services:			
Series 2002A, issued $4,405	5.19%	2023	4,150
Utility system:			
Series 2000A, issued $2,925 – partial refunding *	5.25%	2021	1,720
Series 2002A, issued $2,875	5.19%	2023	2,705
Series 2004B, issued $870 – partial refunding series 2000A *	3.00% - 5.00%	2017	870
Athletic system:			
Stadium expansion, series 2001A, issued $26,285	4.60%	2027	22,285
Infectious waste facility:			
Series 2004A, issued $1,640 – partial refunding *	5.25%	2021	965
Series 2004B, issued $480 – partial refunding series 2000A *	3.00% - 5.00%	2017	480
Biomedical facility, series 2002A, issued $21,930	5.11%	2028	21,435
Alumni and conference center, series 2003A, issued $21,585	4.63%	2031	21,585
Unamortized premium (discount)			1,724
Deferral on Debt Defeasance			(320)
Total notes payable			$ 95,239

* *See Bond defeasance – current year*
** *See Bond defeasance – previous years*

Other Long-term Debt

Other long-term debt as of June 30, 2005 *(all dollars in thousands)*:

Capital leases payable for agreements related to the Student Services, Southgate Center Addition, and Andrews Addition buildings	$ 12,617
Installment purchase obligations for equipment purchases through June 2005 with various interest rates and maturing through 2009	836
Total other long-term debt	$ 13,453

13. LONG-TERM DEBT DEFEASANCE

Current Year

The Commonwealth of Virginia, on behalf of the university, issued $14,042,000 of section 9 (c) revenue bonds and $9,890,000 of section 9 (d) notes to refund $14,245,000 of section 9 (c) bonds and $9,545,000 of section 9 (d) bonds and notes in fiscal year 2005. The resulting net loss of $142,000 will be amortized over the life of the new debt. For financial reporting purposes, these bonds and notes are considered an in-substance defeasance and have therefore been removed from the long-term debt payable line item of the Statement of Net Assets. The assets in escrow have similarly been excluded. The details of each bond issue refunded are presented below *(all dollars in thousands)*:

	True Interest Cost	Bonds Refunded	Refunding Bonds Issued	Accounting Gain (Loss)	Reduction in Debt Service	Gain Discounted at TIC	Defeased Debt
Series 1997, issued $15,895 *	3.44%	$ 10,155	$ 9,995	$ 160	$ 549	$ 445	$ 10,155
Series 1997, issued $1,550 *	3.44%	960	951	9	52	42	960
Series 2000A, issued $1,800 *	3.44%	1,150	1,168	(18)	70	54	1,150
Series 2000, issued $3,255 *	3.44%	1,980	1,928	52	108	85	1,980
Series 1999, issued $10,145*	3.64%	1,160	1,120	40	66	53	1,160
Series 1999A, issued $10,905*	3.64%	7,060	7,420	(360)	675	522	7,060
Series 2000A, issued $2,925*	3.64%	850	870	(20)	34	26	850
Series 2000A, issued $1,640*	3.64%	475	480	(5)	19	15	475
Total		$ 23,790	$ 23,932	$ (142)	$ 1,573	$ 1,242	$ 23,790

* Partial refunding

Deferral of Debt Defeasance

The accounting gain/loss from the defeasance of debt is amortized over the shorter of the life of the new debt or the remaining life of the old debt. The amounts deferred for section 9 (c) bonds, section 9 (d) bonds and notes payable were $689,000, $(1,919,000), and $(320,000), respectively. The current loss of $142,000 is included in the section 9 (c) bonds and notes payable deferred amounts.

Previous Years

In previous fiscal years, in accordance with Governmental Accounting Standards Board Statement Number 7, *Advance Refundings Resulting in the Defeasance of Debt*, the university has excluded from its financial statements the assets in escrow and the section 9 (c) or 9 (d) bonds payable that were defeased in-substance. For the year ended June 30, 2005, bonds payable considered defeased in previous years totaled $79,173,000.

14. CHANGE IN OTHER LIABILITIES

A summary of changes in other liabilities for the year ended June 30, 2005, follows *(all dollars in thousands)*:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Accrued compensated absences	$ 29,744	$ 22,328	$ 20,595	$ 31,477	$ 16,172
Federal loan program contribution refundable	13,184	379	298	13,265	-
Total other liabilities	$ 42,928	$ 22,707	$ 20,893	$ 44,742	$ 16,172

15. LEASE COMMITMENTS

The university has entered into numerous agreements to lease land, buildings, and equipment. With some of these agreements, the university is committed under various operating leases for equipment and space. In general, the leases are for a three to five-year term and the university has renewal options. During the normal course of business the university expects similar leases to replace these leases. The total lease expense was approximately $10,924,000 for the year ended June 30, 2005.

A summary of future minimum lease payments under operating leases as of June 30, 2005, follows *(all dollars in thousands):*

2006	$ 6,819
2007	5,405
2008	2,893
2009	2,298
2010	346
2011 – 2015	34
Total	$ 17,795

16. CAPITAL IMPROVEMENT COMMITMENTS

The amounts listed in the following table represent the value of obligations remaining on capital improvement project contracts. These obligations are for future effort and as such have not been accrued as expenses or liabilities on the university's financial statements. Outstanding contractual commitments for capital improvement projects, as of June 30, 2005, include:

Capital Commitments by Project
(all dollars in thousands)

Lane Stadium West Sideline expansion	$ 8,798
Agriculture and Natural Resources Research building	4,361
Alumni and conference center	1,226
Life Sciences Vivarium facility	894
ICTAS Engineering facility	884
Southwest Heating/Cooling project	477
Bishop-Favrao Hall	429
Other projects	382
Total	$ 17,451

Capital Commitments by source of Funding
(all dollars in thousands)

General obligation bond proceeds	$ 9,000
Capital appropriations	5,496
Auxiliary enterprise funds	272
Private	1,910
State general appropriations	230
Facilities and administrative (indirect) cost recoveries and university education and general	522
Federal	21
Total	$ 17,451

17. CONTRIBUTIONS TO RETIREMENT PLANS

Virginia Retirement System

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

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

The university's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled approximately $15,717,000 for the year ended June 30, 2005.

Optional Retirement Plan

Full-time faculty and certain administrative staff may choose to participate in an optional retirement plan administered by six different providers other than the VRS. The six different providers are TIAA/CREF Insurance Companies, Fidelity Investments Tax-Exempt Services Co., Great-West Life Assurance Co., T. Rowe Price Associates, VALIC, and MetLife. This plan is a defined contribution program where the retirement benefits received are based upon the employer's (5.4%) and employees' (5%) contributions, plus interest and dividends.

Individual contracts issued under the plan provide for full and immediate vesting of both the university's and the employees' contributions. Total pension costs under this plan were approximately $13,492,000 for year ended June 30, 2005. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $129,893,000 for fiscal year 2005.

Deferred Compensation Plan

University employees may also 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 approximately $1,589,000 for fiscal year 2005.

Federal Pension Plans

Certain Cooperative Extension Service (CES) professional employees are participants in either the Federal Employee Retirement System (FERS) or the Federal Civil Service Retirement System (CSRS). FERS and CSRS are defined benefit plans in which benefits are based upon the highest base pay over any three consecutive years and the years of creditable service. Pension costs under these plans were approximately $405,000 for the year ended 2005. Contributions to FERS and CSRS were calculated using the base salary amount of approximately $5,006,000 for the fiscal year 2005.

In addition, the university contributed $50,000 for the year ended June 30, 2005, in employer contributions to the Thrift Savings Plan. The Thrift Savings Plan is a defined contribution plan in which the university matches employee contributions within certain limitations.

18. POST-EMPLOYMENT BENEFITS

The Commonwealth participates in the VRS administered, statewide group life insurance program that 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 of its retirees who have at least 15 years of service and participate in the state health plan. Information related to these plans is available at the statewide level in the Commonwealth's *Comprehensive Annual Financial Report*.

19. APPROPRIATIONS

The Appropriation Act specifies that unexpended general fund appropriations that remain on the last day of the current year, ending on June 30, 2005, shall be reappropriated for expenditure in the first month of the next year, beginning on July 1, 2005, except as may be specifically provided otherwise by the General Assembly. The Governor may, at his discretion, unallot funds from the reappropriated balances that relate to unexpended appropriations for payments to individuals, aid to localities, or pass-through grants.

During the year ended June 30, 2005, the following adjustments were made to the university's original appropriation *(all dollars in thousands)*:

Original legislative appropriation per Chapter 4	
Education and general programs	$ 200,630
Student financial assistance	12,059
Maintenance reserve	9,086
Unique military activities	1,173
Eminent scholar program	602
Engineering research center fund	300
Total appropriation	223,850
Adjustments	
Health insurance premium	1,921
Salary increases	735
Group life rate suspension	(1,607)
Virginia Retirement System rate reduction savings	(327)
Retiree health care credit savings	(353)
Virginia Sickness and Disability Program rate increase	519
Transfer from student financial assistance program for undergraduate internships and graduate assistantships	220
Transfer research distribution from general fund to higher education operating	2,004
Agricultural education program	150
Other	21
Total adjustments	3,283
Total adjusted appropriation	$ 227,133

20. CAPITAL APPROPRIATIONS

Following are the capital appropriations recognized by the university from the Commonwealth for the year ended June 30, 2005 *(all dollars in thousands)*:

21st Century appropriations	$ 7,694
General obligation bonds (9b)	3,441
Capital project appropriations	544
Total capital appropriations	$ 11,679

21. GRANTS AND CONTRACTS CONTINGENCIES

The university has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the 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 federal regulations issued by the Office of Management and Budget. Failure to comply with certain system requirements of these regulations may result in questions concerning the allowance of related direct and indirect charges pursuant to such agreements. As of June 30, 2005, the university estimates that no material liabilities will result from such audits or questions.

22. FEDERAL DIRECT LENDING PROGRAM

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

These loan programs are treated as student payments with the university acting as a fiduciary agent for the student. Therefore, the receipt of the funds from the federal government is not reflected in the federal government grants and contracts total on the Statement of Revenues, Expenses, and Changes in Net Assets. The activity is included in the non-capital financing section of the Statement of Cash Flows. For the fiscal year ended June 30, 2005, cash provided by the program totaled $78,151,000 and cash used by the program totaled $78,151,000.

23. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

The university is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; 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 in the Commonwealth of Virginia's *Comprehensive Annual Financial Report.*

24. EXPENSES BY NATURAL CLASSIFICATION WITH FUNCTIONAL CLASSIFICATIONS

The university's operating expenses by functional classification were as follows for the year ended June 30, 2005 *(all dollars in thousands):*

	Compensation & Benefits	Contractual Services	Supplies & Materials	Travel	Other Operating Expenses	Scholarships & Fellowships	Sponsored Program Subcontracts	Total
Instruction	$ 183,416	$ 9,141	$ 5,863	$ 4,256	$ 1,691	$ 804	$ 184	$ 205,355
Research	116,345	10,743	12,884	6,742	2,520	6,717	13,685	169,636
Public service	38,887	15,877	2,062	4,576	1,204	113	2,068	64,787
Academic support	34,107	3,935	8,995	759	1,080	68	-	48,944
Student services	8,120	1,967	707	466	345	23	-	11,628
Institutional support	34,112	100	1,245	1,552	1,990	198	6	39,203
Operation and maintenance of plant	20,689	(2,028)	14,982	324	7,494	13	-	41,474
Student financial assistance	170	13	6	60	0	10,903	-	11,152
Auxiliary enterprises	52,805	15,625	21,379	6,508	5,097	602	-	102,016
Total before fees, costs & depreciation	$ 488,651	$ 55,373	$ 68,123	$ 25,243	$ 21,421	$ 19,441	$ 15,943	694,195
Depreciation expense								47,561
Amortization expense								133
Loan administrative fees and collection costs								32
Total operating expenses								$ 741,921

25. COMPONENT UNITS

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

CONSOLIDATING STATEMENT OF NET ASSETS

The financial position for the university's component units as of June 30, 2005 *(all dollars in thousands)*:

	Virginia Tech Foundation	Virginia Tech Services	Total Component Units
ASSETS			
Current assets			
Cash and cash equivalents	$ (8,079)	$ 588	$ (7,491)
Short-term investments	21,169	1,872	23,041
Accounts and contributions receivable, net	18,104	405	18,509
Notes receivable, net	1,638	-	1,638
Inventories	410	5,965	6,375
Prepaid expenses	295	86	381
Other assets	599	-	599
Total current assets	34,136	8,916	43,052
Non-Current assets			
Cash and cash equivalents	37,817	-	37,817
Accounts and contributions receivable, net	24,109	-	24,109
Notes and deeds of trust receivable, net	18,014	-	18,014
Net investments in direct financing leases	8,242	-	8,242
Irrevocable trusts held by others, net	10,191	-	10,191
Long-term investments	486,238	-	486,238
Depreciable capital assets, net	85,364	1,419	86,783
Non-depreciable capital assets	20,782	-	20,782
Intangible assets, net	756	-	756
Other assets	2,357	-	2,357
Total non-current assets	693,870	1,419	695,289
Total assets	728,006	10,335	738,341
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	7,021	3,595	10,616
Accrued compensated absences	165	221	386
Deferred revenue	3,115	25	3,140
Long-term debt payable	18,872	216	19,088
Other liabilities	59	1,288	1,347
Total current liabilities	29,232	5,345	34,577
Non-current liabilities			
Accrued compensated absences	77	-	77
Long-term debt payable	62,230	783	63,013
Liabilities under trust agreements	33,887	-	33,887
Agency deposits held in trust	53,238	-	53,238
Other liabilities	4,989	-	4,989
Total non-current liabilities	154,421	783	155,204
Total liabilities	183,653	6,128	189,781
NET ASSETS			
Invested in capital assets, net of related debt	28,823	722	29,545
Restricted, nonexpendable	233,676	-	233,676
Restricted, expendable			
Scholarships, research, instruction, and other	218,848	-	218,848
Capital projects	31,556	-	31,556
Unrestricted	31,450	3,485	34,935
Total net assets	$ 544,353	$ 4,207	$ 548,560

CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The university's component unit activity for the year ended June 30, 2005 *(all dollars in thousands)*:

	Virginia Tech Foundation	Virginia Tech Services	Total Component Units
OPERATING REVENUES			
Gifts and contributions	$ 59,935	$ -	$ 59,935
Auxiliary enterprise revenue:			
Hotel Roanoke	16,829	-	16,829
River Course	577	-	577
Bookstore	-	22,679	22,679
Other revenues:			
Rental income	9,522	-	9,522
Other	17,426	-	17,426
Total operating revenues	104,289	22,679	126,968
OPERATING EXPENSES			
Instruction	1,557	-	1,557
Research	6,241	-	6,241
Public service	4,820	-	4,820
Academic support	11,497	-	11,497
Institutional support:			
Other university programs	12,442	-	12,442
Fund-raising	7,609	-	7,609
Management and general	1,457	-	1,457
Operation and maintenance of plant:			
Operation and maintenance of plant	3,468	-	3,468
Research center costs	1,852	-	1,852
Student financial assistance	12,618	-	12,618
Auxiliary enterprises:			
Hotel Roanoke	12,180	-	12,180
River Course	993	-	993
Bookstore	-	22,830	22,830
Depreciation expense	4,386	-	4,386
Other expenses	11,700	-	11,700
Total operating expenses	92,820	22,830	115,650
OPERATING INCOME (LOSS)	11,469	(151)	11,318
NON-OPERATING REVENUES (EXPENSES)			
Investment income, net	10,013	-	10,013
Net gains on investments	25,986	-	25,986
Impairment loss on intangibles	(2,299)	-	(2,299)
Interest expense on debt related to capital assets	(2,655)	-	(2,655)
Net non-operating revenues	31,045	-	31,045
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	42,514	(151)	42,363
Change in valuation of split interest agreements	1,137	-	1,137
Capital grants and gifts	11,649	-	11,649
Loss on disposal of capital assets	(70)	-	(70)
Other revenues	(296)	-	(296)
Increase (decrease) in net assets	54,934	(151)	54,783
Net assets—beginning of year	489,419	4,358	493,777
Net assets—end of year	$ 544,353	$ 4,207	$ 548,560

COMPONENT UNIT FOOTNOTES

A) Contributions receivable—Virginia Tech Foundation, Inc.

The following summarizes unconditional promises to give as of June 30, 2005 *(all dollars in thousands)*:

Current receivables	
Receivable in less than one year, net of discount ($102 in 2005)	$ 16,604
Less allowance for doubtful accounts	443
Net current accounts receivable	16,161
Non-current receivables	
Receivable in one to five years, net of discount ($1,802 in 2005)	19,450
Receivable in more than five years, net of discount ($1,163 in 2005)	4,103
Total non-current contributions receivable before allowance	23,553
Less allowance for uncollectible contributions	1,226
Net non-current contributions receivable	22,327
Total contributions receivable	$ 38,488

The discount rates ranged from 2.14% to 5.33% in 2005. The weighted average discount rate was 3.04% in 2005. As of June 30, 2005, there were no conditional promises to give.

B) Investments—Virginia Tech Foundation, inc.

Investments by type of security as of June 30, 2005 *(all dollars in thousands):*

	Cost	Fair value
Short-term:		
U.S. government treasuries	$ 20,188	$ 20,042
U.S. government agencies	1,003	1,000
Corporate debt securities	125	127
Total short-term	21,316	21,169
Long-term:		
Cash and cash equivalents	11,725	11,725
U. S. government treasuries	20,169	20,913
U. S. government agencies	28,117	27,913
State, county and municipal securities	10,241	9,715
Corporate debt securities	41,921	42,876
Common and preferred stock	181,480	205,193
Partnerships and other joint ventures	62,189	74,730
Foreign securities	42,234	50,035
Real estate	35,172	39,434
Other	3,704	3,704
Total long-term	436,952	486,238
Total investments	$458,268	$507,407

As of June 30, 2005, long-term investments included investment assets held in internally-managed trust funds with a carrying value totaling $56,414.

During 2004, the foundation invested $1,000 to become a member of a communications network infrastructure, which is included in other investments as of June 30, 2004. Additionally, the foundation entered into an agreement to make additional investments in the communications network infrastructure over a four-year period. The foundation contributed $800 in 2005 under the agreement, which is also included in other investments as of June 30, 2005. As of June 30, 2005, the foundation's remaining commitment was $2,400.

The following tabulation summarizes changes in relationships between cost and fair value of investments:

	Fair Value	Cost	Net gains (losses)
June 30, 2005	$ 507,407	$ 458,268	$ 49,139
June 30, 2004	472,765	448,427	24,338
Unrealized net gains, including net gain on agency deposits held in trust of $2,548			24,801
Realized net gains, including net gains on agency deposits held in trust of $858			1,115
Total net gains, including net gains on agency deposits held in trust of $3,406			$ 25,916

Investment management fees incurred in 2005 totaled $1,678.

C) Land, buildings, and equipment—Virginia Tech Foundation, Inc.

A summary of land, buildings, and equipment at cost, less accumulated depreciation, for the year ending June 30, 2005, is presented as follows *(all dollars in thousands)*:

Depreciable capital assets	
Buildings	$106,209
Equipment and other	19,348
Land improvements	1,335
Total depreciable capital assets, at cost	126,892
Less accumulated depreciation	41,526
Total depreciable capital assets, net of accumulated depreciation	85,366
Non-depreciable capital assets	
Land	8,099
Vintage and other collection items	4,125
Livestock	2,396
Construction in process	6,162
Total non-depreciable capital assets	20,782
Total capital assets, net of accumulated depreciation	$106,148

As of June 30, 2005, outstanding contractual commitments for projects under construction approximated $8,800.

In August 2002, the foundation agreed to fund approximately $3,800 for construction of a 45,450 square foot building to house a small business incubator to launch high-tech companies at Virginia Tech's Corporate Research Center. The project will be partially funded by a $2,000 grant from the U.S. Economic Development Administration (EDA). As of June 30, 2005, the foundation has incurred $5,784 of costs related to the construction of the building, and through June 30, 2005, the foundation has received $1,745 in grant funds from the EDA, which is included in other income.

D) Long-term debt payable—Virginia Tech Foundation, Inc.

Notes Payable

The following is a summary of outstanding notes payable as of June 30, 2005 *(all dollars in thousands)*:

Unsecured commercial note payable due September 10, 2014 plus interest at 4.65%	$ 1,377
Unsecured variable rate commercial note payable due June 30, 2006 with automatic yearly renewal, plus interest at the 30-day LIBOR rate plus 35 basis points (3.69% as of June 30, 2005), principal balance not to exceed $13.8 million	12,719
Unsecured variable rate promissory note payable due June 1, 2023, plus interest determined weekly by the remarketing agent based on current market conditions (3.317% as of June 30, 2005), principal balance not to exceed $35 million	20,500
Unsecured variable rate commercial note payable due January 31, 2006, plus interest at the 30-day LIBOR rate plus 25 basis points (3.59% as of June 30, 2005), principal balance not to exceed $4 million	2,358
Secured variable rate promissory note payable upon sale of collateral, or receipt of any insurance payment due to destruction of collateral, plus interest at the LIBOR rate plus 125 basis points (4.59% as of June 30, 2005), collateralized by interest in a Citation V Ultra airplane	832
Other notes payable	127
Total VTF notes payable	37,913

Notes Payable (continued)

Unsecured note payable upon the sale of the hotel and repayment of all debt of the hotel and the Hotel Roanoke Foundation (HRF)	1,775
Unsecured notes payable to Doubletree as cash becomes available from hotel net operating income, as defined, plus interest at the prime rate less 1.5%, not to exceed 6.00% (4.75% on June 30, 2005), due June 30, 2010 with two 5-year renewal options	1,300
Unsecured note payable to the City of Roanoke Redevelopment and Housing Authority as cash becomes available from hotel net operating income, as defined; plus interest at 4.048%, guaranteed by the U.S. Department of Housing and Urban Development, due June 30, 2014	4,369
Total HRF notes payable	7,444
Total notes payable	$ 45,357

On September 10, 2004, the foundation used a portion of the proceeds from borrowings on an unsecured commercial note payable due September 10, 2014 for the repayment of the outstanding note payable of $696 and to acquire an additional 50% ownership interest in the Citation II airplane. In addition, the foundation issued a note payable for $832 to purchase a 20% ownership interest in a Citation V Ultra airplane.

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

To comply with the terms of the $35 million unsecured variable rate note agreement, the foundation maintains a back-up line of credit with a lender in the amount of $35 million at an annual fee of 0.16% of the total commitment. The total commitment as of June 30, 2005, was $23 million. As of June 30, 2005, no funds were outstanding under this commitment.

The aggregate annual maturities of notes payable for each of the five years and thereafter subsequent to June 30, 2005, are as follows *(all dollars in thousands)*:

2006	$ 16,753
2007	1,629
2008	1,665
2009	1,710
2010	2,825
Later years or as cash becomes available from hotel net operating income	20,775
Total notes payable	$ 45,357

Bonds Payable

The Hotel Roanoke Foundation, Inc. (HRF) is obligated under City of Roanoke Redevelopment and Housing Authority Taxable Redevelopment Revenue Term Bonds (Series 1998). Bond proceeds were used to prepay the first mortgage notes payable to a lender group and provide long-term financing for the renovation of the Hotel Roanoke. On June 2, 2003, the bonds were remarketed to Virginia Tech Real Estate Foundation, Inc. and the new term rate of 4.10% will extend through May 31, 2008. The Term Bonds are subject to mandatory annual sinking fund redemption through 2018 in varying amounts ranging from $225 to $490 and are guaranteed by Hotel Roanoke, LLC. The Term Bonds are eliminated for consolidation purposes as of June 30, 2005.

The foundation is obligated under Industrial Development Authority of Craig County, Virginia Variable Rate Demand Revenue Refunding Bonds (Series 2000). Bond proceeds are being used to finance the construction of office facilities and laboratory space to be leased to the university. The Series 2000 bonds, which mature on November 1, 2020, bear a fixed interest rate of 5.23%.

The foundation is obligated under Industrial Development Authority of Montgomery County, Virginia Variable Rate Revenue Bonds dated June 28, 2001 (Series 2001A). Bond proceeds were used to refinance the Series 1987 and Series 1990 bonds and refinance $3,150 of the $35 million unsecured variable rate promissory note. The remainder was used to finance land acquisition and construction of several facilities to be used in support of the university. The bonds, which mature on June 1, 2031, bear a variable interest rate, which including remarketing and credit enhancement fees, was 2.595% as of June 30, 2005.

The foundation is obligated under Industrial Development Authority of Montgomery County, Virginia Variable Rate Revenue Refunding bonds dated June 28, 2001 (Series 2001B). Bond proceeds were used to refinance the Series 1986 bonds. The bonds, which mature on December 1, 2007, bear a variable interest rate which, including remarketing and credit enhancement fees, was 2.685% as of June 30, 2005.

The foundation is obligated under Industrial Development Authority of Montgomery County, Virginia Variable Rate Revenue Refunding bonds dated April 25, 2002 (Series 2002A). Bond proceeds were used to finance a building acquisition, the expansion and enhancement of existing facilities used in support of the university, and to provide funds to cover debt related expenditures during construction. The bonds, which mature on June 1, 2022, bear a variable interest rate, which including remarketing and credit enhancement fees, was 2.595% as of June 30, 2005.

Principal amounts outstanding for these bonds as of June 30, 2005, are as follows *(all dollars in thousands)*:

Bond Series:

Series 2000	$ 3,295
Series 2001A	27,130
Series 2001B	1,015
Series 2002A	4,305
Total bonds payable	$ 35,745

The aggregate annual maturities of bonds payable for each of the five years and thereafter subsequent to June 30, 2005, are as follows *(all dollars in thousands)*:

2006	$ 2,118
2007	2,090
2008	2,184
2009	1,912
2010	1,711
Later years	25,730
Total	$ 35,745

To comply with the terms of the Series 2001A and 2001B bond agreements, the foundation maintains a letter of credit with a lender in the amount of $28,561 at annual fees equal to 0.22% of the total commitment. As of June 30, 2005, no funds were outstanding under this commitment.

To comply with the terms of the Series 2002A bond agreement, the foundation maintains a letter of credit with a lender in the amount of $4,369 at annual fees equal to 0.22% of the total commitment. As of June 30, 2005, no funds were outstanding under this commitment.

Effective September 23, 1998, the foundation entered into two separate interest rate swap agreements with a lending institution. These agreements were based on the principal balances (notional amounts) for the Series 1986 and 1987 bond issues, and the Series 1990 bond issue, which were refinanced by the Series 2001A and Series 2001B bonds. The foundation participates as a fixed rate payer, with a fixed interest rate of 3.94% for seven-year and ten-year periods ending October 1, 2005 and 2008, respectively. The lending institution participates as a floating rate payer, with a variable interest rate which is calculated based on the Bond Market Association (BMA) Municipal Swap Index, and was 2.43% as of June 30, 2005. Net interest expense associated with these transactions was $53 for fiscal year 2005. The estimated fair value of the interest rate swap agreements as of June 30, 2005 approximated $34, in favor of the lending institution.

Effective April 1, 2003, the foundation entered into three separate interest rate swap agreements with a lending institution. Two of these agreements were based on the principal balances (notional amounts) for the Series 2001A and 2002 bond issues. The foundation participates as a fixed rate payer, with a fixed interest rate of 3.134% and 3.43% for a seven-year and ten-year period ending June 1, 2010 and 2013, respectively. The lending institution participates as a floating rate payer, with a variable interest rate which is calculated based on the BMA Municipal Swap Index, and was 2.43% as of June 30, 2005. The third agreement was based on the principal balance (notional amount) for a promissory note payable. The foundation participates as a fixed rate payer, with a fixed interest rate of 3.715% for a seven-year term ending February 1, 2010. The lending institution participates as a floating rate payer, with a variable interest rate which is calculated based on LIBOR and was 3.21% as of June 30, 2005. Net interest expense associated with these transactions was $385 for fiscal year 2005. The estimated fair value of the interest rate swap agreements approximated $26 as of June 30, 2005, in favor of the lending institution.

Total interest expense incurred on notes payable and bonds payable in 2005 totaled $2,599.

E) Agency deposits held in trust, Virginia Tech Foundation, Inc.

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

A summary of agency deposits held in trust for the year ending June 30, 2005 is presented as follows *(all dollars in thousands)*:

University—Pratt Estate	$ 39,721
University—Donaldson Brown Endowment	745
University—Other	2,728
Virginia Tech Alumni Association, Inc.	4,050
Virginia Tech Services, Inc.	1,872
Other	4,122
Total agency deposits held in trust	$ 53,238

26. JOINT VENTURES

The Hotel Roanoke Conference Center Commission was created by a joint resolution of the university and the City of Roanoke. The purpose of the commission is to establish and operate a publicly owned conference center in the City of Roanoke adjacent to the renovated Hotel Roanoke. The powers of the commission are vested in commissioners. Each participating, governing body appoints three commissioners for a total of six commissioners. The commission has the authority to issue debt, and such debt is the responsibility of the commission. The intention of the commission is to be self-supporting through its user fees. The university and the City of Roanoke equally share in any operating deficit or additional funding needed for capital expenditures. The university made contributions of $100,000 to the commission for the fiscal year ended June 30, 2005.

27. JOINTLY GOVERNED ORGANIZATIONS

Blacksburg-Christiansburg & VPI Water Authority

Created by a concurrent resolution of the university and the towns of Blacksburg and Christiansburg, the authority operates and maintains the water supply system for the university and the other participating governing bodies. A five-member board governs the authority with one member appointed by each governing body and two at-large members appointed by the joint resolution of each of the governing bodies. The authority's indebtedness is not an obligation of the university and is payable solely from the revenues of the authority. The university paid $566,000 to the authority for the purchase of water for the fiscal year ended June 30, 2005.

Blacksburg-VPI Sanitation Authority

Created by a concurrent resolution of the university and the town of Blacksburg, the authority operates and maintains the wastewater treatment system for the participating governing bodies. Each participating governing body appoints one member of the five-member board of directors. Three at-large members are appointed by the joint resolution of each of the governing bodies. The authority's indebtedness is not an obligation of the university and is payable solely from the revenues of the authority. The university paid $649,000 to the authority for the purchase of sewer services for the fiscal year ended June 30, 2005.

Montgomery Regional Solid Waste Authority

Created by a joint resolution of the university, the towns of Blacksburg and Christiansburg, and the county of Montgomery, the authority represents its members in solid waste and recycling issues as well as operating a substantial recycling reprocessing facility. The authority is governed by its board with each participating governing body appointing one board member, and all governing bodies jointly appointing a fifth member. Each governing body provides collection of solid waste and recyclables from within its jurisdiction and delivers the collected materials to the authority for disposal of the waste, and processing and marketing of the recyclables. All indebtedness is the obligation of the authority and payable from its revenues. The university paid $275,000 to the authority for tipping fees for the fiscal year ended June 30, 2005.

Virginia Tech/Montgomery Regional Airport Authority

Created by a joint resolution of the university, the towns of Blacksburg and Christiansburg, and the county of Montgomery, this authority serves to develop a regional airport based on the mission of servicing corporate executive markets and other general aviation markets; obtaining grants, loans, and other funding for airport improvements and other activities; and in promoting and assisting in regional economic development. The authority is governed by its board, which consists of five members. Each participating governing body appoints one member of the board, and all governing bodies jointly appoint a fifth member. All indebtedness is the obligation of the authority and payable from its revenues. The university's funding commitment for fiscal year 2005 was $50,000, of which Virginia Tech paid $26,000 and performed the balance as in-kind service for the authority.

28. SUBSEQUENT EVENTS

On October 19, 2005, the Virginia College Building Authority (VCBA), on behalf of the university, issued $11,425,000 in 9 (d) debt. Proceeds from the debt will be used to provide permanent financing for two capital projects. Of the total debt issued, $8,530,000 will serve as financing for the Biology/Vivarium Facility, which has a total project value of approximately $37.8 million. The Biology/Vivarium Facility consists of a 72,000 gross square foot research facility that includes state-of-the-art laboratories, quarantine areas, animal holding rooms and related support spaces. The remaining debt from the above issue, $2,895,000, will serve as financing for the Graduate Student Center Project. This project consists of the renovation and conversion of the existing Donaldson Brown Hotel and Conference Center (DBHCC) into a Graduate Life Center.

29. PENDING LITIGATION

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

SCHEDULE OF AUXILIARY ENTERPRISES REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

For the year ended June 30, 2005:
(all dollars in thousands)

	Dormitory and Dining Hall System (1)	Utility System (1)	University Services System (1)	Athletic Department (1)	Information Systems & Services	All Other (2)	Total (3)
REVENUES							
Student fees	$ 41,587	$ -	$ 17,678	$ 5,841	$ 2,696	$ 3,337	$ 71,139
Sales and services	8,173	14,969	1,584	27,654	11,241	11,040	74,661
Total fees and sales	49,760	14,969	19,262	33,495	13,937	14,377	145,800
Contributions	118	36	123	4,951	-	2	5,230
Interest and dividends	4	1	8	292	166	200	671
Total revenues	49,882	15,006	19,393	38,738	14,103	14,579	151,701
EXPENSE OF OPERATIONS							
Personal services	18,559	1,903	10,207	11,671	5,657	4,579	52,576
Contractual services	3,800	1,021	2,343	9,282	3,423	3,742	23,611
Supplies and materials	13,414	1,040	1,528	2,084	733	2,107	20,906
Continuous charges	5,047	11,402	905	3,872	1,791	1,090	24,107
Equipment	217	39	158	215	1,493	224	2,346
Total expenses of operation	41,037	15,405	15,141	27,124	13,097	11,742	123,546
EXCESS OF REVENUES OVER EXPENSES OF OPERATIONS BEFORE TRANSFERS	8,845	(399)	4,252	11,614	1,006	2,837	28,155
TRANSFERS AMONG FUNDS—ADDITIONS (DEDUCTIONS)							
Mandatory transfers							
Debt service—current year	(5,636)	(735)	(3,816)	(6,055)	-	(1,135)	(17,377)
Debt service—future years	(1,077)	1,484	(235)	(3,272)	-	-	(3,100)
Non-mandatory transfers							
Capital transfers	(1,476)	(350)	(201)	373	(57)	(220)	(1,931)
Allocation of funds	(656)	-	-	(2,660)	(576)	(734)	(4,626)
Total transfers	(8,845)	399	(4,252)	(11,614)	(633)	(2,089)	(27,034)
Net increase (decrease) for year		-	-	-	373	748	1,121
Fund balances, July 1, 2004	-	-	-	-	7,803	8,392	16,195
Fund balances, June 30, 2005	$ -	$ -	$ -	$ -	$ 8,176	$ 9,140	$ 17,316

(1) *These system accounts are funds held by the trustee and no fund balances are reported in Current Funds Unrestricted.*

(2) *All Other includes the following auxiliaries: University Licensing, Student Orientation, Parking Services, Tailor Shop, Donaldson Brown Hotel and Conference Center, Library Services, Golf Course, Tennis Pavilion, Hokie Passport, Software Sales, and Central Auxiliary Direct Assistance.*

(3) *This schedule accounts for purchases of capital assets as expenses and does not include depreciation. Additionally, all revenues are recorded as charged, including student charges and internal activities. This schedule shows only activity accounted for in Current Funds Unrestricted. Management uses this method of accounting to monitor individual auxiliary enterprises and to set rates.*

AFFILIATED CORPORATIONS FINANCIAL HIGHLIGHTS

For the years ended June 30, 2005-2001:
(all dollars in thousands)

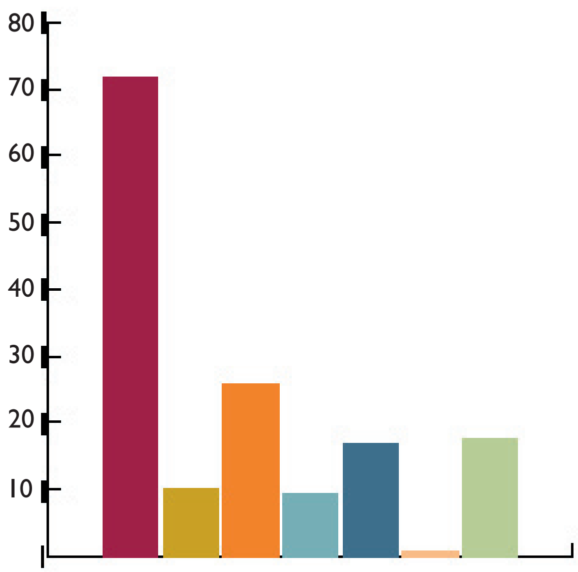
	2005	2004 (as restated)	2003	2002	2001
ASSETS					
Virginia Tech Foundation, Inc.	$ 728,006	$ 670,353	$ 613,456	$ 601,277	$ 624,529
Virginia Tech Services, Inc.	10,335	9,760	10,938	11,072	9,803
Virginia Tech Intellectual Properties, Inc.	1,569	2,341	1,685	2,188	1,061
Total assets	$ 739,910	$ 682,454	$ 626,079	$ 614,537	$ 635,393
REVENUES					
Virginia Tech Foundation, Inc.	$ 151,870	$ 133,802	$ 92,611	$ 65,978	$ 96,687
Virginia Tech Services, Inc.	22,622	20,396	19,831	20,142	21,866
Virginia Tech Intellectual Properties, Inc.	1,129	1,261	1,004	1,220	892
Total revenues	$ 175,621	$ 155,459	$ 113,446	$ 87,340	$ 119,445
EXPENSES					
Virginia Tech Foundation, Inc.	$ 96,936	$ 84,077	$ 94,381	$ 89,122	$ 78,040
Virginia Tech Services, Inc.	22,773	20,840	20,128	20,652	21,866
Virginia Tech Intellectual Properties, Inc.	1,095	1,090	979	984	1,057
Total expenses	$ 120,804	$ 106,007	$ 115,488	$ 110,758	$ 100,963

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

VIRGINIA TECH FOUNDATION, INC.

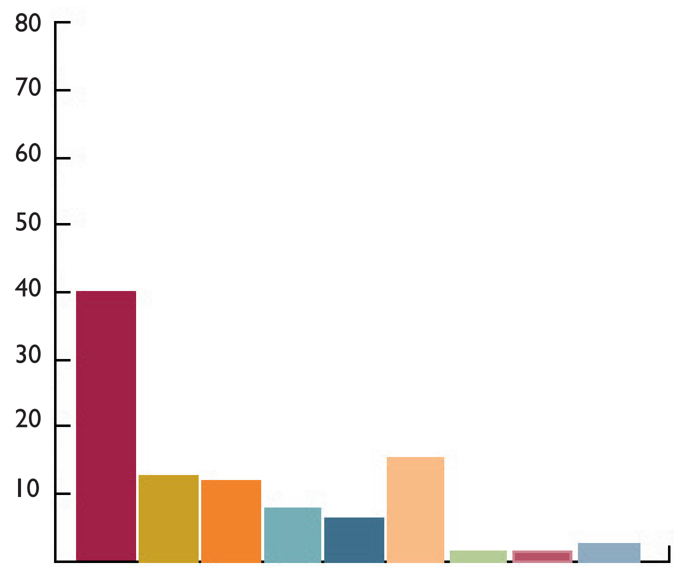
The purpose of Virginia Tech Foundation, Inc. is to receive, invest, and manage private funds given for the support of programs at Virginia Tech and to foster and promote the growth, progress, and general welfare of the university. During the current fiscal year, the foundation recognized $71.6 million in contributions for support of the university. Investment income of $10.0 million, along with net gains on investments of $25.9 million, resulted in a $35.9 million gain on investments. Property rental, hotel operating, and golf course income totaled $26.9 million. Other income accounted for $17.4 million. Total income of $151.8 million was offset by $96.9 million in expenses to support the university and its programs. Direct support to various university programs aggregated $62.8 million, which included $12.6 million in scholarship support to students and faculty and $11.9 million towards university capital projects. Additional expenses such as fund raising and general management, as well as research center, hotel operating, golf course, and other costs totaled $31.8 million. A $2.3 million impairment loss in intangibles related to a patent given in fiscal year 2001 resulted in total expenses and losses of $96.9 million. Total net assets increased by $54.9 million over the previous year.

The graphs below are categorized as presented in the audited financial statements for the foundation which follow the Financial Accounting Standards Board (FASB) presentation requirements *(all dollars in millions)*:



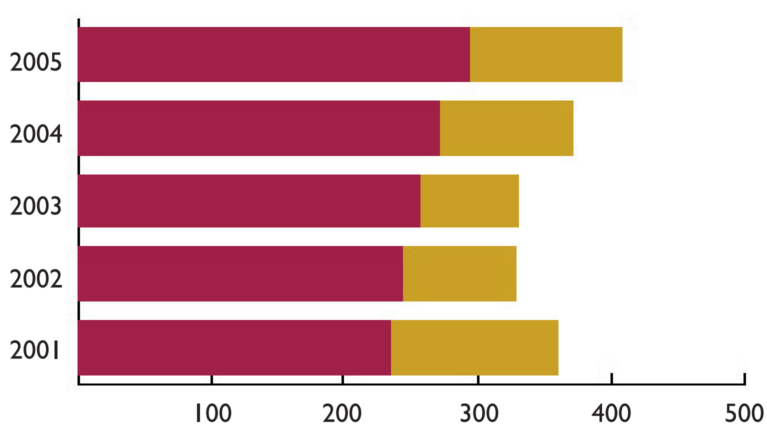
2005 REVENUES, GAINS & OTHER SUPPORT

- Contributions
- Investment income
- Net gain on investments
- Rental income
- Hotel Roanoke
- River Course
- Other income



2005 EXPENSES

- Program support
- Student financial aid
- University capital outlay
- Fund raising
- Research park
- Hotel Roanoke
- River Course
- General management
- Impairment loss on intangibles



ENDOWMENT MARKET VALUE 2001-2005

* Market value of Endowment Funds includes agency deposits held in trust of $53.2 million.
(Source: Virginia Tech Investment Managers, unaudited)

- Contributions
- Appreciation

CONSOLIDATING SCHEDULE OF NET ASSETS

As of June 30, 2005:
(all dollars in thousands)

	Current Funds		Loan	Endowment &	Plant	Agency	
ASSETS	Unrestricted	Restricted	Funds	Similar Funds	Funds	Funds	Total
Current assets							
Cash and cash equivalents	$ 83,405	$ 21,681	$ 1,446	$ -	$ -	$ 4,560	$ 111,092
Cash equivalents, securities lending	2,676	-	-	-	-	-	2,676
Short-term investments	396	-	-	-	-	-	396
Investments, securities lending	568	-	-	-	-	-	568
Accounts receivable, net	6,346	26,543	-	-	-	-	32,889
Notes receivable	-	-	1,247	-	-	-	1,247
Due from Commonwealth of Virginia	7,078	-	-	-	-	-	7,078
Inventories	9,588	-	-	-	-	-	9,588
Prepaid expenses	11,008	194	-	-	-	-	11,202
Other current assets	-	-	-	-	-	-	-
Due to (from) other funds	20,278	(13,574)	(70)	1,074	(7,708)	-	-
Total current assets	141,343	34,844	2,623	1,074	(7,708)	4,560	176,736
Non-current assets							
Cash and cash equivalents	-	-	-	29	84,967	-	84,996
Short-term investments	-	-	-	-	2,608	-	2,608
Accounts receivable, net	144	-	-	-	3,059	-	3,203
Long-term investments	12,107	-	-	40,874	12,512	100	65,593
Notes receivable	-	-	13,558	-	-	-	13,558
Depreciable capital assets, net	-	114	-	209	575,438	-	575,761
Non-depreciable capital assets	-	-	-	-	120,685	-	120,685
Intangible assets, net	-	-	-	-	1,867	-	1,867
Other assets	1,149	-	-	-	127	-	1,276
Total non-current assets	13,400	114	13,558	41,112	801,263	100	869,547
Total assets	154,743	34,958	16,181	42,186	793,555	4,660	1,046,283
LIABILITIES							
Current liabilities							
Accounts payable and accrued expenditures	56,205	11,846	-	-	17,696	-	85,747
Obligations under securities lending	3,244	-	-	-	-	-	3,244
Accrued compensated absences	13,423	2,749	-	-	-	-	16,172
Deferred revenue	17,152	9,490	-	-	-	-	26,642
Funds held in custody for others	125	-	-	-	-	4,660	4,785
Long-term debt payable	-	-	-	-	13,375	-	13,375
Other liabilities	10	-	-	15	-	-	25
Total current liabilities	90,159	24,085	-	15	31,071	4,660	149,990
Non-current liabilities							
Accrued compensated absences	12,703	2,602	-	-	-	-	15,305
Federal student loan program contributions refundable	-	-	13,265	-	-	-	13,265
Long-term debt payable - noncurrent	-	-	-	-	235,918	-	235,918
Other liabilities	2,731	-	-	29	-	-	2,760
Total non-current liabilities	15,434	2,602	13,265	29	235,918	-	267,248
Total liabilities	105,593	26,687	13,265	44	266,989	4,660	417,238
NET ASSETS							
Invested in capital assets, net of related debt	-	-	-	-	464,460	-	464,460
Restricted, nonexpendable	-	-	-	358	-	-	358
Restricted, expendable							
Scholarships, research & instruction	-	8,271	2,916	41,784	-	-	52,971
Capital projects	-	-	-	-	21,272	-	21,272
Debt service	-	-	-	-	31,808	-	31,808
Unrestricted	49,150	-	-	-	9,026	-	58,176
Total net assets	$ 49,150	$ 8,271	$ 2,916	$ 42,142	$ 526,566	$ -	$ 629,045

CONSOLIDATING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the year ended, June 30, 2005:
(all dollars in thousands)

	Current Funds		Loan	Endowment &	Plant	
	Unrestricted	Restricted	Funds	Similar Funds	Funds	Total
OPERATING REVENUES						
Student tuition and fees	$199,052	$ -	$ -	$ -	$ -	$ 199,052
Federal appropriations	-	11,012	-	-	-	11,012
Federal grants and contracts	22,558	97,554	-	-	136	120,248
State grants and contracts	689	13,390	-	-	-	14,079
Local grants and contracts	196	12,301	-	-	-	12,497
Nongovernmental grants and contracts	3,299	13,354	-	-	15	16,668
Sales and services of educational departments	11,614	-	-	-	-	11,614
Auxiliary enterprise revenue	113,142	-	-	-	-	113,142
Other operating revenues	2,090	491	26	-	-	2,607
Total operating revenues	352,640	148,102	26	-	151	500,919
OPERATING EXPENSES						
Instruction	199,642	5,713	-	-	-	205,355
Research	55,831	113,805	-	-	-	169,636
Public service	35,942	28,845	-	-	-	64,787
Academic support	47,583	1,361	-	-	-	48,944
Student services	10,977	651	-	-	-	11,628
Institutional support	32,880	6,323	-	-	-	39,203
Operation and maintenance of plant	35,914	3	-	-	5,557	41,474
Student financial assistance	-	11,152	-	-	-	11,152
Auxiliary enterprises	102,016	-	-	-	-	102,016
Loan administrative fees & collection costs	-	-	32	-	-	32
Depreciation and amortization expense	-	8	-	-	47,686	47,694
Total operating expenses	520,785	167,861	32	-	53,243	741,921
OPERATING LOSS	(168,145)	(19,759)	(6)	-	(53,092)	(241,002)
NON-OPERATING REVENUES (EXPENSES)						
State appropriations	212,999	14,134	-	-	-	227,133
Gifts	8,627	28,159	34	-	-	36,820
Non-operating grants and contracts	-	3,052	-	-	-	3,052
Investment income, net of investment expense	811	300	-	2,908	1,830	5,849
Other additions	-	-	3	-	245	248
Interest on capital assets	-	-	-	-	(8,740)	(8,740)
Net non-operating revenues	222,437	45,645	37	2,908	(6,665)	264,362
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, AND LOSSES	54,292	25,886	31	2,908	(59,757)	23,360
Capital appropriations	-	-	-	-	11,679	11,679
Capital grants and contracts	-	1,553	-	-	20,861	22,414
Gains on disposal of plant assets	-	-	-	-	1,380	1,380
Total other revenues, expenses, gains and losses	-	1,553	-	-	33,920	35,473
INCREASE (DECREASE) IN NET ASSETS BEFORE TRANSFERS	54,292	27,439	31	2,908	(25,837)	58,833
Mandatory transfers	(25,362)	244	-	-	25,118	-
Non-mandatory transfers	(18,737)	397	51	(1,655)	19,944	-
Equipment and library book transfers	(21,007)	(4,402)	-	-	25,409	-
Scholarship allowance transfer	22,822	(22,822)	-	-	-	-
Total transfers	(42,284)	(26,583)	51	(1,655)	70,471	-
Increase in net assets after transfers	12,008	856	82	1,253	44,634	58,833
Net assets – beginning of year	37,142	7,415	2,834	40,889	481,932	570,212
Net assets – end of year	$ 49,150	$ 8,271	$ 2,916	$ 42,142	$526,566	$ 629,045

BUSINESS AND FINANCIAL PERSONNEL

James A. Hyatt
Executive Vice President and Chief Operating Officer

Raymond D. Smoot, Jr.
University Treasurer

M. Dwight Shelton, Jr.
Vice President for Budget and Financial Management

Kurt J. Krause
Vice President for Business Affairs

William M. Elvey
Assistant Vice President for Facilities

Kenneth E. Miller
University Controller

John C. Rudd
Director of Internal Audit

John J. Cusimano
Associate Treasurer

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