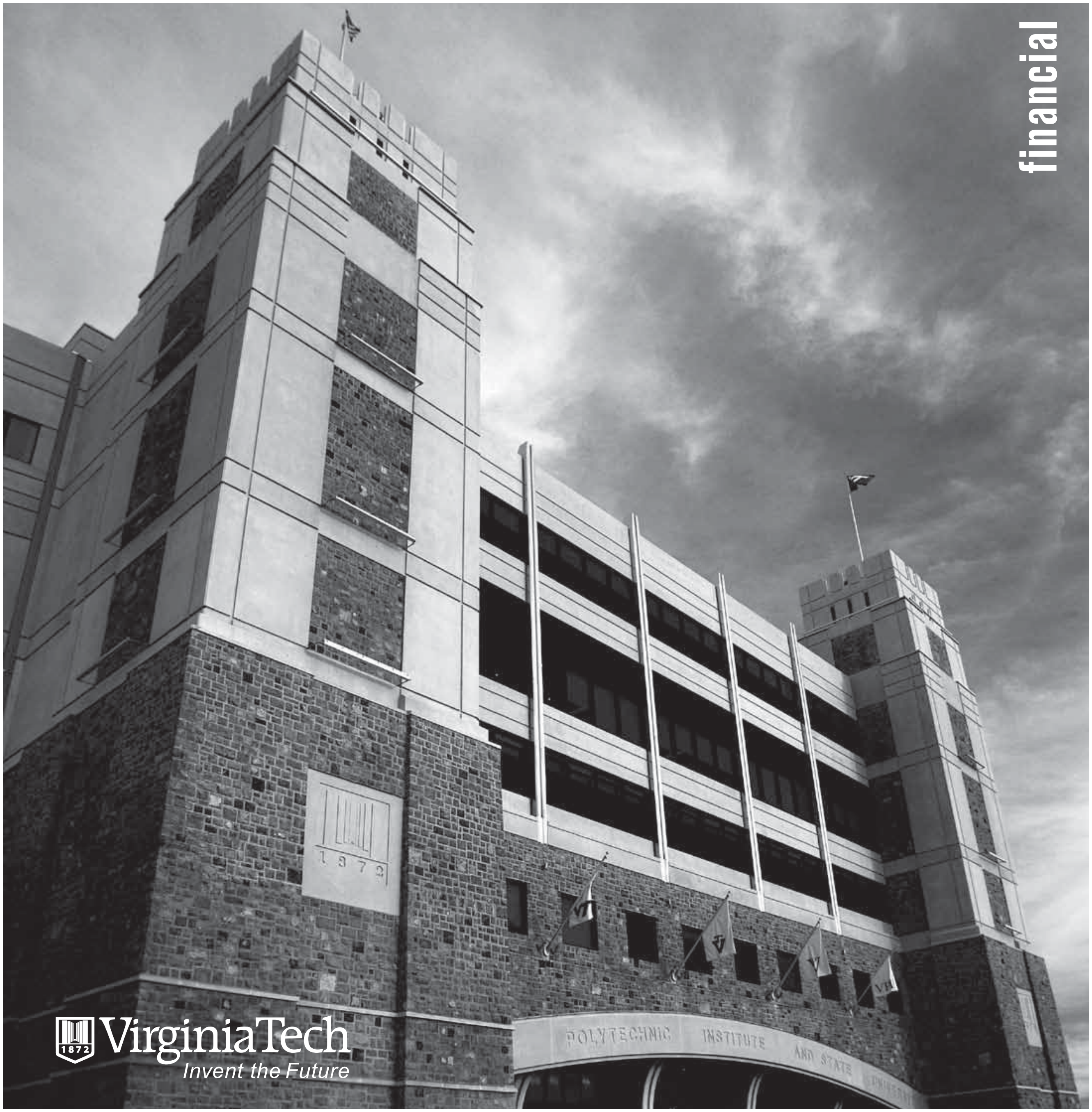
2008-09 financial report



VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

Message from the Vice President for Finance and Chief Financial Officer

M. Dwight Shelton, Jr.

Fiscal year 2009 represented a challenging period to continue the advancement of Virginia Tech. While the university continued to grow the quality and reach of its instructional and research programs, the national recession and its effect on Virginia resulted in significant impacts with regard to the university's finances. Constrained resources at the state level have resulted in significant budget reductions to higher education. The university has had to work harder than ever in the face of diminished resources. Despite these issues, we have had a successful year on several fronts. While continuing to move forward with our academic programs, we have managed operations within structurally balanced budgets, realized growth in unrestricted net assets and capital assets, and maintained a significant ongoing capital campaign.

In support of its research and instructional programs, the university is in the midst of the largest capital construction program in its history, approximately one-half billion dollars, and is building a significant number of research, educational and instructional facilities as well as facilities to support auxiliary operations. Expenditures on capital projects totaled $98 million for the year ended June 30, 2009, and we expect capital expenditures in the range of $173 million for fiscal year 2010. The university continues to work at the state level to obtain additional support for future critically needed instructional and research facilities.

Closely related to the capital program is the need to maintain a strong bond rating in relationship to our issuance of debt for nongeneral fund supported projects. The debt ratings have improved and the university continues to take explicit actions to strengthen its bond rating such as improving its overall liquidity position and unrestricted net assets balances. The university has a current debt ratio of 3.04 percent and retains a significant level of debt capacity to support future projects.

As a land-grant institution, one of our core values is the advancement of research within the local, state, and global environment. Continued growth in research remains a significant element of the university's strategic plan. The university has realized growth in its research program over the last several years, and that trend continued in fiscal year 2009. Research expenses sustained a modest increase of $10.5 million, or 5 percent, despite the significant decline in the economy. The recent initiatives and collaborative efforts such as the newly created Virginia Tech Carilion School of Medicine and Research Institute will provide major new research opportunities in biomedical areas in the future. Further, the federal stimulus program created early in calendar year 2009 included significant allocation of grant funds to the major granting agencies of National Institutes of Health and the National Science Foundation. Virginia Tech faculty responded to that funding opportunity submitting a significant number of grant proposals, and the university expects a growth in research expenditures over the next two to three years resulting from awards from this increased proposal activity.

The university is in the midst of a capital campaign with a goal of $1 billion. Despite economic difficulties at the national level, our capital campaign continues on target to meet its goal of $1 billion by the end of December 2010. Pledges to the campaign totaled $809.9 million as of June 30, 2009. Private funds represent an increasing element of support for the university's operations and are creating the incremental funds necessary to ensure the continuation of quality instructional and research programs for our students and the citizens of the commonwealth.

While losses in state support have adversely impacted the university's instructional budget, other elements of the operating budget have continued to grow. The university's annual budget exceeded $1 billion for the first time in 2008-2009, with a total budget of approximately $1.2 billion including the Virginia Tech Foundation and other related corporations. Tuition and fees represent the single largest source of revenue for the university, approximately $275 million. While this amount represents only 27 percent of the total university's budget, it has become the major source of support (58 percent) for the instructional program budget due to the continued erosion of state support. Although the university has been able to sustain or slightly grow its overall operations, there is an ongoing shift in support away from state funding. As the commonwealth reduces its revenue budget, it has not been able to maintain its traditional funding strategy for higher education.

Because of the reductions by the commonwealth, the university has lost approximately $42.1 million of general fund support during fiscal years 2008 and 2009 that covered university instructional, land grant, and research programs. Through additional nongeneral fund revenues and operating efficiencies, the university was able to hold reductions to operating units to only 3.5 percent through fiscal year 2009, minimizing the impact on personnel resources. However, in September 2009 the state assessed an additional 15 percent budget reduction to the university totaling $26.4 million of general fund resources. Continued revenue losses accelerate the need for the university to identify alternative revenue resources to support its programs and identify cost reductions to offset the impact of the loss in state support. We anticipate that the generation of nongeneral fund revenues including tuition and fees, research, business activities, and private support will represent a larger proportion of university financial resources in the future.

In the midst of those resource constraints, the university has also focused on controlling costs and becoming more efficient wherever possible. These strides are occurring in both the academic and administrative support areas. For example, the interest in supporting a sustainable environment and green initiatives is growing at campuses across the nation and Virginia Tech is no exception. The campus community strongly supports actions that improve sustainability at the university; this was evidenced in 2008-2009 by the establishment of the Virginia Tech Climate Action Commitment and Sustainability Plan. That commitment includes several initiatives which will both improve our sustainability and reduce costs as the university becomes more energy efficient. The university's long term commitment to the plan will require a cooperative effort on the behalf of the administration, students, and faculty working together to achieve those goals. The initiatives undertaken will improve university sustainability and create additional savings as we identify actions that are financially viable.

Enhancements in the electronic procurement system have resulted in the electronic order and payment processing for a large number of transactions. The implementation of electronic ordering system for internal goods and services eliminated many paper transactions this year resulting in more efficient operations. The university is expanding its use of electronic workflow and document management in various areas to create more efficient transaction processing environments. These are but two examples of administrative actions that have allowed the university to absorb reductions in resources while continuing to support the mission of the university.

Despite significant financial challenges, the university is making progress on several fronts. In addition to the continued investment in facilities, growth in research, and a successful capital campaign, we have also experienced growth in applications and interest in Virginia Tech by prospective students. Student demand for Virginia Tech degrees is growing and the overall quality of the entering class continues to improve with each successive year. In addition, we had a record number of enrollments in fiscal year 2008-2009 of 30,739. The university continues to make progress towards achieving the various elements of its strategic plan to improve the overall quality of mission critical programs. The administration and finance areas are taking actions to fully support these goals and be a part of the solution as Virginia Tech moves forward to be a leader in higher education and research and to Invent the Future.

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

Contents

Management's Responsibility for Financial Reporting and Internal Controls

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

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

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

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

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

Independent Auditor's Report on Financial Statements

November 5, 2009

The Honorable Timothy M. Kaine, *Governor of Virginia*

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

The Board of Visitors, *Virginia Polytechnic Institute and State University*

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of Virginia Polytechnic Institute and State University, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2009, which collectively comprise the university's basic financial statements as listed in the table of contents. These financial statements are the responsibility of university management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the university, which are discussed in note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the university, is based on the reports of the other auditors. The prior year summarized comparative information has been derived from the university's fiscal year 2008 financial statements, and in our report dated October 29, 2008, we expressed an unqualified opinion on the respective financial statements of the university.

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

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

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

Our audit was conducted for the purpose of forming opinions on the basic financial statements of the university. The consolidating schedules and affiliated corporations' financial highlights are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The consolidating schedules on pages 38 and 39 and affiliated corporations' financial highlights on pages 36 and 37 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2009, on our consideration of Virginia Polytechnic Institute and State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Walter J. Kucharski
Auditor of Public Accounts

Management's Discussion and Analysis (unaudited)

Virginia Polytechnic Institute and State University, popularly known as Virginia Tech, is a comprehensive, land-grant university located in Blacksburg, Virginia. The university offers 193 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 30,739 students and employs 2,172 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's research program was ranked 46th by the National Science Foundation among the top research institutions in the United States in its latest survey measuring annual research expenditures.

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

Overview

This unaudited Management's Discussion and Analysis (MD&A) is required supplemental information under the Governmental Accounting Standards Board's (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an overall view of the university's financial activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the university's financial condition and results of operations for the fiscal year ended June 30, 2009. Comparative numbers are included for the fiscal year ended June 30, 2008. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying basic financial statements, including notes and other supplementary information. The university's management is responsible for all of the financial information presented, including this discussion and analysis.

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

Using criteria provided in GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement 14, the university's six affiliated corporations were evaluated on the nature and significance of their relationship to the university. The Virginia Tech Foundation Inc. (VTF or 'the foundation') and Virginia Tech Services Inc. (VTS) were determined to be component units and are presented in a separate column on the university's financial statements. The foundation is not part of this MD&A, but additional detail regarding its financial activities can be found in note 26 of the Notes to Financial Statements. Transactions between the university and these component units have not been eliminated in this year's financial statements.

The following GASB statements of standards became effective in fiscal year 2009: Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*; Statement 52, *Land and Other Real Estate Held as Investments by Endowments*; Statement 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*; and Statement 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. The university has conducted a review of its facilities and has determined it has no reporting requirement under GASB 49. The university has reviewed its endowment investments and has determined its investments do not meet the criteria set forth in GASB 52. The remaining statements effective this fiscal year, GASB 55 and GASB 56 do not require disclosures by the university in its financial report.

Statement of Net Assets

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

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

The university's net assets are classified as follows:

- Invested in capital assets — Invested in capital assets, net of related debt, represent the university's total investment in capital assets, net of accumulated depreciation 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.

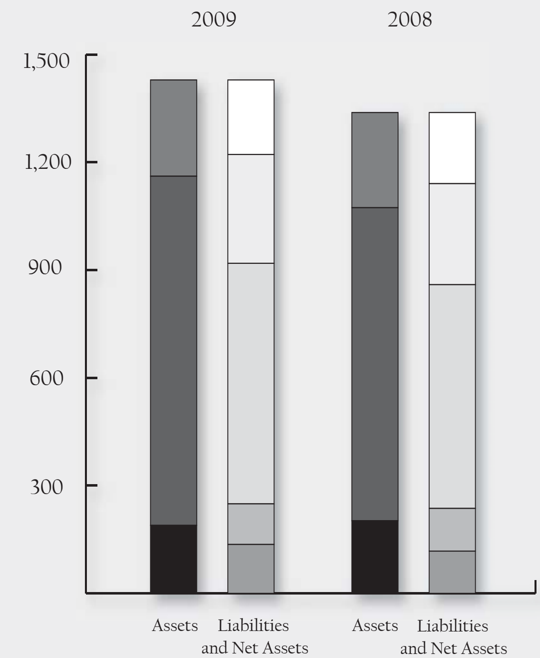
- Restricted net assets, expendable — Expendable restricted net assets include resources the university is legally or contractually obligated to expend in accordance with restrictions imposed by external third parties. These assets partially consist of quasi-endowments totaling $35.2 million. The quasi-endowments are managed by VTF.

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

Assets, Liabilities and Net Assets

For the years ended June 30, 2009 and 2008
(all dollars in millions)

	2009	2008	Change Amount	Change Percent
Current assets	$ 268.0	$ 265.5	$ 2.5	0.9 %
Capital assets, net	972.1	871.5	100.6	11.5 %
Other assets	189.4	202.3	(12.9)	(6.4)%
Total assets	1,429.5	1,339.3	90.2	6.7 %
Current liabilities	207.5	198.5	9.0	4.5 %
Noncurrent liabilities	303.0	281.3	21.7	7.7 %
Total liabilities	510.5	479.8	30.7	6.4 %
Invested in capital assets, net	669.7	622.9	46.8	7.5 %
Restricted	113.1	118.9	(5.8)	(4.9)%
Unrestricted	136.2	117.7	18.5	15.7 %
Total net assets	$ 919.0	$ 859.5	$ 59.5	6.9 %



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

Total university assets increased by $90.2 million or 6.7% during fiscal year 2009, bringing the total to $1,429.5 million at year-end. Growth in current and capital assets ($2.5 million and $100.6 million, respectively) was partially offset by declines in the remaining asset categories of $12.9 million. The majority of the growth in current assets was directly related to increases in cash and cash equivalents ($28.2) offset by declines in the Securities Lending and Accounts Receivable categories ($19.2 million and $6.2 million, respectively). The decline in asset values in the Securities Lending category was solely due to the university's decision to reduce its exposure to investment losses from market volatility by terminating its participation in securities lending activity. Declines in the current asset category, Accounts Receivable, were due primarily to decreasing grants and contract receivables ($4.6 million) and an increase in the allowance for doubtful accounts ($1.0 million). The increased use of payment practices, such as advanced payment with private sponsors and letter of credit draws with federal sponsors, has contributed to the reduction in grants and contract receivables. The increase in invested in capital assets, net, reflects the ongoing construction of major research buildings and the capitalization of completed research and instructional facilities discussed in detail in the following section, Capital Asset and Debt Administration.

Total university liabilities increased $30.7 million or 6.4% during fiscal year 2009. The current liabilities category increased $9.0 million and the noncurrent liabilities category increased $21.7 million. The majority of the increase in current liabilities was in the Accounts Payable ($10.2 million) and Commercial Paper ($18.9 million) categories. This increase was partially offset by the reduction in obligations under Securities Lending ($19.2 million) reflecting the university's decision to terminate its participation in this activity. The growth in the noncurrent liabilities category primarily results from net additions to long-term debt ($6.4 million) and capital lease obligations ($15.8 million). These additions were partially offset by a reduction in installment purchases. For more information, see the Capital Asset and Debt Administration section.

Total assets grew at a rate greater than total liabilities, thus increasing the university's net assets by $59.5 million (6.9%). Invested in capital assets, net of related debt, and unrestricted assets increased $46.8 million and $18.5 million, respectively. This was partially offset by the net reduction in the components of restricted assets, expendable of $5.8 million. The net reduction is attributed to the decline in valuation of assets assigned to the components of this category supporting scholarships, research, instruction and other uses ($8.0 million), reduction in funds available for on-going capital construction ($1.7 million) and an increased amount assigned to debt service ($3.8 million) supporting several major debt funded projects completed this fiscal year (see note 21, Capital Appropriations).

Capital Asset and Debt Administration

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

Note 8 of the Notes to Financial Statements describes the university's significant investment in depreciable capital assets with gross additions of $135.4 million during fiscal year 2009. The completion of the Institute for Critical Technologies and Applied Science (ICTAS-I) facility ($44.6 million), Cowgill Hall HVAC ($9.7 million), and upgrades to the campus heat plant ($8.1 million) were the significant components of building additions, totaling $88.3 million in this fiscal year. Ongoing investments in instructional, research, and computer equipment totaled $33.7 million. Depreciation expense related to capital assets was $60.8 million with net asset retirements of $1.8 million. The net increase in depreciable capital assets for this period was $72.8 million. The largest increase in nondepreciable capital assets was due to the net increase in the construction in progress category, primarily related to the continuing construction of the New Residence Hall I, the Basketball Practice facility and the renovation of Henderson Hall. The construction of these projects and others was funded using proceeds from the sale of commercial paper. This temporary financing will be replaced with permanent debt financing from the issuance of university bonds and long-term notes.

Noncurrent liabilities sustained a net increase of $21.7 million during fiscal year 2009. The majority of the net increase in noncurrent liabilities resulted from the addition of the Integrated Life Sciences Building and Vivarium capital leases ($17.3 million) and issuance of new debt liquidating outstanding commercial paper used as temporary funding for the ongoing construction of the following projects: the New Residence Hall I ($17.2 million), a new parking lot ($1.5 million), and the McComas Hall exterior repairs ($1.5 million). The normal reclassification of long-term debt ($16.1 million), to be retired in the next fiscal year, from the noncurrent liabilities category to the current liabilities category partially offset increases in this category. See notes 12 and 13 of the *Notes to Financial Statements* for more details.

Capital projects in progress carry commitments to construction contractors, architects, and engineers totaling $152.7 million at June 30, 2009. These obligations are for future effort and as such have not been accrued as expenses or liabilities on the university's financial statements. Three projects constituted the majority of the financial commitment: renovation of Ambler-Johnston Hall ($48.5 million), construction of the Virginia Tech Carilion Medical School and Research Institute ($46.2 million), and a new parking structure ($18.1 million). These commitments represent only a portion of the university's capital projects currently under construction or authorized by the commonwealth.

The educational and general (E&G) portion of the university's capital outlay program represents five projects currently in various stages of completion. Two of the largest projects in this category are the Virginia Tech Carilion Medical School and Research Institute ($59.0 million) and the Institute for Critical Technologies and Applied Science-II ($31.0 million). In addition to the capital projects underway, there were several new construction and renovation projects approved for instructional and research facilities. The larger of the approved new construction projects are: the Sciences Building Laboratory I, the Human and Agricultural Biosciences Building I, the Visitor and Undergraduate Admissions Center, and the Performing Arts Center. The Commonwealth of Virginia will provide partial funding for several of these E&G projects.

The voter-approved Virginia Higher Education Bond Referendum provided $900 million of debt financing for capital projects to create quality educational facilities for the commonwealth's universities and colleges. Virginia Tech received $5.7 million this year, the final funding increment of the $95.3 million in bond proceeds allocated to partially fund ten capital projects. These bonds are the obligation of the Commonwealth of Virginia, however, not the university. The university plans to provide additional funding for these and other projects by issuing $116.5 million of long-term debt.

Funding for Authorized Current and Future Capital Projects

As of June 30, 2009

(all dollars in millions)

	State Funds (1)	Other Funds (2)	University Debt Issued Before June 30, 2009	University Debt To Be Issued After June 30, 2009	Total Funding	Cash Basis Project-To-Date Expenses
Current education and general	$ 95.1	$ 9.4	$ -	$ -	$ 104.5	$ 27.5
Current auxiliary enterprise	-	27.3	129.9	39.4	196.6	58.9
Total current	95.1	36.7	129.9	39.4	301.1	86.4
Future education and general	39.7	16.5	-	116.5	172.7	8.1
Future auxiliary enterprise	-	18.0	-	70.0	88.0	1.1
Total future	39.7	34.5	-	186.5	260.7	9.2
Total authorized	$ 134.8	$ 71.2	$ 129.9	$ 225.9	$ 561.8	$ 95.6

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

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

The university's auxiliary enterprises have approval for five new capital projects. These future capital projects include a new residence hall; additions to recreational sports, counseling and clinic space; an indoor athletic training facility; an addition to the Jamerson Center; and the renovation of an existing dining space. 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.

Virginia Tech had a total authorization of $561.8 million in capital building projects as of June 30, 2009, requiring approximately $225.9 million in additional debt financing.

The university's bond ratings of Aa2 and AA from Moody's and Standard & Poor's, respectively, reflect strong student demand, balanced operating performance, and adequate reserves to address unforeseen expenses.

Summary of Revenues, Expenses, and Changes in Net Assets

For the years ended June 30, 2009 and 2008
(all dollars in millions)

			Change	
	2009	2008	Amount	Percent
Operating revenues	$ 684.5	$ 633.7	$ 50.8	8.0 %
Operating expenses	970.1	945.6	24.5	2.6 %
Operating loss	(285.6)	(311.9)	26.3	(8.4)%
Non-operating revenues and expenses	299.0	326.7	(27.7)	(8.5)%
Income before other revenues, expenses, gains or losses	13.4	14.8	(1.4)	(9.5)%
Other revenues, expenses, gains or losses	46.1	25.2	20.9	82.9 %
Increase in net assets	59.5	40.0	19.5	48.8 %
Net assets - beginning of year	859.5	819.5	40.0	4.9 %
Net assets - end of year	$ 919.0	$ 859.5	$ 59.5	6.9 %

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.

Operating revenues are generally received through providing goods and services to the various customers and constituencies of the university. Operating expenses are expenditures made to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the missions of the university. Salaries and fringe benefits for faculty and staff are the largest type of operating expense. Non-operating revenues are revenues received for which goods and services are not directly provided. State appropriations and gifts, included in this category, 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 $50.8 million or 8.0% from the prior fiscal year. The majority of the growth in operating revenues comes from the student tuition and fee revenue ($31.0 million and 12.7% from the prior year). This increase was expected given the rise in both in-state and out-of-state tuition rates, effective with the fall 2008 semester. Grants and contracts revenue grew by $6.6 million or 3.0% from the prior year. The increases were primarily from sponsored research supported by multiple federal agencies in the research areas managed by the Virginia Bioinformatics Institute, Virginia Tech Transportation Institute, and programs conducted in the major engineering disciplines. Auxiliary enterprise revenue also grew by $12.0 million, primarily from increased service rates and fee revenue generated by operations of the Dorm and Dining auxiliary ($6.4 million), Electric auxiliary ($3.0 million), and the Telecommunications auxiliary ($2.0 million). Overall, the university's operating revenue increased to $684.5 million in fiscal year 2009, compared to $633.7 million in fiscal year 2008.

Non-operating and Other Revenues

Non-operating revenue totaled $299.0 million, a decrease of $27.7 million from the previous year's total. The revenue reductions in this category results from the reversion of state appropriations ($14.4 million) and decreasing revenue from investment income ($15.0 million) due to market retrenchment, partially offset by net increases in the remaining non-operating revenue categories. The state reduced current year appropriation revenues as part of budget adjustments necessary to accommodate declines in statewide general revenue collections.

Total other revenue, expenses, gains and losses increased by $20.9 million compared to the prior year. Increased funding from the 21st Century bond program ($29.4 million) and private gifts ($4.2 million) was partially offset by reductions in the General Obligation Bond program ($12.4 million) for capital projects. During fiscal year 2009, the commonwealth continued the conversion of existing general fund appropriations for on-going capital projects to debt financing. This resulted in the reversion of general funds appropriated in prior

Increase (Decrease) in Revenues

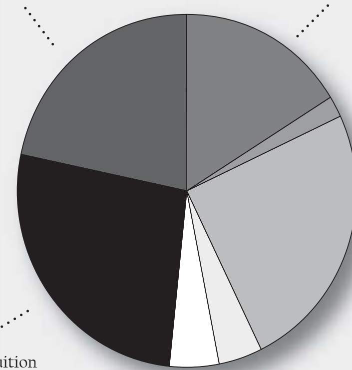
For the years ended June 30, 2009 and 2008
(all dollars in millions)

	2009	2008	Change Amount	Change Percent
Operating revenues				
Student tuition and fees, net	$ 275.1	$ 244.1	$ 31.0	12.7 %
Grants and contracts	225.2	218.6	6.6	3.0 %
Auxiliary enterprises	165.6	153.6	12.0	7.8 %
Other operating revenue	18.6	17.4	1.2	6.9 %
Total operating revenues	684.5	633.7	50.8	8.0 %
Non-operating activity				
State appropriations	255.4	269.8	(14.4)	(5.3)%
Other non-operating revenues*	43.6	56.9	(13.3)	(23.4)%
Total non-operating revenues	299.0	326.7	(27.7)	(8.5)%
Other revenues				
Capital appropriations	(12.3)	(12.6)	0.3	2.4 %
Capital grants and gifts	59.7	38.3	21.4	55.9 %
Loss on disposal of capital assets	(1.3)	(0.5)	(0.8)	(160.0)%
Total capital revenues, gains	46.1	25.2	20.9	82.9 %
Total revenues	$ 1,029.6	$ 985.6	$ 44.0	4.5 %

* Includes gifts, investment income, interest expense on debt related to capital assets, and other non-operating revenues.

Revenues by Source

For the year ended June 30, 2009



fiscal years, as well as the conversion of planned current year general appropriation for capital projects. The current year reduction in the capital appropriations of $12.3 million was less than the prior year reduction of $12.6 million.

As shown in the chart above, revenues from all sources (operating, non-operating, and other) for fiscal year 2009 totaled $1,029.6 million, increasing by $44.0 million from the prior year. Operating expenses (shown in the chart on the facing page) totaled approximately $970.1 million for fiscal year 2009 growing by $24.5 million. Total revenues less total expenses resulted in an increase to net assets of $59.5 million for fiscal year 2009. (Details about changes in operating expenses are included in the following section.)

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 $630.8 million or 65.1% of the university's total operating expenses. This category increased by $14.9 million (2.4%) over the previous year. Generally, increases to expenses in this category come from three sources: increase in the number of personnel, annual salary increases, and the general upward trend in the costs of fringe benefits. No salary increases were funded by the commonwealth in FY2009 due to statewide budget reductions, and total fringe benefit expenses remained relatively flat, increasing only $0.5 million or 0.3% during fiscal year 2009. The increased salary costs can be attributed to the year-over-year change in the number of faculty and funded graduate research assistants as reflected in the increased salary costs in the functional categories of Research ($10.0 million) and Instruction ($5.3 million). These compensation cost increases were partially offset by reductions in the Institutional support category ($4.0 million). The cost reductions in this category were primarily due to increased recovery of costs charged to functional categories for administrative support ($3.0 million) and salary reductions of $1.0 million across multiple institutional support areas, such as Computer Network Services, Human Resources, and the Controller's Office.

Operating expenses for fiscal year 2009 totaled $970.1 million, up $24.5 million from fiscal year 2008. The net increase resulted from growth in all functional categories except institutional support, public service and student financial assistance costs. The largest growth in operating expenses occurred in the research category, which grew by $10.5 million. The growth in research reflects the continued expansion of existing research efforts and new initiatives supported in part through the expansion of externally sponsored research grants and contracts. The auxiliary enterprises category sustained the second largest increase ($9.2 million) representing the increasing costs of services provided to students, faculty and staff.

The largest percentage growth in operating expenses was in the depreciation and amortization expense category (7.4% or $4.2 million). The year-over-year increase in facility additions ($25.8 million) and capital equipment purchases ($1.1 million) contributed to the overall growth in depreciation expense. In the support categories, operations and maintenance continues its upward trend ($3.4 million or 5.5%) at a somewhat slower pace than the past year. The impact of additional facilities and increasing utility costs is reflected in the net increase in the cost of electricity (up $1.7 million over the past year). Other utility generation costs, such as, coal, natural gas, and oil also sustained cost increases ($4.4 million) reflecting the volatile market conditions for these commodities in the early part of this fiscal year. These increases in operations and maintenance costs were partially offset by reductions across multiple cost categories.

The largest percentage decrease was in the institutional support category (9.1% or $4.7 million). This represents the increased recovery of fiscal, general and administrative and computer services support costs from the auxiliaries and other functional users ($3.8 million increase). The remaining cost reduction in this category results from general savings across multiple expense categories.

The university's operating revenues grew by $50.8 million or 8.0% over the preceding year, while operating expenses increased by $24.5 million or 2.6%. This resulted in a smaller operating loss for the current fiscal year ($285.6 million) in comparison to the operating loss ($311.9 million) generated during the past year. The primary reason for the decrease in the operating loss was the growth in revenues across all operating areas with the largest increases in the Student tuition and fees category and Auxiliary enterprises category. State appropriations and other net non-operating revenues were used to meet operating expenses not offset by operating revenues.

Increase (Decrease) in Expenses by Function

For the years ended June 30, 2009 and 2008

(all dollars in millions)

			Change	
	2009	2008	Amount	Percent
Instruction	$ 253.3	$ 250.5	$ 2.8	1.1 %
Research	231.2	220.7	10.5	4.8 %
Public service	75.9	78.9	(3.0)	(3.8)%
Auxiliary enterprises	148.3	139.1	9.2	6.6 %
Depreciation and amortization expense	61.0	56.8	4.2	7.4 %
Subtotal	769.7	746.0	23.7	3.2 %
Support, maintenance, other expenses				
Academic support	62.5	60.6	1.9	3.1 %
Student services	12.8	12.3	0.5	4.1 %
Institutional support	46.9	51.6	(4.7)	(9.1)%
Operations and maintenance	64.7	61.3	3.4	5.5 %
Student financial assistance, loan admin. fees & collection costs	13.5	13.8	(0.3)	(2.2)%
Total support, maintenance, other	200.4	199.6	0.8	0.4 %
Total expenses	$ 970.1	$ 945.6	$ 24.5	2.6 %

Increase (Decrease) in Expenses by Natural Classification

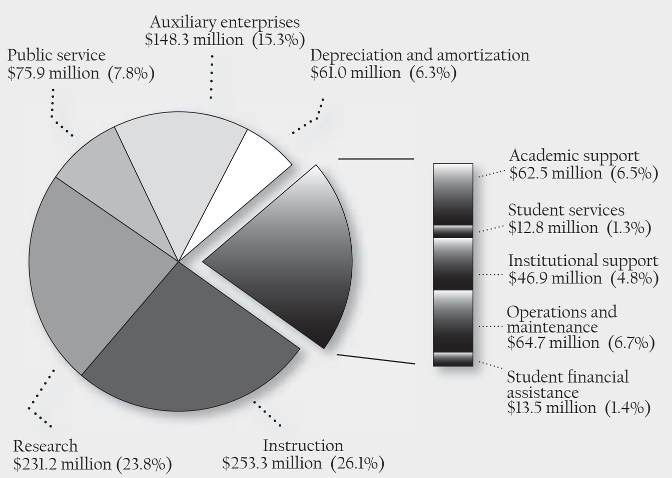
For the years ended June 30, 2009 and 2008

(all dollars in millions)

			Change	
	2009	2008	Amount	Percent
Compensation and benefits	$ 630.8	$ 615.9	$ 14.9	2.4 %
Contractual services	69.1	70.8	(1.7)	(2.4)%
Supplies and materials	89.8	86.4	3.4	3.9 %
Travel	32.3	33.5	(1.2)	(3.6)%
Other operating expenses	38.8	36.1	2.7	7.5 %
Scholarships and fellowships	25.7	24.9	0.8	3.2 %
Sponsored program subcontracts	22.4	21.2	1.2	5.7 %
Depreciation and amortization	61.2	56.8	4.4	7.7 %
Total operating expenses	$ 970.1	$ 945.6	$ 24.5	2.6 %

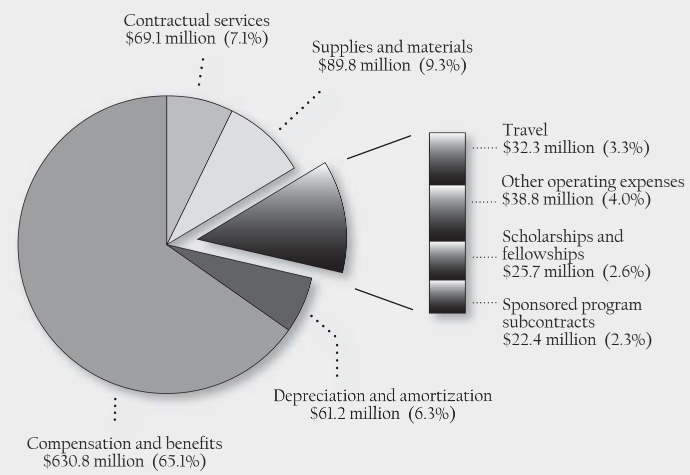
Expenses by Function

For the year ended June 30, 2009



Expenses by Natural Classification

For the year ended June 30, 2009



Statement of Cash Flows

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

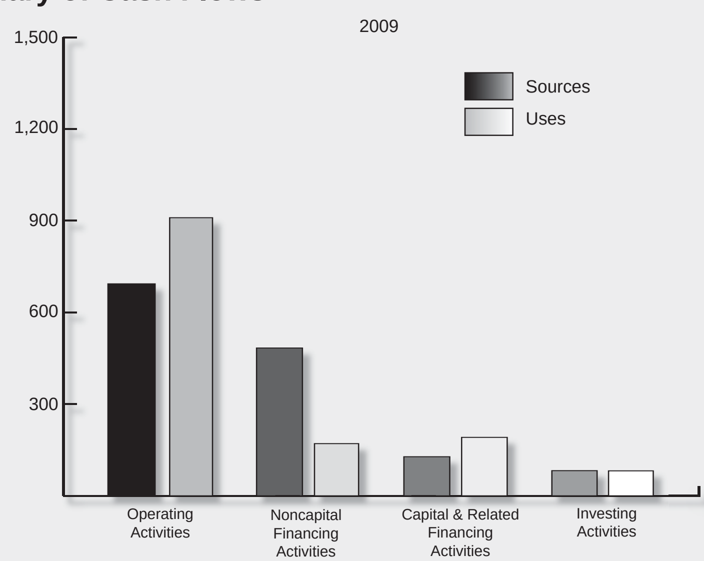
The statement is divided into five sections. The first section, *Cash flows from operating activities*, deals with operating cash flows and shows net cash used by operating activities of the university. The *Cash flows from noncapital financing activities* section reflects cash received and disbursed for purposes other than operating, investing and capital financing. GASB requires general appropriations from the commonwealth and noncapital gifts be shown as cash flows from noncapital financing activities. *Cash flows from capital and related financing activities* presents cash used for the acquisition and construction of capital and related items. Plant funds and related long-term debt activities (except depreciation and amortization), as well as gifts to endowments, are included in cash flows from capital financing activities. *Cash flows from investing activities* reflects the cash flows generated from investments which include purchases, proceeds, and interest. The last section reconciles the operating income or loss reflected on the *Statement of Revenues, Expenses, and Changes in Net Assets* for fiscal year 2009 to net cash used by operating activities.

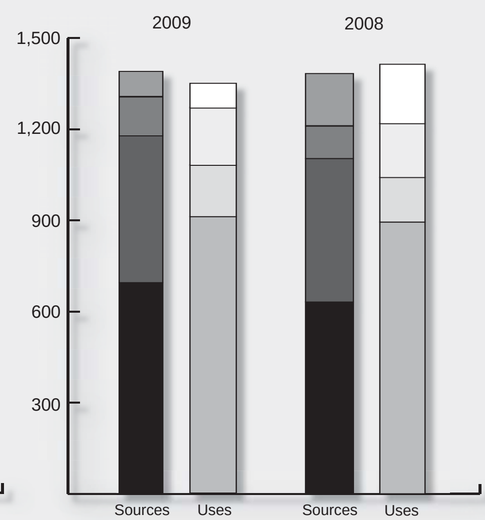
Major operating activity sources of cash for the university included student tuition and fees ($274.8 million), grants and contracts ($213.6 million), and auxiliary enterprise revenues ($167.3 million). Major operating activity uses of cash included compensation and benefits ($629.4 million) and operating expenses ($264.0 million). Operating activity uses of cash significantly exceed operating activity sources of cash due to classification of state appropriations ($255.4 million) and gifts ($46.4 million) as noncapital financial activities.

Economic Outlook

The university, as a public institution, is subject to many of the economic conditions impacting the Commonwealth of Virginia. The commonwealth currently supports 23% of the university's budget through general fund appropriations. During the current fiscal year, the commonwealth reduced general fund support for higher education in October 2008, and imposed additional reductions in general funds for the 2009-10 academic year. The commonwealth did mitigate a significant portion of the 2009-10 general funds reduction to higher education on a one-time basis through the allocation of federal funds provided to the commonwealth under the American Recovery and Reinvestment Act to stimulate economic recovery through revenue stabilization. In addition, the commonwealth maintained the

Summary of Cash Flows





(The graphs above demonstrate the relationship between sources and uses of cash. The graph on the left shows activity for fiscal year 2009 only, grouped by related sources and uses of cash, while the graph on the right compares that same activity across fiscal years 2009 and 2008 in a stacked format.)

For the years ended June 30, 2009 and 2008 *(all dollars in millions)*	2009	2008	Change Amount	Change Percent
Net cash used by operating activities	$ (216.3)	$ (263.0)	$ 46.7	17.8 %
Net cash provided by noncapital activities	312.8	324.8	(12.0)	(3.7)%
Net cash used by capital and related financing activities	(63.1)	(71.8)	8.7	11.8 %
Net cash provided (used) by investing activities	0.3	(24.2)	24.5	102.5 %
Net increase (decrease) in cash and cash equivalents	33.7	(34.2)	67.9	198.8 %
Cash and cash equivalents - beginning of year	222.8	257.0	(34.2)	(13.3)%
Cash and cash equivalents - end of year	$ 256.5	$ 222.8	$ 33.7	15.2 %

university's board of visitors' authority to establish tuition and fees rates. The university anticipates that there will be continued pressure on general funds as the national economy and state general fund revenues begin to slowly recover from the recession, thus revenues and expenditures are being watched closely moving forward. The university will employ cost containment and income enhancement techniques which have helped to successfully manage such reductions in the past. In addition, the university will employ strategic planning processes to minimize the impact on the university's core missions of instruction, research and public service.

Virginia Tech, along with all other Virginia institutions of higher education, continues to maintain significant decentralized authority from the Commonwealth of Virginia through the requested restructuring of higher education, which has built upon the success of the decentralization authority received from the commonwealth over the last decade. Restructuring provides additional flexibility and authority to the participant institutions with the potential for increased efficiencies and cost savings. During last fiscal year, the university completed the process of transitioning the investment of university funds from the commonwealth to private investment management. The 2009 legislative session expanded the university's authority authorizing the investment of nongeneral fund reserves and balances and local funds in a broader array of securities to maximize return on investment while managing risk. This expanded authority will be available for use in determining investment strategies during fiscal year 2010. The market value of the university's investments at June 30, 2009 was $357.9 million of which approximately 10% would be eligible under the expanded investment authority mentioned above.

The university has limited its exposure to turbulent economic conditions through the implementation of its investment policy. The university's investment policy, established by the board of visitors and monitored by the board's Finance and Audit Committee, requires that its public funds be invested in accordance with the Investment of Public Funds Act, Section 2.2-4500 through 2.2-4516, et seq., *Code of Virginia*. The university has limited its investment in equities subject to market volatility to restricted gift funds designated by management as quasi-endowments. These funds are invested in the Virginia Tech Foundation Inc. endowment pool. At the end of the fiscal year, the valuation of the university's share of the endowment pool stabilized at $35.2 million, sustaining an overall loss of $9.5 million.

The university continually monitors the valuation of its investments. At September 30, 2009 the total market value for the university's investments was $369.4 million including unrealized gains on investments of $1.3 million. The university's investment in equities, as mentioned above and managed by the foundation as part of the endowment pool, is estimated by university management to have a market value, net of unrealized losses/gains and other charges, of approximately $37.6 million at September 30, 2009.

Executive management believes the university will maintain its solid financial foundation and is well positioned to continue its excellence in teaching, research, and public service. Management's policies of cost containment and investing in strategic initiatives will ensure the university is well prepared to manage changes in state support while continuing to grow and expand. The financial position of the university is strong as evidenced by its diversified portfolio of research funding, strengthened National Science Foundation research ranking, strong student demand from increasingly talented students, auxiliary enterprises with high customer satisfaction, low total cost of attendance, growing contributions to endowments, and quality debt ratings from Moody's (upgraded to Aa2 in August 2008) and Standard and Poor's (AA). These debt ratings allow the university to obtain funding for capital projects with advantageous terms.

Virginia Tech continues the university's largest private capital campaign and anticipates that private support will continue to grow. The campaign has raised $809.9 million of its $1 billion goal as of June 30, 2009. The university is grounded by an impressive community of students, faculty, and staff. These assets will sustain Virginia Tech's bright future as the commonwealth's largest university offering more career options than any other Virginia university.

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

Statement of Net Assets

As of June 30, 2009, with comparative financial information as of June 30, 2008
(all dollars in thousands)

	2009		2008	
Assets	Virginia Tech	Component Units	Virginia Tech	Component Units
Current assets				
Cash and cash equivalents (Note 4)	$ 197,379	$ (16,524)	$ 169,163	$ (36,140)
Cash equivalents, securities lending (Note 5)	-	-	19,203	-
Short-term investments (Notes 4, 26)	1,106	19,523	990	23,425
Accounts and contributions receivable, net (Notes 1, 6, 26)	41,723	36,726	47,924	36,802
Notes receivable, net (Note 1)	1,464	469	1,232	738
Due from Commonwealth of Virginia (Note 7)	5,135	-	6,141	-
Inventories	10,455	8,389	12,067	8,315
Prepaid expenses	10,722	419	8,806	805
Other assets	-	2,722	-	733
Total current assets	267,984	51,724	265,526	34,678
Noncurrent assets				
Cash and cash equivalents (Note 4)	59,141	61,181	53,593	78,799
Due from Commonwealth of Virginia (Note 7)	9,581	-	18,903	-
Short-term investments (Note 4)	-	-	1,172	-
Accounts and contributions receivable, net (Notes 1, 6, 26)	8,192	41,719	5,052	41,978
Notes receivable, net (Note 1)	13,362	16,730	13,904	16,159
Net investments in direct financing leases	-	25,291	-	7,210
Irrevocable trusts held by others, net	-	7,404	-	9,631
Long-term investments (Notes 4, 26)	96,927	574,868	107,818	597,162
Depreciable capital assets, net (Notes 8, 26)	810,614	115,456	737,768	112,423
Nondepreciable capital assets (Notes 8, 26)	161,539	55,687	133,682	37,469
Intangible assets, net	1,333	654	1,466	679
Other assets	798	3,996	453	2,827
Total noncurrent assets	1,161,487	902,986	1,073,811	904,337
Total assets	1,429,471	954,710	1,339,337	939,015
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities (Note 9)	109,796	12,030	99,550	12,883
Obligations under securities lending (Note 5)	-	-	19,203	-
Accrued compensated absences (Notes 1, 15)	18,828	535	18,250	531
Deferred revenue (Notes 1, 10)	36,163	2,182	36,191	1,444
Funds held in custody for others	5,840	-	6,341	-
Commercial paper (Note 11)	20,810	-	1,955	-
Long-term debt payable (Notes 12, 13, 26)	16,108	14,816	17,082	22,787
Other liabilities	-	4,373	13	2,444
Total current liabilities	207,545	33,936	198,585	40,089
Noncurrent liabilities				
Accrued compensated absences (Notes 1, 15)	18,902	30	19,333	45
Federal student loan program contributions refundable (Note 15)	13,210	-	13,194	-
Deferred revenue	-	6,356	-	6,216
Long-term debt payable (Notes 12, 13, 26)	269,757	181,546	247,741	68,092
Liabilities under trust agreements	-	24,334	-	32,232
Agency deposits held in trust (Note 26)	-	46,193	-	57,406
Other liabilities	1,106	12,418	990	8,607
Total noncurrent liabilities	302,975	270,877	281,258	172,598
Total liabilities	510,520	304,813	479,843	212,687
Net assets				
Invested in capital assets, net of related debt	669,721	38,050	622,885	74,737
Restricted, nonexpendable	358	306,297	358	294,778
Restricted, expendable				
Scholarships, research, instruction, and other	59,962	243,859	67,932	310,163
Capital projects	7,738	37,011	9,390	40,901
Debt service	45,018	-	41,179	-
Unrestricted	136,154	24,680	117,750	5,749
Total net assets	$ 918,951	$ 649,897	$ 859,494	$ 726,328

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, 2009 with comparative financial information for the year ended June 30, 2008
(all dollars in thousands)

	2009		2008	
	Virginia Tech	Component Units	Virginia Tech	Component Units
Operating revenues				
Student tuition and fees, net (Note 1)	$ 275,056	$ -	$ 244,052	$ -
Gifts and contributions	-	34,714	-	57,270
Federal appropriations	15,379	-	16,397	-
Federal grants and contracts	154,615	-	143,022	-
State grants and contracts	13,656	-	15,783	-
Local grants and contracts (Note 3)	13,806	-	16,120	-
Nongovernmental grants and contracts	27,799	-	27,262	-
Sales and services of educational activities	13,586	-	14,379	-
Auxiliary enterprise revenue, net (Note 1)	165,569	48,160	153,579	50,746
Other operating revenues	5,037	30,458	3,104	29,343
Total operating revenues	684,503	113,332	633,698	137,359
Operating expenses				
Instruction	253,313	3,762	250,506	3,585
Research	231,212	5,352	220,677	4,609
Public service	75,928	3,892	78,899	4,133
Academic support	62,485	18,531	60,581	13,901
Student services	12,751	-	12,332	-
Institutional support	46,941	31,333	51,592	41,168
Operation and maintenance of plant	64,715	8,622	61,306	7,139
Student financial assistance	13,281	19,582	13,608	18,383
Auxiliary enterprises	148,252	43,526	139,135	44,589
Depreciation expense (Note 8)	60,813	5,158	56,666	5,438
Amortization expense	133	-	133	-
Other operating expenses	285	9,214	200	9,012
Total operating expenses	970,109	148,972	945,635	151,957
Operating loss	(285,606)	(35,640)	(311,937)	(14,598)
Non-operating revenues (expenses)				
State appropriations (Note 20)	255,423	-	269,767	-
Gifts	46,504	-	43,476	-
Non-operating grants and contracts	2,167	-	4,905	-
Federal student financial aid (Pell)	9,000	-	7,621	-
Investment income, net	(2,918)	9,273	12,095	11,117
Net loss on investments	-	(70,149)	-	(6,943)
Other additions	585	-	457	-
Interest expense on debt related to capital assets	(11,812)	(3,691)	(11,649)	(3,932)
Net non-operating revenues (expenses)	298,949	(64,567)	326,672	242
Income (loss) before other revenues, expenses, gains, or losses	13,343	(100,207)	14,735	(14,356)
Capital appropriations (Note 21)	(12,338)	-	(12,585)	-
Change in valuation of split interest agreements	-	(7,034)	-	(3,361)
Change in valuation of contributions receivables	-	1,875	-	-
Capital grants and gifts (Note 7)	59,770	9,537	38,360	9,141
Loss on disposal of capital assets	(1,318)	(192)	(552)	(210)
Additions to permanent endowments	-	20,892	-	25,167
Other revenues (expenses)	-	(1,302)	-	(1,251)
Total other revenues, expenses, gains, and losses	46,114	23,776	25,223	29,486
Increase (decrease) in net assets	59,457	(76,431)	39,958	15,130
Net assets—beginning of year	859,494	726,328	819,536	711,198
Net assets—end of year	$ 918,951	$ 649,897	$ 859,494	$ 726,328

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

Statement of Cash Flows

For the year ended June 30, 2009, with comparative financial information for the year ended June 30, 2008
(all dollars in thousands)

	2009	2008
Cash flows from operating activities		
Student tuition and fees	$ 274,771	$ 244,798
Federal appropriations	15,379	16,397
Grants and contracts	213,597	198,864
Sales and services of educational activities	13,586	14,379
Auxiliary enterprises	167,339	148,721
Other operating receipts	5,217	2,930
Payments for compensation and fringe benefits	(629,385)	(614,334)
Payments for operating expenses	(263,955)	(260,890)
Payments for scholarships and fellowships	(12,941)	(13,279)
Loans issued to students	(3,394)	(5,517)
Collection of loans from students	3,479	4,879
Net cash used by operating activities	(216,307)	(263,052)
Cash flows from noncapital financing activities		
State appropriations	255,423	269,767
Gifts received for other than capital purposes	46,428	43,823
Non-operating grants and contracts	2,167	4,905
Federal student financial aid (Pell)	9,000	7,621
Federal Direct Lending Program—receipts	108,903	86,197
Federal Direct Lending Program—disbursements	(108,901)	(86,199)
Hokie Spirit Fund—receipts	-	6,903
Hokie Spirit Fund—disbursements	-	(6,994)
Funds held in custody for others—receipts	61,513	52,882
Funds held in custody for others—disbursements	(61,736)	(54,105)
Net cash provided by noncapital financing activities	312,797	324,800
Cash flows from capital and related financing activities		
Capital appropriations	(12,338)	(12,585)
Capital grants and gifts	66,535	86,424
Proceeds from capital debt	42,380	19,252
Proceeds from the sale of capital assets and insurance recoveries	(733)	(93)
Acquisition and construction of capital assets	(143,865)	(120,399)
Principal paid on capital debt and leases	(21,478)	(33,190)
Short-term debt, commercial paper	18,855	783
Interest paid on capital debt and leases	(12,443)	(11,979)
Net cash used by capital and related financing activities	(63,087)	(71,787)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	75,756	162,021
Interest on investments	6,098	9,512
Purchase of investments and related fees	(81,493)	(195,713)
Net cash provided (used) by investing activities	361	(24,180)
Net increase (decrease) in cash and cash equivalents	33,764	(34,219)
Cash and cash equivalents—beginning of year	222,756	256,975
Cash and cash equivalents—end of year	$ 256,520	$ 222,756

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

Statement of Cash Flows (continued)

For the year ended June 30, 2009 with comparative financial information for the year ended June 30, 2008
(all dollars in thousands)

Reconciliation of operating loss to net cash used by operating activities

	2009	2008
Operating loss	$ (285,606)	$ (311,937)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	60,813	56,666
Amortization expense	133	133
Changes in assets and liabilities		
Receivables, net of allowance for doubtful accounts	5,235	(6,755)
Inventories	1,612	(199)
Prepaid items	(2,261)	(1,536)
Notes receivable, net of allowance for doubtful accounts	310	(782)
Accounts payable and accrued liabilities	1,859	268
Accrued payroll	1,240	1,458
Compensated absences	147	255
Deferred revenue	(28)	(541)
Credit card rebate	223	(82)
Federal loan program contributions refundable	16	-
Total adjustments	69,299	48,885
Net cash used by operating activities	$ (216,307)	$ (263,052)

Noncash investing, capital, and financing activities

	2009	2008
Change in accounts receivable related to non-operating income	$ (2,174)	$ (653)
Capital assets acquired through in-kind donations as a component of capital gifts and grants income	$ 1,193	$ 1,905
Change in fair value of investments recognized as a component of interest income	$ (3,658)	$ (6,302)
Change in fair value of interest payable affecting interest paid	$ (11)	$ (78)
Capital assets acquired through installment purchase agreements	$ 140	$ 203
Change in interest receivable affecting interest received	$ (176)	$ 10

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

Notes to Financial Statements

Contents

1. Summary of Significant Accounting Policies

Reporting Entity

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

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

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

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

Virginia Tech Foundation Inc.

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

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

During the year ended June 30, 2009, the foundation distributed $62,506,000 to the university, for both restricted and unrestricted purposes.

Virginia Tech Services Inc.

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

During the year ended June 30, 2009, VTS paid $1,190,000 to the university, primarily for the rental of facilities.

Financial Statement Presentation

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

In fiscal year 2009 the following GASB statements of standards were effective: Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* Statement 52, *Land and Other Real Estate Held as Investments by Endowments,* Statement 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and Statement 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards.* Statement 49 establishes standards of accounting and reporting for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as assessments and cleanups. The university has reviewed its operations and determined it has no reporting requirement under GASB 49. Statement 52 establishes consistent standards for the reporting of land and other real estate held as investments and requires endowments to report their land and other real estate investments at fair value. Assets of this nature are held by VTF for the university and are reported at fair value. GASB Statements 55 and 56 were effective upon issuance in March 2009. The university has no additional reporting requirements or disclosures resulting from these two standards.

Basis of Accounting

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

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

Cash Equivalents

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

Investments

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

Accounts Receivable

Accounts receivable 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 non-governmental 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 is recorded net of allowance for doubtful accounts for current and noncurrent notes receivable, which totaled $36,000 and $286,000, respectively, as of June 30, 2009.

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.

Noncurrent Cash and Investments

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

Capital Assets

Capital assets consisting of land, buildings, infrastructure, and equipment are stated at appraised historical cost or actual cost where determinable. Construction in progress 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 $1,881,000 for the fiscal year ended June 30, 2009.

Accrued Compensated Absences

Certain salaried employees' attendance and leave regulations make provisions for the granting of a specified number of days of leave with pay each year. The amount reflects, 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 the amount of leave earned by employees but not taken, as of June 30, 2009, 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, 2009. This amount is primarily composed of revenue for grants and contracts, prepaid athletic ticket sales, and prepaid student tuition and fees. Summer Session I tuition and fees received during the fiscal year are considered earned at the end of the refund period, approximately June 15 of each year. Tuition and fees received prior to year end for Summer Session II are deferred and recognized as revenue in the next fiscal year. See Note 10 for a detailed list of deferred revenue amounts.

Noncurrent Liabilities

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

Net Assets

The university's net assets are classified as follows:

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

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

- Restricted net assets, nonexpendable — Nonexpendable restricted net assets 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) costs, 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 university's board of visitors to meet current expenses for any lawful purpose.

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

Income Taxes

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

Classifications of Revenues

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

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

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

Scholarship Allowance

Student tuition and fees, certain auxiliary revenues, and student financial assistance expenses are reported net of scholarship allowance in the *Statement of Revenues, Expenses, and Changes in Net Assets*. Scholarship allowance is the difference between the stated charge for goods and services provided by the university and the amount paid by students and/or third parties making payments on the students' behalf. For the fiscal year ended June 30, 2009, the scholarship allowance for student tuition and fee revenue and auxiliary enterprise revenue totaled $58,505,000 and $13,775,000 respectively. Scholarship allowance to students is reported using the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). The alternative method is an algorithm that computes scholarship allowance on a university-wide basis rather than on an individual student basis.

Comparative Data

The university presents its financial information on a comparative basis. The basic financial statements include certain prior year summarized comparative information in total, but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, the prior year information should be read in conjunction with the university's financial statements for the year ended June 30, 2008, from which the summarized information was derived.

2. Related Parties

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

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

3. Local Government Support

The university, through the operation of its Cooperative Extension Service, maintains offices in numerous cities and counties throughout the Commonwealth of Virginia. Personnel assigned to these locations receive a portion of their compensation from local governments. Also included in the expenses of these extension offices are unit support services, which include such items as rent, telephone, supplies, equipment, and extension program expenses. The amount contributed by the various local governments totaled $12,253,000 in 2009, and has been included in revenues and expenses of the accompanying financial statements. The university received other local government support of $1,553,000 in 2009.

4. Cash, Cash Equivalents, and Investments

The following information is provided with respect to the university's cash, cash equivalents, and investments as of June 30, 2009. The following risk disclosures are required by GASB Statement 40, *Deposit and Investment Risk Disclosures:*

⦿ Custodial credit risk (category 3 deposits and investments) — The custodial 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 2009.

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

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

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

Categorization of credit quality and interest rate risk

Investments held on June 30, 2009 (*all dollars in thousands*)

Investment type	Credit Rating	Less than 1 Year	1-5 Years	6-10 Years	Fair Value
U.S. Treasury and Agency securities (1)	N/A	$ 145,734	$ 2,821	$ -	$ 148,555
Debt securities					
Corporate notes	A1		2,972		2,972
Corporate notes	A2	518	1,710		2,228
Corporate notes	A3		73		73
Corporate notes	Aaa	561	7,421		7,982
Corporate notes	Aa2		633		633
Corporate notes	Aa3		1,008		1,008
Corporate bonds	A1		600		600
Corporate bonds	A2	500	978		1,478
Corporate bonds	A3		893		893
Corporate bonds	Aa1		907		907
Corporate bonds	Aa2		2,212		2,212
Corporate bonds	Aa3		710		710
Commercial paper (2)	A-1	9,095			9,095
Repurchase agreements	N/A	87,656			87,656
Asset backed securities	Aaa	7,994	9,055		17,049
Asset backed securities (2)	AAA		248		248
Federal agency securities					
Unsecured bonds and notes	Aaa	8,011	908		8,919
Mortgage backed securities	Aaa	1,170	6,231		7,401
Mortgage backed securities (2)	AAA	506	1,784		2,290
Money market & mutual funds					
Money market & mutual funds	Aaa	697			697
Money market & mutual funds (2)	AAA	1,114			1,114
Other					
Deposits with VTF	N/A	878			878
Dairymen's Equity	BBB+			60	60
Short-term investment fund	AAAm	2			2
State Non-Arbitrage Program	AAAm	17,054			17,054
Subtotal		$ 281,490	$ 41,164	$ 60	322,714
Investments without specific maturities					
Investments held with VTF					35,217
Total					$ 357,931

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

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

⦿ 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 2009.

Cash and Cash Equivalents

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

Investments

The investment policy of the university is established by the board of visitors and monitored by the board's Finance and Audit Committee. Authorized investments 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
As of June 30, 2009 (*all dollars in thousands*)

Investment type	Current Assets	Noncurrent Assets	Total
Cash equivalents	$ 209,010	$ 50,888	$ 259,898
Short-term investments	1,106	-	1,106
Long-term investments	-	96,927	96,927
Total investments	$ 210,116	$ 147,815	$ 357,931

5. Securities Lending Transactions

GASB Statement 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 enabling legislation for the securities lending program is Section 2.2-4506 of the *Code of Virginia*, as amended.

In prior years, the university participated in the Virginia treasury securities lending program. The university's investments included in the securities lending program and the securities lending transactions reported on the financial statements are now managed by Bank of New York Mellon Asset Servicing through Mellon Global Securities Lending. During the past year, university investments, consisting of a combination of U.S. Treasury and U.S. Government backed securities, were loaned through the securities lending program. Due to market volatility, the university terminated its participation in the securities lending program during the first quarter of fiscal year 2009.

6. Accounts Receivable

Accounts receivable consists of the following as of June 30, 2009 (*all dollars in thousands*):

Current receivables	
Grants and contracts	$ 36,151
Accrued investment interest	340
Student tuition and fees	2,504
Auxiliary enterprises and other operating activities	5,243
Total current receivables before allowance	44,238
Less allowance for doubtful accounts	2,515
Net current accounts receivable	41,723
Noncurrent receivables	
Capital gifts, grants and other receivables	8,039
Accrued investment interest	153
Total noncurrent receivables	8,192
Total receivables	$ 49,915

7. Commonwealth Equipment and Capital Project Reimbursement Programs

The commonwealth has established several programs to provide state-supported institutions of higher education with bond proceeds for financing the acquisition and replacement of instructional and research equipment and facilities. During fiscal year 2009, funding has been provided to the university from three programs: general obligation bonds [code section 9(b)], and two programs (21st Century program and the Equipment Trust Fund) managed by the Virginia College Building Authority (VCBA). The VCBA issues bonds and uses the proceeds to reimburse the university and other institutions of higher education for expenses incurred in the acquisition of equipment and facilities.

The *Statement of Revenues, Expenses, and Changes in Net Assets* includes the amounts listed below for the year ended June 30, 2009, in "Capital Grants and Gifts" line item for equipment and facilities obtained with funding under these three programs. Part of the funding for these programs is receivable from the commonwealth at June 30, 2009 as shown in the following paragraph *(all dollars in thousands)*:

VCBA 21st Century program	$ 30,964
VCBA Equipment Trust Fund program	8,685
General obligation bonds 9(b)	5,734
	$ 45,383

The line items, "Due from Commonwealth of Virginia", on the *Statement of Net Assets* for the year ended June 30, 2009, represents pending reimbursements from the following programs *(all dollars in thousands)*:

Capital appropriations receivable	$ 1,523
VCBA Equipment Trust Fund program	4,271
Credit card rebate/accrued interest	865
VCBA 21st Century program	8,056
General obligation bonds 9(b)	1
	$ 14,716

8. Capital Assets

A summary of changes in capital assets follows for the year ending June 30, 2009 *(all dollars in thousands)*:

	Beginning Balance	Additions	Retirements	Ending Balance
Depreciable capital assets				
Buildings	$ 806,913	$ 88,275	$ 41	$ 895,147
Moveable equipment	353,056	33,684	16,574	370,166
Fixed equipment	76,577	4,521	126	80,972
Infrastructure	105,865	6,690	-	112,555
Library books	67,273	2,262	32	69,503
Total depreciable capital assets, at cost	1,409,684	135,432	16,773	1,528,343
Less accumulated depreciation				
Buildings	263,952	23,253	27	287,178
Moveable equipment	240,168	28,845	14,899	254,114
Fixed equipment	38,730	3,075	42	41,763
Infrastructure	74,306	3,161	-	77,467
Library books	54,760	2,479	32	57,207
Total accumulated depreciation	671,916	60,813	15,000	717,729
Total depreciable capital assets, net of accumulated depreciation	737,768	74,619	1,773	810,614
Nondepreciable capital assets				
Land	44,474	120	-	44,594
Livestock	578	58	-	636
Construction in progress	86,220	121,119	92,206	115,133
Equipment in process	2,410	1,172	2,406	1,176
Total nondepreciable capital assets	133,682	122,469	94,612	161,539
Total capital assets, net of accumulated depreciation	$ 871,450	$ 197,088	$ 96,385	$ 972,153

9. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2009, consist of the following *(all dollars in thousands)*:

Accounts payable	$ 48,473
Accrued salaries and wages payable	55,107
Retainage payable	6,216
Total current accounts payable and accrued liabilities	$ 109,796

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

10. Deferred Revenue

Deferred revenue consists of the following at June 30, 2009 *(all dollars in thousands)*:

Grants and contracts	$ 13,154
Prepaid athletic tickets	12,140
Prepaid tuition and fees	6,846
Other auxiliary enterprises	4,023
Total deferred revenue	$ 36,163

11. Short-term Debt

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

At June 30, 2009 the amount outstanding was $20,810,000. The average days-to-maturity was 26 days with a weighted average effective interest rate of 1.23%.

12. 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 the following description of Notes Payable and Note 13, Detail of Long-term Indebtedness.

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

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

Notes Payable

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

Capital Leases

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

Installment Purchase Obligations

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

A summary of the university's long-term indebtedness, including activity for fiscal year 2009, future principal commitments, and future interest commitments, is presented below.

Changes in long-term debt payable activity

As of June 30, 2009 *(all dollars in thousands)*

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
Bonds payable					
Section 9(c) general obligation revenue bonds	$ 45,749	$ 23,485	$ 7,087	$ 62,147	$ 4,527
Section 9(d) revenue bonds	82,266	-	8,274	73,992	5,150
Notes payable	124,146	1,554	4,640	121,060	4,910
Capital lease obligations	11,146	17,341	981	27,506	1,100
Installment purchase obligations	1,516	140	496	1,160	421
Total long-term debt payable	$ 264,823	42,520	21,478	$ 285,865	$ 16,108
Current year debt defeasance		(3,792)	(3,791)		
Total additions/retirements, net of current year defeasance		$ 38,728	$ 17,687		

Future principal commitments

For fiscal years subsequent to 2009 *(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
2010	$ 4,527	$ 5,150	$ 4,910	$ 1,100	$ 421	$ 16,108
2011	4,567	5,340	5,115	1,162	426	16,610
2012	3,832	5,540	5,375	1,230	201	16,178
2013	4,008	5,815	5,625	1,299	58	16,805
2014	3,363	6,105	5,910	1,377	21	16,776
2015 – 2019	16,196	20,505	34,075	8,193	33	79,002
2020 – 2024	13,410	11,780	31,789	7,425	-	64,404
2025 – 2029	9,960	14,015	22,895	5,720	-	52,590
2030 – 2034	-	-	2,775	-	-	2,775
Unamortized premium	2,060	997	3,164	-	-	6,221
Deferral on debt defeasance	224	(1,255)	(573)	-	-	(1,604)
Total future principal requirements	$ 62,147	$ 73,992	$ 121,060	$ 27,506	$ 1,160	$ 285,865

Future interest commitments
For fiscal years subsequent to 2009 *(all dollars in thousands)*

	Section 9(c) Bonds	Section 9(d) Bonds	Notes Payable	Capital Lease Obligations	Installment Purchase Obligations	Total Interest
2010	$ 2,899	$ 3,490	$ 5,486	$ 1,504	$ 34	$ 13,413
2011	2,706	3,297	5,250	1,449	18	12,720
2012	2,482	3,086	4,993	1,389	6	11,956
2013	2,291	2,819	4,705	1,327	2	11,144
2014	2,098	2,533	4,423	1,260	1	10,315
2015 – 2019	7,896	8,657	13,699	5,155	1	35,408
2020 – 2024	4,524	5,054	8,642	2,959	-	21,179
2025 – 2029	1,153	2,059	2,727	835	-	6,774
2030 – 2034	-	-	133	-	-	133
Total future interest requirements	$ 26,049	$ 30,995	$ 50,058	$ 15,878	$ 62	$ 123,042

13. Detail of Long-term Indebtedness

Bonds payable
As of June, 30, 2009 *(all dollars in thousands)*

	Interest rates	Maturity	2009
Revenue Bonds			
Dormitory and dining hall system			
Series 2004A, issued $2,710 – refunding series 1996A*	2.00% - 5.00%	2016	$ 2,005
Series 2004A, issued $1,665 – refunding series 1996A*	2.00% - 5.00%	2016	1,230
Series 2004B, issued $1,265 – refunding series 1996B*	2.00% - 4.00%	2016	900
University services systems			
Student Health and Fitness Center			
Series 2004C, issued $15,105 – refunding series 1996C*	2.00% - 5.00%	2016	10,895
Athletic system			
Athletic facility – improvements			
Series 2004D, issued $4,155 – refunding series 1996A*	2.00% - 5.00%	2016	3,070
Lane Stadium west sideline expansion			
Series 2004D, issued $52,715	3.00% - 5.13%	2029	40,555
Northern Virginia Graduate Center			
Series 2004A, issued $7,860 – refunding series 1996A*	2.00% - 5.00%	2020	6,505
Architectural/engineering			
Series 2004A, issued $4,685 – refunding series 1996A*	2.00% - 5.00%	2016	3,470
Coal fired facility			
Series 2004A, issued $6,005 – refunding series 1996A*	2.00% - 5.00%	2016	4,450
Series 2004A, issued $1,585 – refunding series 1996A*	2.00% - 5.00%	2016	1,170
Unamortized premium (discount)			997
Deferral on debt defeasance			(1,255)
Total revenue bonds			73,992
General Obligation Revenue Bonds			
Dormitory and dining hall system			
Series 2003A, issued $2,694 – refunding series 1993B*	2.50% - 5.50%	2011	748
Series 2004B, issued $9,995 – partial refunding series 1997*	2.00% - 5.00%	2017	8,218
Series 2004B, issued $1,928 – partial refunding series 1998*	2.00% - 5.00%	2018	1,745
Series 2004B, issued $9,995 – partial refunding series 1997*	2.00% - 5.00%	2019	1,141
Series 2004A, issued $4,800	3.75% - 5.00%	2024	3,975
Series 2007A, issued $5,995	4.00% - 5.00%	2027	5,995
Series 2007A, issued $13,130	4.00% - 5.00%	2027	13,130
Series 2008B, issued $1,813 – refunding series 1998R*	4.38% - 4.70%	2013	1,450
Series 2008B, issued $969 – refunding series 1998R*	4.38% - 4.70%	2013	775
Series 2008B, issued $1,010 – refunding series 1998R*	4.38% - 4.70%	2013	809
Series 2008B, issued $17,185	3.00% - 5.00%	2028	17,185
University services system – student center			
Series 2003A, issued $684 – refunding series 1993B*	2.50% - 5.50%	2010	109
Series 2003A, issued $1,755 – refunding series 1993B*	2.50% - 5.50%	2011	485
Parking facilities			
Series 2002, issued $975	2.50% - 5.00%	2017	590
Series 2003A, issued $2,268 – refunding series 1993B*	2.50% - 5.50%	2011	630
Series 2004B, issued $951 – partial refunding series 1997*	2.00% - 5.00%	2017	778
Series 2006B, issued $685	4.00% - 5.00%	2026	605
Series 2008B, issued $1,545	3.00% - 5.00%	2028	1,495
Unamortized premium (discount)			2,060
Deferral on debt defeasance			224
Total general obligation revenue bonds			62,147
Total bonds payable			$ 136,139

Notes payable

Notes payable to VCBA under the pooled 9(d) bond program at June 30, 2009 *(all dollars in thousands)*

	Average coupon rate	Maturity	2009
Dormitory and dining hall system			
Series 1998A, issued $10,145 – partial refunding*	4.53%	2019	$ 1,550
Series 1999A, issued $10,905 – partial refunding*	5.73%	2010	515
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	7,240
Series 2005, issued $ 2,815	3.50% - 5.00%	2026	2,555
Series 2007B, issued $ 3,395 – partial refunding series 1998A*	4.00% - 4.50%	2019	3,390
University services system – Smith Career Center			
Series 2002A, issued $4,405*	5.19%	2023	1,960
Series 2007B, issued $1,621 – partial refunding series 2002A*	4.00% - 4.50%	2020	1,613
Utility system			
Series 2000A, issued $2,925 – partial refunding*	5.25%	2021	640
Series 2002A, issued $2,875*	5.19%	2023	1,275
Series 2004B, issued $870 – partial refunding series 2000A*	3.00% - 5.00%	2017	847
Series 2007B, issued $646 – partial refunding series 2000A*	4.00% - 4.50%	2020	646
Series 2007B, issued $1,060 – partial refunding series 2002A*	4.00% - 4.50%	2020	1,055
Athletic system			
Lane Stadium expansion			
Series 2001A, issued $26,285*	4.70%	2027	14,335
Series 2007B, issued $2,860 – partial refunding series 2001A*	4.00% - 4.50%	2020	2,855
Infectious waste facility			
Series 2000A, issued $1,640 – partial refunding*	5.25%	2021	360
Series 2004B, issued $480 – partial refunding series 2000A*	3.00% - 5.00%	2017	473
Series 2007B, issued $359 – partial refunding series 2000A*	4.00% - 4.50%	2020	359
Biomedical facility			
Series 2002A, issued $21,930	5.11%	2028	13,795
Series 2007B, issued $5,649 – partial refunding series 2002A*	4.00% - 4.50%	2020	5,621
Alumni and conference center, series 2003A, issued $21,585	4.63%	2031	20,090
Life Sciences-I, series 2005, issued $8,295	3.50% - 5.00%	2026	7,525
ICTAS-I, series 2006A, issued $16,145	3.00% - 5.00%	2027	15,135
Boiler pollution controls, series 2006A, issued $1,925	3.00% - 5.00%	2027	1,805
Surge space building, series 2006A, issued $7,025	4.00% - 5.00%	2022	6,355
Campus heating plant, series 2007A, issued $3,880	4.50% - 5.00%	2028	3,880
McComas exterior repairs, series 2009A, issued $1,475	2.75% - 5.00%	2029	1,475
Unamortized premium (discount)			3,164
Deferral on debt defeasance			(573)
Total notes payable			$ 121,060

**See Footnote 14 – Long-term Debt Defeasance*

Other long-term debt

At June 30, 2009 (*all dollars in thousands*)

Capital leases payable for agreements related to the Student Services, Southgate Center addition, Hunter Andrews addition, Integrated Life Sciences (ILSB) buildings, separate Vivarium lease, and equipment	$ 27,506
Installment purchase obligations for equipment purchases through June 2009 with various interest rates and maturing through 2016	1,160
Total other long-term debt	$ 28,666

14. Long-term Debt Defeasance

Current Year

The university issued $3,792,000 of section 9(c) bonds to refund $3,791,000 of section 9(c) bonds in fiscal year 2009. The resulting net loss of $1,000 will be amortized over the life of the new debt. For financial reporting purposes, these bonds are considered an in-substance defeasance and have therefore been removed from the long-term debt payable line item of the *Statement of Net Assets*. The assets in escrow have similarly been excluded. The details of each bond issue refunded are presented below.

Bond issues refunded
As of June 30, 2009
(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 1998, issued $3,158	4.40%	$ 1,812	$ 1,813	$ (1)	$ 57	$ 52	$ 1,812
Series 1998, issued $1,380	4.40%	969	969	-	30	28	969
Series 1998, issued $1,440	4.40%	1,010	1,010	-	32	29	1,010
Total		$ 3,791	$ 3,792	$ (1)	$ 119	$ 109	$ 3,791

Previous Years

In previous fiscal years in accordance with GASB Statement 7, *Advance Refundings Resulting in the Defeasance of Debt*, the university has excluded from its financial statements the assets in escrow and the section 9(c) or 9(d) bonds payable that were defeased in-substance. For the year ended June 30, 2009, bonds payable considered defeased in previous years totaled $12,466,000.

15. Change in Other Liabilities

A summary of changes in other liabilities for the year ended June 30, 2009, follows *(all dollars in thousands)*:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Accrued compensated absences	$ 37,583	$ 25,305	$ 25,158	$ 37,730	$ 18,828
Federal student loan program contribution refundable	13,194	217	201	13,210	-
Total other liabilities	$ 50,777	$ 25,522	$ 25,359	$ 50,940	$ 18,828

16. Lease Commitments

The university has entered into numerous agreements to lease land, buildings, and equipment. With some of these agreements, the university is committed under various operating leases for equipment and space. In general, the leases are for three to five-year terms 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 $17,928,000 for the year ended June 30, 2009. This amount includes approximately $6,764,000 in lease payments to the Virginia Tech Foundation Inc. for office and laboratory space. In addition, the total lease expense includes approximately $2,512,000 of short-term equipment rentals that can be terminated at any time. The short-term equipment rental costs are not included in the summary of future lease payments listed in the adjacent table.

A summary of future minimum lease payments under operating leases as of June 30, 2009, follows (*all dollars in thousands*):

2010	$ 10,481
2011	8,237
2012	5,347
2013	1,496
2014	521
2015 – 2019	415
2020 – 2024	249
Total	$ 26,746

17. 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, 2009, include:

Capital commitments by project

(all dollars in thousands)

Ambler Johnston Hall renovation	$ 48,460
Virginia Tech Carilion Medical School and Research Institute	46,162
Parking structure	18,144
Football locker room addition	11,023
Henderson Hall renovation	9,844
Campus heat plant	4,020
Human and Agricultural Biosciences Building I	3,071
Academic and Student Affairs building	2,563
ICTAS - II	2,213
Davidson Hall renovation	1,766
Basketball practice facility	1,346
New residence hall	927
Other projects	3,203
Total	$ 152,742

Capital commitments by source of funding

(all dollars in thousands)

General obligation bond proceeds	$ 83,018
Capital appropriations	54,102
Auxiliary enterprise funds	8,061
Private funds	5,502
State general appropriations	1,324
Facilities and administrative (indirect) cost recoveries and university education and general funds	735
Total	$ 152,742

18. Contributions to Pension Plans

Virginia Retirement System

Employees of the university are employees of the Commonwealth of Virginia and therefore participate in the commonwealth's defined benefit retirement plan. This plan is administered by the Virginia Retirement System (VRS). 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 $25,185,000 for the year ended June 30, 2009.

Optional Retirement Plan

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

Individual contracts issued under the plan provide for full and immediate vesting of both the university's and the employees' contributions. Total pension costs under this plan were approximately $17,756,000 for year ended June 30, 2009. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $172,786,000 for this fiscal year.

Deferred Compensation Plan

Employees of the university are employees of the Commonwealth of Virginia. State employees may participate in the commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the commonwealth matching up to $20 per pay period. The dollar amount match can change depending on the funding available in the commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under section 401(a) of the *Internal Revenue Code*. The university expense for contributions under the Deferred Compensation Plan, which is an amount assessed by the commonwealth, was approximately $1,971,000 for the fiscal year 2009.

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 $331,000 for the year ended June 30, 2009. Contributions to FERS and CSRS were calculated using the base salary amount of approximately $4,142,000 for the fiscal year 2009.

In addition, the university contributed $39,000 for the year ended June 30, 2009, 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.

19. Postemployment Benefits

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

20. Appropriations

The Appropriation Act specifies that unexpended general fund appropriations that remain on the last day of the current year, ending on June 30, 2009, shall be reappropriated for expenditure in the first month of the next year, beginning on July 1, 2009, 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 any pass-through grants.

During the year ended June 30, 2009, the following adjustments were made to the university's original appropriation (*all dollars in thousands*):

Original legislative appropriation	
(per Chapter 781 as amended)	
Education and general programs	$ 245,491
Student financial assistance	17,151
Commonwealth research initiative	3,122
Unique military activities	1,570
Eminent scholar program	578
Engineering research center fund	62
Total appropriation	267,974
Adjustments	
Budget reductions	(11,196)
Health insurance premium	(1,330)
Virginia Retirement System	(16)
Virginia Sickness & Disability	(82)
Group life insurance premium	(246)
Transfer from student financial assistance program for undergraduate internships and graduate assistantships	221
Student financial assistance adjustment	120
Other adjustments	(22)
Total adjustments	(12,551)
Adjusted appropriation	$ 255,423

21. Capital Appropriations

Capital project general fund appropriations were not provided to the university by the commonwealth during the year ended June 30, 2009. During the current year, the commonwealth converted general fund appropriations recognized in the previous year for on-going capital projects to debt funding. This resulted in the reversion of general funds appropriated in prior fiscal years as directed by Chapter 879 as amended by Chapter 781, *2008 Acts of Assembly*, Section 2-0 Q and 2-1 C 182.10. Additionally, capital outlays for the current year were reduced. The funding for the capital projects affected by the reversions and reductions to general fund appropriation will be replaced by proceeds from debt financing by the commonwealth.

Capital project general fund appropriations reported on the *Statement of Net Assets* for the period ending June 30, 2009 consists of the following (*all dollars in thousands*):

Section 2-0 Q capital appropriation reversions	$ (1,000)
Section 2-1 C 182.10 capital appropriation reversions	(11,338)
Total capital appropriations	$ (12,338)

22. Grants and Contracts Contingencies

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

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

23. 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 noncapital financing section of the *Statement of Cash Flows*. For the fiscal year ended June 30, 2009, cash provided by the program totaled $108,903,000 and cash used by the program totaled $108,901,000.

24. 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, boiler and machinery, and air and watercraft plans. The university pays premiums to each of these departments for its insurance coverage. In addition, the university contracts with private insurers to provide additional fidelity bonding coverage, automobile physical damage coverage, business interruption coverage for the Equine Medical Center and overseas liability coverage. Information relating to the commonwealth's insurance plans is available in the Commonwealth of Virginia's *Comprehensive Annual Financial Report.*

25. Expenses by Natural Classification within Functional Classification

The university's operating expenses by functional classification were as follows for the year ended June 30, 2009 *(all dollars in thousands)*:

	Compensation and Benefits	Contractual Services	Other Supplies and Materials	Travel	Operating Expenses	Scholarships and Fellowships	Sponsored Program Subcontracts	Total
Instruction	$ 231,511	$ 9,216	$ 5,623	$ 4,549	$ 1,512	$ 703	$ 199	$ 253,313
Research	157,273	12,422	18,124	9,845	2,893	10,250	20,405	231,212
Public service	48,663	15,980	2,924	5,141	1,277	208	1,735	75,928
Academic support	43,708	6,349	10,596	859	774	194	5	62,485
Student services	9,855	1,338	667	616	200	74	1	12,751
Institutional support	40,041	3,710	317	1,922	564	381	6	46,941
Operation and maintenance of plant	26,987	290	19,824	179	17,418	17	-	64,715
Student financial assistance	340	12	22	170	4	12,733	-	13,281
Auxiliary enterprises	72,394	19,782	31,746	8,991	14,234	1,103	2	148,252
Subtotal before other costs	$ 630,772	$ 69,099	$ 89,843	$ 32,272	$ 38,876	$ 25,663	$ 22,353	908,878
Depreciation expense								60,813
Amortization expense								133
Loan administrative fees and collection costs								285
Total operating expenses								$ 970,109

26. Component Units Financial Statements and Footnotes

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

Component Units
Consolidating Statement of Net Assets

The financial position for the university's component units as of June 30, 2009
(all dollars in thousands)

	Virginia Tech Foundation	Virginia Tech Services	Total Component Units
ASSETS			
Current assets			
Cash and cash equivalents	$ (17,109)	$ 585	$ (16,524)
Short-term investments	16,512	3,011	19,523
Accounts and contributions receivable, net	36,467	259	36,726
Notes receivable, net	469	-	469
Inventories	439	7,950	8,389
Prepaid expenses	313	106	419
Other assets	2,722	-	2,722
Total current assets	39,813	11,911	51,724
Noncurrent assets			
Cash and cash equivalents	61,181	-	61,181
Accounts and contributions receivable, net	41,719	-	41,719
Notes and deeds of trust receivable, net	16,730	-	16,730
Net investments in direct financing leases	25,291	-	25,291
Irrevocable trusts held by others, net	7,404	-	7,404
Long-term investments	574,868	-	574,868
Depreciable capital assets, net	114,760	696	115,456
Nondepreciable capital assets	55,687	-	55,687
Intangible assets, net	654	-	654
Other assets	3,996	-	3,996
Total noncurrent assets	902,290	696	902,986
Total assets	942,103	12,607	954,710
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	5,375	6,655	12,030
Accrued compensated absences	262	273	535
Deferred revenue	1,168	1,014	2,182
Long-term debt payable	14,816	-	14,816
Other liabilities	3,873	500	4,373
Total current liabilities	25,494	8,442	33,936
Noncurrent liabilities			
Accrued compensated absences	30	-	30
Deferred revenue	6,356	-	6,356
Long-term debt payable	181,546	-	181,546
Liabilities under trust agreements	24,334	-	24,334
Agency deposits held in trust	46,193	-	46,193
Other liabilities	12,418	-	12,418
Total noncurrent liabilities	270,877	-	270,877
Total liabilities	296,371	8,442	304,813
NET ASSETS			
Invested in capital assets, net of related debt	37,354	696	38,050
Restricted, nonexpendable	306,297	-	306,297
Restricted, expendable			
Scholarships, research, instruction, and other	243,859	-	243,859
Capital projects	37,011	-	37,011
Unrestricted	21,211	3,469	24,680
Total net assets	$ 645,732	$ 4,165	$ 649,897

Component Units
Consolidating Statement of Revenues, Expenses, and Changes in Net Assets

The university's component unit activity for the year ended June 30, 2009

(all dollars in thousands)

	Virginia Tech Foundation	Virginia Tech Services	Total Component Units
OPERATING REVENUES			
Gifts and contributions	$ 34,714	$ -	$ 34,714
Auxiliary enterprise revenue			
Hotel Roanoke	19,265	-	19,265
River Course	1,095	-	1,095
Bookstore	-	27,800	27,800
Other revenues			
Rental income	16,927	-	16,927
Other	13,531	-	13,531
Total operating revenues	85,532	27,800	113,332
OPERATING EXPENSES			
Instruction	3,762	-	3,762
Research	5,352	-	5,352
Public service	3,892	-	3,892
Academic support	18,531	-	18,531
Institutional support			
Other university programs	19,747	-	19,747
Fund-raising	9,368	-	9,368
Management and general	2,218	-	2,218
Operation and maintenance of plant			
Operation and maintenance of plant	3,648	-	3,648
Research center costs	4,974	-	4,974
Student financial assistance	19,582	-	19,582
Auxiliary enterprises			
Hotel Roanoke	14,330	-	14,330
River Course	1,331	-	1,331
Bookstore	-	27,865	27,865
Depreciation expense	5,158	-	5,158
Other expenses	9,214	-	9,214
Total operating expenses	121,107	27,865	148,972
OPERATING LOSS	(35,575)	(65)	(35,640)
NON-OPERATING REVENUES (EXPENSES)			
Investment income, net	9,273	-	9,273
Net losses on investments	(70,149)	-	(70,149)
Interest expense on debt related to capital assets	(3,691)	-	(3,691)
Net non-operating revenues (expenses)	(64,567)	-	(64,567)
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(100,142)	(65)	(100,207)
Change in valuation of split interest agreements	(7,034)	-	(7,034)
Change in valuation of contributions receivables	1,875		1,875
Capital grants and gifts	9,537	-	9,537
Loss on disposal of capital assets	(192)	-	(192)
Additions to permanent endowments	20,892	-	20,892
Other revenues (expenses)	(1,302)	-	(1,302)
Total other revenue, expenses, gains, or losses	23,776	-	23,776
Increase in net assets	(76,366)	(65)	(76,431)
Net assets—beginning of year	722,098	4,230	726,328
Net assets—end of year	$ 645,732	$ 4,165	$ 649,897

Contributions Receivable – Virginia Tech Foundation Inc.

The following summarizes unconditional promises to give at June 30, 2009 *(all dollars in thousands)*:

Current receivables	
Receivable in less than one year	$ 27,889
Noncurrent receivables	
Receivable in one to five years	38,367
Receivable in more than five years	6,143
Total noncurrent receivables before allowance	44,510
Less allowance for uncollectible contributions	(4,651)
Net noncurrent contributions receivable	39,859
Total contributions receivable	$ 67,748

The discount rates ranged from 1.20% to 2.16% in 2009. As of June 30, 2009, there were no conditional promises to give.

Investments – Virginia Tech Foundation Inc.

Investments by type of security at June 30, 2009 *(all dollars in thousands)*:

	Cost	Fair value
Short-term investments		
Corporate debt securities	$ 6,937	$ 6,925
U.S. Government treasuries	11,507	9,587
U.S. Government agencies	-	-
Total short-term investments	18,444	16,512
Long-term investments		
Cash and cash equivalents	17,562	17,562
U. S. Government treasuries	13,739	14,183
U. S. Government agencies	806	827
State, county and municipal securities	2,991	3,097
Corporate debt securities	27,877	28,417
Common and preferred stock	178,963	161,660
Partnerships and other joint ventures	265,425	240,880
Foreign securities	53,708	39,635
Real estate	26,349	26,910
Other	6,804	6,804
Total long-term investments	594,224	539,975
Restricted to investment in land, buildings and equipment		
Cash and cash equivalents	18,106	18,106
U.S. Government agencies	31,090	32,039
Corporate debt securities	2,820	2,853
Total restricted	52,016	52,998
Total investments	$ 664,684	$ 609,485

As of June 30, 2009, long-term investments include investment assets held in internally managed trust funds with a carrying value totaling $39,364.

As of June 30, 2009, the foundation has $175,631 of investments in both marketable and non-marketable alternative investment funds that are reported at fair value. For substantially all of these investments, the foundation has concluded that the net asset value reported by the underlying fund approximates the fair value of the investment.

As of June 30, 2009, the foundation has committed to make additional capital contributions of approximately $72,100 to various private equity partnerships over the next ten years.

During 2004, the foundation invested $1,000 to become a member of a communications network infrastructure. 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 2008, 2007, 2006, 2005, and 2004, under the agreement. During 2009, the foundation invested $700 as an additional investment outside the original agreement. Included in other long-term investments as of June 30, 2009, is $5,700 related to this communications network infrastructure.

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

	Fair Value	Cost	Net gains (losses)
June 30, 2009	$ 609,485	$ 664,684	$ (55,199)
June 30, 2008	617,302	593,517	23,785
Unrealized net loss for FY2009, including net loss on agency deposits held in trust of $7,460			(78,984)
Realized net gains for FY2009, including net loss on agency deposits held in trust of $930			8,642
Total net loss for FY2009, including net loss on agency deposits held in trust of $8,390			$ (70,342)

Investment management fees incurred in 2009 totaled $1,444.

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, 2009 is presented as follows *(all dollars in thousands)*:

Depreciable capital assets	
Buildings	$ 142,085
Equipment and other	14,341
Land improvements	13,740
Total depreciable capital assets, at cost	170,166
Less accumulated depreciation	(55,406)
Total depreciable capital assets, net	114,760
Nondepreciable capital assets	
Land	42,061
Vintage and other collection items	4,368
Livestock	2,063
Construction in progress	7,195
Total nondepreciable capital assets	55,687
Total capital assets, net	$ 170,447

As of June 30, 2009 outstanding contractual commitments for projects under construction approximated $33,300.

Long-Term Debt Payable - Virginia Tech Foundation Inc.

Notes payable
The following is a summary of outstanding notes payable at June 30, 2009 *(all dollars in thousands)*:

Unsecured commercial note payable due September 10, 2014, plus interest at 4.65%	$ 852
Unsecured variable rate commercial note payable due June 30, 2010 with automatic yearly renewal, plus interest at the 30-day LIBOR rate plus 35 basis points (0.67% at June 30, 2009), principal balance not to exceed $13.8 million	11,356
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 (1.56% at June 30, 2009) collateralized by interest in a Citation V Ultra airplane	832
Total VTF notes payable	13,040
Unsecured note payable upon the sale of the hotel and repayment of all debt of the hotel and the Hotel Roanoke Foundation (HRF)	1,775
Unsecured note payable to the City of Roanoke Redevelopment and Housing Authority due in aggregate annual installments of $497, including interest at 4.048%, guaranteed by the U.S. Department of Housing and Urban Development, maturing June 30, 2014	2,600
Total HRF notes payable	4,375
Total notes payable	$ 17,415

During 2003, the foundation used proceeds from borrowings on notes payable totaling $13,800 to provide a loan to an unrelated party through a promissory note receivable proceeds from which the unrelated party used 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 $55 million unsecured variable rate note agreement, the foundation maintains a back-up line of credit with a lender in the amount of $55 million at an annual fee of 0.13% of the total commitment. As of June 30, 2008, no funds were outstanding under this commitment. This note agreement was terminated during 2009.

The aggregate annual maturities of notes payable for each of the five years and thereafter subsequent to June 30, 2009, are *(all dollars in thousands)*:

2010	$ 12,302
2011	578
2012	602
2013	628
2014	654
Later years or as cash becomes available from hotel net operating income	2,651
Total notes payable	$ 17,415

Bonds payable

HRF is obligated under City of Roanoke Redevelopment and Housing Authority Taxable Redevelopment Revenue Term Bonds (Series 1998). Bond proceeds were used to prepay the first mortgage notes payable to a lender group and provide long-term financing for the renovation of the Hotel Roanoke. On June 1, 2003, the bonds were remarketed to VTREF and the new term rate of 4.10% extended through May 31, 2008. On June 1, 2008, the bonds were remarketed and the new term rate of 5.00% will extend through May 31, 2013. The Term Bonds are subject to mandatory annual sinking fund redemption through 2018 in varying amounts ranging from $275 to $490 and are guaranteed by HRLLC. The Term Bonds are eliminated for consolidation purposes as of June 30, 2009.

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

The foundation is obligated under Industrial Development Authority of Montgomery County, Virginia Variable Rate Revenue Bonds dated August 25, 2005 (Series 2005). Bond proceeds were used to refinance previously outstanding Series 2001A and Series 2002A bonds. The remainder was used to finance the construction of and equipment purchases for three facilities to be used in support of the university. The bonds, which mature June 1, 2035, bear a variable interest rate, which including remarketing and credit enhancement fees, was 0.565% at June 30, 2009.

The foundation was previously obligated under Industrial Development Authority of Montgomery County, Virginia Variable Rate Revenue Bonds dated January 23, 2007 (Series 2007). Bond proceeds were used to finance the construction of several facilities to be used in support of the university. The bonds, which were to mature June 1, 2027, bore a variable interest rate, which including broker-dealer commission fees, was 1.970% at June 30, 2008. During 2008, the foundation gave the owners of the Series 2007 bonds their notice of borrower intent to bid in auction to repurchase the Series 2007 bonds. Through June 30, 2008, the foundation incrementally repurchased approximately 88% of the Series 2007 bonds at par value plus accrued interest. During 2009, the foundation incrementally repurchased the majority of the remaining approximately 12% of the Series 2007 bonds at par value plus accrued interest. These bonds held in treasury were refinanced in February 2009 in connection with the foundation's 2009 bond offering described in subsequent paragraphs.

The foundation is obligated under Industrial Development Authority of Montgomery County, Virginia Revenue Bonds (Series 2009A) and Taxable Revenue Bonds (Series 2009B) dated February 12, 2009. Bond proceeds were used to refinance the previously outstanding Series 2007 bonds, the unsecured variable rate promissory note payable, and the unsecured variable rate commercial note payable, as well as finance the construction of several facilities, primarily for the National Capital Region facility, to be used in support of the university. The bonds mature on February 1, 2039 and bear variable interest rates (including remarketing and liquidity fees) of 0.925% and 1,275%, respectively, on June 30, 2009.

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

Principal amounts outstanding for these bonds as of June 30, 2009, are as follows *(all dollars in thousands)*:

Bond Series:	
Series 2000	$ 2,607
Series 2005	41,070
Series 2009A	70,320
Series 2009B	64,950
Total bonds payable	$ 178,947

The aggregate annual maturities of bonds payable for each of the five years and thereafter subsequent to June 30, 2009, are as follows *(all dollars in thousands)*:

2010	$ 2,514
2011	2,630
2012	2,728
2013	2,855
2014	2,972
Later years	165,248
Total	$ 178,947

To comply with the terms of the Series 2005 bond agreement, the foundation maintains a letter of credit with a lender in the amount of $43,993 at annual fees equal to 0.20% of the total commitment. At June 30, 2009, no funds were outstanding under this commitment.

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

Effective April 1, 2003, the foundation entered into an interest rate swap agreement (Swap 1) with a lending institution. The agreement was based on the principal balance (notional amount of $2,585) 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 the LIBOR and was 0.31% at June 30, 2009. The change in fair value of Swap 1 was a loss of approximately $34 for fiscal year 2009. The fair value of the interest rate swap agreement approximated $59 in favor of the lending institution as of June 30, 2009.

Effective September 1, 2005, the foundation entered into an interest rate swap agreement (Swap 2) with a lending institution. This agreement was based on the principal balances (notional amount of $21,535) for the Series 2001A and Series 2002A bond issues, which were refinanced by the Series 2005 bonds. The foundation participates as a fixed rate payer, with a fixed rate of 3.265% for a 17-year term ending June 30, 2022. The lending institution participates as a floating rate payer, with a floating interest rate, which is calculated based on the weighted average of 70% of USD-LIBOR-BBA and was 0.215% at June 30, 2009. The change in fair value of Swap 2 was a loss of approximately $984 for fiscal year 2009. The fair value of the interest rate swap agreement approximated $1,251 as of June 30, 2009 in favor of the lending institution.

On September 1, 2005, the foundation entered into two separate interest rate swap agreements (Swap 3) with a lending institution. These agreements were based on the principal balances (notional amount of $17,065) for the

Component Unit Footnotes (continued)

Series 2005 bond issue and were effective September 1, 2006. The foundation participates as a fixed rate payer, with a fixed rate of 3.035% and 3.2125% ending August 1, 2010 and June 1, 2025, respectively. The lending institution participates as a floating rate payer, with a floating interest rate, which is calculated based on the weighted average of 70% of USD-LIBOR-BBA and was 0.215% at June 30, 2009. The change in fair value of Swap 3 was a loss of approximately $681 for fiscal year 2009. The fair value of the interest rate swap agreements approximated $806 as of June 30, 2009 in favor of the lending institution.

Effective March 12, 2007, the foundation entered into two separate interest rate swap agreements (Swap 4) with a lending institution. These agreements were based on the principal balances (notional amount of $24,480) for the Series 2007 bond issue. The foundation participates as a fixed rate payer, with a fixed rate of 3.7367% and 3.4670% ending June 1, 2027 and June 1, 2012, respectively. The lending institution participates as a floating rate payer, with a floating interest rate, which is calculated based on the weighted average of USD-BMA Municipal Swap Index and was 0.35633% at June 30, 2009. The change in fair value of Swap 4 was a loss of approximately $743 for fiscal year 2009. The fair value of the interest rate swaps agreements approximated $1,167 as of June 30, 2009 in favor of the lending institution.

Effective April 1, 2009, the foundation entered into three separate interest rate swap agreements (Swap 5) with two lending institutions. These agreements were based on principal balances (notional amounts of $103,380) for Series 2009A and Series 2009B bond issue. For two of the agreements, the foundation participates as a fixed rate payer, with a fixed rate of 1.165% and 1.486% ending June 11, 2011. For the third agreement, the foundation participates as a floating rate payer, with a floating interest rate, which is calculated on the weighted average of USD-SIFMA Municipal Swap Index, with a rate of 0.35633% as of June 30, 2009, ending June 1, 2027. The lending institutions participate as a floating rate payer, with a floating interest rate, which is calculated based on the weighted average of 59% of USD-LIBOR-BBA plus 0.25%, the weighted average of USD-LIBOR-BBA and the weighted average of 90.10% of USD-LIBOR-BBA and was 0.46157%, 0.31638%, and 0.56604% at June 30, 2009, respectively. The change in fair value of Swap 5 was a loss of approximately $16 for fiscal year 2009. The fair value of the interest rate swap agreements approximated $16 in favor of the lending institutions as of June 30, 2009.

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

	Fair Values	Change in Fair Value
Swap 1	$ 59	$ 34
Swap 2	1,251	984
Swap 3	806	681
Swap 4	1,167	743
Swap 5	16	16
Total	$ 3,299	$ 2,458

Total interest expense incurred in the aggregate related to notes payable and bonds payable in 2009 totaled $3,737.

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, 2009 is presented as follows (*all dollars in thousands*):

University—Pratt Estate	$ 34,817
University—Donaldson Brown Endowment	629
University—Other	632
Virginia Tech Alumni Association Inc.	3,377
Virginia Tech Services Inc.	3,010
Other	3,728
Total agency deposits held in trust	$ 46,193

27. Joint Ventures

The Hotel Roanoke Conference Center Commission was created by a joint resolution of the university and the City of Roanoke. The purpose of the commission is to establish and operate a publicly owned conference center in Roanoke adjacent to the renovated Hotel Roanoke. The powers of the commission are vested in commissioners. Each participating governing body appoints three commissioners for a total of six commissioners. The commission has the authority to issue debt, and such debt is the responsibility of the commission. The intention of the commission is to be self-supporting through its user fees. The university and the City of Roanoke equally share in any operating deficit or additional funding needed for capital expenditures. The university made contributions of $80,000 using private funds to the commission for the fiscal year ended June 30, 2009.

The Virginia Tech Carilion School of Medicine was established as a 501(c)(3) nonprofit organization. This joint venture will receive oversight from a board of directors. Virginia Tech and Carilion Clinic will each appoint a specific number of board members. These board members will elect the remaining members of the board of directors. The commonwealth has provided the capital funds for the building's construction on land owned by Carilion Clinic under a public-private partnership. Construction of the $59 million, 154,000 square foot facility commenced during September 2008 with expected completion within two years. This facility will house the Virginia Tech Carilion School of Medicine and the new Virginia Tech Carilion Research Institute, a part of Virginia Tech. Approximately two-thirds of the building will be occupied by the university's research institute with the remaining space allocated to the School of Medicine.

28. 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, 2009.

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 $551,000 to the authority for the purchase of sewer services for the fiscal year ended June 30, 2009.

Montgomery Regional Solid Waste Authority

Created by a joint resolution of the university, the towns of Blacksburg and Christiansburg, and the county of Montgomery, the authority represents its members in solid waste and recycling issues as well as operating a recycling facility. The authority is governed by its board with each participating governing body appointing one board member, and all governing bodies jointly appointing the fifth at-large member. Each governing body provides collection of solid waste and recyclables from within its jurisdiction and delivers the collected materials to the authority for disposal of the waste, and the processing and marketing of the recyclables. All indebtedness is the obligation of the authority and payable from its revenues. The university paid $230,000 to the authority for tipping fees for the fiscal year ended June 30, 2009.

Virginia Tech/Montgomery Regional Airport Authority

Created by a joint resolution of the university, the towns of Blacksburg and Christiansburg, and the county of Montgomery, this authority serves to develop a regional airport based on the mission of servicing corporate executive markets and other general aviation markets; obtaining grants, loans and other funding for airport improvements and other activities; and in promoting and assisting in regional economic development. The authority is governed by its board, which consists of five members. Each participating governing body appoints one member of the board, and jointly all governing bodies appoint the fifth member. All indebtedness is the obligation of the authority and payable from its revenues. The university's funding commitment for fiscal year 2009 was $50,000, all of which Virginia Tech paid to the authority.

29. Pending Litigation

The university has been named as a defendant in a number of lawsuits. One such litigation involving the Lane stadium construction project is nearing resolution. A reasonable estimate of the settlement liability has been accrued with planned funding from the proceeds remaining in the capital project. The final outcome of the remaining 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.

30. Subsequent Events

The university has secured short-term financing for capital projects through the Virginia Municipal League/Virginia Association of Counties (VML/VACo) commercial paper program. The university makes monthly draws from this program to meet capital project funding requirements. As of October 15, 2009, the university has a total balance of commercial paper outstanding of $22,810,000.

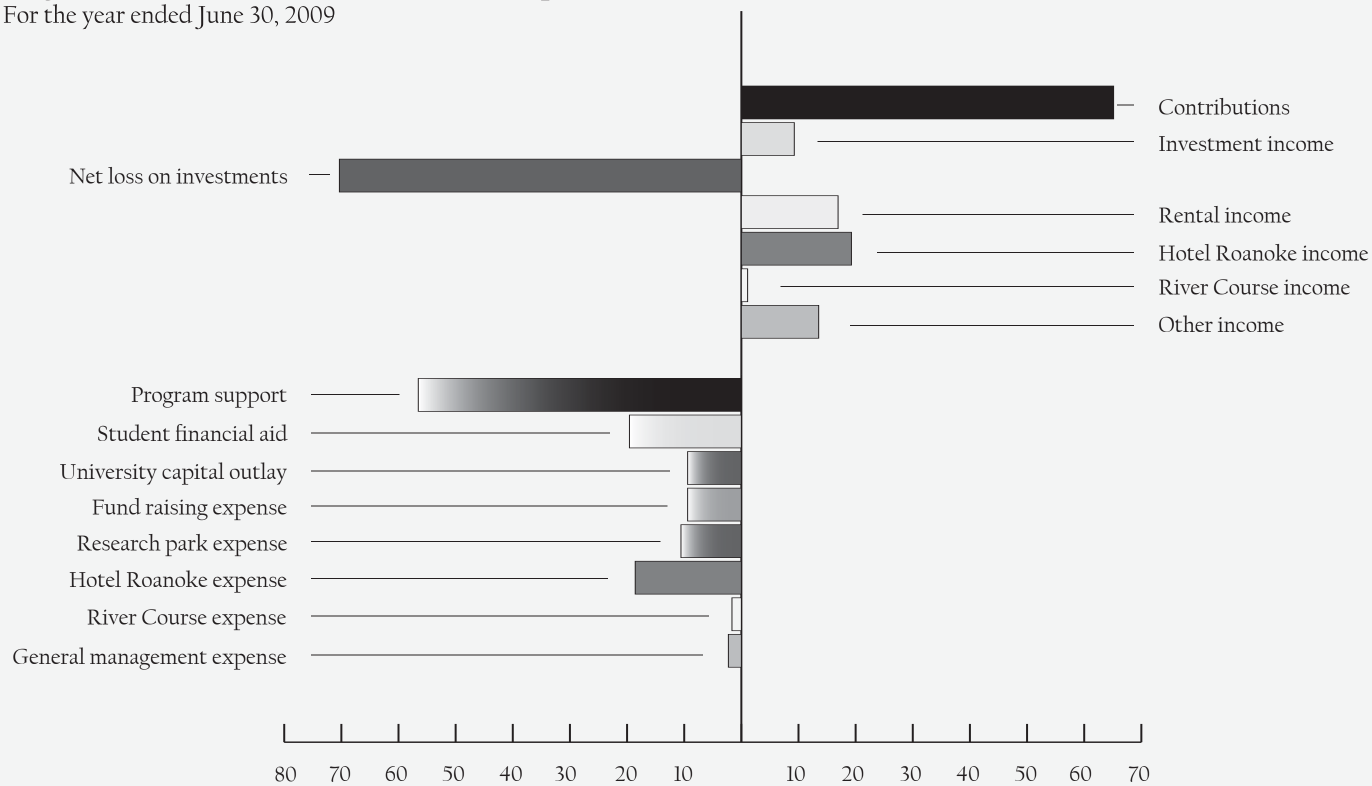
On October 21, 2009, the Virginia Department of the Treasury, on behalf of the university, issued Series 2009B 9(c) bonds with Par amounts totaling $67,315,000. Proceeds from the bonds will fund three projects: the renovation of Ambler Johnston Hall ($39.0 million), the parking structure with embedded chiller plant ($24.6 million) and ongoing improvements to residence and dining halls ($3.7 million). These bonds are an obligation of the university and are secured by the net revenues of the completed project and the full faith, credit, and taxing power of the Commonwealth of Virginia.

Supplementary Information

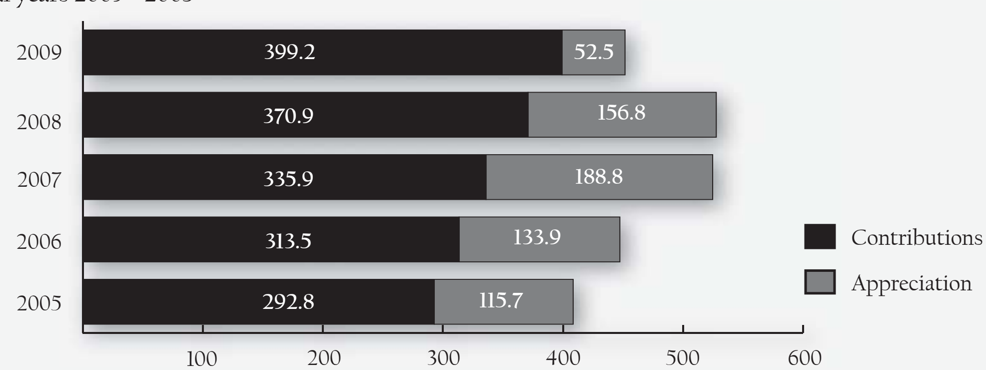
Virginia Tech Foundation Inc.

The purpose of Virginia Tech Foundation Inc. is to receive, invest, and manage private funds given for the support of programs at Virginia Tech and to foster and promote the growth, progress, and general welfare of the university. During the current fiscal year, the foundation recognized $65.1 million in contributions for support of the university. Investment income of $9.3 million, along with net losses on investments of $70.3 million, resulted in a $61.1 million net loss on investment activity. Property rental, hotel operating, and golf course income totaled $37.3 million. Other income accounted for $16.0 million. Total income of $54.9 million was offset by $124.8 million in expenses that supported the university and its programs. Direct support to various university programs aggregated $82.3 million, which included $19.6 million in scholarship support to students and faculty and $9.4 million towards university capital projects. Additional expenses such as fund-raising, management and general, research center, hotel operating, golf course, and other costs totaled $42.5 million. Total net assets decreased by $76.4 million over the previous year. The graphs below are categorized as presented in the audited financial statements for the foundation which follows the Financial Accounting Standards Board (FASB) presentation requirements (*all dollars in millions*):

Virginia Tech Foundation Inc. Revenues, Expenses, Gains and Losses
For the year ended June 30, 2009



Virginia Tech Foundation Inc. Endowment Market Value*
Fiscal years 2009 - 2005



*Market value of endowment funds includes agency deposits held in trust of $46.2 million.
(Source: Virginia Tech investment managers, unaudited)

Affiliated Corporations Financial Highlights

For the years ended June 30, 2009-2005

(all dollars in thousands)

	2009	2008	2007	2006	2005
Assets					
Virginia Tech Foundation Inc.	$ 942,103	$ 925,994	$ 940,879	$ 808,912	$ 728,006
Virginia Tech Services Inc.	12,607	13,021	11,713	8,861	10,335
Virginia Tech Intellectual Properties Inc.	1,012	1,035	726	1,180	1,569
Total Assets	$ 955,722	$ 940,050	$ 953,318	$ 818,953	$ 739,910
Revenues					
Virginia Tech Foundation Inc.	$ 54,884	$ 145,715	$ 201,521	$ 167,458	$ 151,870
Virginia Tech Services Inc.	27,800	29,917	24,918	21,946	22,622
Virginia Tech Intellectual Properties Inc.	1,873	1,183	1,193	779	1,129
Total Revenues	$ 84,557	$ 176,815	$ 227,632	$ 190,183	$ 175,621
Expenses					
Virginia Tech Foundation Inc.	$ 136,313	$ 130,894	$ 103,393	$ 102,663	$ 96,936
Virginia Tech Services Inc.	27,865	29,607	23,312	22,338	22,773
Virginia Tech Intellectual Properties Inc.	1,841	1,558	1,708	954	1,095
Total Expenses	$ 166,019	$ 162,059	$ 128,413	$ 125,955	$ 120,804

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

Consolidating Schedule of Net Assets

As of June 30, 2009
(all dollars in thousands)

	Current Funds Unrestricted	Current Funds Restricted	Loan Funds	Endowment and Similar Funds	Plant Funds	Agency Funds	Total
ASSETS							
Current assets							
Cash and cash equivalents	$ 175,481	$ 14,291	$ 1,767	$ -	$ -	$ 5,840	$ 197,379
Short-term investments	1,106	-	-	-	-	-	1,106
Accounts receivable, net	6,649	35,074	-	-	-	-	41,723
Notes receivable, net	-	-	1,464	-	-	-	1,464
Due from Commonwealth of Virginia	5,135	-	-	-	-	-	5,135
Inventories	10,455	-	-	-	-	-	10,455
Prepaid expenses	10,369	353	-	-	-	-	10,722
Due to (from) other funds	3,446	7,591	(70)	351	(11,318)	-	-
Total current assets	212,641	57,309	3,161	351	(11,318)	5,840	267,984
Noncurrent assets							
Cash and cash equivalents	-	-	-	80	59,061	-	59,141
Due from Commonwealth of Virginia	-	-	-	-	9,581	-	9,581
Accounts receivable, net	-	-	-	-	8,192	-	8,192
Notes receivable, net	-	-	13,362	-	-	-	13,362
Long-term investments	41,853	-	-	35,580	19,494	-	96,927
Depreciable capital assets, net	-	-	-	-	810,614	-	810,614
Nondepreciable capital assets	-	-	-	-	161,539	-	161,539
Intangible assets, net	-	-	-	-	1,333	-	1,333
Other assets	798	-	-	-	-	-	798
Total noncurrent assets	42,651	-	13,362	35,660	1,069,814	-	1,161,487
Total assets	255,292	57,309	16,523	36,011	1,058,496	5,840	1,429,471
LIABILITIES							
Current liabilities							
Accounts payable and accrued expenditures	64,298	16,152	2	-	29,344	-	109,796
Accrued compensated absences	15,437	3,391	-	-	-	-	18,828
Deferred revenue	22,799	13,364	-	-	-	-	36,163
Funds held in custody for others	-	-	-	-	-	5,840	5,840
Commercial paper	-	-	-	-	20,810	-	20,810
Long-term debt payable	-	-	-	-	16,108	-	16,108
Total current liabilities	102,534	32,907	2	-	66,262	5,840	207,545
Noncurrent liabilities							
Accrued compensated absences	15,498	3,404	-	-	-	-	18,902
Federal student loan program contributions refundable	-	-	13,210	-	-	-	13,210
Long-term debt payable	-	-	-	-	269,757	-	269,757
Other liabilities	1,106	-	-	-	-	-	1,106
Total noncurrent liabilities	16,604	3,404	13,210	-	269,757	-	302,975
Total liabilities	119,138	36,311	13,212	-	336,019	5,840	510,520
NET ASSETS							
Invested in capital assets, net of related debt	-	-	-	-	669,721	-	669,721
Restricted, nonexpendable	-	-	-	358	-	-	358
Restricted, expendable							
Scholarships, research, instruction, other	-	20,998	3,311	35,653	-	-	59,962
Capital projects	-	-	-	-	7,738	-	7,738
Debt service	-	-	-	-	45,018	-	45,018
Unrestricted	136,154	-	-	-	-	-	136,154
Total net assets	$ 136,154	$ 20,998	$ 3,311	$ 36,011	$ 722,477	$ -	$ 918,951

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

For the year ended, June 30, 2009

(all dollars in thousands)

	Current Funds Unrestricted	Current Funds Restricted	Loan Funds	Endowment and Similar Funds	Plant Funds	Total
OPERATING REVENUES						
Student tuition and fees	$ 272,871	$ 2,185	$ -	$ -	$ -	$ 275,056
Federal appropriations	-	15,379	-	-	-	15,379
Federal grants and contracts	32,736	121,879	-	-	-	154,615
State grants and contracts	795	12,861	-	-	-	13,656
Local grants and contracts	182	13,624	-	-	-	13,806
Nongovernmental grants and contracts	5,487	22,265	-	-	47	27,799
Sales and services of educational departments	13,586	-	-	-	-	13,586
Auxiliary enterprise revenue	165,569	-	-	-	-	165,569
Other operating revenues	3,878	1,116	43	-	-	5,037
Total operating revenues	495,104	189,309	43	-	47	684,503
OPERATING EXPENSES						
Instruction	245,882	7,431	-	-	-	253,313
Research	79,148	152,064	-	-	-	231,212
Public service	39,437	36,491	-	-	-	75,928
Academic support	60,456	2,029	-	-	-	62,485
Student services	11,696	1,055	-	-	-	12,751
Institutional support	42,738	4,203	-	-	-	46,941
Operation and maintenance of plant	58,189	717	-	-	5,809	64,715
Student financial assistance	124	13,157	-	-	-	13,281
Auxiliary enterprises	148,252	-	-	-	-	148,252
Loan administrative fees & collection costs	219	-	66	-	-	285
Amortization Expense	-	-	-	-	133	133
Depreciation expense	-	-	-	-	60,813	60,813
Total operating expenses	686,141	217,147	66	-	66,755	970,109
OPERATING LOSS	(191,037)	(27,838)	(23)	-	(66,708)	(285,606)
NON-OPERATING REVENUES (EXPENSES)						
State appropriations	233,055	22,368	-	-	-	255,423
Gifts	12,420	33,875	209	-	-	46,504
Non-operating grants and contracts	-	2,167	-	-	-	2,167
Federal student financial aid (Pell)	-	9,000	-	-	-	9,000
Investment income, net of investment expense	3,112	(707)	-	(7,184)	1,861	(2,918)
Other additions and deductions	-	-	4	-	581	585
Interest on capital assets	-	-	-	-	(11,812)	(11,812)
Net non-operating revenues (expenses)	248,587	66,703	213	(7,184)	(9,370)	298,949
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, AND LOSSES	57,550	38,865	190	(7,184)	(76,078)	13,343
Capital appropriations	-	-	-	-	(12,338)	(12,338)
Capital grants and contracts	(1,331)	2,427	-	209	58,465	59,770
Loss on disposal of plant assets	-	-	-	-	(1,318)	(1,318)
Total other revenues, expenses, gains and losses	(1,331)	2,427	-	209	44,809	46,114
INCREASE (DECREASE) IN NET ASSETS BEFORE TRANSFERS	56,219	41,292	190	(6,975)	(31,269)	59,457
Mandatory transfers	(36,169)	-	-	-	36,169	-
Nonmandatory transfers	(17,153)	2,369	-	(2,709)	17,493	-
Equipment and library book transfers	(19,633)	(6,997)	-	-	26,630	-
Scholarship allowance transfer	35,140	(35,140)	-	-	-	-
Total transfers	(37,815)	(39,768)	-	(2,709)	80,292	-
Increase (decrease) in net assets after transfers	18,404	1,524	190	(9,684)	49,023	59,457
Net assets – beginning of year	117,750	19,474	3,121	45,695	673,454	859,494
Net assets – end of year	$ 136,154	$ 20,998	$ 3,311	$ 36,011	$ 722,477	$ 918,951

Business and Financial Leadership

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

Raymond D. Smoot, Jr.
University Treasurer

Sherwood G. Wilson
Vice President for Administrative Services

Michael J. Coleman
Associate Vice President for Facilities

Kenneth E. Miller
University Controller

Sharon M. Kurek
Director of Internal Audit

John J. Cusimano
Associate Treasurer

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