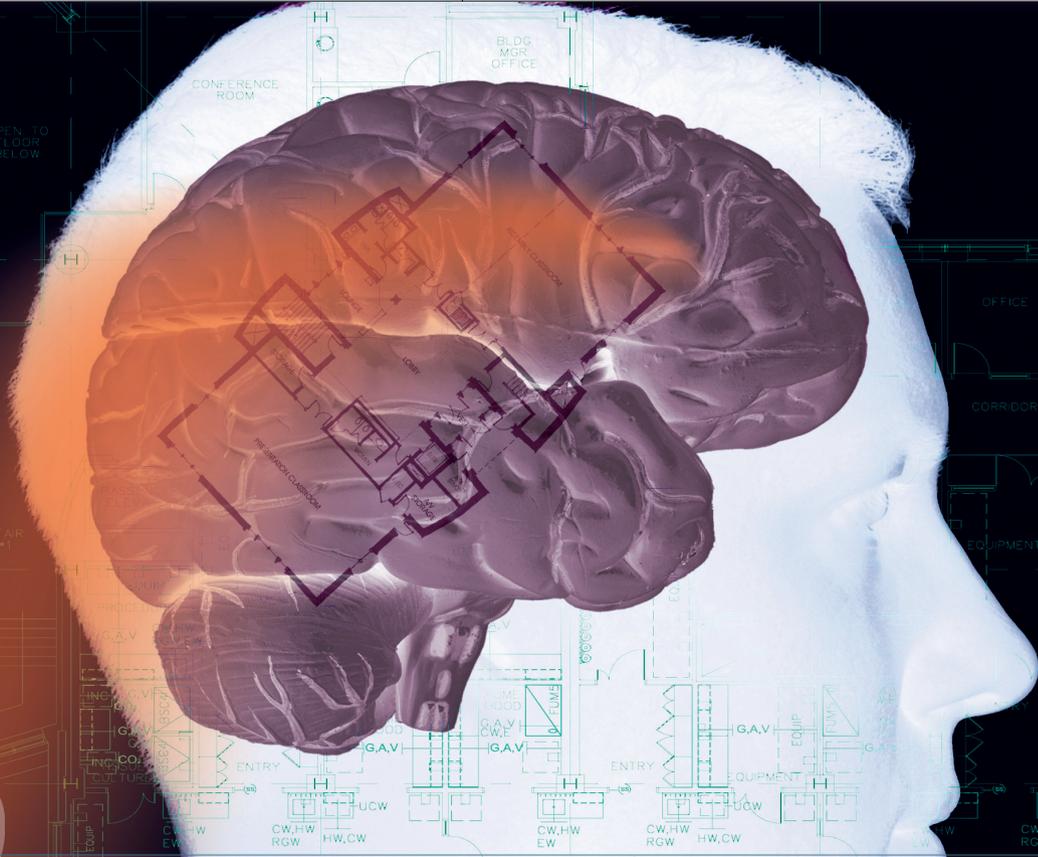




 **VirginiaTech**  
*Invent the Future*



2005/2006

**FINANCIAL  
REPORT**

# Message From the Executive Vice President and Chief Operating Officer



## *Vision for the Future*

During 2005-06, the university participated in a planning exercise that led to the development of the *Update to the University Plan: 2006–2010*. The *University Strategic Plan 2001-2006* laid out a vision for the long-term transformation of Virginia Tech into one of the top research universities in the world, and identified goals for the university's multiple missions. The initial plan guided difficult decisions in recent years as the state, federal, and international environments dramatically changed, creating significant challenges for university operations and programs. The update to the strategic plan provides an opportunity to assess the progress that has been made over the last five years, to identify continuing priorities and new directions, and to revise university goals in light of the rapidly evolving external landscape. The university's aspirations for excellence as a nationally and internationally recognized research university are strongly reaffirmed in the update of the strategic plan and in the attendant goals outlined in the learning, discovery, and engagement missions within the scholarship domains. The updated plan also includes the administrative foundation and supporting strategies that are essential to the successful achievement of the university's goals: support for organizational development; investments in campus infrastructure; and resource development, allocation and management. The update to the strategic plan makes an explicit effort to link the plan to the budget in a way that is unprecedented in past Virginia Tech planning efforts.

The past year marks the end of an administrative era with the Commonwealth of Virginia and the beginning of a new relationship that will provide greater operating autonomy and flexibility while enhancing accountability to the commonwealth. The university has devoted considerable time during the last several years in support of the Higher Educational Financial and Administrative Operations Act (hereafter referred to as the Restructuring Act) legislation. On July 1, Virginia Tech began operating under the provisions of the Restructuring Act as a Level Three or "covered university", with the goal of operating

more effectively and efficiently with a greater degree of authority and autonomy than as a traditional state agency. Under restructuring, the university has been granted certain authorities from the commonwealth in the areas of capital projects, finance and operations, human resources, information technology, leasing, and procurement.

Virginia Tech staff will continue to coordinate policy development efforts with the commonwealth's other Level Three universities, the University of Virginia and the College of William and Mary, in order to achieve consistency across the Level Three covered institutions. A number of steps will be taken over the next several years to fully implement the management agreement approved by the Virginia Tech Board of Visitors, particularly in the area of human resource management. These changes will occur incrementally, with ample opportunity for deliberation and input from employees.

The Restructuring Act further requires the university's commitment to provide need-based grant aid for middle- and lower-income Virginia students in a manner that encourages student enrollment and progression without respect to potential increases in tuition and fees. As the commonwealth's land-grant institution, the university remains committed to keeping education affordable and has developed the Funds for the Future program to be implemented during the 2006-2007 academic year.

## *Future Infrastructure Investment*

In order to support the learning, engagement, and discovery missions of the university, there must be adequate infrastructure for facilities and administrative operations. With the approval of the Restructuring Act, the university gained greater authority over many of its administrative processes, allowing for more effective management of the university as a whole, as well as in the areas of facilities, information technology and business services.

The 2006 General Assembly approved \$89.5 million of new capital outlay for the Education and General program (excluding maintenance reserve) for several high priority projects. Included in the total appropriation was support totaling \$28.8 million for substantial improvements to the existing power plant and distribution lines. These improvements will boost the effectiveness of the heat plant to cover the projected heat requirements of all the projects underway as well as the projects requested in the six-year capital plan.

The commonwealth also provided a total of \$7.1 million to build 16,300 gross square feet of state-of-the-art laboratory and office space to address a significant need for infectious disease laboratory space. This proposed laboratory facility will leverage the existing research in bacteriology, virology, immunology and parasitology underway and provide additional Bio-safety Level-3 (BSL-3) animal and laboratory facilities.

Funding was also provided for several auxiliary enterprise capital projects, including residence and dining hall improvements, additional recreation, counseling and clinical space, as well as an indoor athletic training facility.

Construction of the Institute for Critical Technology and Applied Science (ICTAS) Phase 1, a 100,000 square-foot, state-of-the-art engineering and interdisciplinary science facility has begun. This facility will address the need for additional sponsored research space as a means to help Virginia Tech achieve its goal of becoming a top research university in the 21st century. Research engineers from the College of Engineering, working with researchers having science and engineering backgrounds from other colleges, will share space and collaborate to explore many of today's critically important problems. The ICTAS facility will include highly specialized research laboratories and equipment that support both applied and fundamental research, as well as appropriate support and administrative space. The total project cost is approximately \$41.9 million.

### **Funding for New Research Initiatives**

The university's research initiative was a critical funding priority for the 2006-08 biennium. The executive budget provided one-time general funds of \$9.0 million to support the Host-Pathogen-Environment Interactions (HPEI) Program and one-time general funds of \$8.8 million to support Advanced Biomaterials and Nanotechnology in the first year (2006-07). The Senate distributed the same amount over a three-year period. The House identified research funding as being for "the areas of bioengineering, biomaterials, and nanotechnology" and indicated an interest in providing ongoing support but did not identify a specific amount for proposed ongoing support.

The research initiative contains funding support for ICTAS Phase 2, a 77,000 square-foot research facility with highly specialized laboratories supporting research in several multidisciplinary areas including bioengineering, biomaterials, bio-nanotechnology, communications technology, and sensor technology. Phase 2 will be supported by \$13.5 million in general funds and \$17.5 million in non-general funds.

### **Integrated Information Technology Strategies**

Virginia Tech has completed the full implementation of Phase 1 of the infiNET electronic billing and electronic payment system. This phase implemented the system for tuition and fee billings and payments. The system was well received by parents and students during this first year. The number of electronic payments in FY 2006 totaled 33,128, valued at \$51.4 million. This represented 39.8% of the 83,207 student account payments and 30.4% of the total value of payments received, \$168.7 million. This exceeded the desired rate of 25% of total dollar value of payments during the first year. Phase 2 of this process will be implemented for other departments that currently take or would like to take electronic payments or send electronic bills.

The university also recently implemented Phase 1 of the SciQuest e-procurement system, also known as "HokieMart". The first phase of this project involved implementing the system for a pilot group of departments. The pilot departments went "live" with the system

on May 22, 2006. The system allows departmental employees to perform one-stop shopping, reduce the overall time to complete orders due to the use of electronic processing and workflow, improve the timeliness of financial commitment data, improve business practices with front-end approval process and electronic receiving, and increase purchasing delegation for transactions processed through the system. The implementation has been successful; by June 30, 2006 pilot departments had submitted 1,665 purchase requests valued at \$1.8 million and had created 1,546 purchase orders totaling \$0.7 million. In June 2006, an average of 140 users logged in to the system each day.

Virginia Tech is committed to improving administrative processes to provide a higher level of support for the learning, engagement, and discovery missions of the university and all of the initiatives outlined in the *Update to the University Strategic Plan*.



James A. Hyatt  
Executive Vice President and Chief Operating Officer

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# Management's Responsibility for Financial Reporting and Internal Controls

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The information in this Annual Financial Report, including the accompanying basic financial statements, notes, Management's Discussion and Analysis, and other information is the responsibility of management. Responsibility for the accuracy of the financial information and fairness of its presentation, including all disclosures, rests with the management of the university. Management believes the information is accurate in all material respects and fairly presents the university's financial position as well as revenues, expenses, and changes in net assets. This report was prepared in accordance with generally accepted accounting principles for public colleges and universities in the United States of America as prescribed by the Governmental Accounting Standards Board. Management is responsible for the objectivity and integrity of all representations herein. The Annual Financial Report includes all disclosures necessary for the reader of this report to gain a broad understanding of the university's operations for the year ended June 30, 2006.

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 that the accounting records are sufficiently reliable to permit the preparation of financial statements and the appropriate accountability of assets and liabilities.

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

The Auditor of Public Accounts (APA), the Commonwealth of Virginia's auditors, have examined these annual financial statements and their report thereon appears on the facing page. Their examination includes a study and evaluation of the university's system of internal controls, financial systems, and policies and procedures, resulting in the issuance of a management letter describing various issues they consider worthy of management's attention. The university has implemented policies and procedures for the adequate and timely resolution of such issues. The APA found no material weaknesses on internal control matters for the fiscal year ended June 30, 2006.



James A. Hyatt  
Executive Vice President and Chief Operating Officer

# Report of the Independent Auditor

November 1, 2006

The Honorable Timothy M. Kaine  
Governor of Virginia

The Honorable Thomas K. Norment, Jr.  
Chairman, Joint Legislative Audit and Review Commission

The Board of Visitors  
Virginia Polytechnic Institute and State University

We have audited the accompanying basic financial statements of Virginia Polytechnic Institute and State University, a component unit of the Commonwealth of Virginia, and its aggregate discretely presented component units as of and for the year then ended June 30, 2006, as shown on pages 14 through 17. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the University, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the University is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Virginia Polytechnic Institute and State University and of its aggregate discretely presented component units as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming opinions on the basic financial statements of the University. The Schedule of Auxiliary Enterprises – Revenues, Expenses, and Changes in Fund Balances, affiliated corporations financial highlights, the consolidating schedules, and the statistical section are presented for the purpose of additional analysis and are not a required part of the financial statements. The schedule of auxiliary enterprises on page 40 has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, such information is fairly presented in all material respects in relation to the financial statement taken as a whole. The affiliated corporations financial highlights on pages 41 and 42, consolidating schedules on pages 38 and 39, and the statistical section on pages 43 through 51 have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

In accordance with Government Auditing Standards, we have also issued our report dated November 1, 2006, on our consideration of the Virginia Polytechnic Institute and State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Sincerely,



Walter J. Kucharski  
Auditor of Public Accounts

# Management's Discussion and Analysis

Virginia Polytechnic Institute and State University, popularly known as Virginia Tech, is a comprehensive, land-grant university located in Blacksburg, Virginia. The university offers 200 graduate, undergraduate, and professional degree programs through its eight academic colleges (Agriculture and Life Sciences, Architecture and Urban Studies, Pamplin College of Business, Engineering, Science, Liberal Arts and Human Sciences, Natural Resources, and the Virginia-Maryland Regional College of Veterinary Medicine). The university serves 27,979 students and employs 2,070 full-time teaching and research faculty members.

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

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

## Overview

This unaudited Management's Discussion and Analysis (MD&A) is required supplemental information under the Governmental Accounting Standards Board's (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective, easily readable analysis of the university's financial activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the university's financial condition and results of operations for the fiscal year ended June 30, 2006. Comparative numbers are included for the fiscal year ended June 30, 2005. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying basic financial statements (including notes), and other supplementary information. The university's management is responsible for all of the financial information presented, including this discussion and analysis.

The university's financial statements have been prepared in accordance with GASB Statement Number 35, *Basic Financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities*, as amended by GASB Statement Numbers 37 and 38. The three required financial statements are the Statement of Net Assets (balance sheet), the Statement of Revenues, Expenses, and Changes in Net Assets (operation statement), and the Statement of Cash Flows. These statements are summarized and analyzed in the following 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 Statement Number 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement Number 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. were determined to be component units and are presented in a separate column on the university's financial statements. Additional detail on the foundation's activities can be found in Note 25 of the Notes to the Financial State-

ments. However, transactions between the university and these component units have not been eliminated in this year's financial statements.

During the current year the university also adopted three new GASB statements. GASB Statement Number 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, an amendment of GASB Statement No. 34, establishes accounting and financial reporting standards for impaired capital assets and clarifies the accounting requirements for insurance recoveries. GASB Statement Number 44, *Economic Condition Reporting: The Statistical Section*, amends GASB Statement No. 30 to include, as required supplementary information, detailed ten-year trend data to assist users of the basic financial statements. Lastly, GASB Statement Number 46, *Net Assets Restricted by Enabling Legislation*, an amendment to GASB No. 34, requires the reporting of assets limited by enabling legislation as restricted net assets.

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

The university's net assets are classified as follows:

- ▣ Invested in capital assets — Invested in capital assets, net of related debt, represent the university's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. Debt incurred, but not yet expended for capital assets, is not included as a component of invested in capital assets, net of related debt.
- ▣ Restricted net assets, expendable — Expendable restricted net assets include resources the university is legally or contractually obligated to expend in accordance with restrictions imposed by external third parties. These assets partially consist of quasi-endowments totaling \$42.6 million. The quasi-endowments are managed by the Virginia Tech Foundation Inc.
- ▣ Restricted net assets, nonexpendable — Nonexpendable restricted net assets consist of endowment and similar type funds where donors or other outside sources have stipulated, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be expended or added to principal. The university's nonexpendable endowments of \$0.4 million are included in its column on the SNA.
- ▣ Unrestricted net assets — Unrestricted net assets represent resources used for transactions relating to academic departments and general operations of the university, and may be used at the discretion of the university's board of visitors to meet current expenses for any lawful purpose in support of its primary missions of instruction, research, and outreach or public service. The resources are derived from student tuition and fees, state appropriations, recoveries of facilities and administrative (indirect) costs, and sales and services of auxiliary enterprises and educational departments. The auxiliary enterprises are self-supporting entities that provide services for

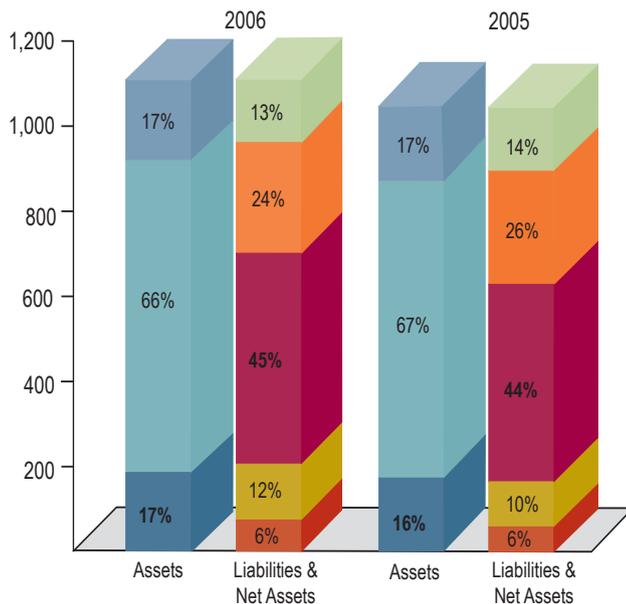
students, faculty, and staff. Some examples of the university's auxiliaries are intercollegiate athletics and student residential and dining programs.

Total university assets increased by \$63.0 million or 6.0% during fiscal year 2006, bringing the total to \$1,109.9 million at year-end. The majority of the growth was directly related to a net increase of \$36.1 million in capital assets and a \$14.0 million increase in current assets. The rise in current assets is most evident in the cash and cash equivalents category. Current cash and cash equivalents grew by over \$11.5 million, mainly due to the growth in net revenues from facilities and administrative (indirect) cost recoveries from grants and contracts and auxiliary enterprise operations.

Total university liabilities decreased by \$8.1 million or 1.9% during fiscal year 2006. The reduction in liabilities is the net effect of the decrease in current liabilities, specifically the current accounts payable and accrued liabilities

### Summary of Assets, Liabilities and Net Assets

For the years ended June 30, 2006 and 2005  
(all dollars in millions)



category of \$11.6 million partially offset by increases in deferred revenue (\$5.5 million) and the current portion of long-term debt payable (\$4.2 million). The reduction in the accounts payable and accrued liabilities category can be attributed to the payment of the July 3, 2006 payroll in June, due to an executive order from the governor. The expense for this payroll, \$14.6 million, would normally have been included in accrued liabilities. The cash basis funding for this unanticipated accelerated expenditure came from two sources: an advance of general funds appropriations of \$7.7 million, and an interest-free loan from the State Treasury of \$6.9 million. The loan was included in accrued liabilities and partially offsets the accrued payroll decrease. The increase in deferred revenue results from increased grant and contract activity (\$2.2 million) and prepaid athletic ticket sales (\$3.4 million).

The increase in the current portion of long-term debt payable reflects the addition of the initial principal payments for several large debt-funded capital projects such as the Lane Stadium West Sideline Expansion and The Inn at Virginia Tech, Holtzman Alumni Center, and Skelton Conference Center (Alumni and Conference Center).

Total assets grew by a greater margin than total liabilities, with the university's net assets increasing by a corresponding amount of \$71.1 million. Invested in capital assets, net of related debt, accounted for \$31.7 million of the increase in the current fiscal year. Restricted net assets increased by \$25.3 million, reflecting funds available but not yet spent on major capital projects discussed in the following section.

### 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 facilities.

Note 7 of the Notes to Financial Statements describes the university's significant investment in depreciable capital assets with gross additions of over \$130.3 million during fiscal year 2006. The completion of the Alumni and Conference Center (\$4.3 million), the Lane Stadium West Sideline Expansion (\$52.4 million) and Latham Hall (Agriculture/Forestry facility - \$23.9 million)

#### ASSETS

- Current assets
  - Capital assets and intangibles, net
  - Other assets
- Total assets

#### LIABILITIES

- Current liabilities
  - Noncurrent liabilities
- Total liabilities

#### NET ASSETS

- Invested in capital assets, net of debt
  - Restricted
  - Unrestricted
- Total net assets

	2006	2005 (as restated)	Increase (Decrease)	
			Amount	Percent
Total assets	\$ 1,109.9	\$ 1,046.9	\$ 63.0	6.0 %
Total liabilities	409.1	417.2	(8.1)	(1.9)%
Total net assets	\$ 700.8	\$ 629.7	\$ 71.1	11.3 %

were the primary components of building additions during fiscal year 2006, representing over \$80.6 million of the \$89.5 million gross additions to buildings. Ongoing investments in instructional, research, and computer equipment totaled \$32.5 million. Depreciation expense was \$50.3 million with net retirements of \$2.0 million resulting in a net increase in depreciable capital assets of \$78.1 million. The largest decrease in construction in progress was from the capitalization of the Lane Stadium West Sideline Expansion and Latham Hall projects.

Noncurrent liabilities decreased by \$6.3 million during fiscal year 2006. The largest decrease in noncurrent liabilities was in the long-term debt category (\$5.6 million) resulting from the net of additions and reclassifications. The additions to noncurrent long-term debt were primarily due to debt issued for two new projects totaling \$11.1 million: the Life Sciences 1 (Biology/Vivarium) project and the Graduate Life Center project. These additions were offset by the normal reclassification of the amount of long-term debt to be retired in the next fiscal year, from the noncurrent liabilities category to the current liabilities category (\$17.6 million). Since reclassifications exceeded additions, noncurrent long-term debt decreased during the current year. See Notes 11, 12, and 13 of the Notes to Financial Statements for more details.

For capital projects in progress, commitments to construction contractors, architects, and engineers totaled \$58.7 million at June 30, 2006. These obligations are for future effort and as such have not been accrued as expenses or liabilities on the university's financial statements. Two projects constituted the majority of the financial commitment: the Institute for Critical Technology and Applied Science (ICTAS) Engineering facility (\$31.4 million), and the Life Sciences 1 building (\$22.6 million). These commitments represent only a portion of the university's capital projects currently under construction or authorized by the Commonwealth of Virginia.

The educational and general (E&G) portion of the university's capital outlay program represents 14 projects currently in various stages of completion. The estimated total project costs for two of the larger projects are \$38.0 million

for the ICTAS facility and \$37.8 million for the Life Sciences 1 building. In addition to the capital projects underway, there are several approved new construction and renovation projects for instructional and research facilities. Larger approved projects include the Henderson Hall renovation, the Graduate Life Center and a new Surge Space building. The Commonwealth of Virginia will provide the major funding for these E&G projects from the voter-approved Virginia Higher Education Bond Referendum. This referendum provides \$900 million of debt financing for capital projects to create quality educational facilities for the commonwealth's universities and colleges. Virginia Tech will receive a total of \$95.3 million from these bond proceeds to provide partial funding for ten capital projects, however these bonds are the obligation of the Commonwealth of Virginia, not the university. During fiscal year 2006, the university received \$31.4 million of these bond proceeds from the commonwealth. The university plans to provide additional funding for these projects by issuing \$70.5 million of long-term debt.

The university's auxiliary enterprises have approval for five capital projects that are also in various stages of completion. Two of the larger projects, the Lane Stadium West Sideline Expansion and the Alumni and Conference Center were essentially completed during this fiscal year. Three future capital projects are also approved for auxiliary enterprises. These include a dining and student union facility and a new residence hall. Since auxiliaries are required to be self-supporting, no state general funds or capital appropriations are provided for these projects. The projects have been or will be funded from a combination of private gifts, student fees, other customer revenues, and debt financing.

Virginia Tech had a total authorization of \$406.0 million in capital building projects as of June 30, 2006, requiring approximately \$121.5 million in additional debt financing.

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

## FUNDING FOR AUTHORIZED CURRENT AND FUTURE CAPITAL PROJECTS

As of June 30, 2006  
(all dollars in millions)

	State Funds (1)	Other Funds (2)	University Debt Issued Before June 30, 2006	University Debt To Be Issued After June 30, 2006	Total Funding	Cash Basis Project-To-Date Expenses
Current education and general	\$ 107.1	\$ 28.4	\$ 18.4	\$ 17.0	\$ 170.9	\$ 57.9
Current auxiliary enterprise	-	38.0	75.5	34.5	148.0	96.8
Total current	107.1	66.4	93.9	51.5	318.9	154.7
Future education and general	9.0	8.1	-	53.5	70.6	1.4
Future auxiliary enterprise	-	-	-	16.5	16.5	-
Total future	9.0	8.1	-	70.0	87.1	1.4
Total authorized	\$ 116.1	\$ 74.5	\$ 93.9	\$ 121.5	\$ 406.0	\$ 156.1

(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.

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

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

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

### Operating Revenues

Total operating revenues increased by \$42.9 million or 8.6% from the prior fiscal year. The growth in student tuition and fee revenue was \$15.2 million. This increase was expected given the rise in both in-state and out-of-state tuition rates, effective for the Fall 2005 semester. Grants and contract revenue grew by \$18.3 million or 11.2% from the prior year. The increases were primarily from the research areas managed by the Virginia Bioinformatics Institute, Virginia Tech Transportation Institute, the Center for Advanced Separation Technology and programs conducted in collaboration with the Institute for Advanced Learning and Research. Auxiliary enterprise revenue also grew by \$7.9 million. These increased revenues came primarily from ticket sales and increased conference income. Overall, the university's operating revenue increased to \$543.8 million in FY2006, compared to \$500.9 million in FY2005.

### Non-operating and Other Revenues

Non-operating revenue increased by over \$20.2 million from the previous year's total. The majority of the increase was from additional state appropria-

tions of \$12.5 million. State appropriation revenue grew as a result of continuing legislative efforts to partially restore prior years' funding reductions, support the increased cost of salaries and fringe benefits, and provide \$7.7 million for the additional payroll charged to FY2006 on a cash basis. It is anticipated that general fund appropriations will be reduced by this same \$7.7 million in fiscal year 2007 because there will be one less payroll than normal, unless the acceleration of the last payroll in June is made permanent. The increase in state appropriations revenue and gift and investment income, net of interest expense, resulted in net non-operating revenues of \$284.6 million.

Total other revenue, expenses, gains and losses increased by \$22.5 million as a result of an increase in capital appropriations, partially offset by decreases in capital gifts and grants. During fiscal year 2006, the university received \$31.4 million in funding from the voter-approved Virginia Higher Education Bond Referendum (primarily for the Life Sciences 1 project) and \$3.1 million in funding from the 21<sup>st</sup> Century College Program (for the ICTAS Engineering facility). These programs allow the commonwealth to issue debt and distribute the proceeds to institutions of higher education to finance specified capital projects. This financing is the debt of the commonwealth, not the university, with the proceeds allocated to Virginia Tech as nongeneral fund appropriations. The rise in capital appropriations was partially offset by the decline in the level of grants and gifts reflecting the completion of two major projects receiving support from the Virginia Tech Foundation Inc.: the Lane Stadium West Sideline Expansion and the Alumni and Conference Center.

As shown in the chart on the following page, revenues from all sources (operating, non-operating, and other) for fiscal year 2006 totaled \$886.3 million, and grew by \$85.6 million over the previous year. Similarly, operating expenses totaled approximately \$815.2 million for fiscal year 2006 and grew by \$73.3 million. The symmetrical growth in total revenues and expenses resulted in an increase in net assets of \$71.1 million for fiscal year 2006, which was consistent with the growth in net assets of \$58.8 million for fiscal year 2005. (Details about changes in operating expenses are included in the following section.)

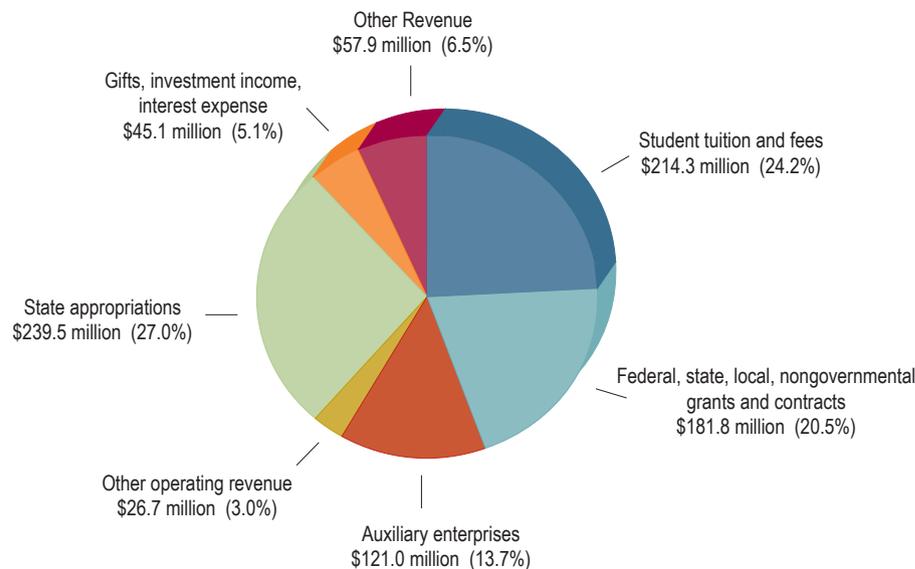
## SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the years ended June 30, 2006 and 2005  
(all dollars in millions)

	2006	2005 (as restated)	Increase (Decrease)
Operating revenues	\$ 543.8	\$ 500.9	\$ 42.9
Operating expenses	815.2	741.9	73.3
Operating loss	(271.4)	(241.0)	(30.4)
Non-operating revenues and expenses	284.6	264.4	20.2
Income before other revenues, expenses, gains or losses	13.2	23.4	(10.2)
Other revenues, expenses, gains or losses	57.9	35.4	22.5
Increase in net assets	71.1	58.8	12.3
Net assets - beginning of year	629.7	570.9	58.8
Net assets - end of year	<u>\$ 700.8</u>	<u>\$ 629.7</u>	<u>\$ 71.1</u>

## Revenues by Source

For the year ended June 30, 2006



## Increase (Decrease) in Revenues

For the years ended June 30, 2006 and 2005

(all dollars in millions)

	2006	2005	Increase (Decrease)	
			Amount	Percent
<b>OPERATING REVENUES</b>				
Student tuition and fees, net of scholarship allowance	\$ 214.3	\$ 199.1	\$ 15.2	7.6 %
Federal, state, local, and nongovernmental grants and contracts	181.8	163.5	18.3	11.2 %
Auxiliary enterprises	121.0	113.1	7.9	7.0 %
Other operating revenue	26.7	25.2	1.5	6.0 %
Total operating revenues	<u>543.8</u>	<u>500.9</u>	<u>42.9</u>	<u>8.6 %</u>
<b>NON-OPERATING ACTIVITY</b>				
State appropriations	239.5	227.1	12.4	5.5 %
Gifts, investment income, interest expense on debt related to capital assets and other non-operating revenues	45.1	37.3	7.8	20.9 %
Total non-operating revenues	<u>284.6</u>	<u>264.4</u>	<u>20.2</u>	<u>7.7 %</u>
<b>OTHER REVENUES, GAINS (LOSSES)</b>				
Capital appropriations	40.0	11.6	28.4	244.8 %
Capital grants and gifts	19.3	22.4	(3.1)	(13.8)%
Gain (loss) on disposal of capital assets	(1.4)	1.4	(2.8)	(200.0)%
Total other revenues, gains (losses)	<u>57.9</u>	<u>35.4</u>	<u>22.5</u>	<u>63.4 %</u>
Total revenues	<u>\$ 886.3</u>	<u>\$ 800.7</u>	<u>\$ 85.6</u>	<u>10.7 %</u>

## Total Expenses

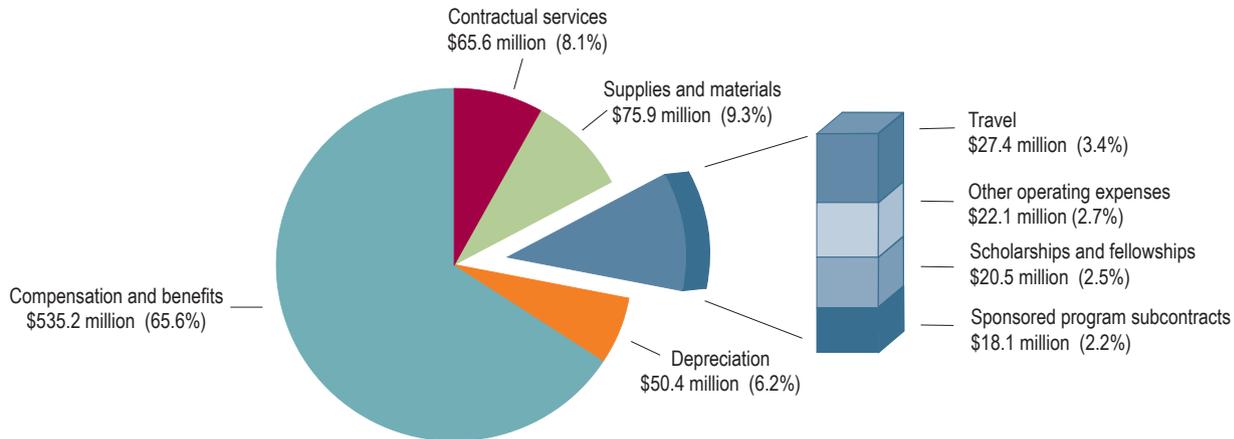
The university is committed to recruiting and retaining outstanding faculty and staff. The personnel compensation package is one way to successfully compete with peer institutions and nonacademic employers. The natural expense category, compensation and benefits, comprises \$535.2 million or 65.6% of the university's total operating expenses. This category increased by \$46.5 million (9.5%) over the previous year. The commonwealth provides merit based and across-the-board salary increases on a periodic basis. During FY2006, a 3.5% increase was provided to classified staff and an average increase of 5.4% was given to faculty members. In addition, fringe benefit expenses increased by \$11.5 million or 10.7%. The majority of the fringe benefit cost increases were in two areas, medical expense growth of \$6.9 million (18.1%) and retirement expense which grew \$3.1 million (9.2%). Other categories with significant increases were contractual services (\$10.2 million) and supplies and materials (\$7.8 million). Growth in these two areas can be attributed to increased renovation activity and increased energy costs.

Operating expenses for fiscal year 2006 totaled \$815.2 million, up \$73.3 million from fiscal year 2005. The net increase resulted from growth in almost all functional categories. The largest growth in operating expenses occurred in the research category which grew by \$16.2 million reflecting continued expansion of existing research efforts and new initiatives. Expenditures supporting federal grants and contracts increased by \$13.1 million during FY2006. Instruction expenses increased by \$13.3 million due to increases in personnel compensation, fringe benefit costs, and reinvestment in instructional programs and initiatives funded from increased student tuition and fees, and restored state appropriations.

The largest percentage increase in expenditures over FY2005 was in the operation and maintenance of plant category (20.7%). The largest growth in this category was related to energy costs (\$3.4 million) followed by compensation and fringe benefits costs (\$1.5 million). Additional plant repair and maintenance costs (\$3.0 million) resulted from fully occupying new facilities and increases in the repair and renovations of existing facilities.

### Operating Expenses by Natural Classification

For the year ended June 30, 2006



### Increase (Decrease) in Operating Expenses by Natural Classification

For the years ended June 30, 2006 and 2005

(all dollars in millions)

	2006	2005	Increase (Decrease)	
			Amount	Percent
Compensation and benefits	\$ 535.2	\$ 488.7	\$ 46.5	9.5 %
Contractual services	65.6	55.4	10.2	18.4 %
Supplies and materials	75.9	68.1	7.8	11.5 %
Travel	27.4	25.2	2.2	8.7 %
Other operating expenses	22.1	21.4	0.7	3.3 %
Scholarships and fellowships*	20.5	19.5	1.0	5.1 %
Sponsored program subcontracts	18.1	15.9	2.2	13.8 %
Depreciation and amortization	50.4	47.7	2.7	5.7 %
<b>Total operating expenses by natural classification</b>	<b>\$ 815.2</b>	<b>\$ 741.9</b>	<b>\$ 73.3</b>	<b>9.9 %</b>

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

Institutional support expenses increased at a slower pace than experienced last year. Total expenses in this category increased \$6.2 million, of which \$5.5 million was attributed to compensation and fringe benefits. Staff and compensation increases of \$3.0 million occurred in the general support areas of Development, Sponsored Programs, Controller's Office, Human Relations and Information Technology. Expansion in these areas was necessary to support growth in the university's instruction and research programs. Increases in noncapital computer software purchases and software site licenses (\$1.0 million) added to institutional support costs.

Expenses in the student services category showed a net increase of \$1.2 million from fiscal year 2005 levels. The net increase in this category was due primarily to personnel compensation and fringe benefit costs (\$0.9 million).

Although the student financial assistance expenses of \$10.8 million for fiscal year 2006 were \$0.4 million less than fiscal year 2005, this decrease is somewhat misleading. The net student financial assistance expense represents the amount of institutional resources provided (in excess of the tuition and fees owed by the student to the university) that was refunded to the student, not the gross total amount of financial aid provided by the university. The decrease in net expenses was actually due to increased waivers and scholarships provided to students that resulted in the \$4.3 million growth of scholar-

ship discounts and allowances (from \$43.8 million to \$48.1 million) which are netted against the gross total of financial aid expenses. The increased amounts of internal and scholarship funds were provided to students to offset increases in tuition, fees and other costs of attendance.

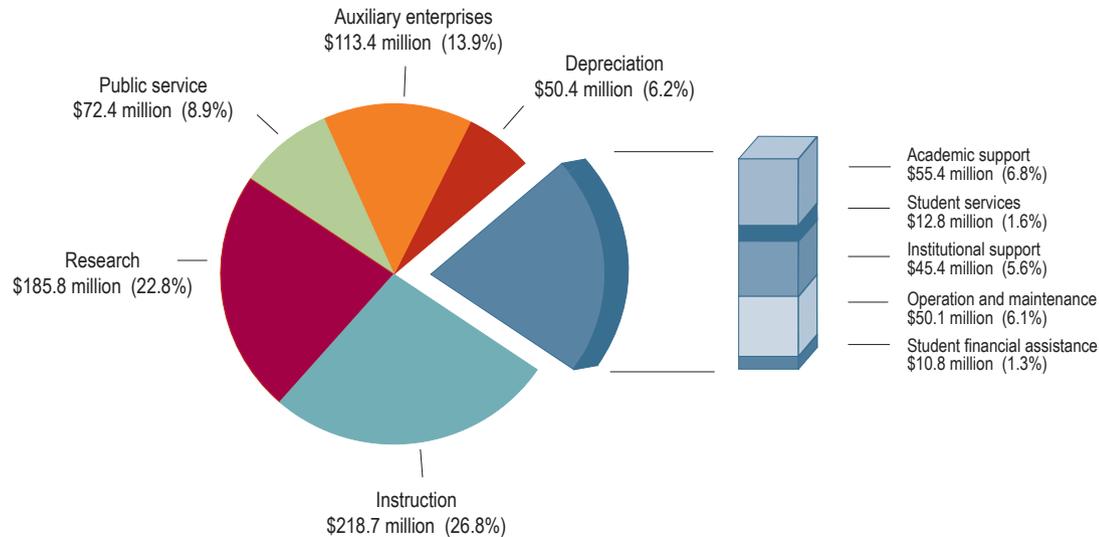
The university's operating revenues grew by 8.6% or \$42.9 million over the preceding year while operating expenses increased by 9.9% or \$73.3 million, resulting in an increase in the operating loss (\$30.4 million) for FY2006 over FY2005. The primary reason for the increase in the operating loss was the growth in expenses across almost all operating areas which are affected by growth in personnel compensation expenses and increased energy costs. State appropriations, recorded as non-operating revenues, are used to meet operating expenses not offset by operating revenues.

### Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the cash activity of the university during the year. Cash flows from operating activities will always be different from the operating loss on the Statement of Revenues, Expenses and Changes in Net Assets (SRECNA). This difference occurs because the SRECNA is prepared on the accrual basis of accounting and includes noncash items, such as depreciation expenses, whereas the

## Operating Expenses by Function

For the year ended June 30, 2006



## Increase (Decrease) in Operating Expenses by Function

For the years ended June 30, 2006 and 2005

(all dollars in millions)

	2006	2005	Increase (Decrease)	
			Amount	Percent
Instruction	\$ 218.7	\$ 205.4	\$ 13.3	6.5 %
Research	185.8	169.6	16.2	9.6 %
Public service	72.4	64.8	7.6	11.7 %
Auxiliary enterprises	113.4	102.0	11.4	11.2 %
Depreciation and amortization expense	50.4	47.7	2.7	5.7 %
Subtotal	640.7	589.5	51.2	8.7 %
Support, maintenance, and other expenses				
Academic support	55.4	48.9	6.5	13.3 %
Student services	12.8	11.6	1.2	10.3 %
Institutional support	45.4	39.2	6.2	15.8 %
Operation and maintenance of plant	50.1	41.5	8.6	20.7 %
Student financial assistance, net of scholarship discounts and allowances of \$48.1 million and \$43.8 million, respectively	10.8	11.2	(0.4)	(3.6)%
Total support, maintenance, and other expenses	174.5	152.4	22.1	14.5 %
Total expenses	\$ 815.2	\$ 741.9	\$ 73.3	9.9 %

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.

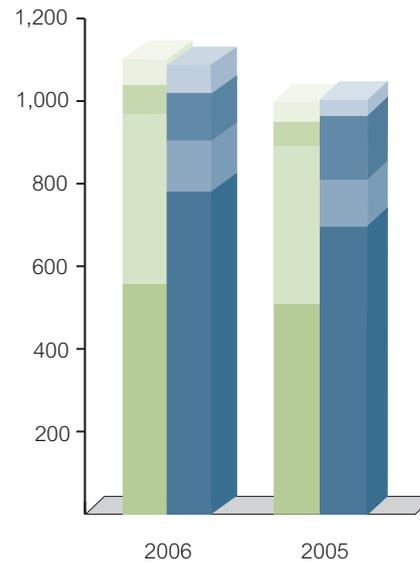
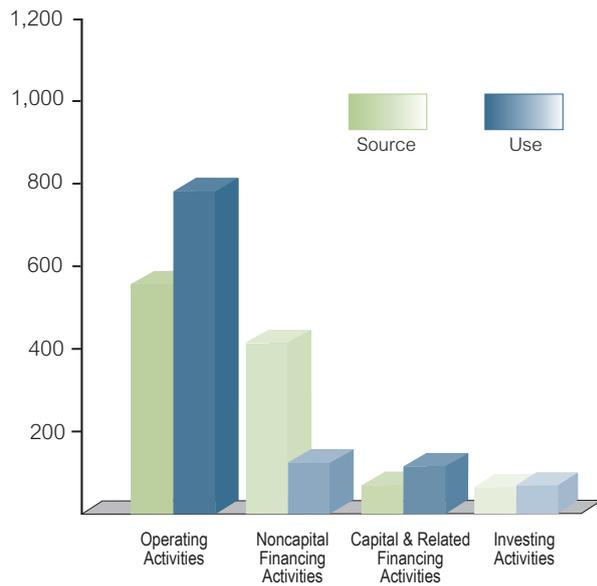
The statement is divided into five sections. The first section, Cash Flows from Operating Activities, deals with operating cash flows and shows the net cash used by the operating activities of the university. The Cash Flows from Noncapital Financing Activities section is second. GASB requires general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

activities and shows the purchases, proceeds, and interest received. The last section reconciles the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets for fiscal year 2006 to the net cash used by operating activities.

Major operating activity sources of cash for the university included student tuition and fees (\$214.8 million), grants and contracts (\$179.8 million), and auxiliary enterprise revenues (\$126.1 million). Major operating activity uses of cash included compensation and benefits (\$543.8 million) and operating expenses (\$215.9 million). The cash basis total for compensation and benefits was higher than usual because it included the additional payroll which normally would not have been paid until the following fiscal year. Operating activity uses of cash significantly exceed operating activity sources of cash due to state appropriations (\$239.6 million) and gifts (\$42.1 million) being classified as noncapital financial activities. Net cash from capital and related financing activities showed a large year-over-year increase due to increased capital appropriations partially funding on-going projects, such as the ICTAS facility and the Life Sciences 1 building.

**Summary of Cash Flows**

For the years ended June 30, 2006 and 2005  
(all dollars in millions)



(The graphs above demonstrate the relationship between sources and uses of cash. The graph on the left shows activity for fiscal year 2006 only, grouped by related sources and uses of cash, while the graph on the right compares that same activity across fiscal years 2006 and 2005 in a stacked format.)

Net cash used by operating activities  
 Net cash provided by noncapital financing activities  
 Net cash provided (used) by capital and related financing activities  
 Net cash provided (used) by investing activities  
 Net increase (decrease) in cash and cash equivalents  
 Cash and cash equivalents - beginning of year  
 Cash and cash equivalents - end of year

	2006	2005	Increase (Decrease)	
			Amount	Percent
Net cash used by operating activities	\$ (222.3)	\$ (188.0)	\$ (34.3)	(18.2)%
Net cash provided by noncapital financing activities	286.3	266.4	19.9	7.5 %
Net cash provided (used) by capital and related financing activities	(44.0)	(99.6)	55.6	55.8 %
Net cash provided (used) by investing activities	(4.9)	10.0	(14.9)	(149.0)%
Net increase (decrease) in cash and cash equivalents	15.1	(11.2)	26.3	234.8 %
Cash and cash equivalents - beginning of year	196.1	207.3	(11.2)	(5.4)%
Cash and cash equivalents - end of year	\$ 211.2	\$ 196.1	\$ 15.1	7.7 %

**Economic Outlook**

The university is closely tied to the Commonwealth of Virginia. The commonwealth currently supports 29% of the university's budget through general fund appropriations. During 2005-06, the commonwealth continued to re-invest in higher education by making general fund allocations and maintaining the university's board of visitors authority to establish tuition and fees rates. As a result, 2005-06 marked the second year since the FY2002 budget reductions that the commonwealth made significant unrestricted investments in higher education. The trend of unrestricted support is expected to continue in FY2007. In addition, the university expects that the commonwealth will provide a significant infusion of new operating, equipment, and capital support for the university's research initiatives in fiscal year 2007. State general fund revenues remain strong.

Virginia Tech, along with all other Virginia institutions of higher education, received additional decentralized authority from the Commonwealth of Virginia through the requested restructuring of higher education. This builds upon the success of the decentralization authority received from the commonwealth over the last decade. The restructuring plan provides additional flexibility and authority to the participant institutions with the potential for increased efficiencies and cost savings.

Executive management believes the university will maintain its solid financial foundation and is well positioned to continue its excellence in teaching, research, and public service. Management's policies of cost containment and investing in strategic initiatives will ensure the university is well prepared for continued growth and expansion. The financial position of the university is strong as evidenced by its diversified portfolio of research funding, strong student demand from increasingly talented students, auxiliary enterprises with high customer satisfaction, low total cost of attendance, growing endowments, and quality debt ratings from Moody's (Aa3 ) 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 silent phase of the university's largest private capital campaign and anticipates that private support will continue to grow. The university is grounded by an impressive community of students, faculty, and staff. These assets will sustain Virginia Tech's bright future as the commonwealth's largest university offering more career options than any other Virginia university.

The university's overall financial position remains strong. Management continues to 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, 2006, with comparative financial information as of June 30, 2005  
(all dollars in thousands)

	2006		2005	
	Virginia Tech	Component Units	Virginia Tech (as restated)	Component Units
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents (Note 4)	\$ 122,572	\$ (7,531)	\$ 111,092	\$ (7,491)
Cash equivalents, securities lending (Note 5)	1,853	-	2,676	-
Investments, securities lending (Note 5)	1,834	-	568	-
Short-term investments (Notes 4, 25)	1,988	11,459	396	23,041
Accounts and contributions receivable, net (Notes 1, 6, 25)	35,276	18,774	32,889	18,509
Notes receivable, net (Note 1)	1,099	868	1,247	1,638
Due from Commonwealth of Virginia (Note 8)	6,683	-	7,078	-
Inventories	10,889	5,141	9,588	6,375
Prepaid expenses	8,516	414	11,202	381
Other assets	-	603	-	599
Total current assets	<u>190,710</u>	<u>29,728</u>	<u>176,736</u>	<u>43,052</u>
<b>Noncurrent assets</b>				
Cash and cash equivalents (Notes 4, 25)	88,650	54,378	84,996	37,817
Short-term investments (Note 4)	4,984	-	2,608	-
Accounts and contributions receivable, net (Notes 1, 6, 25)	3,904	40,355	3,203	24,109
Notes receivable, net (Note 1)	12,965	17,406	13,558	18,014
Net investments in direct financing leases	-	7,981	-	8,242
Irrevocable trusts held by others, net	-	9,313	-	10,191
Long-term investments (Notes 4, 25)	72,515	530,745	65,593	486,238
Depreciable capital assets, net (Notes 7, 25)	654,456	93,748	576,389	86,783
Nondepreciable capital assets (Notes 7, 25)	78,790	28,787	120,685	20,782
Intangible assets, net	1,733	730	1,867	756
Other assets	1,192	4,602	1,276	2,357
Total noncurrent assets	<u>919,189</u>	<u>788,045</u>	<u>870,175</u>	<u>695,289</u>
Total assets	<u>1,109,899</u>	<u>817,773</u>	<u>1,046,911</u>	<u>738,341</u>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities (Note 9)	74,130	8,440	85,747	10,616
Obligations under securities lending (Note 5)	3,687	-	3,244	-
Accrued compensated absences (Notes 1, 14)	15,934	417	16,172	386
Deferred revenue (Notes 1, 10)	32,108	4,872	26,642	3,140
Funds held in custody for others	4,708	-	4,785	-
Long-term debt payable (Notes 11, 12, 25)	17,582	19,252	13,375	19,088
Other liabilities	25	1,263	25	1,347
Total current liabilities	<u>148,174</u>	<u>34,244</u>	<u>149,990</u>	<u>34,577</u>
<b>Noncurrent liabilities</b>				
Accrued compensated absences (Notes 1, 14)	16,329	97	15,305	77
Federal student loan program contributions refundable (Note 14)	13,254	-	13,265	-
Long-term debt payable (Notes 11, 12, 25)	230,340	76,162	235,918	63,013
Liabilities under trust agreements	-	33,255	-	33,887
Agency deposits held in trust (Note 25)	-	54,061	-	53,238
Other liabilities	998	6,992	2,760	4,989
Total noncurrent liabilities	<u>260,921</u>	<u>170,567</u>	<u>267,248</u>	<u>155,204</u>
Total liabilities	<u>409,095</u>	<u>204,811</u>	<u>417,238</u>	<u>189,781</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	496,782	40,453	465,088	29,545
Restricted, nonexpendable	354	251,002	358	233,676
Restricted, expendable				
Scholarships, research, instruction, and other	58,824	258,950	52,971	218,848
Capital projects	37,616	34,056	21,272	31,556
Debt service	34,945	-	31,808	-
Unrestricted	72,283	28,501	58,176	34,935
Total net assets	<u>\$ 700,804</u>	<u>\$ 612,962</u>	<u>\$ 629,673</u>	<u>\$ 548,560</u>

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, 2006 with comparative financial information for the year ended June 30, 2005  
(all dollars in thousands)

	2006		2005	
	Virginia Tech	Component Units	Virginia Tech (as restated)	Component Units
<b>OPERATING REVENUES</b>				
Student tuition and fees, net (Note 1)	\$ 214,322	\$ -	\$ 199,052	\$ -
Gifts and contributions	-	72,187	-	59,935
Federal appropriations	11,969	-	11,012	-
Federal grants and contracts	133,876	-	120,248	-
State grants and contracts	15,815	-	14,079	-
Local grants and contracts (Note 3)	13,317	-	12,497	-
Nongovernmental grants and contracts	18,756	-	16,668	-
Sales and services of educational activities	12,016	-	11,614	-
Auxiliary enterprise revenue, net (Note 1)	121,022	41,537	113,142	40,085
Other operating revenues	2,724	26,845	2,607	26,948
Total operating revenues	<u>543,817</u>	<u>140,569</u>	<u>500,919</u>	<u>126,968</u>
<b>OPERATING EXPENSES</b>				
Instruction	218,663	2,365	205,355	1,557
Research	185,848	5,033	169,636	6,241
Public service	72,421	4,670	64,787	4,820
Academic support	55,379	12,940	48,944	11,497
Student services	12,801	-	11,628	-
Institutional support	45,407	27,237	39,203	21,508
Operation and maintenance of plant	50,124	5,617	41,474	5,320
Student financial assistance	10,825	13,481	11,152	12,618
Auxiliary enterprises	113,368	37,034	102,016	36,003
Depreciation expense (Note 7)	50,255	4,547	47,561	4,386
Amortization expense	133	-	133	-
Other operating expenses	30	8,640	32	11,700
Total operating expenses	<u>815,254</u>	<u>121,564</u>	<u>741,921</u>	<u>115,650</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(271,437)</u>	<u>19,005</u>	<u>(241,002)</u>	<u>11,318</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
State appropriations (Note 19)	239,567	-	227,133	-
Gifts	42,322	-	36,820	-
Non-operating grants and contracts	4,516	-	3,052	-
Investment income, net	7,255	12,108	5,849	10,013
Net gain on investments	-	27,747	-	25,986
Impairment loss on intangibles	-	-	-	(2,299)
Other additions	648	-	248	-
Interest expense on debt related to capital assets	(9,632)	(3,211)	(8,740)	(2,655)
Net non-operating revenues (expenses)	<u>284,676</u>	<u>36,644</u>	<u>264,362</u>	<u>31,045</u>
<b>INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES</b>	<u>13,239</u>	<u>55,649</u>	<u>23,360</u>	<u>42,363</u>
Capital appropriations (Note 20)	40,032	-	11,679	-
Change in valuation of split interest agreements	-	1,770	-	1,137
Capital grants and gifts (Note 8)	19,310	9,662	22,414	11,649
Gain (loss) on disposal of capital assets	(1,450)	(682)	1,380	(70)
Other revenues/expenses	-	(1,997)	-	(296)
Total other revenues, expenses, gains, and losses	<u>57,892</u>	<u>8,753</u>	<u>35,473</u>	<u>12,420</u>
Increase in net assets	71,131	64,402	58,833	54,783
Net assets — beginning of year (Note 1)	629,673	548,560	570,840	493,777
Net assets — end of year	<u>\$ 700,804</u>	<u>\$ 612,962</u>	<u>\$ 629,673</u>	<u>\$ 548,560</u>

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

# Statement of Cash Flows

For the year ended June 30, 2006, with comparative financial information for the year ended June 30, 2005  
(all dollars in thousands)

	2006	2005 (as restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Student tuition and fees	\$ 214,763	\$ 200,029
Federal appropriations	11,969	11,012
Grants and contracts	179,704	165,841
Sales and services of educational activities	12,016	11,614
Auxiliary enterprises	126,095	111,128
Other operating receipts	2,698	2,581
Payments for compensation and fringe benefits	(543,789)	(483,569)
Payments for operating expenses	(215,884)	(195,937)
Payments for scholarships and fellowships	(10,597)	(10,982)
Loans issued to students	(4,321)	(4,098)
Collection of loans from students	5,058	4,341
Net cash used by operating activities	<u>(222,288)</u>	<u>(188,040)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	239,567	227,133
Gifts received for other than capital purposes	42,091	36,449
Non-operating grants and contracts	4,516	3,052
Federal Direct Lending Program — receipts	82,241	78,151
Federal Direct Lending Program — disbursements	(82,252)	(78,151)
Funds held in custody for others — receipts	41,201	35,247
Funds held in custody for others — disbursements	(41,070)	(35,448)
Net cash provided by noncapital financing activities	<u>286,294</u>	<u>266,433</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital appropriations	40,032	11,679
Capital grants and gifts	15,728	16,293
Proceeds from capital debt	11,808	28,731
Proceeds from the sale of capital assets and insurance recoveries	2,743	407
Acquisition and construction of capital assets	(91,811)	(112,192)
Principal paid on capital debt and leases	(13,466)	(35,869)
Interest paid on capital debt and leases	(9,027)	(8,655)
Net cash provided (used) by capital and related financing activities	<u>(43,993)</u>	<u>(99,606)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	56,201	43,769
Investment income, net of investment expense	6,124	3,617
Purchase of investments and related fees	(67,204)	(37,325)
Net cash provided by investing activities	<u>(4,879)</u>	<u>10,061</u>
Net increase in cash and cash equivalents	15,134	(11,152)
Cash and cash equivalents — beginning of year	196,088	207,240
Cash and cash equivalents — end of year	<u>\$ 211,222</u>	<u>\$ 196,088</u>

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

# Statement of Cash Flows *(continued)*

For the year ended June 30, 2006 with comparative financial information for the year ended June 30, 2005  
(all dollars in thousands)

	<u>2006</u>	<u>2005</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating loss	\$ (271,437)	\$ (241,002)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	50,255	47,561
Amortization expense	133	133
Changes in assets and liabilities		
Receivables, net of allowance for doubtful accounts	(2,012)	1,225
Inventories	(1,301)	(353)
Prepaid items	2,080	(1,186)
Notes receivable, net of allowance for doubtful accounts	(1,033)	171
Accounts payable and accrued liabilities	2,382	461
Accrued payroll	(7,617)	3,408
Annuity payable	-	567
Accrued severance liability	-	(926)
Compensated absences	785	1,733
Deferred revenue	5,466	87
Federal loan program contributions refundable	11	81
Total adjustments	<u>49,149</u>	<u>52,962</u>
Net cash used by operating activities	<u>\$ (222,288)</u>	<u>\$ (188,040)</u>
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>		
Change in accounts receivable related to non-operating income	\$ (2,880)	\$ (3,352)
Capital assets acquired through in-kind donations as a component of capital gifts and grants income	\$ 2,967	\$ 2,224
Change in fair value of investments recognized as a component of interest income	\$ 1,131	\$ 2,232
Change in fair value of interest payable affecting interest paid	\$ 94	\$ (130)
Capital assets acquired through installment purchase agreements	\$ 287	\$ 1,010
Change in interest receivable affecting interest received	\$ (177)	\$ (2)

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

# Notes to Financial Statements

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# Notes to Financial Statements

For the Year Ended June 30, 2006

## 1. Summary of Significant Accounting Policies

### Reporting Entity

Virginia Polytechnic Institute and State University (Virginia Tech) 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, and 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 account groups, and all entities over which the university exercises or has the ability to exercise oversight authority for financial reporting purposes.

Under Governmental Accounting Standards Board (GASB) Statement 39, 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 at 2000 Kraft Drive, Suite 2100, Blacksburg, Virginia 24061.

During the year ended June 30, 2006, the foundation distributed \$52,061,000 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, 2006, VTS paid \$704,000 to the university, primarily for the rental of facilities.

### Financial Statement Presentation

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

### Basis of Accounting

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

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

### Cash Equivalents

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

### Investments

In accordance with GASB Statement Number 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, pur-

chased investments, interest-bearing temporary investments classified with cash, and investments received as gifts are recorded at fair value (see Note 4). Changes in unrealized gain (loss) on the carrying value of the investments are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets.

### **Accounts Receivable**

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

### **Notes Receivable**

Notes receivable consists of amounts due from the Federal Perkins Loan Program, the Health Professional Student Loan Program, and from other student loans administered by the university. Notes receivable are recorded net of allowance for doubtful accounts. At June 30, 2006, the allowance for doubtful accounts for current and noncurrent notes receivable totaled \$31,000 and \$257,000 respectively.

### **Inventories**

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

### **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 donation date.

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 asset. 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.

In fiscal year 2006, the university implemented GASB Statement 42, *Accounting and Financial Reporting for the Impairment of Capital Assets and for Insurance Recoveries*. This statement clarifies the accounting requirements with respect to reporting the impairment of net assets and insurance recoveries.

### **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 \$2,344,000 for the fiscal year ended June 30, 2006.

### **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, at June 30, 2006, 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, 2006. This amount is primarily composed of revenue for grants and contracts, prepaid athletic ticket sales, and prepaid student tuition and fees. See Note 10 for a detailed list of deferred revenue amounts.

### **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, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, to be expended or added to principal.

▣ Unrestricted net assets — Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, recoveries of facilities and administrative (indirect) cost, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational departments and the general operations of the university, and may be used at the discretion of the 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.

During fiscal year 2006, the university implemented GASB Statement 46, *Net Assets Restricted by Enabling Legislation*. The university has no assets restricted in the manner described in GASB 46.

### Income Taxes

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

### Classifications of Revenues

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

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

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

### Scholarship Allowance

Student tuition and fees, certain auxiliary enterprise 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, 2006, the scholarship allowance for student tuition and fee revenue and auxiliary enterprise revenue totaled \$38,664,000 and \$9,457,000 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.

### Restatement of Prior Year Amounts

Adjustments were made to the July 1, 2005, net asset balance. The following adjustments reflect the capitalization of assets acquired in prior fiscal years and a correction made to the administrative program used to calculate depreciation (all dollars in thousands):

Net Assets, June 30, 2005	\$ 629,045
Capitalization of assets acquired in prior fiscal years	206
Reduction of accumulated depreciation	<u>422</u>
Net assets, July 1, 2005	<u>\$ 629,673</u>

## 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 Corp of Cadets Alumni Inc. They are therefore not required to have an annual audit. Virginia Tech Intellectual Properties Inc. is required to have an annual audit. Auditors have examined the financial records of the 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 \$11,492,000 in 2006, and has been included in revenues and expenses of the accompanying financial statements. The university received other local government support of \$1,825,000 in 2006.

#### 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, 2006. The following risk disclosures are required by GASB Statement Number 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 2006.
- ▣ Credit risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. GASB Statement Number 40 requires the disclosure of the credit quality rating on any investments subject to credit risk.
- ▣ Concentration of credit risk — The risk of loss attributed to the magnitude of a government's investment in a single issuer is referred to as concentration of credit risk. GASB Statement Number 40 requires disclosure of any issuer with more than five percent of total investments.
- ▣ Interest rate risk — This is the risk that interest rate changes will adversely affect the fair value of an investment. GASB Statement Number 40 requires disclosure of maturities for any investments subject to interest rate risk. The university does not have an interest rate risk policy.
- ▣ Foreign currency risk — This risk refers to the possibility that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The university had no foreign investments or deposits for 2006.

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

#### Cash and Cash Equivalents

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

#### Investments

The investment policy of the university is established by the 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 (all dollars in thousands)

INVESTMENT TYPE	Current	Noncurrent	Total
Cash Equivalents	\$ 24,158	\$ 43,422	\$ 67,580
Short-term Investments	1,988	4,984	6,972
Long-term investments	-	72,515	72,515
Total Investments	<u>\$ 26,146</u>	<u>\$ 120,921</u>	<u>\$ 147,067</u>

The categorization of credit and concentration of credit risk follows for investments held on June 30, 2006 (all dollars in thousands):

INVESTMENT TYPE	Fair Value	Percent of Investment	Standard & & Poor's Credit Rating	Moody's Credit Rating
U.S. government securities				
U.S. Treasury Notes (1)	\$ 16,760	11.40%	N/A	N/A
Government Sponsored Enterprises				
Federal Home Loan Mortgage Corporation	6,411	4.35%	AAA	Aaa
Federal National Mortgage Association	4,508	3.07%	AAA	Aaa
Federal Home Loan Bank	35,423	24.09%	AAA	Aaa
Money Market & Mutual Funds				
Money Market - Fidelity	23,870	16.23%	AAA	Aaa
Other				
Deposits with Virginia Tech Foundation Inc.	230	0.16%	N/A	N/A
Investments held with Virginia Tech Foundation Inc. (2)	42,295	28.75%	N/A	N/A
Dairy Farmers of America	58	0.04%	BBB+	Baa+
Short-Term Investment Fund	4,255	2.89%	AAAm	Aaa
SNAP	12,265	8.34%	AAAm	Unrated
TIAA/CREF DC Annuities	651	0.44%	AAA	Aaa
TIAA/CREF DC Annuities – Equities (2)	332	0.23%	N/A	N/A
Investment held with the Bank of New York	9	0.01%	AAAm	Aaa
Total	<u>\$ 147,067</u>	<u>100.00%</u>		

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

(2) Credit quality ratings are not required for these investments.

The categorization of interest rate risk follows for investments held on June 30, 2006 (all dollars in thousands):

INVESTMENT TYPE	0—3 Months	4—12 Months	1—5 Years	6—10 Years	Total
U.S. government securities					
U.S. Treasury Notes	\$ -	\$ 1,988	\$ 14,772	\$ -	\$ 16,760
Government Sponsored Enterprises					
Federal Home Loan Mortgage Corporation	-	-	6,411	-	6,411
Federal National Mortgage Association	-	-	4,508	-	4,508
Federal Home Loan Bank	26,902	4,975	3,546	-	35,423
Money Market & Mutual Funds					
Money Market - Fidelity	23,870	-	-	-	23,870
Other					
Deposits with Virginia Tech Foundation Inc.	230	-	-	-	230
Dairy Farmers of America	58	-	-	-	58
Short-Term Investment Fund	4,255	-	-	-	4,255
SNAP	12,265	-	-	-	12,265
TIAA/CREF DC Annuities	-	-	-	651	651
Investments held with the Bank of New York	-	9	-	-	9
Subtotal	<u>\$ 67,580</u>	<u>\$ 6,972</u>	<u>\$ 29,237</u>	<u>\$ 651</u>	<u>104,440</u>
Investments Without Specific Maturities					
Investments held with Virginia Tech Foundation Inc.					42,295
TIAA/CREF DC Annuities - Equities					332
Total					<u>\$ 147,067</u>

## 5. Securities Lending Transactions

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

The investments under securities lending and the securities lending transactions reported on the financial statements represent the university's allocated share of securities received for securities lending transactions held in the general account of the Commonwealth of Virginia. For the fiscal year ended June 30, 2006, the securities lending cash equivalents and investments totaled \$1,853,000 and 1,834,000, respectively. The corresponding securities lending obligation is shown on the Statement of Net Assets. For the year ended June 30, 2006, securities lending transactions totaled \$63,000 of securities lending income and \$62,000 of securities lending cost. These totals have been included as investment income on the Statement of Revenues, Expenses, and Changes in Net Assets. Information related to the credit risk of these investments and securities lending transactions held in the general account is available in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*.

## 6. Accounts Receivable

Accounts receivable consists of the following as of June 30, 2006 (*all dollars in thousands*):

### Current receivables

Grants and contracts	\$ 31,324
Student tuition and fees	2,360
Auxiliary enterprises and other operating activities	<u>2,785</u>
Total current receivables before allowance	36,469
Less allowance for doubtful accounts	<u>1,193</u>
Net current accounts receivable	<u>35,276</u>

### Noncurrent receivables

Capital gifts, grants, and other receivables	4,772
Less allowance for doubtful accounts	<u>868</u>
Net noncurrent accounts receivable	<u>3,904</u>
Total receivables	<u>\$ 39,180</u>

## 7. Capital Assets

A summary of changes in capital assets follows for the year ending June 30, 2006 (*all dollars in thousands*):

	Beginning Balance (as restated)	Additions	Retirements	Ending Balance
<b>Depreciable capital assets</b>				
Buildings	\$ 630,198	\$ 89,514	\$ 89	\$ 719,623
Moveable equipment	300,222	32,533	19,008	313,747
Fixed equipment	57,902	2,838	11	60,729
Infrastructure	87,606	3,816	-	91,422
Library books	<u>61,787</u>	<u>1,622</u>	<u>52</u>	<u>63,357</u>
Total depreciable capital assets, at cost	<u>1,137,715</u>	<u>130,323</u>	<u>19,160</u>	<u>1,248,878</u>
<b>Less accumulated depreciation</b>				
Buildings	206,990	17,305	45	224,250
Moveable equipment	210,295	25,289	17,061	218,523
Fixed equipment	30,970	2,231	1	33,200
Infrastructure	66,113	2,647	-	68,760
Library books	<u>46,958</u>	<u>2,783</u>	<u>52</u>	<u>49,689</u>
Total accumulated depreciation	<u>561,326</u>	<u>50,255</u>	<u>17,159</u>	<u>594,422</u>
Total depreciable capital assets, net of accumulated depreciation	<u>576,389</u>	<u>80,068</u>	<u>2,001</u>	<u>654,456</u>
<b>Nondepreciable capital assets</b>				
Land	42,771	-	-	42,771
Livestock	761	46	-	807
Construction in progress	73,540	50,535	91,919	32,156
Equipment in process	<u>3,613</u>	<u>1,949</u>	<u>2,506</u>	<u>3,056</u>
Total nondepreciable capital assets	<u>120,685</u>	<u>52,530</u>	<u>94,425</u>	<u>78,790</u>
Total capital assets, net of accumulated depreciation	<u>\$ 697,074</u>	<u>\$ 132,598</u>	<u>\$ 96,426</u>	<u>\$ 733,246</u>

## 8. Higher Education Equipment Trust Fund

The Equipment Trust Fund (ETF) Program was established to provide state-supported institutions of higher education with bond proceeds for financing the acquisition and replacement of instructional and research equipment. The program is managed by the Virginia College Building Authority (VCBA). The VCBA issues bonds and uses the proceeds to reimburse the university and other institutions of higher education for equipment purchased. The Statement of Revenues, Expenses, and Changes in Net Assets includes \$7,635,000 for the year ended June 30, 2006, in capital grants and gifts as reimbursement for equipment purchased using the ETF allocation. The line item, "Due from the Commonwealth of Virginia", on the Statement of Net Assets totaling \$6,683,000 for the year ended June 30, 2006, represents equipment purchased by the university not yet reimbursed by VCBA.

## 9. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2006, consist of the following (all dollars in thousands):

Accounts payable	\$ 35,699
Accrued salaries and wages payable	28,312
Treasury Loan	6,856
Retainage payable	3,263
Total current accounts payable	<u>\$ 74,130</u>

The treasury loan identified above was provided to offset expenses associated with the additional payroll posted during fiscal year 2006. Retainage payable represents funds held by the university as retainage on various construction contracts for work performed. The retainage will be remitted to the various contractors upon satisfactory completion of the construction projects.

## 10. Deferred Revenue

Deferred revenue consists of the following as of June 30, 2006 (all dollars in thousands):

Grants and contracts	\$ 11,181
Prepaid athletic tickets	13,214
Prepaid tuition and fees	6,171
Other auxiliary enterprises	1,542
Total deferred revenue	<u>\$ 32,108</u>

## 11. Summary of Long-term Indebtedness

### Bonds Payable

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

Section 9(d) bonds are revenue bonds which are limited obligations of the university, payable exclusively from pledged general revenues, and which

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

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

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

### Notes Payable

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

### Capital Leases

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

### Installment Purchase Obligations

The university has entered into various installment purchase contracts to finance the acquisition of equipment. The length of the purchase agreements ranges from two to seven 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 2006, future principal commitments, and future interest commitments, is presented on the following page.

**Changes in Long-term Debt Payable Activity**

As of June 30, 2006 (all dollars in thousands)

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
Bonds payable					
Section 9(c) general obligation revenue bonds	\$ 37,429	\$ -	\$ 3,948	\$ 33,481	\$ 3,980
Section 9(d) revenue bonds	103,172	-	4,804	98,368	8,080
Notes payable	95,239	11,808	3,905	103,142	4,650
Capital lease obligations	12,617	-	526	12,091	554
Installment purchase obligations	836	287	283	840	318
Total long-term debt payable	<u>\$ 249,293</u>	<u>\$ 12,095</u>	<u>\$ 13,466</u>	<u>\$ 247,922</u>	<u>\$ 17,582</u>

**Future Principal Commitments**

For fiscal years subsequent to 2006 (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
2007	\$ 3,980	\$ 8,080	\$ 4,650	\$ 554	\$ 318	\$ 17,582
2008	4,124	8,255	3,395	581	325	16,680
2009	3,033	8,390	3,555	614	128	15,720
2010	3,185	5,150	3,725	642	25	12,727
2011	3,192	5,340	3,880	675	17	13,104
2012 – 2016	10,402	30,540	22,456	3,924	27	67,349
2017 – 2021	3,702	12,245	26,065	4,919	-	46,931
2022 – 2026	1,040	12,180	22,440	182	-	35,842
2027 – 2031	-	8,795	10,910	-	-	19,705
Unamortized premium	266	1,146	2,366	-	-	3,778
Deferral on debt defeasance	557	(1,753)	(300)	-	-	(1,496)
Total future principal requirements	<u>\$ 33,481</u>	<u>\$ 98,368</u>	<u>\$ 103,142</u>	<u>\$ 12,091</u>	<u>\$ 840</u>	<u>\$ 247,922</u>

**Future Interest Commitments**

For fiscal years subsequent to 2006 (all dollars in thousands)

	Section 9(c) Bonds	Section 9(d) Bonds	Notes Payable	Capital Lease Obligations	Installment Purchase Obligations	Total Interest
2007	\$ 1,580	\$ 4,450	\$ 4,773	\$ 462	\$ 20	\$ 11,285
2008	1,381	4,192	4,602	441	11	10,627
2009	1,197	3,841	4,445	418	4	9,905
2010	1,050	3,490	4,279	395	2	9,216
2011	895	3,297	4,098	370	1	8,661
2012 – 2016	2,609	12,611	17,373	1,436	1	34,030
2017 – 2021	597	6,852	11,274	605	-	19,328
2022 – 2026	97	3,896	5,416	3	-	9,412
2027 – 2031	-	849	985	-	-	1,834
Total future interest requirements	<u>\$ 9,406</u>	<u>\$ 43,478</u>	<u>\$ 57,245</u>	<u>\$ 4,130</u>	<u>\$ 39</u>	<u>\$ 114,298</u>

## 12. Detail of Long-term Debt Payable

### Bonds Payable

As of June 30, 2006 (all dollars in thousands):

	<u>Interest rates</u>	<u>Maturity</u>	<u>2006</u>
<b>Revenue Bonds</b>			
Dormitory and dining hall system			
Series 1996B, issued \$5,475 *	3.80% - 5.35%	2009	\$ 1,580
Series 2004B, issued \$1,265 – refunding series 1996B *	2.00% - 4.00%	2016	1,235
University services systems			
Student Health and Fitness Center			
Series 2004C, issued \$15,105 – refunding series 1996C*	2.00% - 5.00%	2016	14,815
Utility system, series 1996D, issued \$2,570 *	3.80% - 5.35%	2009	740
Athletic system			
Athletic facility – improvements			
Series 2004D, issued \$4,155 – refunding series 1996A *	2.00% - 5.00%	2016	4,130
Lane Stadium West Sideline Expansion			
Series 2004D, issued \$52,715	3.00% - 5.13%	2029	51,920
Veterinary Medicine, series 1996A, issued \$1,040 *	3.80% - 5.75%	2008	225
Northern Virginia Graduate Center			
Series 2004A, issued \$7,860 – refunding series 1996A *	2.00% - 5.00%	2020	7,805
Architectural/engineering			
Series 2004A, issued \$4,685 – refunding series 1996A *	2.00% - 5.00%	2016	4,650
Coal fired facility			
Series 2004A, issued \$6,005 – refunding series 1996A *	2.00% - 5.00%	2016	5,965
Series 2004A, issued \$1,585 – refunding series 1996A *	2.00% - 5.00%	2016	1,570
Donaldson Brown Hotel and Conference Center			
Series 2004A, issued \$2,710 – refunding series 1996A *	2.00% - 5.00%	2016	2,690
Series 2004A, issued \$1,665 – refunding series 1996A *	2.00% - 5.00%	2016	1,650
Unamortized premium (discount)			1,146
Deferral on debt defeasance			(1,753)
Total revenue bonds			<u>98,368</u>
<b>General Obligation Revenue Bonds</b>			
Dormitory and dining hall system			
Series 1997, issued \$15,895 – partial refunding *	3.79% - 5.40%	2007	770
Series 1998, issued \$3,158 – refinanced 1992C *	3.50% - 4.70%	2013	2,435
Series 1998, issued \$1,380 – refinanced 1992D *	3.50% - 4.70%	2013	1,303
Series 1998, issued \$1,440 – refinanced 1992D *	3.50% - 4.70%	2013	1,359
Series 2000, issued \$3,255 – partial refunding *	4.00% - 5.50%	2008	300
Series 2000A, issued \$1,800 – partial refunding *	4.75% - 5.25%	2009	250
Series 2003A, issued \$2,694 – refunding series 1993B *	2.50% - 4.00%	2011	1,780
Series 2004B, issued \$9,995 – partial refunding series 1997 *	2.00% - 5.00%	2017	9,788
Series 2004B, issued \$1,928 – partial refunding series 2000 *	2.00% - 5.00%	2018	1,891
Series 2004B, issued \$1,168 – partial refunding series 2000A *	2.00% - 5.00%	2019	1,143
Series 2004A, issued \$4,800	3.75% - 5.00%	2024	4,485
University services system – Student Center			
Series 2003A, issued \$5,457 – refunding series 1993A *	2.50% - 5.50%	2008	2,315
Series 2003A, issued \$684 – refunding series 1993B *	2.50% - 5.50%	2010	412
Series 2003A, issued \$1,755 – refunding series 1993B *	2.50% - 5.50%	2011	1,160
Parking facilities			
Series 1997, issued \$1,550 – partial refunding *	5.00%	2007	75
Series 2002, issued \$975	5.00%	2017	760

*General Obligation Revenue Bonds (continued)*

Series 2003A, issued \$2,268 – refunding series 1993B *	2.50% - 5.50%	2011	1,501
Series 2004B, issued \$951 – partial refunding series 1997 *	2.00% - 5.00%	2017	931
Unamortized premium (discount)			266
Deferral on debt defeasance			557
Total general obligation revenue bonds			<u>33,481</u>
Total bonds payable			<u>\$ 131,849</u>

**Notes Payable**Notes payable to VCBA under the pooled 9(d) bond program as of June 30, 2006 (*all dollars in thousands*):

	Average coupon rate	Maturity	2006
Dormitory and dining hall system			
Series 1999, issued \$10,145 – partial refunding *	4.53%	2019	\$ 6,340
Series 1999A, issued \$10,905 – partial refunding *	5.73%	2010	1,915
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	7,330
Series 2005, issued \$2,815	3.50% - 5.00%	2026	2,815
University services system – Career Services			
Series 2002A, issued \$4,405	5.19%	2023	4,005
Utility system			
Series 2000A, issued \$2,925 – partial refunding *	5.25%	2021	1,615
Series 2002A, issued \$2,875	5.19%	2023	2,610
Series 2004B, issued \$870 – partial refunding series 2000A *	3.00% - 5.00%	2017	860
Athletic system			
Stadium expansion, series 2001A, issued \$26,285	4.60%	2027	20,285
Infectious waste facility			
Series 2004A, issued \$1,640 – partial refunding *	5.25%	2021	905
Series 2004B, issued \$480 – partial refunding series 2000A *	3.00% - 5.00%	2017	475
Biomedical facility, series 2002A, issued \$21,930	5.11%	2028	20,921
Alumni and conference center, series			
2003A, issued \$21,585	4.63%	2031	21,585
Life Sciences (Phase I), series 2006, issued \$8,295	3.50% - 5.00%	2026	8,295
Unamortized premium (discount)			2,366
Deferral on Debt Defeasance			(300)
Total notes payable			<u>\$ 103,142</u>

\* See Footnote 13 - Long-term Debt Defeasance

**Other Long-term Debt**Other long-term debt at June 30, 2006 (*all dollars in thousands*):

Capital leases payable for agreements related to the Student Services, Southgate Center Addition, and Hunter Andrews Addition Buildings	\$ 12,091
Installment purchase obligations for equipment purchases through June 2006 with various interest rates and maturing through 2013	840
Total other long-term debt	<u>\$ 12,931</u>

**13. Long-term Debt Defeasance**

In previous fiscal years, in accordance with Governmental Accounting Standards Board Statement Number 7, *Advance Refundings Resulting in the Defeasance of Debt*, the university has excluded from its financial statements the assets in escrow and the section 9(c) or 9(d) bonds payable that were defeased in-substance. For the year ended June 30, 2006 bonds payable considered defeased in previous years totaled \$23,790,000.

## 14. Change in Other Liabilities

A summary of changes in other liabilities for the year ended June 30, 2006, follows (all dollars in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Accrued compensated absences	\$ 31,477	\$ 22,566	\$ 21,780	\$ 32,263	\$ 15,934
Federal loan program contribution refundable	13,265	227	238	13,254	-
Total other liabilities	<u>\$ 44,742</u>	<u>\$ 22,793</u>	<u>\$ 22,018</u>	<u>\$ 45,517</u>	<u>\$ 15,934</u>

## 15. Lease Commitments

The university has entered into numerous agreements to lease land, buildings, and equipment. With some of these agreements, the university is committed under various operating leases for equipment and space. In general, the leases are for a three to five-year term and the university has renewal options. During the normal course of business the university expects similar leases to replace these leases. The total lease expense was approximately \$12,190,000 for the year ended June 30, 2006, which includes approximately \$3,011,000 of short-term equipment rentals that can be terminated at any time. These short-term equipment rental costs are not included in the summary of future lease payments listed below.

A summary of future minimum lease payments under operating leases as of June 30, 2006, follows (all dollars in thousands):

2007	\$ 8,886
2008	5,732
2009	4,812
2010	2,537
2011	1,205
2012 – 2016	24
Total	<u>\$ 23,196</u>

## 16. Capital Improvement Commitments

The amounts listed in the following table represent the value of obligations remaining on capital improvement project contracts. These obligations are for future effort and as such have not been accrued as expenses or liabilities on the university's financial statements. Outstanding contractual commitments for capital improvement projects as of June 30, 2006, include:

### Capital Commitments by Project

(all dollars in thousands)

ICTAS Engineering facility	\$ 31,392
Life Sciences 1	22,610
Graduate Life Center at Donaldson Brown	1,994
Henderson Hall	594
Cowgill Addition	445
Surge Space Building	334
Bishop-Favrao Hall	322
Other projects	1,055
Total	<u>\$ 58,746</u>

## Capital Commitments by Source of Funding

(all dollars in thousands)

General obligation bond proceeds	\$ 22,164
Capital appropriations	28,479
Auxiliary enterprise funds	153
Private funds	302
State general appropriations	1,743
Facilities and administrative (indirect) cost recoveries and university education and general funds	5,884
Federal funds	21
Total	<u>\$ 58,746</u>

## 17. Contributions to Pension Plans

### Virginia Retirement System

Employees of the university are employees of the Commonwealth of Virginia and therefore participate in the commonwealth's defined benefit retirement plan. This plan is administered by the Virginia Retirement System (VRS). 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 \$17,142,000 for the year ended June 30, 2006.

### Optional Retirement Plan

Full-time faculty and certain administrative staff participate in a defined contribution plan administered by six different providers other than the VRS. The six different providers are TIAA/CREF Insurance Companies; Fidelity Investments Tax-Exempt Services Co.; Great-West Life Assurance Co.; T. Rowe Price Associates; VALIC; and Met Life. 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 \$15,109,000 for the year ended June 30, 2006. Contributions to the optional retirement plan were calculated using the base salary amount of approximately \$145,568,000 for fiscal year 2006.

### 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 \$1,713,000 for fiscal year 2006.

### 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 \$397,000 for the year ended 2006. Contributions to FERS and CSRS were calculated using the base salary amount of approximately \$4,874,000 for fiscal year 2006.

In addition, the university contributed \$51,000 for the year ended June 30, 2006, in employer contributions to the Thrift Savings Plan. The Thrift Savings Plan is a defined contribution plan in which the university matches employee contributions within certain limitations.

## 18. Post-Employment Benefits

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

## 19. Appropriations

The Appropriation Act specifies that unexpended general fund appropriations that remain on the last day of the current year, ending on June 30, 2006, shall be reappropriated for expenditure in the first month of the next year, beginning on July 1, 2006, except as may be specifically provided otherwise by the General Assembly. The governor may, at his discretion, unallot funds from the reappropriated balances that relate to unexpended appropriations for payments to individuals, aid to localities, or pass-through grants.

During the year ending June 30, 2006, the following adjustments were made to the university's original appropriation (*all dollars in thousands*):

Original legislative appropriation per Chapter 951 as amended	
Education and general programs	\$ 213,389
Student financial assistance	13,178
Unique military activities	1,341
Eminent scholar program	602
Engineering research center fund	300
Total appropriation	<u>228,810</u>
Adjustments	
Additional payroll during fiscal year 2006	7,708
Health insurance premium	3,828
Salary increases	2,590
Reduction in General Fund support	
For Research	(2,005)
Group life rate suspension	(1,684)
Virginia Retirement System rate reduction savings	(331)
Retiree health care credit savings	(356)
Virginia Sickness and Disability Program rate increase	565
Transfer from student financial assistance program for undergraduate internships and graduate assistantships	219
Agricultural education program	150
Other	73
Total adjustments	<u>10,757</u>
Adjusted appropriation	<u>\$ 239,567</u>

## 20. Capital Appropriations

Following are the capital appropriations recognized by the university from the commonwealth for the year ended June 30, 2006 (*all dollars in thousands*):

21 <sup>st</sup> Century appropriations	\$ 3,174
General obligation bonds 9(b)	31,381
Capital project general fund appropriations	<u>5,477</u>
Total capital appropriations	<u>\$ 40,032</u>

## 21. Grants and Contracts Contingencies

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

In addition, the university is required to comply with various federal regulations issued by the Office of Management and Budget. Failure to comply with certain system requirements of these regulations may result in questions concerning the allowance of related direct and indirect charges pursuant to such agreements. As of June 30, 2006, the university estimates that no material liabilities will result from such audits or questions.

## 22. Federal Direct Lending Program

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

These loan programs are treated as student payments with the university acting as a fiduciary agent for the student. Therefore, the receipt of the funds from the federal government is not reflected in the federal government grants and contracts total on the Statement of Revenues, Expenses, and Changes in Net Assets. The activity is included in the noncapital financing section of the Statement of Cash Flows. For the fiscal year ended June 30, 2006, cash provided by the program totaled \$82,252,000 and cash used by the program totaled \$82,252,000.

## 23. Risk Management and Employee Health Care Plans

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

## 24. Expenses by Natural Classification within Functional Classification

The university's operating expenses by functional classification were as follows for the year ended June 30, 2006 (*all dollars in thousands*):

	Compensation & Benefits	Contractual Services	Supplies & Materials	Travel	Other Operating Expenses	Scholarships & Fellowships	Sponsored Program Subcontracts	Total
Instruction	\$ 196,737	\$ 8,215	\$ 6,512	\$ 4,485	\$ 1,709	\$ 908	\$ 97	\$ 218,663
Research	125,769	11,538	14,839	7,616	2,210	7,966	15,910	185,848
Public service	44,517	16,387	3,114	5,253	958	138	2,054	72,421
Academic support	37,254	5,168	11,014	847	1,017	79	-	55,379
Student services	8,963	2,006	883	558	345	33	13	12,801
Institutional support	39,642	1,134	1,072	1,556	1,772	230	1	45,407
Operation and maintenance of plant	22,204	3,189	14,709	195	9,810	17	-	50,124
Student financial assistance	228	14	2	68	0	10,513	-	10,825
Auxiliary enterprises	59,882	17,910	23,777	6,824	4,328	647	-	113,368
Total before fees, costs & depreciation	<u>\$ 535,196</u>	<u>\$ 65,561</u>	<u>\$ 75,922</u>	<u>\$ 27,402</u>	<u>\$ 22,149</u>	<u>\$ 20,531</u>	<u>\$ 18,075</u>	<u>764,836</u>
Depreciation expense								50,255
Amortization expense								133
Loan administrative fees and collection costs								30
Total operating expenses								<u>\$ 815,254</u>

## 25. Component Units

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.

**Consolidating Statement of Net Assets**

The financial position for the university's component units as of June 30, 2006 (all dollars in thousands):

	Virginia Tech Foundation	Virginia Tech Services	Total Component Units
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ (7,716)	\$ 185	\$ (7,531)
Short-term investments	9,020	2,439	11,459
Accounts and contributions receivable, net	18,433	341	18,774
Notes receivable, net	868	-	868
Inventories	443	4,698	5,141
Prepaid expenses	353	61	414
Other assets	603	-	603
Total current assets	<u>22,004</u>	<u>7,724</u>	<u>29,728</u>
<b>Noncurrent assets</b>			
Cash and cash equivalents	54,378	-	54,378
Accounts and contributions receivable, net	40,355	-	40,355
Notes and deeds of trust receivable, net	17,406	-	17,406
Net investments in direct financing leases	7,981	-	7,981
Irrevocable trusts held by others, net	9,313	-	9,313
Long-term investments	530,745	-	530,745
Depreciable capital assets, net	92,611	1,137	93,748
Nondepreciable capital assets	28,787	-	28,787
Intangible assets, net	730	-	730
Other assets	4,602	-	4,602
Total noncurrent assets	<u>786,908</u>	<u>1,137</u>	<u>788,045</u>
Total assets	<u>808,912</u>	<u>8,861</u>	<u>817,773</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	5,715	2,725	8,440
Accrued compensated absences	173	244	417
Deferred revenue	4,837	35	4,872
Long-term debt payable	19,025	227	19,252
Other liabilities	3	1,260	1,263
Total current liabilities	<u>29,753</u>	<u>4,491</u>	<u>34,244</u>
<b>Noncurrent liabilities</b>			
Accrued compensated absences	97	-	97
Long-term debt payable	75,606	556	76,162
Liabilities under trust agreements	33,255	-	33,255
Agency deposits held in trust	54,061	-	54,061
Other liabilities	6,992	-	6,992
Total noncurrent liabilities	<u>170,011</u>	<u>556</u>	<u>170,567</u>
Total liabilities	<u>199,764</u>	<u>5,047</u>	<u>204,811</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	39,862	591	40,453
Restricted, nonexpendable	251,002	-	251,002
Restricted, expendable			
Scholarships, research, instruction, and other	258,950	-	258,950
Capital projects	34,056	-	34,056
Unrestricted	25,278	3,223	28,501
Total net assets	<u>\$ 609,148</u>	<u>\$ 3,814</u>	<u>\$ 612,962</u>

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

The university's component unit activity for the year ended June 30, 2006 (all dollars in thousands):

	Virginia Tech Foundation	Virginia Tech Services	Total Component Units
<b>OPERATING REVENUES</b>			
Gifts and contributions	\$ 72,187	\$ -	\$ 72,187
Auxiliary enterprise revenue			
Hotel Roanoke	18,587	-	18,587
River Course	1,004	-	1,004
Bookstore	-	21,946	21,946
Other revenues			
Rental income	10,653	-	10,653
Other	16,192	-	16,192
Total operating revenues	<u>118,623</u>	<u>21,946</u>	<u>140,569</u>
<b>OPERATING EXPENSES</b>			
Instruction	2,365	-	2,365
Research	5,033	-	5,033
Public service	4,670	-	4,670
Academic support	12,940	-	12,940
Institutional support			
Other university programs	16,587	-	16,587
Fund-raising	8,846	-	8,846
Management and general	1,804	-	1,804
Operation and maintenance of plant			
Operation and maintenance of plant	3,565	-	3,565
Research center costs	2,052	-	2,052
Student financial assistance	13,481	-	13,481
Auxiliary enterprises			
Hotel Roanoke	13,526	-	13,526
River Course	1,169	-	1,169
Bookstore	-	22,339	22,339
Depreciation expense	4,547	-	4,547
Other expenses	8,640	-	8,640
Total operating expenses	<u>99,225</u>	<u>22,339</u>	<u>121,564</u>
<b>OPERATING INCOME (LOSS)</b>	<u>19,398</u>	<u>(393)</u>	<u>19,005</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Investment income, net	12,108	-	12,108
Net gains on investments	27,747	-	27,747
Interest expense on debt related to capital assets	(3,211)	-	(3,211)
Net non-operating revenues	<u>36,644</u>	<u>-</u>	<u>36,644</u>
<b>INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES</b>	<u>56,042</u>	<u>(393)</u>	<u>55,649</u>
Change in valuation of split interest agreements	1,770	-	1,770
Capital grants and gifts	9,662	-	9,662
Loss on disposal of capital assets	(682)	-	(682)
Other revenues	(1,997)	-	(1,997)
Increase (decrease) in net assets	64,795	(393)	64,402
Net assets — beginning of year	544,353	4,207	548,560
Net assets — end of year	<u>\$ 609,148</u>	<u>\$ 3,814</u>	<u>\$ 612,962</u>

**Component Unit Footnotes****CONTRIBUTIONS RECEIVABLE—VIRGINIA TECH FOUNDATION INC.**

The following summarizes unconditional promises to give at June 30, 2006 (all dollars in thousands):

**Current receivables**

Receivable in less than one year, net of discount (\$268 in 2006)	\$ 17,021
Less allowance for doubtful accounts	<u>716</u>
Net current accounts receivable	<u>16,305</u>

**Noncurrent receivables**

Receivable in one to five years, net of discount (\$4,714 in 2006)	33,964
Receivable in more than five years, net of discount (\$2,334 in 2006)	<u>5,678</u>
Total noncurrent contributions receivable before allowance	39,642
Less allowance for uncollectible contributions	<u>1,412</u>
Net noncurrent contributions receivable	<u>38,230</u>
Total contributions receivable	<u>\$ 54,535</u>

The discount rates ranged from 3.38% to 5.21% in 2006. The weighted average discount rate was 4.41% in 2006. As of June 30, 2006, there were no conditional promises to give.

**INVESTMENTS—VIRGINIA TECH FOUNDATION INC.**

Investments by type of security at June 30, 2006 (all dollars in thousands):

	Cost	Fair value
<b>Short-term investments</b>		
U.S. government treasuries	\$ 8,228	\$ 8,190
U.S. government agencies	<u>830</u>	<u>830</u>
Total short-term	<u>9,058</u>	<u>9,020</u>
<b>Long-term investments</b>		
Cash and cash equivalents	14,493	14,493
U. S. government treasuries	24,072	23,666
U. S. government agencies	18,823	18,519
State, county & municipal securities	7,434	6,623
Corporate debt securities	39,668	37,819
Common and preferred stock	204,405	241,226
Partnerships and other joint ventures	83,800	98,874
Foreign securities	47,030	57,219
Real estate	27,267	27,803
Other	<u>4,504</u>	<u>4,504</u>
Total long-term	<u>471,496</u>	<u>530,746</u>
Total investments	<u>\$ 480,554</u>	<u>\$ 539,766</u>

As of June 30, 2006, the accompanying consolidated financial statements include investments valued at approximately \$102,316 (16.8% of net assets), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the external investment managers.

As of June 30, 2006, long-term investments include investment assets held in internally-managed trust funds with a carrying value totaling \$56,814.

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 2006, 2005, and 2004, under the agreement. Included in other investments as of June 30, 2006, is \$3,400 related to this communications network infrastructure. As of June 30, 2006, the foundation's remaining commitment was \$1,600.

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

	Fair Value	Cost	Net gains (losses)
June 30, 2006	\$ 539,765	\$ 480,554	\$ 59,211
June 30, 2005	507,407	458,268	<u>49,139</u>
Unrealized net gains for FY2006, including net gain on agency deposits held in trust of \$1,492			10,072
Realized net gains for FY2006, including net gains on agency deposits held in trust of \$2,360			<u>16,993</u>
Total net gains for FY2006, including net gains on agency deposits held in trust of \$3,852			<u>\$ 27,065</u>

Investment management fees incurred in 2006 totaled \$2,122.

**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, 2006 is presented as follows (all dollars in thousands):

**Depreciable capital assets**

Buildings	\$ 113,869
Equipment and other	19,960
Land improvements	<u>3,360</u>
Total depreciable capital assets, at cost	137,189
Less accumulated depreciation	<u>44,578</u>
Total depreciable capital assets, net of accumulated depreciation	<u>92,611</u>

**Nondepreciable capital assets**

Land	9,053
Vintage and other collection items	4,349
Livestock	2,430
Construction in process	<u>12,955</u>
Total nondepreciable capital assets	<u>28,787</u>
Total capital assets, net of accumulated depreciation	<u>\$ 121,398</u>

As of June 30, 2006 outstanding contractual commitments for projects under construction approximated \$6,900.

**LONG-TERM DEBT PAYABLE—VIRGINIA TECH FOUNDATION INC.****Notes payable**

The following is a summary of outstanding notes payable at June 30, 2006 (all dollars in thousands):

Unsecured commercial note payable due September 10, 2014, plus interest at 4.65%	\$ 1,254
Unsecured variable rate commercial note payable due June 30, 2007 with automatic yearly renewal, plus interest at the 30-day LIBOR rate plus 35 basis points (5.68% at June 30, 2006), principal balance not to exceed \$13.8 million	12,408
Unsecured variable rate promissory note payable due June 1, 2023, plus interest determined weekly by the remarketing agent based on current market conditions (5.40% at June 30, 2006), principal balance not to exceed \$35 million	20,500
Unsecured variable rate commercial note payable due January 31, 2007, plus interest at the 30-day LIBOR rate plus 25 basis points (5.58% at June 30, 2006), principal balance not to exceed \$4 million	2,058
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 (6.68% at June 30, 2006), collateralized by interest in a Citation V Ultra airplane	<u>832</u>
Total VTF notes payable	<u>37,052</u>
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	<u>3,686</u>
Total HRF notes payable	<u>5,461</u>
Total notes payable	<u>\$ 42,513</u>

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

To comply with the terms of the \$35 million unsecured variable rate note agreement, the foundation maintains a back-up line of credit with a lender in the amount of \$35 million at an annual fee of 0.08% of the total commitment. The total commitment as of June 30, 2006, was \$26.9 million. As of June 30, 2006, no funds were outstanding under this commitment.

The aggregate annual maturities of notes payable for each of five years subsequent to June 30, 2006 and thereafter, are:

2007	\$ 16,567
2008	1,876
2009	1,960
2010	1,675
2011	4,400
Later years or as cash becomes available from hotel net operating income	<u>16,035</u>
Total notes payable	<u>\$ 42,513</u>

**Bonds payable**

HRF is obligated under City of Roanoke Redevelopment and Housing Authority Taxable Redevelopment Revenue Term Bonds (Series 1998). Bond proceeds were used to prepay the first mortgage notes payable to a lender group and provide long-term financing for the renovation of the Hotel Roanoke. On June 2, 2003, the bonds were remarketed to VTREF and the new term rate of 4.10% will extend through May 31, 2008. The Term Bonds are subject to mandatory annual sinking fund redemption through 2018 in varying amounts ranging from \$240 to \$490 and are guaranteed by HRLLC. The Term Bonds are eliminated for consolidation purposes as of June 30, 2006.

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

The foundation was obligated under Industrial Development Authority of Montgomery County, Virginia Variable Rate Revenue Bonds dated June 28, 2001 (Series 2001A). Bond proceeds were used to refinance the Series 1987 and Series 1990 bonds and refinance \$3,150 of the \$35 million unsecured variable rate promissory note. The remainder was used to finance a land acquisition and the construction of several facilities to be used in support of the university. The bonds bore a variable interest rate, which including remarketing and credit enhancement fees, was 2.595% at June 30, 2005. The bonds were refinanced in fiscal year 2006 as described on the next page.

The foundation is obligated under Industrial Development Authority of Montgomery County, Virginia Variable Rate Revenue Refunding bonds dated June 28, 2001 (Series 2001B). Bond proceeds were used to refinance the Series 1986 bonds. The bonds, which mature on December 1, 2007, bear a variable interest rate, which including remarketing and credit enhancement fees, was 4.375% at June 30, 2006.

The foundation was obligated under Industrial Development Authority of Montgomery County, Virginia Variable Rate Revenue Refunding bonds dated April 25, 2002 (Series 2002A). Bond proceeds were used to finance a building acquisition, the expansion and enhancement of existing facilities used in support of the university, and to provide funds to cover debt related expenditures during construction. The bonds bore a variable interest rate, which including remarketing and credit enhancement fees, was 2.595% at June 30, 2005. The bonds were refinanced in fiscal year 2006 as shown on the following page.

The foundation is obligated under Industrial Development Authority of Montgomery County, Virginia Variable Rate Revenue Bonds date August 25, 2006 (Series 2005). Bond proceeds were used to refinance the 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 4.285% at June 30, 2006.

Principal amounts outstanding for these bonds as of June 30, 2006, are as follows (*all dollars in thousands*):

Bond Series:	
Series 2000	\$ 3,134
Series 2001B	695
Series 2005	<u>48,290</u>
Total bonds payable	<u>\$ 52,119</u>

The aggregate annual maturities of bonds payable for each of the five years and thereafter subsequent to June 30, 2006, are as follows (*all dollars in thousands*):

2007	\$ 2,820
2008	2,936
2009	2,687
2010	2,514
2011	2,630
Later years	<u>38,532</u>
Total	<u>\$ 52,119</u>

To comply with the terms of the 2001B bond agreement, the foundation maintains a letter of credit with a lender in the amount of \$705 at annual fees equal to 0.22% of the total commitment. As of June 30, 2006, no funds were outstanding under this commitment.

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 \$50,308 at annual fees equal to 0.20% of the total commitment. At June 30, 2006, no funds were outstanding under this commitment.

Effective September 23, 1998, the foundation entered into two separate interest rate swap agreements with a lending institution. These agreements were based on the principal balances (notional amounts) for the Series 1986 and 1987 bond issues, and the Series 1990 bond issue, which were refinanced by the Series 2001A and Series 2001B bonds. The foundation participates as a fixed rate payer, with a fixed interest rate of 3.94% for seven-year and ten-year periods ending October 1, 2005 and 2008, respectively. The lending institution participates as a floating rate payer, with a variable interest rate which is calculated based on the Bond Market Association (BMA) Municipal Swap Index, and was 3.97% at June 30, 2006. Net interest expense associated with these transactions was \$18 for fiscal year 2006. The estimated fair value of the interest rate swap agreements as of June 30, 2006 approximated \$3, in favor of the lending institution.

Effective April 1, 2003, the foundation entered into three separate interest rate swap agreements with a lending institution. Two of these agreements were based on the principal balances (notional amounts) for the Series 2001A and 2002A bond issues. The foundation participates as a fixed rate payer, with a fixed interest rate of 3.134% and 3.43% for a seven-year and ten-year period ending June 1, 2010 and 2013, respectively. The lending institution participates as a floating rate payer, with a variable interest rate which is calculated based on the BMA Municipal Swap Index, and was 2.43% at June 30, 2005. The third agreement was based on the principal balance (notional amount) for a promissory note payable. The foundation participates as a fixed rate payer, with a fixed interest rate of 3.715% for a seven-year term ending February 1, 2010. The lending institution participates as a floating rate payer, with a variable interest rate which is calculated based on LIBOR and was 5.21% at June 30, 2006. Net interest expense associated with these transactions was \$78 for fiscal year 2006. The estimated fair value of the interest rate swap agreements approximated \$153 as of June 30, 2006 in favor of the foundation.

Effective September 1, 2005, the foundation entered into an interest rate swap agreement with a lending institution. This agreement was based on the principal balances (notional amounts) 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% ending June 1, 2022. The lending institution participates as a floating rate payer, with a floating interest which is calculated based on the weighted average of 70% of USD-LIBOR-BBA and was 3.734% at June 30, 2006. Net interest expense associated with these transactions was \$25 for fiscal year 2006. The estimated fair value of the interest rate swap agreement approximated \$1,035 as of June 30, 2006 in favor of the foundation.

On September 1, 2005, the foundation entered into two separate interest rate swap agreements with a lending institution. These agreements were based on the principal balances (notional amounts) for the Series 2005 bond issue and are 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 3.734% at June 30, 2006. The estimated fair value of the interest rate swap agreements approximated \$851 at June 30, 2006 in favor of the foundation.

Total interest expense incurred on notes payable and bonds payable in 2006 totaled \$3,158.

## 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, 2006 is presented as follows (all dollars in thousands):

University — Pratt Estate	\$ 41,047
University — Donaldson Brown Endowment	765
University — Other	686
Virginia Tech Alumni Association Inc.	4,106
Virginia Tech Services Inc.	2,439
Other	5,018
Total agency deposits held in trust	<u>\$ 54,061</u>

## 26. Joint Ventures

The Hotel Roanoke Conference Center Commission was created by a joint resolution of the university and the City of Roanoke. The purpose of the commission is to establish and operate a publicly owned conference center in the City of Roanoke adjacent to the renovated Hotel Roanoke. The powers of the commission are vested in commissioners. Each participating governing body appoints three commissioners for a total of six commissioners. The commission has the authority to issue debt, and such debt is the responsibility of the commission. The intention of the commission is to be self-supporting through its user fees. The university and the City of Roanoke equally share in any operating deficit or additional funding needed for capital expenditures. The university made contributions of \$100,000 to the commission for the fiscal year ended June 30, 2006.

## 27. Jointly Governed Organizations

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

Created by a concurrent resolution of the university and the towns of Blacksburg and Christiansburg, the authority operates and maintains the water supply system for the university and the other participating governing bodies. A five-member board governs the authority with one member appointed by each governing body and two at-large members appointed by the joint resolution of each of the governing bodies. The authority's indebtedness is not an obligation of the university and is payable solely from the revenues of the authority. The university paid \$394,000 to the authority for the purchase of water for the fiscal year ended June 30, 2006.

### *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 \$337,000 to the authority for the purchase of sewer services for the fiscal year ended June 30, 2006.

### *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 \$253,000 to the authority for tipping fees for the fiscal year ended June 30, 2006.

### *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 2006 was \$55,000, all of which Virginia Tech paid to the authority.

## 28. Pending Litigation

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

## Consolidating Schedule Of Net Assets

As of June 30, 2006 (all dollars in thousands)

ASSETS	Current Funds		Loan Funds	Endowment & Similar Funds	Plant Funds	Agency Funds	Total
	Unrestricted	Restricted					
<b>Current assets</b>							
Cash and cash equivalents	\$ 89,953	\$ 25,708	\$ 2,204	\$ -	\$ -	\$ 4,707	\$ 122,572
Cash equivalents, securities lending	1,853	-	-	-	-	-	1,853
Short-term investments	1,988	-	-	-	-	-	1,988
Investments, securities lending	1,834	-	-	-	-	-	1,834
Accounts receivable, net	4,153	31,122	1	-	-	-	35,276
Notes receivable	-	-	1,099	-	-	-	1,099
Due from Commonwealth of Virginia	6,683	-	-	-	-	-	6,683
Inventories	10,889	-	-	-	-	-	10,889
Prepaid expenses	8,023	493	-	-	-	-	8,516
Other current assets	-	-	-	-	-	-	-
Due to (from) other funds	27,295	(18,053)	(70)	838	(10,010)	-	-
Total current assets	152,671	39,270	3,234	838	(10,010)	4,707	190,710
<b>Noncurrent assets</b>							
Cash and cash equivalents	-	-	-	37	88,613	-	88,650
Short-term investments	-	-	-	-	4,984	-	4,984
Accounts receivable, net	(1)	-	-	-	3,905	-	3,904
Long-term investments	15,407	-	-	42,694	14,414	-	72,515
Notes receivable	-	-	12,965	-	-	-	12,965
Depreciable capital assets, net	-	-	-	208	654,248	-	654,456
Nondepreciable capital assets	-	-	-	-	78,790	-	78,790
Intangible assets, net	-	-	-	-	1,733	-	1,733
Other assets	888	-	-	-	304	-	1,192
Total noncurrent assets	16,294	-	12,965	42,939	846,991	-	919,189
Total assets	168,965	39,270	16,199	43,777	836,981	4,707	1,109,899
<b>LIABILITIES</b>							
<b>Current liabilities</b>							
Accounts payable and accrued expenditures	52,279	10,537	-	-	11,314	-	74,130
Obligations under securities lending	3,687	-	-	-	-	-	3,687
Accrued compensated absences	13,676	2,258	-	-	-	-	15,934
Deferred revenue	20,432	11,676	-	-	-	-	32,108
Funds held in custody for others	1	-	-	-	-	4,707	4,708
Long-term debt payable	-	-	-	-	17,582	-	17,582
Other liabilities	10	-	-	15	-	-	25
Total current liabilities	90,085	24,471	-	15	28,896	4,707	148,174
<b>Noncurrent liabilities</b>							
Accrued compensated absences	14,016	2,313	-	-	-	-	16,329
Federal student loan program contributions refundable	-	-	13,254	-	-	-	13,254
Long-term debt payable - noncurrent	-	-	-	-	230,340	-	230,340
Other Liabilities	983	-	-	15	-	-	998
Total noncurrent liabilities	14,999	2,313	13,254	15	230,340	-	260,921
Total Liabilities	105,084	26,784	13,254	30	259,236	4,707	409,095
<b>NET ASSETS</b>							
Invested in capital assets, net of related debt	-	-	-	-	496,782	-	496,782
Restricted, nonexpendable	-	-	-	354	-	-	354
Restricted, expendable	-	-	-	-	-	-	-
Scholarships, research & instruction	-	12,486	2,945	43,393	-	-	58,824
Capital projects	-	-	-	-	37,616	-	37,616
Debt service	-	-	-	-	34,945	-	34,945
Unrestricted	63,881	-	-	-	8,402	-	72,283
Total net assets	\$ 63,881	\$ 12,486	\$ 2,945	\$ 43,747	\$ 577,745	\$ -	\$ 700,804

## Consolidating Schedule Of Revenues, Expenses, And Changes in Net Assets

For the year ended, June 30, 2006 (all dollars in thousands)

	Current Funds		Loan Funds	Endowment & Similar Funds	Plant Funds	Total
	Unrestricted	Restricted				
<b>OPERATING REVENUES</b>						
Student tuition and fees	\$ 213,932	\$ 390	\$ -	\$ -	\$ -	\$ 214,322
Federal appropriations	-	11,969	-	-	-	11,969
Federal grants and contracts	26,777	107,094	-	-	5	133,876
State grants and contracts	1,003	14,812	-	-	-	15,815
Local grants and contracts	241	13,076	-	-	-	13,317
Nongovernmental grants and contracts	3,594	15,137	-	-	25	18,756
Sales and services of educational departments	12,016	-	-	-	-	12,016
Auxiliary enterprise revenue	121,022	-	-	-	-	121,022
Other operating revenues	2,370	328	26	-	-	2,724
Total operating revenues	<u>380,955</u>	<u>162,806</u>	<u>26</u>	<u>-</u>	<u>30</u>	<u>543,817</u>
<b>OPERATING EXPENSES</b>						
Instruction	212,410	6,253	-	-	-	218,663
Research	62,923	122,925	-	-	-	185,848
Public service	39,604	32,817	-	-	-	72,421
Academic support	53,784	1,595	-	-	-	55,379
Student services	12,060	741	-	-	-	12,801
Institutional support	38,053	7,354	-	-	-	45,407
Operation and maintenance of plant	43,423	-	-	-	6,701	50,124
Student financial assistance	(518)	11,343	-	-	-	10,825
Auxiliary enterprises	113,368	-	-	-	-	113,368
Loan administrative fees & collection costs	-	-	30	-	-	30
Amortization Expense	-	-	-	-	133	133
Depreciation expense	-	-	-	-	50,255	50,255
Total operating expenses	<u>575,107</u>	<u>183,028</u>	<u>30</u>	<u>-</u>	<u>57,089</u>	<u>815,254</u>
<b>OPERATING LOSS</b>	<u>(194,152)</u>	<u>(20,222)</u>	<u>(4)</u>	<u>-</u>	<u>(57,059)</u>	<u>(271,437)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>						
State appropriations	224,145	15,421	-	1	-	239,567
Gifts	12,210	30,096	16	-	-	42,322
Non-operating grants and contracts	-	4,516	-	-	-	4,516
Investment income, net of investment expense	938	108	5	3,303	2,901	7,255
Other additions	-	-	3	-	645	648
Interest expense on capital assets	-	-	-	-	(9,632)	(9,632)
Net non-operating revenues	<u>237,293</u>	<u>50,141</u>	<u>24</u>	<u>3,304</u>	<u>(6,086)</u>	<u>284,676</u>
<b>INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, AND LOSSES</b>	<u>43,141</u>	<u>29,919</u>	<u>20</u>	<u>3,304</u>	<u>(63,145)</u>	<u>13,239</u>
Capital appropriations	-	-	-	-	40,032	40,032
Capital grants and contracts	(922)	684	-	-	19,548	19,310
Gains on disposal of plant assets	-	-	-	-	(1,450)	(1,450)
Total other revenues, expenses, gains and losses	<u>(922)</u>	<u>684</u>	<u>-</u>	<u>-</u>	<u>58,130</u>	<u>57,892</u>
<b>INCREASE (DECREASE) IN NET ASSETS BEFORE TRANSFERS</b>	<u>42,219</u>	<u>30,603</u>	<u>20</u>	<u>3,304</u>	<u>(5,015)</u>	<u>71,131</u>
Mandatory transfers	(22,815)	(122)	-	-	22,937	-
Nonmandatory transfers	(9,584)	825	9	(1,699)	10,449	-
Equipment and library book transfers	(18,920)	(3,275)	-	-	22,195	-
Scholarship allowance transfer	23,816	(23,816)	-	-	-	-
Total transfers	<u>(27,503)</u>	<u>(26,388)</u>	<u>9</u>	<u>(1,699)</u>	<u>55,581</u>	<u>-</u>
Increase (decrease) in net assets after transfers	<u>14,716</u>	<u>4,215</u>	<u>29</u>	<u>1,605</u>	<u>50,566</u>	<u>71,131</u>
Net assets – beginning of year	<u>49,165</u>	<u>8,271</u>	<u>2,916</u>	<u>42,142</u>	<u>527,179</u>	<u>629,673</u>
Net assets – end of year	<u>\$ 63,881</u>	<u>\$ 12,486</u>	<u>\$ 2,945</u>	<u>\$ 43,747</u>	<u>\$ 577,745</u>	<u>\$ 700,804</u>

# Schedule of Auxiliary Enterprises

## Revenues, Expenditures and Changes in Fund Balances

For the year ended June 30, 2006

(all dollars in thousands)

	Dormitory and Dining Hall System (1)	Utility System (1)	University Services System (1,2)	Athletic Department (1)	Information Systems & Services	All Other (3)	Total (4)
<b>REVENUES</b>							
Student fees	\$ 45,724	\$ -	\$ 19,240	\$ 5,887	\$ 3,003	\$ 3,710	\$ 77,564
Sales and services	7,608	15,977	2,009	25,932	12,005	14,956	78,487
Total fees and sales	53,332	15,977	21,249	31,819	15,008	18,666	156,051
Contributions	109	-	61	5,913	-	-	6,083
Interest and dividends	9	-	8	354	195	274	840
Total revenues	53,450	15,977	21,318	38,086	15,203	18,940	162,974
<b>EXPENSE OF OPERATIONS</b>							
Personal services	20,037	2,073	11,131	14,371	5,714	6,180	59,506
Contractual services	4,204	262	2,730	10,274	4,159	4,198	25,827
Supplies and materials	14,060	939	1,430	2,911	921	3,257	23,518
Continuous charges	5,236	12,841	995	3,907	2,099	1,488	26,566
Equipment	119	28	319	367	651	137	1,621
Total expenses of operation	43,656	16,143	16,605	31,830	13,544	15,260	137,038
<b>EXCESS OF REVENUES OVER EXPENSES OF OPERATIONS BEFORE TRANSFERS</b>							
	9,794	(166)	4,713	6,256	1,659	3,680	25,936
<b>TRANSFERS AMONG FUNDS—ADDITIONS (DEDUCTIONS)</b>							
Mandatory transfers:							
Debt service — current year	(5,739)	(748)	(3,826)	(6,686)	-	(1,479)	(18,478)
Debt service — future years	(2,018)	1,264	(626)	2,077	-	-	697
Nonmandatory transfers:							
Capital transfers	(1,787)	(350)	(261)	(1,179)	-	(220)	(3,797)
Allocation of funds	(250)	-	-	(468)	(936)	(660)	(2,314)
Total transfers	(9,794)	166	(4,713)	(6,256)	(936)	(2,359)	(23,892)
Net increase (decrease) for year	-	-	-	-	723	1,321	2,044
Fund balances, July 1, 2005	-	-	-	-	8,176	9,140	17,316
Fund balances, June 30, 2006	\$ -	\$ -	\$ -	\$ -	\$ 8,899	\$ 10,461	\$ 19,360

(1) These system accounts are funds held by the trustee and no fund balances are reported.

(2) University Services includes the following auxiliaries: Student Health, Student Center, and Recreational Sports.

(3) All Other includes the following auxiliaries: University Licensing; Student Orientation; Career Services; Parking Services; Tailor Shop; The Inn at Virginia Tech, Holtzman Alumni Center, and Skelton Conference Center; Library Services; Golf Course; Tennis Pavilion; Hokie Passport; Software Sales; and Central Auxiliary Direct Assistance.

(4) This schedule accounts for purchases of capital assets as expenses and does not include depreciation. Additionally, all revenues are recorded as charged, including student charges and internal activities. Management uses this method of accounting to monitor individual auxiliary enterprises and to set rates.

## Affiliated Corporations Financial Highlights

For the years ended June 30, 2006-2002  
(all dollars in thousands)

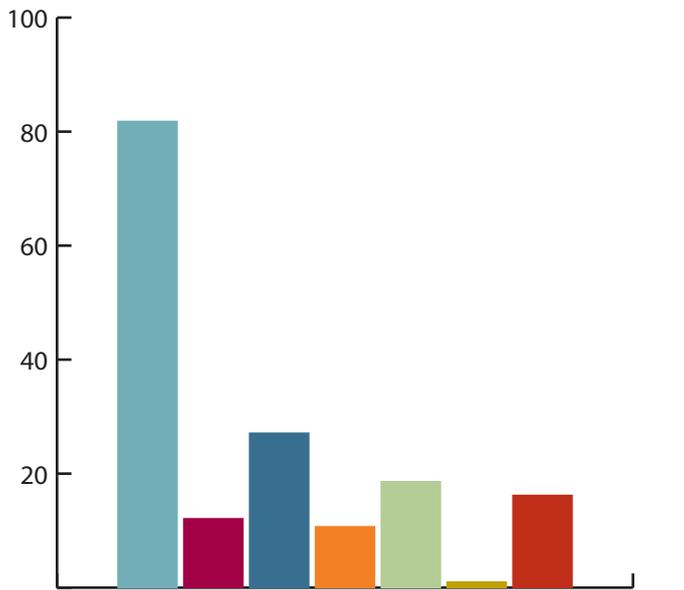
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>ASSETS</b>					
Virginia Tech Foundation Inc.	\$ 808,912	\$ 728,006	\$ 670,353	\$ 613,456	\$ 601,277
Virginia Tech Services Inc.	8,861	10,335	9,760	10,938	11,072
Virginia Tech Intellectual Properties Inc.	<u>1,180</u>	<u>1,569</u>	<u>2,341</u>	<u>1,685</u>	<u>2,188</u>
Total Assets	<u>\$ 818,953</u>	<u>\$ 739,910</u>	<u>\$ 682,454</u>	<u>\$ 626,079</u>	<u>\$ 614,537</u>
<b>REVENUES</b>					
Virginia Tech Foundation Inc.	\$ 167,458	\$ 151,870	\$ 133,802	\$ 92,611	\$ 65,978
Virginia Tech Services Inc.	21,946	22,622	20,396	19,831	20,142
Virginia Tech Intellectual Properties Inc.	<u>779</u>	<u>1,129</u>	<u>1,261</u>	<u>1,004</u>	<u>1,220</u>
Total Revenues	<u>\$ 190,183</u>	<u>\$ 175,621</u>	<u>\$ 155,459</u>	<u>\$ 113,446</u>	<u>\$ 87,340</u>
<b>EXPENSES</b>					
Virginia Tech Foundation Inc.	\$ 102,663	\$ 96,936	\$ 84,077	\$ 94,381	\$ 89,122
Virginia Tech Services Inc.	22,338	22,773	20,840	20,128	20,652
Virginia Tech Intellectual Properties Inc.	<u>954</u>	<u>1,095</u>	<u>1,090</u>	<u>979</u>	<u>984</u>
Total Expenses	<u>\$ 125,955</u>	<u>\$ 120,804</u>	<u>\$ 106,007</u>	<u>\$ 115,488</u>	<u>\$ 110,758</u>

The organizations included above are related to the university by affiliation agreements. These agreements, approved by the Virginia Tech Board of Visitors, require an annual audit to be performed by independent auditors. Such 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 Corp of Cadets Alumni Inc., and the Virginia Tech Alumni Association meet exemption requirements and are not presented separately in this table.

# Virginia Tech Foundation Inc.

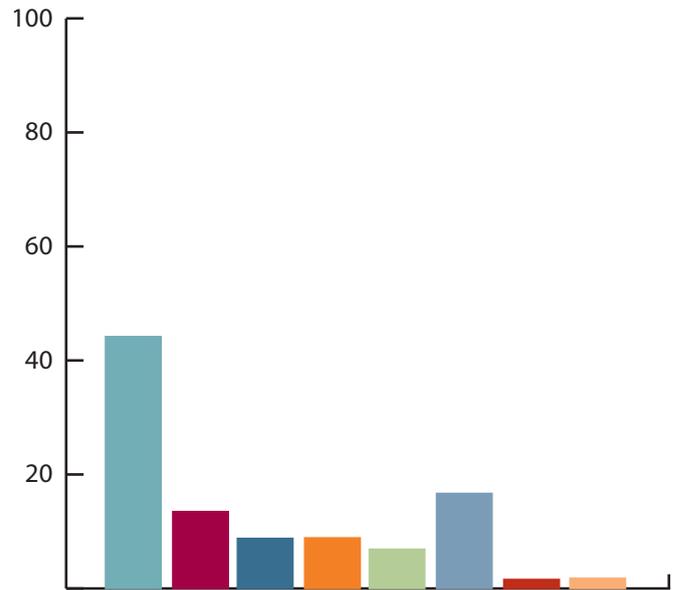
The purpose of Virginia Tech Foundation Inc. is to receive, invest, and manage private funds given for the support of programs at Virginia Tech and to foster and promote the growth, progress, and general welfare of the university. During the current fiscal year, the foundation recognized \$81.8 million in contributions for support of the university. Investment income of \$12.1 million, along with net gains on investments of \$27.1 million, resulted in a \$39.2 million gain on investments. Property rental, hotel operating, and golf course income totaled \$30.2 million. Other income accounted for \$16.2 million. Total income of \$167.5 million was offset by \$102.7 million in expenses that supported the university and its programs. Direct support to various university programs aggregated \$66.5 million, which included \$13.5 million in scholarship support to students and faculty and \$8.8 million towards university capital projects. Additional expenses such as fund-raising and management and general, as well as research center, hotel operating, golf course, and other costs totaled \$36.2 million. Total net assets increased by \$64.8 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):



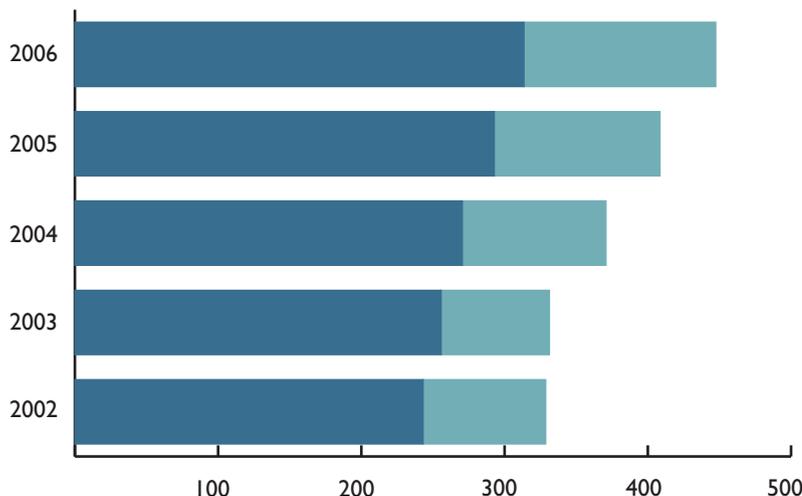
**2006 Revenues, Gains & Other Support**

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



**2006 Expenses**

- Program support
- Student Financial Aid
- University capital outlay
- Fund raising
- Research park
- Hotel Roanoke
- River Course
- General management



**Endowment Market Value 2002-2006**

\* Market value of Endowment Funds includes agency deposits held in trust of \$54.1 million.  
(Source: Virginia Tech Investment Managers, unaudited)

- Contributions
- Appreciation

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\* Note: Data in this schedule is presented for less than ten years, due to reporting format and definition changes mandated by GASB Statement 34. Information from prior years is not available in the prescribed format.

# Schedule of Changes in Net Assets

## Fiscal Years 2006 - 2001

(all dollars in thousands)

	For the Year Ended June 30,					
	2006	2005	2004	2003	2002	2001
<b>Operating Revenues</b>						
Student tuition and fees, net <sup>(1)</sup>	\$ 214,322	\$ 199,052	\$ 181,545	\$ 159,419	\$ 137,689	\$ 130,514
Federal appropriations	11,969	11,012	10,653	14,382	13,394	13,592
Federal grants and contracts	133,876	120,248	106,866	107,400	87,323	76,513
State grants and contracts	15,815	14,079	13,372	14,256	13,240	12,113
Local grants and contracts	13,317	12,497	11,576	12,389	13,165	12,453
Nongovernmental grants and contracts	18,756	16,668	18,112	23,599	21,603	18,467
Sales, services of educational & other activities	12,016	11,614	10,224	9,223	8,951	8,981
Sales, services of auxiliary enterprises, net <sup>(2)</sup>	121,022	113,142	103,964	99,182	95,555	90,541
Other operating revenues	2,724	2,607	2,459	2,230	2,599	1,297
Total operating revenues	<u>543,817</u>	<u>500,919</u>	<u>458,771</u>	<u>442,080</u>	<u>393,519</u>	<u>364,471</u>
<b>Operating Expenses</b>						
Instruction	218,663	205,355	191,272	198,136	207,475	196,941
Research	185,848	169,636	159,751	153,355	142,002	129,519
Public service	72,421	64,787	59,485	63,369	74,309	68,987
Academic support	55,379	48,944	46,378	43,731	43,922	39,198
Student services	12,801	11,628	13,771	14,298	14,477	14,218
Institutional support	45,407	39,203	30,270	31,470	34,098	34,774
Operation and maintenance of plant	50,124	41,474	42,906	36,811	38,918	38,707
Student financial assistance, net <sup>(3)</sup>	10,825	11,152	11,982	11,996	12,012	13,084
Auxiliary enterprises	113,368	102,016	96,058	87,761	84,384	82,197
Depreciation	50,255	47,561	45,532	44,086	44,880	46,823
Amortization	133	133	-	-	-	-
Other operating expenses	30	32	58	204	47	38
Total operating expenses	<u>815,254</u>	<u>741,921</u>	<u>697,463</u>	<u>685,217</u>	<u>696,524</u>	<u>664,486</u>
Operating Income (Loss)	<u>(271,437)</u>	<u>(241,002)</u>	<u>(238,692)</u>	<u>(243,137)</u>	<u>(303,005)</u>	<u>(300,015)</u>
<b>Non-Operating Revenues (Expenses)</b>						
State appropriations	239,567	227,133	205,013	214,478	252,387	263,031
Gifts	42,322	36,820	34,307	31,360	41,088	41,854
Non-operating grants and contracts	4,516	3,052	2,000	2,516	-	-
Investment income, net	7,255	5,849	6,257	3,223	327	3,722
Other additions	648	248	53	125	116	-
Interest expense, debt related to capital assets	(9,632)	(8,740)	(8,227)	(8,245)	(7,805)	(7,438)
Total non-operating revenues (expenses)	<u>284,676</u>	<u>264,362</u>	<u>239,403</u>	<u>243,457</u>	<u>286,113</u>	<u>301,169</u>
Income before other changes in net assets	13,238	23,360	711	320	(16,892)	1,154
Capital appropriations	40,032	11,679	49,495	28,315	13,289	22,357
Capital grants and gifts	19,310	22,414	12,452	33,044	13,286	13,940
Gain (loss) on disposal of capital assets	(1,450)	1,380	(1,592)	(789)	(1,804)	(2,920)
Other revenues/expenses	-	-	-	(3,717)	(444)	(33,722)
Total change in net assets	<u>\$ 71,131</u>	<u>\$ 58,833</u>	<u>\$ 61,066</u>	<u>\$ 57,173</u>	<u>\$ 7,435</u>	<u>\$ 809</u>
<b>(1) Student tuition and fees</b>						
Student tuition and fees	\$ 252,986	\$ 231,991	\$ 209,232	\$ 183,439	\$ 158,361	\$ 149,483
Scholarship allowances	(38,664)	(32,939)	(27,687)	(24,020)	(20,672)	(18,969)
Student tuition and fees, net	<u>\$ 214,322</u>	<u>\$ 199,052</u>	<u>\$ 181,545</u>	<u>\$ 159,419</u>	<u>\$ 137,689</u>	<u>\$ 130,514</u>
<b>(2) Sales and services of auxiliary enterprises</b>						
Sales and services of auxiliary enterprises	\$ 130,479	\$ 124,000	\$ 113,415	\$ 108,169	\$ 104,610	\$ 98,476
Scholarship allowances	(9,457)	(10,858)	(9,451)	(8,987)	(9,055)	(7,935)
Sales and services of auxiliary enterprises, net	<u>\$ 121,022</u>	<u>\$ 113,142</u>	<u>\$ 103,964</u>	<u>\$ 99,182</u>	<u>\$ 95,555</u>	<u>\$ 90,541</u>
<b>(3) Student financial assistance expenses</b>						
Student financial assistance expenses	\$ 58,946	\$ 54,949	\$ 49,120	\$ 45,003	\$ 41,739	\$ 39,988
Total scholarship allowances	(48,121)	(43,797)	(37,138)	(33,007)	(29,727)	(26,904)
Student financial assistance, net	<u>\$ 10,825</u>	<u>\$ 11,152</u>	<u>\$ 11,982</u>	<u>\$ 11,996</u>	<u>\$ 12,012</u>	<u>\$ 13,084</u>

## Schedule of Net Assets by Component

Fiscal Years 2006 - 2001

	For the Year Ended June 30,					
	2006	2005	2004	2003	2002	2001
Invested in capital assets, net of related debt	\$ 496,782	\$ 465,088	\$ 420,387	\$ 388,086	\$ 344,070	\$ 341,118
Restricted - expendable	131,385	106,051	100,240	79,858	73,263	69,667
Restricted - unexpendable	354	358	368	381	375	371
Unrestricted	72,283	58,176	49,217	39,142	30,813	29,930
Total net assets	\$ 700,804	\$ 629,673	\$ 570,212	\$ 507,467	\$ 448,521	\$ 441,086

## Schedule of Capital Asset Information

Fiscal Years 2006 - 2002

### BUILDINGS

Assignable square footage (in thousands)

	For the Year Ended June 30,				
	2006	2005	2004	2003	2002
Academic/Research					
Instruction	1,524	1,519	1,272	1,167	1,167
Research	699	677	641	626	623
Agricultural Experiments	104	95	218	218	218
Other	731	719	582	572	601
Total Academic/Research	3,058	3,010	2,713	2,583	2,609
General & Administrative	185	185	150	149	156
Operations & Maintenance	123	123	144	124	123
Student Services	416	416	481	463	425
Athletic Facilities	288	288	289	289	289
Dormitories	1,387	1,387	1,310	1,310	1,310
Dining Facilities	177	177	175	175	175
Hotel & Conference Center	107	107	68	68	68
Library	179	179	217	217	217
Total Assignable Square Footage	5,920	5,872	5,547	5,378	5,372

### OTHER CAPITAL ASSET DATA

Library Volumes	2,265,236	2,237,106	2,210,645	2,176,916	2,137,042
Dormitories	46	46	45	45	45
Beds	9,130	9,113	8,925	8,921	8,922
Dining Facilities	12	11	10	9	8
Average Daily Customers	22,222	21,333	20,444	19,556	18,667
Capital Asset Book Value (all dollars in thousands)					
Buildings	\$ 719,623	\$ 630,198	\$ 560,819	\$ 499,339	\$ 478,510
Moveable Equipment	313,747	300,273	290,288	282,407	277,677
Fixed Equipment	60,729	57,645	41,507	39,323	39,060
Infrastructure	91,422	87,606	86,403	80,928	77,895
Library Books	63,357	61,787	59,807	57,641	54,701
Total Capital Asset Book Value	1,248,878	1,137,509	1,038,824	959,638	927,843
Less Accumulated Depreciation					
Buildings	224,250	207,249	190,989	177,770	166,089
Moveable Equipment	218,523	210,467	206,041	199,100	192,585
Fixed Equipment	33,200	30,918	28,145	26,372	24,626
Infrastructure	68,760	66,156	63,753	59,782	56,823
Library Books	49,689	46,958	44,244	41,348	38,616
Total Accumulated Depreciation	594,422	561,748	532,992	504,372	478,739
Nondepreciable Capital Assets					
Land	42,771	42,771	42,771	42,771	28,964
Livestock	807	761	951	779	824
Construction in Progress	32,156	73,540	69,499	58,014	20,015
Equipment in Progress	3,056	3,613	3,528	945	-
Total Nondepreciable Capital Assets	78,790	120,685	116,749	102,509	49,803
Total Capital Assets, net	\$ 733,246	\$ 696,446	\$ 622,581	\$ 557,775	\$ 498,907

## Schedule of Ratios of Outstanding Debt

### Fiscal Years 2006 - 1997

(all dollars in thousands)

	For the Year Ended June 30,				
	2006	2005	2004	2003	2002
<b>General Bonded Debt</b>					
9(c) General Obligation Bonds (1)	\$ 33,481	\$ 37,429	\$ 36,369	\$ 41,489	\$ 45,296
General Bonded Debt per student (2)	\$ 1,197	\$ 1,355	\$ 1,310	\$ 1,480	\$ 1,606
General Bonded Debt as a percentage of personal income (3)	0.01%	0.01%	0.01%	0.02%	0.02%
<b>Other Debt</b>					
9(d) Revenue Bonds (4)	\$ 98,368	\$ 103,172	\$ 106,781	\$ 58,350	\$ 62,395
9(d) Notes	103,142	95,239	98,964	79,963	50,385
Capital Leases	12,091	12,617	13,061	9,531	1,747
Installment Purchases	840	836	246	108	2,715
Total Other Debt	\$ 214,441	\$ 211,864	\$ 219,052	\$ 147,952	\$ 117,242
<b>Total Outstanding Debt</b>	\$ 247,922	\$ 249,293	\$ 255,421	\$ 189,441	\$ 162,538
Total Outstanding Debt per student (2)	\$ 8,861	\$ 9,026	\$ 9,203	\$ 6,759	\$ 5,763
Total Outstanding Debt as a percentage of personal income (3)	0.08%	0.09%	0.10%	0.08%	0.07%
Number of students enrolled	27,979	27,619	27,755	28,027	28,203

#### Notes:

(1) 9(c) Bonds are secured by the net revenues of the completed project and the full faith, credit, and taxing power of the commonwealth

(2) Debt per student is calculated using number of students enrolled.

## Schedule of Demographic & Economic Statistics

### Calendar Years 2006 - 1997

Calendar Year (1)	Statewide Population (2)	Statewide Personal Income (2)	Statewide Personal Income per Capita	Statewide Unemployment Rate
2006	7,615	\$ 292,724,243	\$ 38,441	3.3%
2005	7,512	275,690,400	36,700	3.5%
2004	7,432	254,174,400	34,200	3.7%
2003	7,275	247,350,000	34,000	4.0%
2002	7,051	232,683,000	33,000	4.1%
2001	6,995	228,037,000	32,600	2.4%
2000	6,929	210,641,600	30,400	2.7%
1999	6,858	192,024,000	28,000	2.8%
1998	6,784	181,132,800	26,700	3.4%
1997	6,739	171,170,600	25,400	4.4%

Source: Commonwealth of Virginia, FY 2005 *Comprehensive Annual Financial Report*

Notes: (1) CY2006 and CY2005 are estimated.

(2) Statewide population and statewide personal income are reported in thousands.

	For the Year Ended June 30,				
	2001	2000	1999	1998	1997
General Bonded Debt					
9(c) General Obligation Bonds <sup>(1)</sup>	\$ 49,749	\$ 54,730	\$ 57,593	\$ 58,810	\$ 61,997
General Bonded Debt per student <sup>(2)</sup>	\$ 1,785	\$ 1,961	\$ 2,082	\$ 2,161	\$ 2,327
General Bonded Debt as a percentage of personal income <sup>(3)</sup>	0.02%	0.03%	0.03%	0.03%	0.04%
Other Debt					
9(d) Revenue Bonds <sup>(4)</sup>	\$ 66,240	\$ 69,900	\$ 73,395	\$ 76,725	\$ 78,285
9(d) Notes	24,925	20,710	10,145	-	-
Capital Leases	6,498	12,536	18,076	24,489	22,343
Installment Purchases	167	164	236	377	601
Total Other Debt	\$ 97,830	\$ 103,310	\$ 101,852	\$ 101,591	\$ 101,229
Total Outstanding Debt	\$ 147,579	\$ 158,040	\$ 159,445	\$ 160,401	\$ 163,226
Total Outstanding Debt per student <sup>(2)</sup>	\$ 5,295	\$ 5,662	\$ 5,764	\$ 5,895	\$ 6,126
Total Outstanding Debt as a percentage of personal income <sup>(3)</sup>	0.06%	0.08%	0.08%	0.09%	0.10%
Number of students enrolled	27,869	27,910	27,663	27,208	26,645

(3) Ratio is calculated using population and personal income from prior years from the Schedule of Demographic and Economic Statistics below

(4) 9(d) Revenue Bonds and Notes are payable from pledged general revenues to include general fund appropriations, student tuition and fees, facilities and administrative cost recoveries, auxiliary enterprise revenue, and other revenues not restricted by law for another purpose.

## Schedule of Bond Coverage

Fiscal Years 2006 - 1997

(all dollars in thousands)

Fiscal Year	Revenues <sup>(1)</sup>	Operating Expenses <sup>(1)</sup>	Net Revenue Available for Debt Service	Debt Service Requirements <sup>(2)</sup>			Coverage Ratio
				Principal	Interest	Total	
2006	\$ 618,248	\$ 575,107	\$ 43,141	\$ 13,466	\$ 9,632	\$ 23,098	1.87
2005	575,077	520,785	54,292	12,079	8,740	20,819	2.61
2004	517,662	477,627	40,035	16,196	8,227	24,423	1.64
2003	498,558	465,516	33,042	14,265	8,245	22,510	1.47
2002	504,674	483,685	20,989	14,003	7,805	21,808	0.96
2001	544,800	522,738	22,062	15,414	7,438	22,852	0.97
2000	518,426	494,931	23,495	14,506	8,051	22,557	1.04
1999	488,100	471,574	16,526	14,762	7,451	22,213	0.74
1998	453,227	437,879	15,348	11,088	4,354	15,442	0.99
1997	421,073	407,384	13,689	8,980	4,144	13,124	1.04

### Notes:

(1) Fiscal years 2002 and later are based on the operating revenues, non-operating revenues, and operating expenses of unrestricted current funds found on the Consolidating Schedule of Revenues, Expenses, and Changes in Net Assets. Fiscal years 2001 and prior are based on the revenues and expenses (excluding transfers) of unrestricted current funds on the Statement of Current Funds Revenues, Expenditures, and Other Changes.

(2) Debt service requirements are based on the university's 9(c) general obligation bonds, 9(d) revenue bonds, 9(d) notes, capital leases, and installment purchases. Additional information regarding debt issues can be found in footnote 11 in the Footnotes to Financial Statements.

## Faculty, Staff, and Administrator Statistics

### Academic Years 2005/06 - 1996/97

	Academic Year <sup>(4)</sup>				
	2005-2006	2004-2005	2003-2004	2002-2003	2001-2002
Instructional faculty <sup>(1)</sup>					
Full-time	1,304	1,265	1,251	1,301	1,295
Part-time	17	16	22	26	31
Percent of tenured, full-time, instructional faculty	66.0%	67.0%	67.0%	66.9%	65.6%
Research & other instructional faculty <sup>(2)</sup>					
Full-time	766	720	668	699	755
Part-time	26	29	22	18	14
Temporary faculty					
Full-time	211	224	235	215	203
Administrative/Professional faculty					
Full-time	802	743	707	752	891
Part-time	6	14	12	15	15
Support staff					
Full-time	3,606	3,515	3,418	3,561	3,484
Part-time	67	61	64	54	58
Total faculty and support staff					
Full-time	6,689	6,467	6,279	6,528	6,628
Part-time	116	120	120	113	118
Student-to-Faculty Ratio <sup>(3)</sup>	16:1	17:1	17:1	16:1	15:1

Notes:

(1) Includes faculty classified as instructional, and performing instructional duties more than 50% of the time; includes tenure and nontenure track instructional faculty.

(2) Other instructional faculty includes faculty classified as instructional, but performing instructional duties less than 50% of the time.

## Schedule of Tuition and Fees

### Academic Years 2005/06 - 1996/97

Academic Year Beginning in Fall	Undergraduate <sup>(1)</sup>		Graduate <sup>(2)</sup>	
	Resident	Nonresident	Resident	Nonresident
2005	6,378	17,837	7,977	12,835
2004	5,838	16,581	7,512	11,682
2003	5,095	15,029	6,944	10,663
2002 <sup>(3)</sup>	4,336	13,952	6,031	9,266
2001	3,664	12,488	5,219	8,189
2000	3,640	12,128	5,069	7,944
1999	3,620	11,844	4,950	7,758
1998	4,305	11,521	4,927	7,537
1997	4,147	11,111	4,769	7,199
1996	4,131	10,783	4,753	6,985

\* The above tuition and fee amounts do not include costs associated with room and board.

Notes:

(1) Annual tuition and fees based on a full-time undergraduate course load of at least 12 hours per semester

(2) Annual tuition and fees based on a full-time graduate course load of at least 9 hours per semester

(3) Reflects a mid-year tuition increase

	Academic Year <sup>(4)</sup>				
	2000-2001	1999-2000	1998-1999	1997-1998	1996-1997
Instructional faculty <sup>(1)</sup>					
Full-time	1,247	1,242	1,203	1,198	1,173
Part-time	29	29	28	38	-
Percent of tenured, full-time, instructional faculty	70%	71%	73%	76%	78%
Research & other instructional faculty <sup>(2)</sup>					
Full-time	715	687	676	690	645
Part-time	16	13	14	12	-
Temporary faculty					
Full-time	228	302	275	260	N/A
Administrative/Professional faculty					
Full-time	884	858	825	786	776
Part-time	20	15	17	13	-
Support staff					
Full-time	3,474	3,405	3,303	3,184	2,967
Part-time	56	50	44	51	-
Total faculty and support staff					
Full-time	6,548	6,494	6,282	6,118	5,561
Part-time	121	107	103	114	-
Student-to-Faculty Ratio <sup>(3)</sup>	16:1	15:1	16:1	16:1	16:1

Notes (continued):

(3) Calculation based on faculty full-time equivalent divided by student full-time equivalent. The full-time equivalent excludes faculty and graduate students in stand-alone graduate programs such as medicine, law, dentistry, business, etc.

(4) Academic Year 1996-1997: Part-time data is unavailable. Full-time research/other instructional faculty and administrative/professional faculty are estimated.

## Schedule of Principal Employers, Statewide

Rank	Employer	Ownership
1	U.S. Department of Defense	Federal Government
2	Wal-Mart	Private
3	Fairfax County Public Schools	Local Government
4	Newport News Shipbuilding	Private
5	Food Lion	Private
6	U.S. Postal Service	Federal Government
7	County of Fairfax	Local Government
8	Sentara Healthcare	Private
9	City of Virginia Beach Schools	Local Government
10	Prince Williams County School Board	Local Government

Source: Virginia Employment Commission (VEC), Fourth Quarter (October - December) 2005

Note: The VEC releases the state's top employers by ranking based on number of employees; however, the actual employee numbers are not disclosed for confidentiality reasons. The above institutions employed more than 1,000 employees.

# Admissions, Enrollment and Degree Statistics

## Academic Years 2005/06 - 1996/97

	Academic Year				
	2005-2006	2004-2005	2003-2004	2002-2003	2001-2002
<b>Admissions - Undergraduate <sup>(1)</sup></b>					
<b>(includes transfers)</b>					
Applications received	20,281	20,453	21,026	20,593	21,588
Offered	13,832	13,785	13,961	13,138	14,270
Offered as a percentage of applications	68.2%	67.4%	66.4%	63.8%	66.1%
Students enrolled	5,768	5,611	5,626	5,347	5,736
Enrolled as a percentage of offered	41.7%	40.7%	40.3%	40.7%	40.2%
Avg SAT Score, excludes transfers <sup>(2)</sup>	1203	1198	1196	1188	1182
<b>Admissions - Graduate <sup>(1)</sup></b>					
<b>(includes transfers)</b>					
Applications received	6,503	6,953	8,591	9,062	7,512
Offered	2,458	2,496	2,887	3,299	3,208
Offered as a percentage of applications	37.8%	35.9%	33.6%	36.4%	42.7%
Students enrolled	1,605	1,615	1,683	1,818	1,876
Enrolled as a percentage of offered	65.3%	64.7%	58.3%	55.1%	58.5%
Avg GRE Score, excludes transfers <sup>(2)</sup>	1253	1255	1235	1188	1191
<b>Enrollment - Headcount <sup>(1)</sup></b>					
Undergraduate	21,627	21,330	21,348	21,473	21,593
Graduate and first professional	6,352	6,289	6,407	6,554	6,610
<b>Total Enrollment</b>	<b>27,979</b>	<b>27,619</b>	<b>27,755</b>	<b>28,027</b>	<b>28,203</b>
<b>Gender ratio <sup>(2)</sup></b>					
Men	58.5%	58.9%	58.6%	58.5%	58.2%
Women	41.5%	41.1%	41.4%	41.5%	41.8%
<b>Race/Ethnicity ratio <sup>(2)</sup></b>					
African-American	5.1%	5.5%	5.8%	5.6%	5.2%
Asian/Pacific Islander	6.3%	6.3%	6.2%	6.0%	6.0%
Hispanic/Latino	2.1%	1.9%	1.9%	1.8%	1.8%
Caucasian (White)	71.5%	72.3%	73.6%	75.5%	77.2%
International	7.2%	7.8%	8.1%	7.9%	7.3%
Other	7.8%	6.2%	4.4%	3.2%	2.5%
<b>Residency ratio <sup>(1)</sup></b>					
Virginia	68.8%	68.3%	69.1%	70.2%	71.7%
Other states	24.0%	23.6%	23.1%	22.5%	22.3%
Other countries	7.2%	8.1%	7.8%	7.3%	6.0%
<b>Degrees Granted <sup>(1)</sup></b>					
Undergraduate	4,913	4,835	4,876	4,742	4,652
Graduate and first professional	1,908	1,867	1,827	1,831	1,747

Sources: (1) Annual President's Report - University Highlights; (2) Institutional Research

	Academic Year				
	2000-2001	1999-2000	1998-1999	1997-1998	1996-1997
<b>Admissions - Undergraduate <sup>(1)</sup></b>					
<b>(includes transfers)</b>					
Applications received	21,395	18,380	18,459	19,324	18,493
Offered	12,751	13,050	13,309	13,681	14,591
Offered as a percentage of applications	59.6%	71.0%	72.1%	70.8%	78.9%
Students enrolled	5,407	5,638	5,590	5,418	6,026
Enrolled as a percentage of offered	42.4%	43.2%	42.0%	39.6%	41.3%
Avg SAT Score, excludes transfers <sup>(2)</sup>	1173	1167	1166	1164	1150
<b>Admissions - Graduate <sup>(1)</sup></b>					
<b>(includes transfers)</b>					
Applications received	7,691	7,393	6,314	6,519	6,664
Offered	3,484	3,312	2,999	3,260	3,412
Offered as a percentage of applications	45.3%	44.8%	47.5%	50.0%	51.2%
Students enrolled	2,073	1,755	1,775	1,721	1,723
Enrolled as a percentage of offered	59.5%	53.0%	59.2%	52.8%	50.5%
Avg GRE Score, excludes transfers <sup>(2)</sup>	1135	1170	1153	1157	1147
<b>Enrollment - Headcount <sup>(1)</sup></b>					
Undergraduate	21,428	21,812	21,416	21,013	20,528
Graduate and first professional	6,441	6,098	6,247	6,195	6,117
Total Enrollment	27,869	27,910	27,663	27,208	26,645
<b>Gender ratio <sup>(2)</sup></b>					
Men	58.2%	58.9%	59.0%	59.3%	59.0%
Women	41.8%	41.1%	41.0%	40.7%	41.0%
<b>Race/Ethnicity ratio <sup>(2)</sup></b>					
African-American	4.6%	4.2%	4.3%	4.4%	4.5%
Asian/Pacific Islander	5.8%	6.1%	5.9%	5.9%	6.0%
Hispanic/Latino	1.9%	1.9%	1.8%	1.8%	1.7%
Caucasian (White)	81.4%	81.8%	82.2%	82.3%	82.4%
International	6.0%	5.7%	5.4%	5.3%	5.2%
Other	0.3%	0.3%	0.4%	0.3%	0.2%
<b>Residency ratio <sup>(1)</sup></b>					
Virginia	71.7%	72.6%	73.8%	74.1%	74.5%
Other states	22.3%	21.7%	20.8%	20.6%	20.3%
Other countries	6.0%	5.7%	5.4%	5.3%	5.2%
<b>Degrees Granted <sup>(1)</sup></b>					
Undergraduate	4,708	4,695	4,251	4,023	3,838
Graduate and first professional	1,703	1,736	1,826	1,729	1,863

## Business and Financial Personnel

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James A. Hyatt

*Executive Vice President and Chief Operating Officer*

Raymond D. Smoot Jr.

*University Treasurer*

M. Dwight Shelton Jr.

*Vice President for Budget and Financial Management*

Kurt J. Krause

*Vice President for Business Affairs*

William M. Elvey

*Assistant Vice President for Facilities*

Kenneth E. Miller

*University Controller*

John C. Rudd

*Director of Internal Audit*

John J. Cusimano

*Associate Treasurer*

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