
Virginia Military Institute



Financial Statements

For the year ended 30 June 2012

(Unaudited)

VIRGINIA MILITARY INSTITUTE

LEXINGTON, VIRGINIA 24450-0304

DEPUTY SUPERINTENDENT
(FINANCE, ADMINISTRATION AND SUPPORT)
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4 October 2012

The Honorable Laura W. Fornash
Secretary of Education
Patrick Henry Building
1111 East Broad Street, 4th Floor
Richmond, VA 23219

Dear Secretary Fornash,

These are Virginia Military Institute's Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, Statement of Cash Flows, and Notes to Financial Statements for the year ended 30 June 2012.

VMI's management prepared these statements and is responsible for the integrity and objectivity of them and other information presented herein. They fairly present VMI's financial position, results of operations and changes in net assets. We believe they are accurate in all material respects. Also, they include all disclosures necessary to enable the reader to obtain a thorough understanding of VMI's financial activities.

In part, the basis for these conclusions relates to our assessment of the internal controls operating within Virginia Military Institute. We believe VMI's internal controls adequately safeguard its assets and provide reasonable assurance as to the proper recording of financial transactions.

Sincerely,



Robert L. Green
Brigadier General
Deputy Superintendent (Finance, Administration and Support)

C: The Superintendent
Auditor of Public Accounts
State Comptroller



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MANAGEMENT'S DISCUSSION AND ANALYSIS



FINANCIAL STATEMENTS

VIRGINIA MILITARY INSTITUTE
Statement of Net Assets
As of 30 June 2012

(UNAUDITED)

ASSETS	
Current assets	
Cash and cash equivalents (Note 2)	\$ 10,108,287
Cash equivalent held by Treasurer of Virginia (Note 2)	536,735
Collateral held for securities lending (Note 2)	16,595
Accounts receivable, <i>Net of allowance for doubtful accounts of \$68,810</i> (Note 3)	1,336,712
Due from the Commonwealth (Note 4)	5,897,773
Due from federal government	28,973
Prepaid expenditures	997,943
Inventories (Note 5)	5,679,653
Loans receivable	226,029
Total current assets	<u>24,828,700</u>
Noncurrent assets	
Cash and cash equivalents (Note 2)	316,861
Cash equivalent-restricted (Note 2)	1,165,014
Investments held with trustees (Note 2)	11,961,646
Accounts receivable (Note 3)	44,287
Loans receivable, <i>Net of allowance for doubtful accounts of \$24,676</i>	1,345,215
Nondepreciable capital assets (Note 6)	16,316,030
Depreciable capital assets, <i>Net of accumulated depreciation</i> (Note 6)	216,892,709
Total noncurrent assets	<u>248,041,762</u>
Total assets	<u><u>272,870,462</u></u>
LIABILITIES	
Current liabilities	
Accounts payable and accrued expenses (Note 7)	8,811,076
Unearned revenue	1,542,183
Obligations under securities lending	553,330
Deposits held for others	522,029
Long-term liabilities-current portion (Note 8)	595,993
Long-term debt-current portion: (Note 8, Note 9)	795,733
Total current liabilities	<u>12,820,344</u>
Noncurrent liabilities	
Accrued liabilities (Note 7)	1,129,891
Federal loan program contributions refundable	1,325,433
Long-term liabilities-noncurrent portion (Note 8)	770,306
Long-term debt-noncurrent portion: (Note 8, Note 9)	14,007,288
Total noncurrent liabilities	<u>17,232,918</u>
Total liabilities	<u><u>30,053,262</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	219,254,126
Restricted-nonexpendable	
Endowment	1,267,844
Restricted-expendable	
Scholarships and other	482,109
Loan funds	563,521
Quasi-endowment-restricted	7,876,808
Unrestricted	13,372,792
Total net assets	<u><u>242,817,200</u></u>
Total liabilities and net assets	<u><u>\$ 272,870,462</u></u>

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

COMBINED STATEMENT OF FINANCIAL POSITION
Component Units of Virginia Military Institute
As of 30 June 2012

ASSETS

Current assets:

Cash and cash equivalents	\$ 5,973,006
Contributions receivable (Note 17)	7,953,966
Accounts receivable	261,805
Other	119,385
Total current assets	<u>14,308,162</u>

Noncurrent assets:

Contributions receivable (Note 17)	8,492,081
Investments held by trustees (Note 17)	283,132,907
Investments, other (Note 17)	13,713,729
Investment securities	133,384
Cash surrender of life insurance	5,367,637
Property and equipment, net of accumulated depreciation	368,773
Total noncurrent assets	<u>311,208,511</u>

Total assets 325,516,673

LIABILITIES

Current liabilities:

Accounts payable and accrued expenses	762,421
Unearned revenue	2,832
Long-term liabilities-current portion:	
Trust and annuity obligations	673,155
Total current liabilities	<u>1,438,408</u>

Noncurrent liabilities:

Other liabilities	141,332
Long-term liabilities-noncurrent portion:	
Note payable (Note 17)	2,500,000
Bonds payable (Note 17)	44,754,677
Trust and annuity obligations	3,665,630
Total noncurrent liabilities	<u>51,061,639</u>

Total liabilities 52,500,047

NET ASSETS

Unrestricted	49,483,674
Temporarily restricted	111,144,789
Permanently restricted	112,388,163
Total net assets	<u>273,016,626</u>

Total liabilities and net assets \$ 325,516,673

VIRGINIA MILITARY INSTITUTE
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended 30 June 2012

Operating revenues:

Tuition and fees, <i>Net of scholarships allowances of \$5,880,342</i>	\$ 18,325,749
Federal grants and contracts	331,556
State and private grants and contracts	22,938
Sales and services of educational departments	435,564
Auxiliary enterprise, <i>Net of scholarship allowances of \$4,861,563</i>	16,123,084
Unique military activities, <i>Net of scholarships allowances of \$874,733</i>	2,541,074
Other sources:	
Museum programs	616,115
Rents and commissions	341,080
Miscellaneous	332,267
Total operating revenues	<u>39,069,427</u>

Operating expenses:

Educational and general	
Instruction	18,859,638
Research	262,091
Public service	1,506,168
Academic support	6,574,946
Student services	3,503,278
Institutional support	5,395,797
Operation and maintenance of physical plant	7,030,012
Scholarships and related expense	928,655
Auxiliary enterprises	22,932,392
Unique military activities	7,139,912
Loan cancellations and write-offs bad debt expense	6,288
Total operating expenses (Note 11)	<u>74,139,177</u>
Net operating income (loss)	<u>(35,069,750)</u>

Nonoperating revenues/(expenses):

State appropriations (Note 12)	10,958,994
Gifts and contributions	14,978,558
Federal student financial aid (Pell)	1,056,860
Federal stabilization funds (ARRA)	71,122
Investment income (loss)	(200,216)
Interest on capital asset - related debt	(391,098)
Loss on disposal of capital assets	(93,588)
Other nonoperating expense	(100,000)
Net nonoperating revenues	<u>26,280,632</u>
Income (loss) before other revenues and extraordinary items	<u>(8,789,118)</u>

Other revenues and reductions:

Grants and contributions-capital	12,222,748
Investment income-capital	27,761
Total other revenues and reductions	<u>12,250,509</u>
Increase in net assets	3,461,391
Net assets beginning of the year	<u>239,355,809</u>
Net assets end of year	<u><u>\$ 242,817,200</u></u>

COMBINED STATEMENT OF ACTIVITIES
Component Units of Virginia Military Institute
For the Year Ended 30 June 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Amounts raised on behalf of VMI	\$ 8,180,120	\$ 3,863,220	\$ 3,663,678	\$ 15,707,018
Grants, contributions and contracts	471,105	23,500	-	494,605
Investment income	1,487,440	1,132	-	1,488,572
Actuarial gain/(loss) on trust and annuity obligations	(31,337)	217,107	(533)	185,237
Administrative fees	40,000	-	-	40,000
Other income	38,561	-	-	38,561
Net assets released from restrictions	9,239,150	(9,239,150)	-	-
Total revenues	19,425,039	(5,134,191)	3,663,145	17,953,993
EXPENSES				
Amounts remitted directly to or on behalf of VMI:				
Unrestricted	6,824,211	-	-	6,824,211
Designated	10,911,182	-	-	10,911,182
Cost of operations	5,727,555	-	-	5,727,555
Conference, research and education	558,435	-	-	558,435
Total expenses	24,021,383	-	-	24,021,383
Change in net assets before net realized and unrealized loss on investments	(4,596,344)	(5,134,191)	3,663,145	(6,067,390)
Net realized and unrealized loss on investments	(2,538,385.00)	(6,992,471.00)	-	(9,530,856.00)
Change in net assets	(7,134,729)	(12,126,662)	3,663,145	(15,598,246)
NET ASSETS				
Beginning	56,618,403	123,271,451	108,725,018	288,614,872
Ending	\$ 49,483,674	\$ 111,144,789	\$ 112,388,163	\$ 273,016,626

VIRGINIA MILITARY INSTITUTE**Statement of Cash Flows****For the Year Ended 30 June 2012****Cash provided/(used) by operating activities:**

Tuition and fees	\$ 18,779,079
Federal grants and contracts	407,548
State and private grants and contracts	22,938
Sales and services-educational and general	392,942
Auxiliary charges	16,021,198
Unique military activity charges	2,542,485
Other operating receipts	1,306,363
Payments to employees for salaries and benefits	(38,539,360)
Payments for supplies and services	(27,038,540)
Payments for scholarships and fellowships	(850,564)
Loan funds issued to students	(351,962)
Collections of loans from students	214,089
Net cash provided/(used) by operating activities	<u>(27,093,784)</u>

Cash provided/(used) by noncapital financing activities:

State appropriations	10,958,994
Nonoperating grants and contracts	1,282,377
Gifts and contributions for other than capital purposes	14,614,650
Federal Direct Lending Program-receipts	6,718,080
Federal Direct Lending Program-disbursements	(6,718,080)
Agency receipts	727,174
Agency disbursements	(647,812)
Net cash provided/(used) by noncapital financing activities	<u>26,935,383</u>

Cash provided/(used) by capital and related financing activities:

Capital gifts and contributions	6,927,779
Proceeds from capital assets	408,309
Purchase and construction of capital assets	(11,550,241)
Proceeds from capital debt	3,590,430
Principal paid on capital debt, leases and installments	(4,268,739)
Interest paid on capital debt, leases and installments	(507,208)
Investment income-capital	27,761
Net cash provided/(used) by capital and relating financing activities	<u>(5,371,909)</u>

Cash provided/(used) by investing activities:

Interest on investments	52,287
Investment/Endowment income	95,281
Sale of investments	756,713
Net cash provided/(used) by investing activities	<u>904,281</u>
Net increase/(decrease) in cash	(4,626,029)
Cash-beginning of year	15,051,177
Cash-end of year	<u>\$ 10,425,148</u>

VIRGINIA MILITARY INSTITUTE**Statement of Cash Flows****For the Year Ended 30 June 2012****Reconciliation of net operating expenses to net cash used by operating activities:**

Operating loss	\$ (35,069,750)
Adjustments to reconcile net operating expenses to cash used by operating activities:	
Depreciation expense	7,636,210
Changes in assets and liabilities:	
Accounts receivable	286,736
Inventories	(254,340)
Prepaid expenditures	(47,747)
Due from Commonwealth	(7,520)
Loans receivable	(127,537)
Accounts payable and accrued liabilities	284,620
Unearned revenue	146,523
Compensated absences	62,416
Federal loan program contributions refundable	(3,395)
Net cash used in operating activities	<u><u>\$ (27,093,784)</u></u>

Noncash investing, noncapital financing, and capital related financing transactions:

Change in fair value of investments recognized as a component of investment income	\$ (679,665)
Capital assets purchased with SNAP Funds	\$ (1,646,120)
Capital assets acquired through in-kind donations as a component of capital gifts and contributions income	5,000
	<u><u>\$ (2,320,785)</u></u>

Reconciliation of cash and cash equivalents to the Statement of Net Assets:

Cash and cash equivalents classified as current assets	\$ 10,108,287
Cash and cash equivalents classified as noncurrent assets	316,861
	<u><u>\$ 10,425,148</u></u>

- NOTES TO FINANCIAL STATEMENTS -

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Virginia Military Institute (VMI or Institute) are as follows:

A. Reporting Entity

The Virginia Military Institute believes that the measure of a college lies in the quality and performance of its graduates and their contributions to society. Therefore, it is the mission of the Virginia Military Institute to produce educated, honorable men and women prepared for the varied work of civil life, imbued with love of learning, confident in the functions and attitudes of leadership, possessing a high sense of public service, advocates of the American Democracy and free enterprise system, and ready as citizen-soldiers to defend their country in time of national peril.

To accomplish this result, Virginia Military Institute shall provide to qualified young men and women undergraduate education of highest quality – embracing engineering, science, and the arts – conducted in, and facilitated by, the unique VMI system of military discipline.

VMI is part of the Commonwealth of Virginia's statewide system of public higher education. The Board of Visitors, appointed by the Governor, is responsible for overseeing the Institute's governance. A separate report is prepared for the Commonwealth of Virginia which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Institute is a component unit of the Commonwealth of Virginia and is included in the general purpose financial statements of the Commonwealth.

The Governmental Accounting Standards Board (GASB) Statement 39, *Determining Whether Certain Organizations Are Component Units*, provides guidance to determine whether certain organizations for which the Institute is not financially accountable should be reported as component units. Generally, it requires reporting as a component unit, an organization that raises and holds economic resources for the direct benefit of the Institute.

The VMI Alumni Agencies is a legally separate, tax-exempt entity whose purpose is to organize the alumni of the Institute and to aid in the promotion of its welfare and the successful prosecution of its educational purposes. It accomplishes this through fund-raising to supplement and the tuition and fees charged to cadets and the support VMI receives from the Commonwealth of Virginia. Because the VMI Alumni Agencies' resources are held almost entirely for the benefit of the Institute and these resources are considered significant to the Institute, we have determined that the Alumni Agencies should be included as a component unit.

The VMI Research Laboratories (VMIRL) is a legally separate, tax-exempt entity whose purpose is to administer contract and grant research at the Institute. Because of the VMIRL's close relationship to the Institute, we believe in our professional judgment, it should be included as a component unit in our financial statements. Both the VMI Alumni Agencies and the VMIRL have been discretely presented in these statements.

Because the VMI Alumni Agencies and the VMIRL report under a different reporting model, the Financial Accounting Standards Board (FASB) standards, the VMI Board of Visitors and the administration of the Institute believe the Institute's financial statements should be presented on a page separate from the Institute's component units as allowed by GASB Statement 39. Separate

financial statements for the VMI Alumni Agencies may be obtained by writing the Chief Financial Officer, VMI Foundation, Inc., P.O. Box 932, Lexington, Virginia 24450. Separate financial statements for the VMI Research Laboratories, Inc., may be obtained by writing the Treasurer, VMI Research Laboratories, Inc., Virginia Military Institute, Lexington, Virginia 24450.

B. Reporting Basis

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

The VMI Alumni Agencies and the VMI Research Laboratories, Inc. are private, nonprofit organizations that report under FASB standards including FASB Statement 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the VMI Alumni Agencies' or the VMI Research Laboratories' financial information included in the Institute's financial report for these differences.

C. Basis of Accounting

For financial statement purposes, the Institute is considered a special-purpose government engaged only in business-type activities. Accordingly, the Institute'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.

D. Cash, Cash Equivalents and Investments

In accordance with GASB Statement 9, *Definition of Cash and Cash Equivalents*, cash represents cash with the Treasurer, cash on hand, and cash deposits, including certificate of deposits, and temporary investments with original maturities of three months or less.

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, purchased investments, interest-bearing temporary investments classified with cash, and investments received as gifts are recorded at fair value. All investment income, including changes in the fair value of investments (unrealized gains and losses), is reported as nonoperating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

E. Capital Assets

Capital assets include land, buildings and other improvements, library materials, equipment, infrastructure assets, such as sidewalks, steam tunnels, and electrical and computer network cabling systems, and intangible assets. The Institute capitalizes construction costs that have a value or cost in excess of \$100,000 at the date of acquisition. Renovations in excess of \$100,000 are capitalized if they significantly extend the useful life of the existing asset. Expenses for major capital assets and improvements are capitalized within construction in progress as projects are constructed. Interest expense relating to construction is capitalized, net of interest income earned on resources set aside for this purpose. The costs of normal maintenance and repairs that do not add to an asset's value or materially extend its useful life are expensed as incurred.

The Institute capitalizes moveable equipment that has a value or initial cost of \$5,000 or more and an estimated useful life in excess of two years. Buildings and equipment are stated at cost, where determinable, or appraised value upon initial recognition. Land is stated at cost. Library materials are initially valued using published average prices for library acquisitions. Intangible assets are capitalized with an acquisition cost of \$100,000 and a useful life of one or more years.

Depreciation is computed using the straight-line method over the estimated useful life of the asset. Average useful lives by asset categories are listed below:

Buildings	50 years
Other improvements	10-30 years
Equipment	5-25 years
Library materials	10 years
Intangible assets	5 years to indefinite

The Institute does not capitalize works of art, historical treasures and similar assets. Such items are held for public exhibition, education or research in the furtherance of public service rather than financial gain. Institute collections may be sold but the proceeds must be used for the acquisition of similar type Institute collections. Exceptions to this requirement must be pre-approved by the Deputy Superintendent for Finance, Administration and Support.

F. Inventories

The Institute maintains inventory in its military store, museums, post hospital and physical plant. The military store inventory is valued at cost using the first-in first-out method. Inventory for the museum, post hospital and physical plant are valued at cost determined by using the weighted average method.

G. Unearned Revenue

Unearned revenue represents revenues collected but not earned as of 30 June 2012. This is primarily composed of revenue for student tuition and fees received in advance of the next semester or term.

H. 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 Institute incurred interest expense totaling \$573,021 for the fiscal year ended 30 June 2012, of which \$181,923 was capitalized as construction period interest.

I. Accrued Compensated Absences

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

J. Federal Financial Assistance Programs

The Institute participates in federally funded Pell Grants, Supplemental Educational Opportunity Grants, Federal Work-Study and Perkins Loans programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the Office of Management and Budget Revised Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*, and the Compliance Supplement.

K. Net Assets

The Institute's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the Institute'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 – nonexpendable: Nonexpendable restricted net assets consist of endowment funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to the principal.

Restricted net assets – expendable: Restricted expendable net assets include resources for which the Institute is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the Institute, and may be used at the discretion of the governing board to meet

current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff. Also included in unrestricted net assets are funds that have been set aside by the Board of Visitors as quasi-endowments. These funds are treated the same as true endowment funds; however, unlike true endowments they may be expended.

The Institute has no policy regarding flow assumption to determine which assets (restricted or unrestricted) are being used when both restricted and unrestricted assets are available for the same purpose. Our practice is to allow Department Heads to make this determination and they typically spend unrestricted assets prior to spending restricted resources.

L. Classification of Revenues

The Institute has classified its revenues as either operating or nonoperating 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 discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state and local grants and contracts, and (4) interest on student loans.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB 9 *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, GASB 33 *Accounting and Financial Reporting for Nonexchange Transactions*, and GASB 34, such as state appropriations and investment income.

Scholarship Discounts and Allowances: Student tuition and fee revenues are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the Institute and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the Institute's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees, the Institute has recorded a scholarship discount and allowance.

NOTE 2: CASH AND CASH EQUIVALENTS AND INVESTMENTS

The following information is provided with respect to the Institute's cash, cash equivalents, and investments as of 30 June 2012. The following risk disclosures are required by GASB Statement 40, *Deposit and Investment Risk Disclosures*.

Custodial credit risk (Category 3 deposits and investments) – The custodial risk for deposits is the risk that, in the event of a 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 possession of an outside party. The Institute had no category 3 deposits or investments for fiscal year 2012.

Credit risk – The risk that an issuer or other counterparty to an investment will not fulfill its obligations. GASB Statement 40 requires the disclosure of the credit quality ratings of all 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 a 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 40 requires disclosure of maturities for any investments subject to interest rate risk. The Institute 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 Institute's credit risk, concentration of credit risk, interest rate risk, and foreign currency risk are described in the Investments note below.

Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of VMI are maintained by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Cash deposits held by VMI 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 consist of the following balances as of 30 June 2012:

	Current	Noncurrent	Total
Cash with Treasurer of Virginia	\$ 8,008,977	\$ 140,956	\$ 8,149,933
BB&T public fund checking	2,062,830	175,905	2,238,735
Securities under securities lending	536,735	-	536,735
Cash equivalent (State nonarbitrage program)	-	1,165,014	1,165,014
Petty cash	8,480	-	8,480
Wells Fargo time deposit	28,000	-	28,000
Total cash and cash equivalents	<u>\$ 10,645,022</u>	<u>\$ 1,481,875</u>	<u>\$ 12,126,897</u>

Investments

Investments include endowment and similar funds pooled and invested with VMI affiliates and retirement fund investments for selected employees. It also includes VMI's allocated share of securities held for security lending transactions conducted by the Commonwealth. Investments consist of the following balances as of 30 June 2012:

	Current	Noncurrent	Total
Investments with the Treasurer of Virginia:			
Securities under securities lending	\$ 16,595	\$ -	\$ 16,595
Investments with trustees:			
Investments pooled with VMI affiliates	-	10,831,755	\$ 10,831,755
Mutual fund investments (retirement accounts)	-	1,129,891	\$ 1,129,891
Total with trustees	-	11,961,646	\$ 11,961,646
Total investments	\$ 16,595	\$ 11,961,646	\$ 11,978,241

VMI's endowment, loan and similar funds are pooled for investment purposes with the endowment funds of its affiliate, the VMI Alumni Agencies (the VMI Foundation, Inc., the VMI Development Board, Inc., and the VMI Keydet Club) and the George C. Marshall Foundation. VMI owns units in the pooled fund (the "Fund") that operates similar to a mutual fund. VMI Investment Holdings, LLC (LLC) manages and operates the unitized investment pool with BNY Mellon serving as custodian. The VMI Foundation, Inc. is the sole member of the LLC and acts as an intermediary between the LLC and VMI and the other agencies. Deposits to and withdrawals from the pool by VMI and the other agencies are made through the LLC. A separate board of directors manages the LLC. The board has approved an investment policy that outlines the standards and disciplines adopted, and the investment objectives, principles, and guidelines for managing the Fund. Authorized investments are set forth in the Uniform Prudent Management of Institutional Funds Act, Section 55-268 et seq. of the Code of Virginia and may include any real or personal property, whether or not it produces a current return, including mortgages, stocks and bonds, debentures, and other securities of profit or nonprofit corporations, shares in or obligations of associations, partnerships, or individuals, and obligations of any government or subdivision.

The market value of the Fund as of 30 June 2012 was \$300.4 million, of which, VMI owned \$10.8 million or 3.6 percent of the Fund assets. The Fund annually approves an asset allocation which includes how assets are invested in major categories of investments. The Fund held \$45.5 million in debt securities with an average maturity of 7.6 years. The average quality rating was AA- (Moody's). The Fund held \$59.9 million in US equity investments. The Fund held \$58.7 million in developed markets international funds with equities denominated primarily in the Euro, the Pound, and the Yen, and \$16.2 million in emerging markets international funds with equities denominated in a variety of currencies. The Fund held \$78.0 million in absolute return fund investments which may also hold fixed income and equity securities. The remaining investments are held in cash and other diversifying investments. The custodians for the Fund are independently audited annually.

Securities Lending Transactions

Collateral held for securities lending and the securities lending transactions reported on the financial statements represent the Institute's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*. The Commonwealth's policy is to record unrealized gains and losses

in the General Fund in the Commonwealth's basic financial statements. When gains or losses are realized, the actual gains and losses are recorded by the affected agencies.

Funds Held In Trust By Others

Assets of funds held by trustees for the benefit of the Institute are not reflected in the accompanying Statement of Net Assets. The Institute has irrevocable rights to all or a portion of the income of these funds. However, assets of the funds are not under the management discretion of the Institute according to the trust agreements. Income from funds held by trustees for the benefit of the Institute totaled \$59,114 for fiscal year 2012 and is included in the endowment income.

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at 30 June 2012:

	Current	Noncurrent	Total
Student tuition and fees	\$ 389,968	\$ -	\$ 389,968
Other educational and general	68,861	-	68,861
Auxiliary enterprises	175,545	-	175,545
Unique military activity	4,074	-	4,074
Private gifts	613,907	-	613,907
Agency funds	22,571	-	22,571
Other operating	107,649	44,287	151,936
Retirement of indebtedness	22,947	-	22,947
	<u>\$ 1,405,522</u>	<u>\$ 44,287</u>	<u>\$ 1,449,809</u>
Less: Allowance for doubtful accounts	(68,810)	-	(68,810)
Total accounts receivable, net	<u>\$ 1,336,712</u>	<u>\$ 44,287</u>	<u>\$ 1,380,999</u>

NOTE 4: COMMONWEALTH REIMBURSEMENT PROGRAMS

The Commonwealth has established several programs to provide state-supported institutions of higher education with bond proceeds for financing the acquisition and replacement of instructional and research equipment and facilities. During the 2012 fiscal year, funding has been provided to the Institute from two programs (21st Century program and the Equipment Trust Fund) managed by the Virginia College Building Authority (VCBA). The VCBA issues bonds and uses the proceeds to reimburse the Institute for expenses incurred in the acquisition of equipment and facilities.

The line item, "Due from the Commonwealth" on the Statement of Net Assets for the year ended 30 June 2012 represents pending reimbursements from the following programs:

Credit card rebate/accrued interest	\$ 101,902
VCBA Equipment Trust Fund program	481
VCBA 21st Century program	5,795,390
Total Due from Commonwealth	<u>\$ 5,897,773</u>

NOTE 5: INVENTORIES

Inventories consisted of the following at 30 June 2012:

Physical Plant	\$ 404,760
Military Store	5,054,630
Museums	202,123
VMI Hospital	18,140
	<hr/>
Total	<u>\$ 5,679,653</u>

NOTE 6: CAPITAL ASSETS

A summary of changes in the various capital asset categories is presented as follows:

	Beginning Balance 1 July 2011	Additions	Reductions	Ending Balance 30 June 2012
Nondepreciable capital assets:				
Land	\$ 3,445,091	\$ -	\$ -	\$ 3,445,091
Construction in progress	16,933,787	10,554,120	(14,616,968)	12,870,939
	<hr/>			
Total nondepreciable capital assets	20,378,878	10,554,120	(14,616,968)	16,316,030
Depreciable capital assets:				
Buildings	255,706,858	5,783,665	(307,678)	261,182,845
Improvements other than buildings	14,081,428	13,241,363	-	27,322,791
Equipment	13,569,230	899,470	(135,794)	14,332,906
Library books	11,287,109	333,219	(63,328)	11,557,000
	<hr/>			
Total depreciable capital assets	294,644,625	20,257,717	(506,800)	314,395,542
Less accumulated depreciation for:				
Buildings	66,839,153	5,278,396	(225,035)	71,892,514
Improvements other than buildings	3,693,456	1,012,798	-	4,706,254
Equipment	9,924,932	1,046,679	(134,668)	10,836,943
Library books	9,832,113	298,337	(63,328)	10,067,122
	<hr/>			
Total accumulated depreciation	90,289,654	7,636,210	(423,031)	97,502,833
	<hr/>			
Depreciable capital assets, net	204,354,971	12,621,507	(83,769)	216,892,709
	<hr/>			
Total capital assets, net	<u>\$ 224,733,849</u>	<u>\$ 23,175,627</u>	<u>\$ (14,700,737)</u>	<u>\$ 233,208,739</u>

NOTE 7: ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at 30 June 2012:

	Current	Noncurrent	Total
Employee salaries, wages and benefits payable	\$ 3,599,020	\$ -	\$ 3,599,020
Vendors and supplies accounts payable	4,555,363	-	4,555,363
Accrued interest payable	117,518	-	117,518
Retainage payable	539,175	-	539,175
Retirement annuities	-	1,129,891	1,129,891
Total accounts payable and accrued expenses	\$ 8,811,076	\$ 1,129,891	\$ 9,940,967

NOTE 8: LONG-TERM LIABILITIES SUMMARY

The Institute's long-term liabilities primarily consist of long-term debt (further described in Note 9) and accrued compensated absences. A summary of changes in long-term liabilities for the year ending 30 June 2012 is presented as follows:

	Beginning Balance 1 July 2011	Additions	Reductions	Ending Balance 30 June 2012	Current Portion 30 June 2012
Long-term debt:					
Bonds payable	\$ 9,266,559	\$ 33,326	\$ (571,725)	\$ 8,728,160	\$ 475,000
Notes payable	6,309,190	-	(235,064)	6,074,126	320,000
Capital leases	616	-	(616)	-	-
Installment purchases	2,933	-	(2,200)	733	733
Total long-term debt	\$ 15,579,298	\$ 33,326	\$ (809,605)	\$ 14,803,019	\$ 795,733
Accrued compensated absences	1,303,883	813,336	(750,920)	1,366,299	595,993
Total long-term liabilities	\$ 16,883,181	\$ 846,662	\$ (1,560,525)	\$ 16,169,318	\$ 1,391,726

NOTE 9: LONG-TERM INDEBTEDNESS DETAIL

Bonds payable:

In August 2004, pursuant to Section 9(c) of Article X of the Constitution of Virginia, \$11,240,000 of revenue bonds, Series 2004A, were issued by the Department of Treasury for the Commonwealth of Virginia, on behalf of the Institute for renovation and expansion of Crozet Hall, the Institute dining facility, and parking. The bonds bear interest at an average coupon rate of 4.8% and are payable over 20 years through June 2025. Net proceeds after the cost of issuance totaled \$11,889,591 and included a premium realized on the sale. The revenue bonds are secured by the net revenues of the facility which is comprised primarily of cadet fees.

Bonds Payable:	Interest Rates (%)	Maturity	Balance 30 June 2012
Crozet Hall:			
Series 2004A, issued \$11,240,000 - partial refunding *	3.75 - 5.00	2014	\$ 1,039,959
Series 2009D, issued \$4,241,860 - refunding Series 2004A *	2.50 - 5.00	2022	4,636,683
Series 2012A, issued \$3,018,620 - refunding Series 2004A *	2.00 - 5.00	2025	3,051,518
			<u>\$ 8,728,160</u>

* See Note 10 Long-Term Debt Defeasance

Notes payable:

Notes payable consists of debt obligations between the Virginia College Building Authority (VCBA) and the Institute. The VCBA issued bonds through the Pooled Bond Program and used the proceeds to purchase debt obligations (notes) of the Institute. The Cocke Hall Annex and South Institute Hill Parking notes will be paid from auxiliary reserve funds which consist predominantly of cadet fees. The JM Hall Renovation note is secured by funds paid by the VMI Foundation, Inc. on a year-to-year basis as a gift to the Institute. Should the gift be discontinued, repayment will be made from the general revenues of the Institute.

Notes Payable:	Interest Rates (%)	Maturity	Balance 30 June 2012
Cocke Hall Annex:			
Series 2002A, issued \$2,025,000 - partial refunding *	4.00 - 5.25	2022	\$ 105,876
Series 2007B, issued \$735,000 - refunding Series 2002A *	4.00 - 4.50	2020	758,387
Series 2010B, issued \$555,000 - refunding Series 2002A *	2.00 - 5.00	2022	574,760
Jackson Memorial Hall Renovation:			
Series 2002A, issued \$2,335,000 - partial refunding *	4.00 - 5.25	2022	116,768
Series 2007B, issued \$850,000 - refunding Series 2002A *	4.00 - 4.50	2020	877,025
Series 2010B, issued \$650,000 - refunding Series 2002A *	2.00 - 5.00	2022	672,855
South Institute Hill Parking:			
Series 2010A1/2, issued \$2,850,000	3.75 - 5.00	2031	2,968,455
			<u>\$ 6,074,126</u>

* See Note 10 Long-Term Debt Defeasance

Maturities on notes and bonds payable for years succeeding 30 June 2012 are as follows:

Year	Bonds Payable	Notes Payable	Total
2013	475,000	320,000	795,000
2014	500,000	335,000	835,000
2015	530,006	350,000	880,006
2016	296,860	370,000	666,860
2017	580,000	390,000	970,000
2018-2022	3,365,000	2,190,000	5,555,000
2023-2027	2,488,613	1,165,000	3,653,613
2028-2031	-	765,000	765,000
Unamortized premium	1,243,682	318,865	1,562,547
Deferral on debt defeasance	(751,001)	(129,739)	(880,740)
Total future principal requirements	<u>\$ 8,728,160</u>	<u>\$ 6,074,126</u>	<u>\$ 14,802,286</u>

A summary of future interest commitments for fiscal years subsequent to 30 June 2012 is presented as follows:

Year	Bonds Payable	Notes Payable	Total
2013	335,830	271,548	607,378
2014	374,165	255,272	629,437
2015	344,051	239,398	583,449
2016	322,851	223,535	546,386
2017	306,907	206,466	513,373
2018-2022	1,069,283	753,625	1,822,908
2023-2027	174,646	325,822	500,468
2028-2031	-	85,938	85,938
Total future interest requirements	\$ 2,927,733	\$ 2,361,604	\$ 5,289,337

Installment Purchase Obligations

The Institute has future obligations under installment purchase agreements. The cost of the assets capitalized under these installment purchase agreements is \$18,800 with no interest. A summary of future obligations under these agreements as of 30 June 2012 follows:

Year Ending 30 June	Principal
2013	733
Total	\$ 733

Operating Leases

VMI is committed under various operating leases for equipment. Operating leases do not give rise to property rights and are not reflected as obligations in the Institute's Statement of Net Assets. In general, the leases have a three year term and the Institute has renewal options. In most cases, the Institute expects these leases will be replaced by similar leases in the normal course of business. Rental expense was approximately \$79,071 for the year ended 30 June 2012. Minimum lease payments for subsequent fiscal years are as follows:

Year Ending 30 June	Amount
2013	\$ 41,907
2014	9,858
2015	1,099
Total	\$ 52,864

Capital Improvement Commitments

As of 30 June 2012, the Institute had outstanding construction contract commitments of \$11,441,906. This amount represents the value of obligations remaining on capital improvement project contracts. These obligations are for future efforts and as such have not been accrued as expenses or liabilities on the Institute's financial statements.

NOTE 10: LONG-TERM DEBT DEFEASANCE

Current Year:

On 7 March 2012, the Virginia Department of Treasury Board, on behalf of the Institute, issued \$3,600,923 of Section 9(c) general obligation bonds to advance-refund \$3,062,439 of section 9(c) debt in fiscal year 2012. The advance refunding reduced the aggregate debt service by \$114,904, representing a net present-value savings of \$112,745.

Previous Years:

In previous fiscal years, bonds and notes were issued to refund a portion of previously outstanding bonds and notes payable. Funds relating to the refunding were deposited into irrevocable trusts with escrow agents to provide for future debt service on the refunded bonds. The trust account assets and liabilities for the defeased bonds are not included in the Institute's financial statements. At 30 June 2012, the outstanding balance of the prior years' in-substance defeased bonds and notes totaled \$7,290,000.

NOTE 11: EXPENSES BY NATURAL CLASSIFICATIONS

The Institute's operating expenses by natural classification were as follows for the year ended 30 June 2012:

Program	Compensation and benefits	Supplies, Equipment, Utilities and Other Services	Student Aid	Other Expenses	Depreciation	Total
Instruction	\$ 15,166,622	\$ 1,625,293	\$ -	\$ 69,566	\$ 1,998,157	\$ 18,859,638
Research	113,019	74,655	-	74,418	-	262,092
Public service	670,217	478,611	-	23,963	333,377	1,506,168
Academic support	4,132,402	1,539,401	-	44,876	858,266	6,574,945
Student services	2,154,741	1,094,555	-	35,345	218,637	3,503,278
Institutional support	3,841,063	1,050,662	-	385,233	118,838	5,395,796
Operation of plant	3,018,422	3,046,224	-	329,984	635,382	7,030,012
Student aid	3,990	87,225	837,440	-	-	928,655
Auxiliary enterprises	5,188,995	10,197,033	8,844	4,849,879	2,687,642	22,932,393
Unique military activities	4,154,145	1,793,519	4,280	402,057	785,911	7,139,912
Other	-	-	-	6,288	-	6,288
TOTAL	\$ 38,443,616	\$ 20,987,178	\$ 850,564	\$ 6,221,609	\$ 7,636,210	\$ 74,139,177

NOTE 12: STATE APPROPRIATIONS

Virginia Military Institute receives state appropriations from the General Fund of the Commonwealth of Virginia. The Appropriation Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of the biennium. For years ending at the middle of the biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to VMI for disbursement. Fiscal year 2012 ends the biennium.

During the fiscal year ended 30 June 2012, the Institute received the following supplemental appropriations and reversions in accordance with the Appropriation Act:

Original legislative appropriation:	
Educational and general programs	\$ 7,306,080
Unique military activity	3,139,904
Student financial assistance	799,232
Adjustments:	
Compensation adjustments	81,374
ETF lease payment - NGF portion	(88,844)
Student financial assistance	22,938
Debt service fee - Non-Virginia cadets	(311,400)
Appropriations transfers:	
SCHEV programs	11,210
Educational and general	(1,500)
Adjusted appropriations	<u>\$ 10,958,994</u>

NOTE 13: RETIREMENT AND PENSION SYSTEMS

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

The Institute's payroll costs for employees covered by VRS totaled \$15,651,419 for the year ended 30 June 2012. The Institute's total payroll costs were \$31,672,007 for the year ended 30 June 2012.

Information regarding types of employees covered, benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions as well as employer and employee obligations to contribute are established, can be found in the Commonwealth's Comprehensive Annual Financial Report (CAFR).

The Institute's total VRS contribution was \$532,470 for the year ended 30 June 2012. Additionally, the Institute redirected \$476,160 of funds designated for VRS contributions, to the

Commonwealth's general fund in accordance with Item 469 of Chapter 890, 2011 Virginia Acts of Assembly.

VRS does not measure assets and pension benefit obligations separately for individual state institutions. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at 30 June 2012. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

Optional Retirement Plan

Some full-time faculty and contracted administrative staff participate in a defined contribution plan administered by two different providers other than VRS; TIAA/CREF Insurance Companies and Fidelity Investments Tax-Exempt Services Co. This is a fixed-contribution program where the retirement benefits received are based entirely upon the employer's (10.4%) contributions for employees enrolled prior to 1 July 2010, plus interest and dividends, with the employer assuming the employee's contribution share. For employees enrolled after 1 July 2010, the employer provides a contribution of 8.5% while the employee must contribute 5%.

Individual contracts issued under the plan provide for full and immediate vesting of both the Institute's and the employees' contributions. Total pension costs under this plan were approximately \$1,062,261 for the year ended 30 June 2012. Contributions to this defined contribution plan were calculated using the base salary amount of approximately \$10,400,622 for fiscal year 2012.

Deferred Compensation Plan

Employees of the Commonwealth 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 or \$40 per month. 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. Employer contributions under the Deferred Compensation Plan were approximately \$132,140 for the fiscal year 2012.

NOTE 14: POST-EMPLOYMENT BENEFITS

The Commonwealth participates in the VRS administered statewide group life insurance program which provides postemployment 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's health plan. Information related to these plans is available at the statewide level in the Commonwealth's *Comprehensive Annual Financial Report*.

NOTE 15: RISK MANAGEMENT

The Institute is exposed to various risks of loss related to torts; theft or, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Institute 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 Institute pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

NOTE 16: CONTINGENCIES

The Institute has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are 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 Institute.

In addition, the Institute is required to comply with various federal regulations issued by the Office of Management and Budget. Failure to comply with certain systems requirements of these regulations may result in questions concerning the allowance of related direct and indirect charges pursuant to such agreements. As of 30 June 2012 the Institute estimates that no material liabilities will result from such audits or questions.

In October 2003, VMI entered into a contract amendment with ARAMARK Educational Services (ARAMARK), VMI's contracted dining services vendor. Under this agreement, ARAMARK provided \$1,000,000 in fiscal 2004 and \$200,000 in fiscal 2005 to VMI to support the expansion and renovation of the Crozet Hall dining facility. The agreement requires ARAMARK to amortize these contributions on a straight-line basis over a ten-year period commencing with the disbursement of funds. In the event that VMI or ARAMARK terminates the relationship prior to the end of the amortization period, VMI must re-pay any unamortized balance to ARAMARK within 90 days of termination.

In August 2007, the Institute entered into a new five year contract (with one optional renewal term of five years) with ARAMARK to provide dining services to cadets. Under this agreement, ARAMARK agreed to contribute \$750,000 for food service facility renovations, the purchase and installation of food service equipment, area treatment, signage and marketing materials and other costs associated with the food service program on our premises. In accordance with the agreement, the Institute received \$500,000 of this commitment in fiscal 2008 and the balance of \$250,000 during fiscal 2012. The agreement requires ARAMARK to amortize this contribution on a straight-line basis over a ten-year period through 2017. Upon expiration or termination of this agreement by either party prior to 2017, VMI agreed to pay ARAMARK the unamortized balance plus accrued but unbilled interest (prime rate plus two percentage points per annum, compounded monthly) within 30 days. Subsequent to the end of fiscal year 2012, in July 2012, the Institute exercised its right to renew the contract through 2017.

The Institute received notice in August 2012 that it would receive \$335,511 from the Commonwealth of Virginia Department of Treasury, Division of Risk Management to settle an insurance claim for costs associated with a waterline break caused by an earthquake in August 2011. Although it was considered probable at 30 June 2012 that the Institute would receive a settlement on this claim, the amount could not be reasonably determined at that time as the Division of Risk Management had not approved the claim. Therefore, the Institute did not record

revenue or a receivable associated with this claim in fiscal year 2012 and will record the associated revenue in fiscal year 2013.

NOTE 17: VMI ALUMNI AGENCIES

The VMI Alumni Agencies (the “Agencies”) are comprised of four organizations that share the common purpose of raising funds, investing funds, and performing other activities on behalf of VMI alumni and other donors in support of VMI. Significant sources of revenue consist of contributions and investment return. Due to their shared purpose, the Agencies have elected to present their financial statements on a combined basis. All significant interagency accounts and transactions have been eliminated in combination. The individual organizations comprising the Agencies and their purposes are as follows:

The VMI Alumni Association

The purpose of The VMI Alumni Association is to organize the alumni of VMI into one general body.

VMI Foundation, Incorporated

The purposes of the VMI Foundation, Incorporated are to solicit and to accept various funds and to disburse such funds, or income earned from those funds, for the advancement of VMI and the Alumni Association.

VMI Development Board, Incorporated

The purposes of the VMI Development Board, Incorporated are to support VMI by coordinating development and fundraising efforts conducted on behalf of VMI Alumni and other donors.

VMI Keydet Club, Incorporated

The purposes of the VMI Keydet Club, Incorporated are to support, strengthen, and develop the intercollegiate athletic program at VMI.

Contributions receivable

Contributions receivable consist of the following as of 30 June:

	2012
Unconditional promises to give	\$ 16,286,027
Charitable trusts held by others	160,020
Total contributions receivable	16,446,047
Less: current portion	(7,953,966)
	<hr/>
Noncurrent contributions receivable	\$ 8,492,081
	<hr/>
Gross amounts expected to be collected in:	
Less than one year	\$ 9,091,896
One to five years	9,249,081
More than five years	1,270,030
	<hr/>
	19,611,007
Less:	
Discount	(1,220,311)
Allowance for uncollectible contributions	(1,944,649)
	<hr/>
Fair value	\$ 16,446,047
	<hr/>

The distribution of contributions receivable for each class of net assets as of 30 June is as follows:

Temporarily restricted	\$ 11,908,836
Permanently restricted	4,537,211
	<u>\$ 16,446,047</u>

At 30 June 2012, the Agencies had also received bequest and other intentions of approximately \$98.4 million. These intentions to give are not recognized as assets and, if they are received, they will generally be restricted for specific purposes stipulated by the donors.

For 2012 approximately 38% of the contributions receivable balance was from five donors.

Investments held by trustees

The Agencies participate in a combined investment fund (the "Fund") controlled by the VMI Investment Committee, a committee comprised of representatives from each agency. BNY Mellon, N.A. serves as custodian for the Fund's assets. The Fund's investments consist of the following as of 30 June:

	2012	
Equities	\$ 141,681,816	50.0 %
Absolute return funds	73,545,346	26.0
Fixed income	42,930,305	15.1
Private equities	14,982,664	5.3
Commodities	7,809,761	2.8
Cash and cash equivalents	2,183,015	0.8
	<u>\$ 283,132,907</u>	<u>100.0 %</u>

These investments, which comprise the majority of the Agencies' assets, are subject to market risk. However, the Agencies' investment funds are managed by a number of investment managers, which limits the amount of risk in any one fund. The Agencies' Investment Committee establishes investment guidelines and performance standards which further reduce its exposure to market risk.

Investments held by trustees activity for the year ended 30 June is reflected in the table below:

	2012
Investments, beginning	<u>\$ 296,894,439</u>
Investments returns:	
Dividends and interest	3,234,507
Net realized and unrealized losses	(8,642,771)
Less: investment fees	(2,170,887)
	<u>(7,579,151)</u>
Net disbursements used to fund operations	(6,182,381)
Investments, ending	<u>\$ 283,132,907</u>

VMI Investment Holdings, LLC

On 29 April 2009, VMI Investment Holdings, LLC (LLC) was formed to manage the investments held by trustees. On 1 June 2009, all investments held by trustees and for which BNY Mellon, N.A. serves as custodian were transferred to the LLC. The Foundation is the sole member of the LLC, and acts as an intermediary between the LLC and the other agencies. As stated in the Deposit and Management Agreement, the LLC will operate the unitized investment pool and issue a number of units in the pool to each depositor based on the amount of its deposit divided by the then unit value. Each depositor is entitled to its pro rata share of the value, taking into account aggregate investment returns. Deposits to and withdrawals from the pool by the other agencies will be made through the Foundation. A separate board of directors was established to manage the LLC.

Investments, Other

Investments, other, as of 30 June consists of the following:

	2012			
	Held by Agent	Held by Foundation	Held in Irrevocable Trusts*	Total at Fair Value**
Equities	\$ 1,345,414	\$ 9	\$ 6,281,607	\$ 7,627,030
Fixed income	12,546	5,891	3,289,451	3,307,888
Real estate	-	1,751,667	-	1,751,667
Cash and cash equivalents	62,427	792	549,528	612,747
Alternative investments	-	-	394,571	394,571
Limited partnerships	2,698	17,128	-	19,826
	<u>\$ 1,423,085</u>	<u>\$ 1,775,487</u>	<u>\$ 10,515,157</u>	<u>\$ 13,713,729</u>

*Investments held in irrevocable trusts are not available for use until the occurrence of a future event as noted in the applicable trust agreements.

**For certain components of these investments, primarily real estate, limited partnerships, and common stocks of closely held companies where fair values were not readily determinable, cost was used.

Long-term Debt

Long-term debt consists of bonds and notes payable at 30 June as follows:

	2012
Variable Rate Educational Facilities Revenue Bonds, Series 2006, payable in varying installments from \$5,000,000 to \$22,475,000, commencing 2021 through 2037	\$ 42,475,000
Promissory note, principal and any accrued interest payable is due in fiscal year 2014. Interest accrues at the 1-month London Interbank Offered Rate (LIBOR) plus .85% (1.10% at 30 June 2012) and is payable monthly, uncollateralized.	2,500,000
	<u>44,975,000</u>
Add: bond premium - net	<u>2,279,677</u>
	<u>\$ 47,254,677</u>

Debt matures as follows for future years ending 30 June:

Year ending 30 June:	
2013	-
2014	2,500,000
2015	-
2016	-
2017	-
Thereafter	42,475,000
	<u>\$ 44,975,000</u>

Effective 15 July 2010, the Industrial Development Authority of the City of Lexington, Virginia approved a request by the Agencies to remarket Variable Rate Educational Facilities Revenue Bonds, Series 2006. This remarketing superseded the original issuance, dated 13 July 2006. The bonds were initially issued in a single series bearing interest at a variable rate. The bonds were remarketed at a premium of \$2,525,000, net of expenses. The premium is being amortized over the life of the loan and amortization of the premium totaled \$122,622 for 2012. The bonds were remarketed in three series, Series 2006A-1 (\$5,000,000) and 2006A-2 (\$5,000,000), 2006B (\$10,000,000), and 2006C (\$22,475,000), and interest was converted to a fixed rate on each series. Series 2006A-1 bears interest of 4.25%, the remainder each bear interest at 5.00%. Interest accrues at these rates and payments commenced on 1 December 2010. Payments are due each 1 June and 1 December. The first principal payment, of \$10,000,000, is due in fiscal year 2021. Upon this conversion, the bonds are no longer collateralized by any credit or liquidity facility, nor are the bonds collateralized by any of the Agencies' assets.

During 2011, the Agencies borrowed \$2,500,000 and issued a promissory note in the same amount. The proceeds of the note were used to terminate the interest rate swap agreement in place at 30 June 2010.

Endowment Funds

The Agencies employ a total return spending policy that establishes the amount of investment return that is available to support current needs and restricted purposes. This policy is designed to insulate program spending from capital market fluctuations and increase the amount of return that is reinvested in the corpus of the fund in order to enhance its long-term value. For the year ended 30 June 2012, the Board-approved spending formula for the endowment provided for an annual spending rate of 4.8% of the average of the prior twelve quarters' 31 December market values adjusting these market values upward to reflect subsequent receipt of gifts, or downward to reflect extraordinary withdrawals. If cash yield (interest and dividends) is less than the spending rate, realized gains can be used to make up the deficiency. Any income in excess of the spending rate is to be reinvested in the endowment. The primary investment objective is long-term capital appreciation and total return. The Agencies utilize diversified investment classes that provide the opportunity to achieve the return objective without exposing the funds to unnecessary risk.

NOTE 189: COMPONENT UNITS

Condensed financial statements for the component units of the Institute are as follows:

CONDENSED STATEMENTS OF NET ASSETS As of 30 June 2012	VMI Research Laboratories Inc.	VMI Alumni Agencies	TOTAL
Assets:			
Current assets	\$ 460,818	\$ 13,847,344	\$ 14,308,162
Noncurrent assets	339,984	310,868,527	311,208,511
Total assets	800,802	324,715,871	325,516,673
Liabilities:			
Current liabilities	38,142	1,400,266	1,438,408
Noncurrent liabilities	44,287	51,017,352	51,061,639
Total liabilities	82,429	52,417,618	52,500,047
Net Assets:			
Unrestricted	671,216	48,812,458	49,483,674
Temporarily restricted	37,157	111,107,632	111,144,789
Permanently restricted	10,000	112,378,163	112,388,163
Total net assets	718,373	272,298,253	273,016,626
Total net assets and liabilities	\$ 800,802	\$ 324,715,871	\$ 325,516,673

CONDENSED STATEMENTS OF REVENUES EXPENSES AND CHANGES IN NET ASSETS As of 30 June 2012	VMI Research Laboratories Inc.	VMI Alumni Agencies	TOTAL
Total revenues	\$ 541,999	\$ 17,411,994	\$ 17,953,993
Total expenses	(558,435)	(23,462,948)	(24,021,383)
Total net realized and unrealized losses on investments	-	(9,530,856)	(9,530,856)
Total change in net assets	(16,436)	(15,581,810)	(15,598,246)
Total beginning net assets	734,809	287,880,063	288,614,872
Total ending net assets	\$ 718,373	\$ 272,298,253	\$ 273,016,626

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