Broadband Infrastructure Application
Submission to RUS (BIP) and NTIA (BTOP)

Submitted Date: 8/18/2009 9:30:39 AM	**Easygrants ID: 248**
Funding Opportunity: Broadband Initiatives Program and Broadband Technology Opportunities Program	**Applicant Organization:** Virginia Tech Foundation, Inc.
Task: Submit Application - Infrastructure Programs	**Applicant Name:** Jeffrey Crowder

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A. General Application Information

1. Applicant Information	
1-A. Name, Address, and Federal ID for Applicant	
i. Legal Name:	Virginia Tech Foundation, Inc.
ii. Employer/Taxpayer Identification Number (EIN/TIN):	540721690
Street 1:	902 Prices Fork Road STE 4000
Street 2:	
City:	Blacksburg
County:	Montgomery
State:	VA
Country	United States
Zip/Postal Code:	24060-3260

1-B. Name and Contact Information of Person to be Contacted on Matters Involving this Application:	
Prefix:	
First Name:	Jeffrey
Middle Name:	
Last Name:	Crowder
Suffix:	
Telephone Number:	540-231-3900
Fax Number:	
Email:	crowder@vt.edu
Title:	

1-C. Other Required Identification Numbers	
i. Organizational DUNS:	074747908
ii. CCR # (CAGE):	1GMB4
iii. Funding Opportunity Number:	1
iv. Catalog of Federal Domestic Assistance Number:	**BTOP CFDA Number:** 11.557 **BIP CFDA Number**: 10.787 **BTOP CFDA Title:** Broadband Technology Opportunities Program **BIP CFDA Title:** Broadband Initiatives Program

1-D Eligible Entities

Please classify your organization. (Note: If there are multiple organizations involved in the project, designate the lead applicant that would enter into a Loan or Grant agreement with the Agency and assume operational and financial responsibility should an award be made). **Non-Profit Corporation**

1-E. RUS Borrower Status

No

1-F. Applicant Federal Debt Delinquency Explanation

Is the Applicant Delinquent On Any Federal Debt? **No**
Federal debt delinquency Explanation:

2. Project Description & Project Title

2-A. Project Title: Allegheny Fiber: Extending Virginia's Open Access Fiber Backbone to the Ridge and Valley

2-B. Project Description: Allegheny Fiber will extend Virginia's successful, open-access fiber network into unserved and underserved communities in the appalachian region. Virginia Tech and Mid-Atlantic Broadband Cooperative will construct a high count fiber system with access in remote communities providing non-profit, wholesale access for economic development, research, education, emergency response, and health care.

3. Application ID for Multiple Submissions for Identified Service Areas:

4. Rural Area Determination

At least 75 percent of the proposed service area to be funded falls within rural areas that are unserved or underserved.

No

5. Applications for Rural Areas: Please choose the funding program(s) to which you are submitting this application.

a) BIP broadband infrastructure category to which you are applying:

b) Would you like this Application for Rural Areas to also be considered for BTOP funding?

c) BTOP Infrastructure category for which you are applying.

6. Applications for All Other Areas: Per the NOFA, all applications to fund broadband infrastructure projects in areas that are less than 75% rural must be submitted to NTIA for consideration under BTOP.

BTOP broadband infrastructure category to which you are applying: **Middle Mile**

B. Eligibility Factors

7. Application Submission

BIP and BTOP Factors Selected By Applicant:
Applicant has submitted a completed application and provided all supporting documentation required for the application.
The Project will be substantially complete within 2nd year from the award date, and the project will be fully

complete by the end of the 3rd year from the award date.
For projects seeking more than $1 million funding, the Applicant agrees to submit a certification, from a Professional Engineer, that attests that a) the system will deliver the stated performance; and b) the projected project will be substantially completed within two years, and fully completed within three years.
The Applicant provides two-way data transmission with advertised speeds of at least 768 kbps downstream and 200 kbps upstream.
Applicant understands and agrees to comply with the nondiscrimination and interconnection obligations outlined in the NOFA.
If applying for a last mile Broadband Infrastructure project, applicant understands and agrees to comply with the last mile coverage obligations as outlined in the NOFA.

Additional Factors for BIP Selected By Applicant

Additional BTOP Factors Selected By Applicant

- **Conformity with Statutory Purposes**
- **Cost Sharing/Matching**
- **Reasonableness of Project Budget**

The project advances at least one of the statutory purposes for BTOP
Applicant has provided documentation that the project would not have been implemented during the grant period without federal grant assistance.

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Applicant has provided a budget that is appropriate to the proposed technical solution and only includes eligible costs.

- **Demonstration the Project Could not be Implemented But For Federal Grant Assistance**
  Applicant is providing matching funds of at least 20 percent towards the total eligible project costs?
  Yes

7-k. Cost Sharing/Matching Fund Explanation

C. Executive Summary

Executive Summary of Project for BIP and BTOP:

8. Infrastructure Projects Executive Summary

A. Opportunity

Essential to providing affordable, competitive, broadband access in unserved and underserved communities is the establishment of regional optical infrastructure, or middle-mile networks, through which service is made available at a community level. Virginia has created a highly successful large-scale prototype which we propose to expand.

In a series of reports completed in 2003, Virginia Tech recommended to the Virginia Tobacco Commission the investment of tobacco indemnification funds for development of advanced network infrastructure in southside and southwest Virginia. The Commission invested more than $40 million to create the Mid-Atlantic Broadband Cooperative (MBC) and LENOWISCO projects which have constructed more than 800 miles of backbone fiber throughout the tobacco growing region. MBC operates as an open-access, wholesale carrier providing fiber and high-capacity transport services in a non-discriminatory manner to an assortment of service providers connecting public sector entities, schools, health care providers, and others.

MBC has been phenomenally successful driving the availability of competitive, affordable, broadband options throughout the Tobacco Commission area. MBC has realized double-digit growth over the last three years creating more than 2,200 jobs and helping to contribute a $300 million investment to the region.

Because the Tobacco Commission cannot provide funds to build infrastructure outside the tobacco-growing region of the state, MBC has been constrained to a limited area. MBC and Virginia Tech are seeking a means to grow the network outside the tobacco region.

Allegheny Fiber is a middle-mile proposal to expand the open-access, backbone fiber beyond the tobacco region into adjoining rural counties. The project will include a fiber path through six counties connecting to MBC's existing network. Virginia Tech will serve as the primary anchor institution. The fiber will be constructed and operated by MBC as part of Virginia's open-access, fiber network. This is a joint proposal of Virginia Tech and MBC submitted by the Virginia Tech Foundation (VTF) on behalf of the partners.

B. General Description of the Proposed Service Areas

The project area is located in the rural Ridge and Valley portion of Virginia on the edge of the Allegheny Highlands region. The region is rural and mountainous in nature with rocky ridges and deep valleys which make the construction of communications infrastructure challenging.

The service area for the proposed middle-mile project traverses a region composed of six Virginia counties--Bedford, Botetourt, Craig, Giles, Montgomery, and Roanoke--and more than 40 census communities, designated places and other areas. The route includes three primary interconnection points; Newport in Giles County, New Castle in Craig County, and Bonsack in Roanoke County, each strategically positioned to serve unserved or underserved areas.

The path is currently unserved by open-access, middle-mile fiber, and there is no existing continuous fiber. Much of the path, including primary access points in Giles and Craig counties is designated as underserved or unserved as presented herein. The counties of Craig and Giles are particularly rural and isolated served chiefly by small ILECs which do not offer advertised, middle-mile services.

C. Number of Households and Businesses Passed

There are 9,603 households within the census blocks that intersect the proposed route. According to the 2000 Census, 190,694 households are passed within the service area of the proposed project. The number of businesses passed, according to the 2007 Edition of County Business Patterns is 11,615.

D. Number of Anchor Institutions

The proposed service area includes 121 public K-12 schools, eight higher education institutions, two medical schools, 35 public libraries, police, fire, and rescue in six counties and three cities spanning two emergency management regions, municipal governments in each county and city, nine hospitals, five workforce development centers, three State Tech Zones, 13 historically under-utilized business zones, and 35 industrial sites.

E. Proposed Services

Allegheny Fiber will be operated as part of the MBC open-access, wholesale carrier network on a nonprofit basis. Services will include an array of point-to-point, private line services ranging from 10Mbps through 10Gbps. Dark fiber, collocation, and other services will be offered.

Virginia Tech will allocate a portion of the fiber for research, education, health care, and emergency response. Virginia Tech intends to use the fiber combined with other MBC and third- party infrastructure to establish high-capacity access to National LambdaRail, Internet2, and other research and development resources.

F. Approach to Non-Discrimination and Interconnection

MBC was founded on the principles of open-access. The proposed middle-mile network will be open to all providers with emphasis on serving economic development, education, health care, emergency response, and research needs. As a matter of policy, MBC does not discriminate against any carrier and is open to all interconnection requests. They connect to public Internet and peering exchanges in several locations. MBC does not and will not block access, engage in packet-shaping, or implement restrictions on connectivity or bandwidth utilization.

G. Type of Broadband System

The fiber path will be constructed using SMF-28E, single-mode, fiber-optic cable, ranging from 96 strands to 144 strands in 12 fiber, loose tube, configuration using armored sheathing. Installation will be direct-buried along roadway rights of way using existing MBC agreements with the Virginia Department of Transportation. Where aerial facilities are needed due to terrain or congestion issues, fiber will be placed in the communications zone of existing pole facilities and will utilize existing MBC pole-attachment agreements with providers. All fiber will be fusion-spliced and will have a maximum of 0.25db of loss per KM. Node facilities will be 12'x20', pre-cast, concrete structures equipped with 200amp single-phase power, dual HVAC systems, emergency generator backup with low-emission, EPA-rated, diesel fuel-powered systems and substantial grounding and environmental monitoring systems. MBC will extend its carrier class, optical transport system over the proposed fiber path. The system will be tied to MBC's existing network at Blacksburg and Bedford. The deployed system will be initially scalable to 200Gbps. MBC currently provisions ethernet over SONET access for carrier customers starting at 10Mbps. All electronics will be powered using redundant DC power, A&B feeds, which will be monitored and managed 24 hours a day, seven days a week, 365 days a year, from MBC's existing Network Operations Center (NOC) in South Boston, Va.

H. Qualifications of the Applicant

Virginia Tech Foundation (VTF) will serve as the applicant and will own the proposed infrastructure. Virginia Tech has been a regional and national leader in the promotion of broadband infrastructure development. Virginia Tech operates NetworkVirginia providing statewide access for education, health care, and government with over 1.4 million participants today. The Mid-Atlantic Terascale Partnership and the D.C.-area NatCap aggregation facility, owned and operated by Virginia Tech, provide access to National LambdaRail, Internet2, commodity Internet, and other resources for entities throughout the mid-Atlantic region. Virginia Tech created the proposal to the Tobacco Commission which resulted in the state-funded, open-access network which will be expanded by the proposed system.

MBC joins Virginia Tech for this proposal. MBC will design, build, and operate the infrastructure. MBC is a nonprofit cooperative created to implement Virginia's open-access, fiber strategy. MBC is well managed and highly successful. MBC has constructed over 800 miles of fiber, has realized double-digit growth over the last three years, has created 2,200 jobs for the region, and is trusted by more than 50 members, most of whom are communications providers.

I. Infrastructure Cost

The total broadband system cost is $6,925,000. The Virginia Tech Foundation will provide a 20% cash match.

J. Expected Subscriber Projections

Attachment H presents subscriber forecasts in terms of the entities we anticipate will be served by last mile providers and anchor institutions connected to the proposed network. By year five, we project 104,882 households, 6,389 businesses, and 267 anchor institutions will receive service through the Allegheny Fiber project.

K. Job Creation

Broadband usage and employment are strongly linked. A 2007 Brookings Institution report found that "for every one percentage point increase in broadband penetration in a state, employment is projected to increase by 0.2 to 0.3 percent per year. For the entire U.S. private non-farm economy, this suggests an increase of about 300,000 jobs, assuming the economy is not already at 'full employment.'" (Robert Crandall, William Lehr, and Robert Litan, 'The Effects of Broadband Deployment on Output and Employment: A Cross-sectional Analysis of U.S. Data,' Issues in Economic Policy, July 2007.) MBC has documented an estimated 2,200 jobs created through investment in their current middle-mile system spanning 800 miles or about 2.75 jobs per mile. The proposed 110-mile expansion should result in about 300 new jobs based on this experience.

Description of BTOP Project Purpose (BTOP Applicants Only Next Three Questions)

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9. BTOP Statutory Purpose:

Provide access to broadband service to consumers residing in "unserved" areas of the United States.
Provide improved access to broadband service to consumers residing in "underserved" areas of the United States.
Provide broadband education, awareness, training, access, equipment, and support to schools, libraries, medical and healthcare providers, community colleges and other institutions of higher education, and other community support organizations by or through these organizations.
Improve access to, and use of, broadband service by public safety agencies.
Stimulate the demand for broadband, economic growth, and job creation.

10. Description of BTOP Project Purpose:

The project area is located in the rural Ridge and Valley portion of Virginia on the edge of the Allegheny Highlands region. The region is rural and mountainous in nature with rocky ridges and deep valleys which make the construction of communications infrastructure challenging. The service area for the proposed middle-mile project traverses a region composed of six Virginia counties--Bedford, Botetourt, Craig, Giles, Montgomery, and Roanoke--and more than 40 census communities, designated places and other areas.

This route includes three interconnection points in unserved or underserved areas:
The proposed middle-mile route runs between Blacksburg in Montgomery County to Bedford City in Bedford County. From Blacksburg, the route follows US 460 west to Newport in Giles County where an interconnection/termination point will be constructed and accessible to last mile service providers (for instance, Pembroke Telephone) for county wide last mile service provision. From Newport, the span follows Route 42 to New Castle in Craig County where another interconnection/termination point will be constructed and accessible to last mile service providers. From New Castle the span runs to Catawba, in Roanoke County along Route 311. From Catawba, the route follows Catawba Road to Route 220 in Daleville in Botetourt County. From Daleville to Troutville in Botetourt County, along Rt. 220N exiting at Greenfield St, to Trinity Rd. to Route 11 to Troutville. From Troutville, the route continues along Rt. 11S to Alt. 220S to Bonsack in Roanoke County where an interconnection/termination point will be

constructed and accessible to last mile service providers. (NOTE: The Bonsack interconnection point is in close proximity to Botetourt County line, therefore, we have included Botetourt County as part of the Bonsack service area. Botetourt County is generally considered un/underserved.)From Bonsack, the span runs north on US 460/221 through Montvale and Thaxton in Bedford County and continuing east to the Town of Bedford exiting at the ramp to 122E to Independence Blvd. to Venture Blvd. terminating at the Bedford Community College.

The route will provide splice points along the fiber path which passes through areas designated “unserved” on the Virginia service map which is based on data supplied by telecommunications providers. With an open-access policy, the fiber will be accessible at every point along the path. Three active interconnection points are planned for initial deployment. Two of these will be located in the underserved communities of Newport and New Castle. A third will be located in the Bonsack area of Roanoke county; although the interconnect itself is in a non-rural census block which is designated “served” on the Virginia map, it is nonetheless in a relatively isolated area of Roanoke County close to the Botetourt County line. The Bonsack location was chosen with the intention of serving a large underserved section of Botetourt county. The service area includes five Workforce Development Centers, three state-designated Tech Zones, and thirteen historically under-utilized business zones.

Through outreach, extension, and academic programs, Virginia Tech is engaged in development activities on several fronts which will be able to leverage the proposed infrastructure investment. One excellent example is an effort of the university involving various emergency response agencies to develop a regional 911 communications center that would combine the Public Safety Answering Point (PSAP) operations of the multiple entities. This initiative intensifies the need for an IP-based, regional, emergency services network to allow secure and reliable communications and information-sharing between the participating agencies and other public safety agencies in southwest Virginia. The development of a regional, emergency services network would create the foundation for supporting NG-911 services and facilitate interagency communications in support of the law enforcement communities’ coordinated response initiatives.

The Blacksburg Electronic Village (BEV) is a non-profit entity established by Virginia Tech in the early 1990s as a community networking project. The BEV studied the use and effects of the internet on communities, and continues to provide a resource to communities for internet development. NetworkVirginia is a program created by Virginia Tech in 1995 to promote ubiquitous access to broadband infrastructure on a statewide and regional basis. NetworkVirginia (NWV)--serving nearly 1.4 million people statewide--has successfully helped schools, libraries, health care, emergency response, government, and economic development interests level the playing field for broadband access. NWV is currently negotiating with primary contract service providers to expand availability of middle-mile, ethernet transport infrastructure. These contractors use MBC infrastructure today. BEV and NWV will leverage the proposed extension to heighten awareness, increase demand, and drive access for communities throughout the service area.

LENOWISCO, a regional agency serving the Counties of Lee, Wise, and Scott and the City of Norton, has another Tobacco Commission project operating in tobacco growing counties in southwest Virginia which complements the MBC wholesale network. LENOWISCO has experimented with additional service-delivery modes including fiber to the premises and business models including that of a for-profit, triple-play provider, Sunset Digital Communications. Virginia Tech and MBC have a close working relationship with LENOWISCO and Sunset Digital and will work to maximize collaborative opportunities.

Citizens Telephone Cooperative is a non-profit provider serving as the incumbent for the neighboring county of Floyd and offering services throughout the region. They are an innovative rural provider offering broadband service to more than 90% of the premises in their region with a 55% take rate. They operate a regional open-access fiber backbone in an adjacent area and are partnered with MBC to link Allegheny Fiber to the existing MBC network at the Blacksburg terminus.

Through a subsidiary, Citizens provides CATV service to the underserved community of New Castle, one of our primary interconnection points. New Castle is isolated from the Citizens network. Citizens has investigated the construction of the proposed fiber path from Blacksburg to New Castle but, as stated in the attached letter of support, has found it infeasible. If Allegheny Fiber is funded, Citizens will pursue renovation of their New Castle infrastructure including implementation of an optical last-mile project serving that community with advanced broadband service and a full suite of applications.

The open-access, non-profit, wholesale provider model implemented by MBC and advocated by Virginia Tech has proven to be a sustainable, effective approach for pushing broadband into rural communities. It enables incumbent providers to update and expand the latest service offerings without eroding the subscriber base by selling retail service in direct competition. It allows competitive providers to enter markets cost effectively, and it enables start-up for new modes of service delivery and experimentation.

This proposal is targeted toward replicating and expanding this successful model.

11. BTOP Enhanced Services for Health Care Delivery, Education, and Children:

In 2007, Virginia Tech partnered with Carilion Clinic, a healthcare organization with more than 500 physicians and several facilities throughout the proposed service area, to create the Virginia Tech Carilion School of Medicine and Research Institute or Virginia Tech Carilion (VTC). VTC will leverage Virginia Tech's world-class strength in basic sciences, bioinformatics, and engineering with Carilion Clinic's highly experienced medical staff and rich history in medical education. Virginia Tech Carilion will improve healthcare and quality-of-life by providing leadership in medical education and biomedical and clinical research.

VTC is located in Roanoke, Va., where an access node will be located. The proposed fiber will provide an opportunity to link VTC to the main university campus and, in concert with MBC members, to clinic locations throughout the service area. In addition, the middle-mile fiber will provide the opportunity to link VTC, the Virginia Maryland Regional School of Veterinary Medicine, and the Virginia Tech-affiliated Virginia College of Osteopathic Medicine (VCOM) to the NatCap aggregation facility for access to national healthcare network resources.

Since 1995, Virginia Tech has operated NetworkVirginia (NWV), a statewide network connecting schools, libraries, healthcare entities, and others. (http://www.networkvirginia.net) NWV has historically focused on unserved and underserved communities and now provides Internet access for about 1.4 million people in every Virginia community. Access to NWV is provided by a consortium of ILEC's with Verizon serving as a prime contractor. Access technology has not been uniformly upgraded, and many communities are still using access equipment installed in the mid-90's without support for ethernet access services. Expansion of the MBC open-access fiber with a wholesale carrier model provides a means to extend the NWV middle-mile ethernet infrastructure to underserved communities. Virginia Tech will work with schools, libraries, healthcare providers, and other NetworkVirginia participants in the proposed service area to leverage the middle-mile fiber in order to update affordable access. Please see the attached letters of support from school districts and the Virginia Department of Education.

The Virginia Telehealth Network (VTN) has used NetworkVirginia and the existing MBC network in southside Virginia to extend telehealth programs including the successful Virginia Stroke Telehealth Network. VTN is based at the University of Virginia, a member of the Mid-Atlantic Terascale Partnership (see letter of support). An expansion of the MBC open-access fiber network will provide significant benefit to the VTN and other network-enabled health care initiatives serving the proposed service area.

D. Proposed Funded Service Area

12. Proposed Funded Service Area Maps:

12-A. Service Area Map (Reference Number): **A8C8-4A25-47D5-9E4D**

12-B. Is the applicant is seeking a waiver for providing less than 100% coverage of a census block. **No**

13. Proposed Funded Service Area (BIP - Last Mile Projects):

Please refer to section M at the end of document.

14. Proposed Funded Service Area (BTOP - Middle Mile Project):

Please refer to section M at the end of document.

15. Non-Funded Service Area(BIP Only):

16. Coverage Waiver:

Applicant is seeking a waiver for providing less than 100% coverage of a census block.

No

For Response of "Yes" please refer to upload section for additional supporting documentation.

17. Methodology for Area Status:

This application's determination of served/unserved/underserved areas is guided by the Commonwealth of Virginia's recently released map of the same areas. http://gismaps.virginia.gov/broadband_census/

On May 14, 2009, the Virginia Office of Telework Promotion and Broadband Assistance released a map of fixed and wireless broadband service areas in Virginia, based on various data obtained from 30 Virginia broadband providers under nondisclosure agreements. This "first-generation" map represented the best available broadband service area data in Virginia at the time of the NOFA release.

The NOFA specifies that applicants for BIP and BTOP broadband infrastructure development programs identify, down to the census block level, served, unserved, and underserved areas. The operational definitions of "unserved" and "underserved" are spelled out in the NOFA, but the terms are defined in terms of metrics that go beyond service areas, such as take-rate, % of households served, and highest advertised connection speed.

Because the data held by the state represented service areas and did not address the issue of speed, Virginia Tech eCorridors collaborated with VGIN to incorporate additional data elements. eCorridors collected data from an interactive web-based map they developed in-house, which enables its users to mark their location on a map and then associate it with the results of a free open-source speed testing utility. These data points were used to create a spatial statistical model that predicted broadband speeds in each census block. Predicted speeds <= 200Kbps were classified as unserved; 200Kbps< predicted speeds <768Kbps were classified as underserved, and predicted speeds >=768Kbps were classified as served.

After receiving the block data from Virginia Tech for the areas that were identified as unserved, underserved, and served, VGIN performed a quality assurance check against the service data provided by the broadband vendors. This data was provided to the Commonwealth of Virginia, with VGIN as the data custodian, under a nondisclosure agreement, and as a result, could not be used directly to create a map. The data provided by the vendors varied in spatial accuracy, so VGIN chose to use only the most accurate data, provided by vendors as latitude/longitude coordinates of customers, during the verification process. VGIN performed a spatial join, resulting in a count of the number of vendor-reported customers in each census block.

From the result of the spatial join process described above, VGIN was able to estimate the population served by broadband within each block by multiplying the number of vendor points

by the average household size of 2.54 individuals per household (average household size obtained from Census Bureau website). With the population served by broadband within each block now available, an estimate of the percent served could be calculated using the census population attribute within each polygon.
VGIN then created a new attribute that indicates which polygons within the blocks provided by Virginia Tech would be considered served or underserved using the QA methodology. Blocks with an estimate of 50% or more of the population served by broadband (NOFA Definition) were coded as "served" in this new attribute. A new field, "VGIN_QA" was added to keep track of revisions that were made to the original Virginia Tech dataset and coded by the data's separation. (1 = Untouched by VGIN, 2 = Coded as Served by definition above)

The new map containing VGIN's recoded blocks was then presented to the service providers for review. VGIN revisited the original data underlying the "first generation" map, and when geocoded address point data was taken into consideration along with the latitude/longitude data that was used in the first round of QA/QC, a representation of broadband served/unserved/underserved areas emerged that was met with approval from all stakeholders.

18. Middle Mile Benefits

Mid-Atlantic Broadband Cooperative operates under a nonprofit, open-access, wholesale carrier model. MBC's approach is to build high-count, diverse fiber backbone infrastructure with access nodes strategically located to maximize economic development and access opportunities. In addition to dark fiber, MBC operates a high-capacity transport network offering ethernet and other private line services throughout the MBC footprint. Members may acquire lit services, fiber, collocation, and other services from MBC at the lowest possible cost. MBC operates a long-haul network connecting the MBC footprint to tier one exchange points in Washington, D.C. and Atlanta providing affordable access to national and international commercial networks, research and education networks, and low-cost content and Internet providers.

Membership in the cooperative is open to all types of service providers including ILECs, CLECs, cooperatives, CATV, wireless providers, municipal networks, and new entrants. Membership is also open to government/public sector entities. Commercial entities may join MBC for direct connection for economic development/job creation activities. A sample of MBC's current members includes Hibernia Atlantic, NTT, Verizon, Level3, City of Danville Utilities, Virginia Department of Transportation, and Virginia Tech

Currently, MBC's network does not extend to the proposed service area, and there is no contiguous middle-mile fiber available from any provider along the proposed path. The incumbent providers in Giles County and Craig County both operate isolated networks and neither currently advertises middle-mile data transport service.

Citizens Telephone Cooperative, a non-profit member of MBC whose primary service area is in Floyd County adjacent to the proposed service area, operates an isolated CATV system serving New Castle. Citizens typically builds fiber to the premises in their service area offering a full, triple-play service. Pending availability of the proposed fiber route, Citizens will pursue renovation of their New Castle infrastructure including implementation of an optical last-mile project serving that community with advanced broadband service and a full suite of applications (see attached letter).

The small, incumbent service providers serving the rural, underserved communities in the proposed service area, including Pembroke Telephone Cooperative, Citizens Telephone Cooperative, and TDS, are very involved in their local communities. We expect they will be the primary connectors in the use of the proposed middle-mile backbone to extend access to anchor institutions including schools, health care providers, emergency responders, and others. The philosophy of the open-access, wholesale model proposed for this project is to enable broadband access through development and sustainability of a healthy, competitive, service provider base. MBC and Virginia Tech will work with these community members to ensure maximum access, connectivity, and return on investment.

A portion of the dark fiber and infrastructure will be allocated for research and education use and will be held by Virginia Tech for that purpose. As the state's land grant institution, outreach, economic development, and continuing education are core to the mission of the university. This middle-mile fiber will tie into the current MBC system and will provide access to national and international services available at tier one locations in Washington and Atlanta. Virginia Tech currently operates the NatCap aggregation facility with responsibility to provide access to NationalLambdaRail, Internet2, and commodity Internet backbones for institutions throughout the mid-Atlantic region. Virginia Tech will ensure the proposed middle-mile fiber backbone is leveraged to the full extent possible to benefit community anchor institutions including K-20 education, health care, emergency response, municipal governments, and others.

E. Proposed Service Offering

19. Broadband Service Offerings for Last Mile Project:

Please refer to upload section at the end of the document.

20. Service Offerings for Middle Mile Project:

Please refer to upload section at the end of the document.

Competing Service Providers

21. Existing Broadband Service Providers and Services Offered:

Please refer to upload section at the end of the document.

Non-Discrimination, Interconnection

22. Description of Network Openness:

MBC has embraced the concept of open-access networks since our inception in January of 2004. It is absolutely critical that networks built with public funds that will benefit the public use be open to any and all providers, including incumbent telephone company and MSO cable companies.

MBC has a long and successful track record with open-access networks, as evidenced by our successful project in Southern Virginia. Over 50 telecommunications service providers use the MBC network today to reach un-served and underserved markets. These customers range from billion dollar companies like Verizon Business, Qwest and Level3 Communications, down to small wireless ISP's, and local competitive exchange carriers. We also have fiber assigned to research, education, and public sector entities including Virginia Tech.

The proposed middle-mile network build from Blacksburg, Virginia to Bedford, Virginia shall be a wholesale, open access network built for use by retail telecommunications service providers with emphasis on serving economic development, education, health care, emergency response, and research needs.

From a policy perspective, MBC does not discriminate against any carrier, and is open to all interconnection requests. Most carriers like Embarq, AT&T, Cavalier Telephone, Qwest, Verizon Business, Level3, Comcast and others interconnect with MBC today for a variety of Layer 1 transport requirements, and MBC has completed Master Service Agreements with those carriers.

MBC connects to both the "public" internet and peering exchanges in several locations, including carrier neutral interconnection facilities of TelX at 56 Marietta Street in Atlanta, Georgia, Level3 gateway in McLean, Virginia (1755 Old Meadow Road), Level3 Synergy Sites in Charlotte and Raleigh, North Carolina and Richmond, Virginia, Equinix facility in Ashburn, Virginia and the Terremark NAP of the Capital Region in Culpeper, Virginia. MBC brings a wide range of carrier neutral interconnection options to this project, which will greatly exceed the NTIA requirements for non-discrimination and network interconnection obligations.

As a primarily Layer 1 optical transport provider, MBC does not and will not block access, engage in packet shaping, or implement restrictions on connectivity or bandwidth utilization. MBC provisions either wavelength or Ethernet circuits over our SONET network infrastructure at the STS-1 level, thus ensuring that when a telecom provider buys 100Mbps of transport services, they have a dedicated 100Mbps pipe for their services.

Non-Discrimination and Interconnection (BTOP applicants only for next three questions)

23. Non-Discrimination Obligations (applicable to Last Mile and Middle Mile Applicants):

Adhere to the minimum non-discrimination requirements as set forth in the NOFA.
Display the nondiscrimination practices in a prominent location on the service provider's web page, and provide notice to customers of changes to these policies.

24. Interconnection Obligations (applicable to Last Mile Applicants):

25. Interconnection Obligations Middle Mile Applicants:

Adhere to the minimum interconnection requirements as set forth in the NOFA.
Display the interconnection policies in a prominent location on the service provider's web page, and provide notice to customers of changes to these policies.
Commit to offering wholesale access to network components and services such as wavelength or fibers at reasonable rates and terms.
Commit to binding private arbitration of disputes concerning interconnection obligations.

Cost Effectiveness and Affordability

26. Cost per Household (BTOP only):

We interpret the instructions to apply this question only to last mile projects so it would not be applicable to this middle mile proposal. However, since the review tool states a response is required, we can divide our total project cost by the number of households in the proposed service area, or $6,925,000 / 190,694 = $36.31 per household.

27. Affordability

MBC has conducted market review of pricing for middle-mile broadband service offerings in the proposed service area. The main issue is that in many cases there is no comparable benchmark in which to compare.

For instance, in the proposed service area, the only comparable advertised ethernet transport offering would be from Verizon. In much of MBC's total service area, the major incumbent providers, Verizon and Embarq, do not have the network ability to support Ethernet services, as they can only support TDM services at the T1 or T3 level with their copper plant. In some areas, the ILEC cannot deliver OC-level services (i.e. 155Mbps or above) due to technology issues.

As presented in Attachment C, Verizon provided advertised pricing for ethernet private line and ethernet virtual private line services for representative circuits in the proposed service area. 100Mbps transport from Verizon ranges from $5,460 per month for Roanoke to Blacksburg to $18,880 per month for Newport to Blacksburg (please refer to quotes uploaded as supporting data). Newport to Blacksburg is only about 10 miles but Verizon would have to provision this service through Richmond over several hundred miles. In the general case, Verizon would likely offer a reduced rate using ICB pricing and middle mile providers including wireless microwave backhaul providers such as Conterra Ultra Broadband, LLC provide 100Mbps transport links at $1,200 to $1,800 per month depending on capital required and term of contract subject to their technology limitations. In comparison, MBC offerings for 100Mbps dedicated transport link using optical fiber is $1,200 to $1,500 depending on term of contract (i.e. 2yr vs 5yr) and we can scale service to 10Gbps or higher. We are aware of no more affordable pricing for middle mile transport services.

If we were to take a more global view of affordability, one of the key reasons to implement an advanced, open-access wholesale network in underserved and un-served areas is to level the playing field when it comes to pricing. The goal is for outlying communities to have similar pricing structures to metropolitan areas so that economic development and opportunities for advancement are not hindered by having more expensive telecommunications services in rural, underserved markets.

Generally for rural communities, it is difficult to assess wholesale pricing comparisons on an apple to apple basis, simply because many of these unserved and underserved markets do not have providers today who can provide the level of advanced wholesale transport services availed by fiber optic networks, and instead have to rely on outdated, antiquated and expensive legacy TDM and copper infrastructures to deliver mediocre services to the area. Clearly this is the case for the proposed service area addressed in this proposal.

F. Technology Strategy

28. Technology Type:

Wireline - Fiber-optic Cable
Wireless - Terrestrial Fixed

Other:

29. System Design

MBC has proposed utilizing our existing system design of carrier-class optical transport network delivery. This design has been highly successful at bringing advanced, middle-mile open-access telecommunications services to un-served and underserved communities in Virginia.

For this proposed Middle-mile project, we offer the following comments on our proposed infrastructure build-out, including fiber backbone, node facilities, electronics, and internet backbone access requirements.

Fiber Backbone Infrastructure
MBC proposes use of SMF-28E, single mode fiber optic cable, ranging from 96 strands to 144 strands in 12 fiber loose tube configuration using armored sheathing. Installation will be direct buried along roadway right of ways through existing MBC agreements with the Virginia Department of Transportation. Where aerial facilities are needed due to terrain or congestion issues, fiber will be placed in the communications zone of existing pole facilities and will utilize existing pole attachment agreements with providers already in place by MBC. All fiber will be fusion spliced and will have a maximum of 0.25db of loss per KM (MBC existing installation of 800+ miles of fiber has loss readings of less than 0.21db per KM). Handholes will be placed at road crossings and other locations to facilitate access of last mile providers and lateral fiber builds to water towers, existing communication towers, etc. to the middle-mile backbone project.

Node Facilities
MBC proposes to build three (3) new node facilities along the route, which will be 12'x20' pre-cast concrete structures. These node facilities will have two (2) entry doors (one side for MBC equipment, the other side for collocation of other providers), and will provide carrier neutral cross connect and interconnection points in the communities. The node facilities are designed with 200amp single phase power, dual HVAC systems, emergency generator backup with low-emission EPA rated diesel fuel powered systems, and substantial grounding and environmental monitoring systems.

Electronics
MBC will utilize carrier class providers of optical transport equipment to facilitate the lighting of the network to provision services along the middle-mile route. This network will consist of an OC-192 (10Gigabits per second) Backbone System that will tie into MBC's existing network interconnection points in Blacksburg and Bedford, and will be robust enough to handle the interconnection facilities and requirements of last mile service providers in the service area. The network will be initially scalable to 200Gbps (20 OC-192 wavelengths).

Connections to service providers will be broken down in the node facilities to allow transport circuits as small as 10Mbps, utilizing Ethernet over SONET technology. This technology will ensure carrier-class reliability and will not have issues of Layer 2 type Ethernet offerings where VLAN support can prove problematic in the delivery of dedicated bandwidth to telecommunications service providers. All electronics will be powered using redundant DC power A&B feeds, and will be monitored and managed 24 hours a day, 7 days a week, 365 days a year, from MBC's existing Network Operations Center (NOC) in South Boston, Virginia. MBC utilizes Nortel and Infinera as our primary equipment providers.

Internet Backbone Access
MBC operates a 100% on-net facilities based network that connects unserved and underserved communities in Virginia to key internet peering points and interconnection facilities. MBC has our own network equipment in the Equinix IBX facility located in Ashburn, Virginia. Many MBC service provider customers are using MBC to transport their circuits to Ashburn, where MBC cross connects to various IP transit providers. This has reduced the cost of internet access

in the region, and greatly expanded the competitive landscape of the number and types of carriers now able to reach formerly unserved and underserved areas of Virginia. For this particular project, the new communities along the proposed fiber route will have access to the middle-mile network and will improve the reach of internet access to those providers, who will ultimately be able to improve the internet access experience for their residential and business customers. Middle-mile access provided as part of this project is a critical part of ensuring the largely unserved and underserved communities in this proposed service area have direct access to key internet peering points and will provide an advantage in economic development as communities look to attract technology based industries to their region.

Reasoning of Infrastructure Choices
MBC's 800+ mile regional open-access fiber network paired with high capacity, long haul connections to tier one access points in Washington and Atanta has proven to be an innovating and effective approach for revitalizing regional economies.

MBC has demonstrated that networks built to carrier-class standards and operated as a wholesale network with open-access policies for any and all service providers are beneficial to the communities served, and result in increased, healthy competition among last-mile, service providers. Providers are able to increase their reach into un-served markets as well as increase their bandwidth to the commodity internet while reducing their ongoing costs all at once.

We have found that this type of infrastructure also provides an opportunity to offer "postage stamp" pricing on the regional network. That is, MBC has a flat rate per circuit that is not mileage sensitive. This is a huge benefit to service providers who utilize the middle-mile network as it does not promote more costly services the further away a community is from an internet access point, and creates a very level playing field for all providers to utilize.

Upgrade and Scalability of Network
MBC has designed this network with upgrade and scalability in mind. As with all of our network builds, ease of upgrade is critically important, as many of our customers require fast upgrades to support their growing telecommunications businesses. For instance, when we provision a 100Mbps transport circuit, we provision that on a 1Gbps Ethernet port, and allocate 100Mbps of bandwidth. If the customer needs to increase to 150Mbps or 200Mbps, MBC can

do that remotely and requires about 10 minutes to reprovision the circuit. We have done this multiple times for our carrier customers, and they appreciate the flexibility of that process.

Upgrading the system is relatively simple, as additional cards can be added to increase backbone speeds, and with the implementation of a DWDM or CWDM capabilities, flexibility is increased.

30. Network Diagram:

Please refer to upload section at the end of document.

31. Certification by Professional Engineer:

Please refer to upload section at the end of document.

32. Buy American Waiver Request:

Is the applicant seeking an individual waiver of the Buy American provision? **No**

Buy American Waiver Request – Legal Justification

33. Choice of Service Provider:

Does the project's Infrastructure and the Company's business plan allow more than one provider to serve end users in the proposed funded service area?

Yes

G. Project Milestones and Completion Factors

Timeline & Milestones

34. Infrastructure Build-out Timeline:

Please refer to upload section at the end of the document.

35. Licenses, Regulatory Approvals and Agreements:

Due to MBC's considerable experience in operating and managing a large middle-mile telecommunications network, few licenses and agreements will be needed for successful implementation and operation of the project.

The following will NOT be required for this project:
Tower Leases, Equipment Leases, Building Leases, FCC Authorizations, State Authorizations, Video Franchise Agreements, Leasing of Local Loops.

The following will be required:

Land Leases - MBC plans to obtain long-term easements from the County owned land that the new node facilities will be placed. MBC has successfully completed that process with 24 other counties/cities and will use that same process for the new land leases.

Rights of Way - MBC has an executed, ongoing Memorandum of Understanding with the Virginia Department of Transportation for use of their right of way for the entire state. We will not be required to renegotiate another agreement, as our existing agreement will cover this project.

Railroad Crossing - There are 2 rail crossings for this project. MBC has successfully completed crossing permits with the railroad owner for 24 other crossings in the state. MBC will follow our standard permit procedure for this activity.

36. Construction and Vendor Contracts

The contractors we intend to rely on for the building and implementation of the new network include Better Cable Systems Inc., RACO, Inc. and Telephone Engineering Consultants (TEC). Both Better Cable Systems Inc. and RACO Inc. will be contracted to lay the fiber optics for the building and implementation of the proposed network. MBC has an ongoing relationship with RACO, Better Cable Systems and TEC, and are ready to start immediately. We have used these companies for several years and are confident in their abilities to provide the best costs, as indicated with their ongoing relationship with MBC.

Better Cable Systems Inc. (Certified Woman Owned Business)
1230 N. Main St.
P.O. Box 1117
Roxboro, NC 27573
Phone – (336) 599-2226
Fax – (336) 599-0989
Email – jpuryear2004@earthlink.net (JoAnn Puryear – President of BCS)

RACO, Inc. (Certified Small Business in Virginia)
P.O. Box 265
Gretna, VA 24557
Phone – (434) 656-6676
Toll Free – (800) 709-6690
Fax – (434) 656-6678
Email – Service@raco-construction.com

Telephone Engineering Consultants (TEC)
14116 Ward's Rd # B
Lynchburg, VA 24502
Phone – (434) 239-3700
Email – dscearce@embarqmail.com (Don Scearce – Engineer for this project)

Qualification of Management Team and Organizational Readiness

37. Management Team Resumes:

Please refer to upload section at the end of the document.

38. Organizational Readiness:

Mid-Atlantic Broadband Cooperative is prepared to implement, manage and operate the advanced, open-access middle mile network that is proposed. MBC is a non-profit cooperative operating as a wholesale provider, and our company currently manages a broadband network comprised of more than 800 miles of fiber in Southern Virginia in our regional/metro network. Our senior management team, along with our project team members, have over 75 combined years of experience in the telecommunications field. MBC also has an eleven member Board of Directors dedicated to MBC's regional economic development mission that provides governance and policy decisions corresponding to MBC activities.

The senior management team at MBC is comprised of two people, Tad Deriso and Hunter Ford. Mr. Deriso is the President and CEO of the company. He is in charge of coordinating operations, member needs, community relations, governmental affairs, sales and marketing and carrying out strategic direction.

Hunter Ford, our Networks Operations Manager, already manages and maintains the existing 800 mile MBC fiber optic outside plant network, and is also the manager of the MBC Networks Operations Center facility in South Boston, VA. He will be managing these new fiber routes as well.

Billing and Grants Administration will be carried out by our Accounting and Finance Manager Dana Jones. She is responsible for billing all of our current accounts and will be responsible for the new accounts from this project and following grant reporting and transparency requirements. Dana successfully manages existing MBC grants from the Virginia Tobacco Commission, NASA, and the US Department of Commerce Economic Development Administration.

MBC, as a successful, existing wholesale carrier, is well qualified to carry out the full implementation and ongoing operational support requirements. MBC has a fully operational network that has been up and running for 34 months and has a comprehensive understanding of billing, customer care, network operations, network maintenance, financial reporting, and overall management. MBC's ability to integrate this projects operation into the daily operations of MBC is not an issue. MBC will establish a separate department to track grant activities, revenues, expenses for assurances of auditing and government transparency requirements. As MBC has been the recipient of over $55 million in grants from State and Federal agencies for broadband network deployment, we understand the requirements of separate accounting and accountability for the project expenditures and take this responsibility very seriously.

MBC's existing carrier members are anxious for this project to be completed, as it will enable their services to be expanded to other unserved and underserved markets in Virginia, thus improving the access for middle-mile services to those affected regions.

Other

39. Organizational Chart:

Please refer to upload section at the end of document.

40. Legal Opinion:

Please refer to upload section at the end of document

41. Government and other Key Partnerships:

Virginia Tech's primary partner will be the Mid-Atlantic Broadband Cooperative (MBC) who has joined us in this proposal. MBC is a non-profit cooperative created by the Virginia Tobacco Commission to develop broadband infrastructure for the benefit of communities across the tobacco growing region of the state.

Citizens Telephone Cooperative is a non-profit provider who has been a strong partner for both Virginia Tech and MBC. Citizens will pursue renovation of their New Castle infrastructure including implementation of an optical last-mile project serving that community with advanced broadband service and a full suite of applications

Virginia Tech is allied with the Virginia Department of Education for improving access and IT-enabled programs and services for K-20 schools statewide. We will work with DOE to make use of the expanding open access fiber network statewide for education and research.

The Mid-Atlantic Terascale Partnership (MATP) is a consortium of research universities. MATP members will use the expanding open access fiber network to create high performance access infrastructure and to support regional, national, and international research and collaboration.

Virginia Tech, IBM, and Arlington County have announced a strategic partnership which will focus on advanced research and systems for certain areas of routine and crisis event management. This program will leverage the expanding open access fiber network to connect to Virginia Tech, other research institutions, and partner communities throughout the region.

The Virginia Tech Carilion School of Medicine and Research Institute (VTC), is the result of a partnership with Carilion, a healthcare organization with more than 500 physicians with facilities throughout the proposed service area. The proposed fiber path will enable VTC to connect from the campus location in Roanoke to VT's main campus in Blacksburg and also to clinic locations throughout the proposed service area.

42. Recovery Act and Other Governmental Collaboration.

The Mid-Atlantic Broadband Network is leveraging state funding from the Virginia Tobacco Commission and federal funding from the Department of Commerce Economic Development Administration (EDA). MBC launched it's first major build of 300 miles of fiber in 2004 with $6 million in grant funding from EDA and $6 million in matching grant funds from the Tobacco Commission. Subsequently, the Tobacco Commission contributed another $28 million in grant funding to extend the network which now exceeds 800 miles. The Tobacco Commission is constrained from providing funds for infrastructure outside the tobacco growing region in southside and far southwest Virginia. The proposed Allegheny Fiber project seeks to leverage funding from the NTIA BTOP program and matching funds from the Virginia Tech Foundation to extend the MBC network another 110 miles into a rural, mountainous region of the state which cannot otherwise be reached.

Virginia Tech is submitting an application for a grant from the National Science Foundation Academic Research Infrastructure Program: Recovery and Reinvestment (ARI-R2) program. The university is seeking $2 million for renovation of the fiber optic backbone infrastructure interconnecting research facilities across the Blacksburg campus. This effort is focused on enabling science and engineering research. Virginia Tech currently has no fiber path linking the campus directly to the NatCap Aggregation facility in northern Virginia to connect to National LambdaRail, Internet2, MAX, and other high performance research networks. The Allegheny Fiber project and fiber already held by the university in MBC's existing network will provide the campus renovated infrastructure with direct access to tier one access and aggregation points.

At the national level, Virginia Tech Foundation is a Class A Member of the National LambdaRail. NLR, together with other regional and national network organizations, is seeking to leverage federal Recovery Act funding to expand national capacity and resources for US research. Improvements to campus infrastructure, regional middle-mile, and national optical infrastructure will greatly enhance end-to-end connectivity and support for research and education plus enhance our work in economic development, health care, emergency response, public service.

Community Involvement (BTOP Applicants Only)

43. Partnering with Disadvantaged Businesses

Not applicable

H. Project Budget

44. General Overall Budget

Budget	Loan Request	Grant Request	Equity	Debt	Bond	Other
Network & Access Equipment (switching, routing, transport, access)		**240,000**				**60,000**
Outside Plant (cables, conduits, ducts, poles, towers, repeaters, etc.)		**4,400,000**				**1,100,000**
Buildings and Land – (new construction, improvements, renovations, lease)		**240,000**				**60,000**
Customer Premise Equipment (modems, set-top boxes, inside wiring, etc.)						
Billing and Operational Support Systems (IT systems, software, etc.)						
Operating Equipment		**38,000**				**9,500**

(vehicles, office equipment, other)						
Engineering/ Professional Services (engineering design, project management, consulting, etc.)		**494,000**				**123,500**
Testing (network elements, IT system elements, user devices, test generators, lab furnishings, servers/computers, etc.)		**16,000**				**4,000**
Site Preparation		**72,000**				**18,000**
Other		**40,000**				**10,000**
TOTAL BROADBAND SYSTEM		**5,540,000**				**1,385,000**

Total Budget: $ 6,925,000

45. Detailed Budget:

Please refer to upload section at the end of the document.

Sustainability

46. Reasonableness

MBC has accurate and reliable unit cost data which is based on our ongoing costs received for products and services related to network design, construction, operations, maintenance and management. MBC has relationships with suppliers that have been competitively bid (most under US Dept. of Commerce, Economic Development Administration rules and guidelines). All of MBC's capital funding has come from Grant funds, both from Federal and the State of Virginia Tobacco Indemnification and Community Revitalization Commission. We are well aware and embrace the requirements of fiduciary responsibility and transparency in financial transactions. We feel there are three (3) major components of financial reasonableness, which are Capital Costs, Operational Costs, and Revenues.

Capital Cost Reasonableness: Due to our existing fiber construction work, our extensive knowledge of fiber backbone and middle-mile infrastructure projects in rural markets, we are confident that the unit prices proposed in this project are reasonable, necessary and appropriate for the project to be completed on time and on budget.

Operational Cost Reasonableness: (No operational costs are included in our funding request.) MBC has operated a substantial middle-mile project in rural Virginia for 34 months and understand the various costs that are attributable to managing and maintaining a substantial middle-mile network. We estimate that it will cost $682 per route mile per year to maintain the network maintenance and monitoring functions. This includes costs for underground utility locates, pole attachment fees, fiber repair and restoration, fiber testing and preventive maintenance. Power costs in node facilities will be approximately $267 per month (based on actual MBC costs in other similar node facilities in the region). Sales and Marketing costs are necessary to market the system to local and regional internet service providers, and provide sales support to drive revenue to the middle mile network. Customer care and billing are operational expenses that will be require approximately $1,000 per month to complete as the open-access network capacity will be sold on a wholesale basis to other telecom services providers. Corporate G&A includes those management and administrative costs related to network operations, grant reporting and collection work.

Revenue Reasonableness: MBC, as an operator of a wholesale, open-access, middle mile network in rural Virginia, has a structured pricing program in place that provides flat rate transport pricing for telecom service providers. This pricing model has been in place for almost 3 years, and has been embraced by the telecom provider community as the right way to sell transport services. Those revenue estimates are based on our knowledge of the wholesale transport industry and assumptions about the viable transport services to be gained in the service area.

47. Historical Financial Statements:

Please refer to upload section at the end of the document.

48. Broadband Subscriber Estimates:

Please refer to upload section at the end of the document.

49. Other Services:

Please refer to upload section at the end of the document.

50. Pro Forma 5-Year Financial Forecast and Assumptions:

Please refer to upload section at the end of the document.

51. Commitment of Capital Funding Support

Name: Virginia Tech Foundation Amount: $1,385,000 (20% of project cost) Type of Funding: Grant Match Terms: VTF will own infrastructure and retain use of 12 fiber strands. Use of Funding: Infrastructure

BTOP Requirements

52. Matching Funds:

- **a. Cash: $** 1,385,000.00
- **b. In-Kind: $** .00
- **c. Percent of Total Project Cost:** 20

53. Demonstration of Financial Need:

MBC has a long history of evaluating project justifications for grant funding versus private sector or loan funding. Simply put, this project would not be viable under any type of Loan or capital repayment program.

When MBC evaluated the financial viability of building a 700+ mile fiber optic middle mile network in Southern Virginia, one of the factors evaluated was debt repayments. The original plan was to borrow approximately $50 million to build the network, then pay back the loan over 10 years at 3% interest. The capital and interest repayment was over $450,000 per month, and the projected revenues would only reach about $300,000 per month for the first 3 years. That did not include the normal operational expenses of $250,000 per month, and depreciation of $300,000 per month, bringing total expenses to $1,000,000 per month with only $300,000 in revenue to support the initiative. Without 100% grant funding for the capital infrastructure expenses, the project could not have proceeded.

Similarly, this project calls for almost $7 million in capital expenses. MBC is able to project revenues for the first full year of operation a little over $200,000. That is barely enough to cover the operational costs of the proposed network. MBC estimates a capital expense exceeding $500,000 annually on an amortized basis. Clearly there is insufficient revenue to capitalize this infrastructure expansion.

This project is not feasible with any type of capital repayment program.

This conclusion is supported by Citizens Cooperative per the attached letter of support. Citizens has analyzed construction along the proposed path in consideration of supporting their existing infrastructure in New Castle and for other purposes and has concluded it is not feasible without subsidy.

Virginia Tech also endorses this conclusion.

54. Unjust Enrichment

None

55. Disclosure of Federal and/or State Funding Sources

None

I. Self Scoring – BIP Only Self Scoring

56. Self Scoring Sheet

Criteria	Method	Points	Self Scores
PROJECT PURPOSE			
Proportion of Rural Residents Served in Unserved Areas	1 point for every 10,000 unserved households	Up to 5	
Rural Area Targeting	1 point for every 5% increase in the rural service area up the minimum 75% rural area requirement	Up to 5	
Remote Area targeting	1 point for every 50 miles a service area is located from a non-rural area	Up to 5	
Title II Borrower	If you are or were a Title II borrower	5	
Recovery Act and other governmental collaboration	1 point will be awarded for each governmental or Recovery program the applicant is partnering with	Up to 5	
PROJECT BENEFITS			
Performance of the offered services	If a last mile wireline project delivers 20M to household – if a last mile wireless projects delivers 2M to end-user – if a middle mile projects delivers 100M to end points	**10**	
Affordable of services offered	Points awarded based on the proposed rate structure and the logistics of the proposed service area	Up to 5	

Choice of service provider	If the proposed infrastructure is available to be used by multiple service providers	**5**	
Critical Community Facilities	If discounted rate packages at least 25% lower than advertise rates are available to critical facilities	**5**	
PROJECT VIABILITY			
Applicant's organizational capability	Points will be awarded on the strengths and accomplishments of key management	Up to 12	
Community Support	If a letter of support has been received from a designated representative of the community for every community in the proposed service territory	2	
Ability to promptly start project	If the applicant can demonstrate that all licenses and regulatory approvals have been received, contractors and vendors are ready to enter into contracts, and equity has been deposited into applicant accounts	10	
Socially and economically disadvantaged small businesses (SDB), as defined by section 8(a) of the Small Business Act, 15 U.S.C. §637.	If the applicant is a Section 8(a) entity	1	
PROJECT BUDGET AND SUSTAINABLITY			
Reasonableness of the budget	Points will be awarded based the	Up to 5	

	adequacy of the proposed budget		
Leverage of outside resources (outside funding/financing requested)	(i) 10 points if this ratio is greater than 100% (ii) 7 points if this ratio is between 100% and 75% (iii) 5 points if this ratio is between 75% and 50% (iv) 3 points if this ratio is between 50% and 25% (v) 1 points if this ratio is lower than 25%	10	
Extent of grant funding (Grant funds/loan funds)	(i) 0 points if this ratio equals 100% (ii) 1 points if this ratio is between 100% and 75% (iii) 3 points if this ratio is between 75% and 50% (iv) 5 points if this ratio is lower than 50% (v) 10 points if no grant funds are requested	10	
Total Points		100	

J. BTOP Certification Requirements

Certification (Requested for BTOP)

Please refer to upload section at the end of the document regarding following uploads.

1. U.S. Department of Commerce, Broadband Technology Opportunities Program
2. SF-424D Assurances—Construction Programs (Schedule N)
3. CD-511, Certification Regarding Lobbying (Attachment O)
4. SF-LLL, Disclosure of Lobbying Activities (Attachment P)
5. CD-512, Certification Regarding Lobbying—Lower-Tier Covered Transactions (Attachment Q) This certification will not be required until the time of the grant award, because it applies to subcontractors, etc.

K. BIP Certification Requirements

Certification (Requested for BIP)

Please refer to upload section at the end of the document regarding following uploads.

1. Equal Opportunity and Nondiscrimination Certification
2. Certification Regarding Architectural Barriers
3. Uniform Relocation Assistance and Real Property Acquisition - Policies Act of 1970 Certification
4. Certification Regarding Debarment, Suspension, and Other Responsibility Matters – Primary Covered Transactions
5. Certification Regarding Lobbying for Contracts, Grants, Loans, and Cooperative Agreements

6. Network Design and Implementation Plan Certification (to be complete for projects requesting more than $1 million in federal assistance)

L. Schedules

Schedule: A-1 Congressional Districts

1. State the Congressional District of the Applicant's headquarters
Virginia - 9

2. State the Congressional District for each area covered by the Project.
Virginia - 5

Virginia - 6

Virginia - 9

M. Proposed Funded Service Area Details (BIP & BTOP)

13. Proposed Funded Service Area (BIP - Last Mile Projects):

Proposed Funded Service Area Name:
Census Blocks in Proposed Funded Service Area:
Community Name:
Rural Classification of the Community:
BIP - Service Status:

BIP - If Service Status is "Underserved" please select at least one applicable option from this list.

BTOP – Service Status:

BTOP - If Service Status is "Underserved" please select at least one applicable option from this list.

Total Square Miles of Community:
Total Population :
Total Number of Households:
Total Number of Businesses:
Total Number of Critical Community Facilities, Anchor Institutions and Public Safety Entities:

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14. Proposed Service Area (BTOP - Middle Mile Project):

Middle Mile Span Name: **Montgomery2Bedford**
Census Blocks in Middle Mile Span: 1017, 1018, 1003, 1004, 1005, 1006, 1007, 1001, 1095, 1100, 1101, 1000, 1001, 1003, 1006, 1009, 1010, 1011, 1012, 1016, 1017, 1018, 1019, 1020, 1021, 1023, 1026, 1029, 1043, 2000, 2008, 4014, 4015, 1074, 1077, 1080, 1111, 1113, 2005, 2006, 2007, 2016, 2017, 3016, 1002, 1028, 1037, 4007, 4020, 5000, 5010, 5011, 5012, 5013, 5014, 5015, 5017, 5019, 5052, 5053, 2015, 2021, 2024, 2025, 2032, 2035, 2036, 2037, 3001, 4018, 4034, 1011, 3008, 3020, 3026, 3027, 5013, 1115, 1117, 1121, 2041, 2042, 2044, 2047, 2049, 2050, 2052, 2062, 2063, 2067, 2071, 2076, 2082, 2083, 2090, 2107, 2109, 2112, 2113, 2115, 2126, 2131, 2132, 2138, 2141, 2142, 2143, 2147, 2148, 2150, 2158, 2237, 2238, 2239, 2241, 4051, 4052, 4058, 1001, 1006, 2029, 2032, 2059, 2060, 2062
Last Mile Service Area Name: Giles County
Community Name: **Newport**
Rural Calssification of the Community: Rural
BIP – Service Status:

BIP - If Service Status is "Underserved" please select at least one applicable option from this list.

BTOP - Service Status: Underserved

BTOP - If Service Status is "Underserved" please select at least one applicable option from this list.
No more than 50% of the households in the proposed funded service area have access to facilities-based, terrestrial broadband service at greater than the minimum broadband transmission speed;

Total Square Miles of Service Area: 1
Total Population : 17,893
Total Number of Households: 7,489
Total Number of Businesses: 321
Total Number of Critical Community Facilities, Anchor Institutions and Public Safety Entities: 13

Middle Mile Span Name: **Montgomery2Bedford**
Census Blocks in Middle Mile Span: 1017, 1018, 1003, 1004, 1005, 1006, 1007, 1001, 1095, 1100, 1101, 1000, 1001, 1003, 1006, 1009, 1010, 1011, 1012, 1016, 1017, 1018, 1019, 1020, 1021, 1023, 1026, 1029, 1043, 2000, 2008, 4014, 4015, 1074, 1077, 1080, 1111, 1113, 2005, 2006, 2007, 2016, 2017, 3016, 1002, 1028, 1037, 4007, 4020, 5000, 5010, 5011, 5012, 5013, 5014, 5015, 5017, 5019, 5052, 5053, 2015, 2021, 2024, 2025, 2032, 2035, 2036, 2037, 3001, 4018, 4034, 1011, 3008, 3020, 3026, 3027, 5013, 1115, 1117, 1121, 2041, 2042, 2044, 2047, 2049, 2050, 2052, 2062, 2063, 2067, 2071, 2076, 2082, 2083, 2090, 2107, 2109, 2112, 2113, 2115, 2126, 2131, 2132, 2138, 2141, 2142, 2143, 2147, 2148, 2150, 2158, 2237, 2238, 2239, 2241, 4051, 4052, 4058, 1001, 1006, 2029, 2032, 2059, 2060, 2062
Last Mile Service Area Name: Craig County
Community Name: **New Castle**
Rural Calssification of the Community: Rural
BIP – Service Status:

BIP - If Service Status is "Underserved" please select at least one applicable option from this list.

BTOP - Service Status: Unserved

BTOP - If Service Status is "Underserved" please select at least one applicable option from this list.

Total Square Miles of Service Area: 1
Total Population : 6,724
Total Number of Households: 2,659
Total Number of Businesses: 71
Total Number of Critical Community Facilities, Anchor Institutions and Public Safety Entities: 4

Middle Mile Span Name: **Montgomery2Bedford**
Census Blocks in Middle Mile Span: 1017, 1018, 1003, 1004, 1005, 1006, 1007, 1001, 1095, 1100, 1101, 1000, 1001, 1003, 1006, 1009, 1010, 1011, 1012, 1016, 1017, 1018, 1019, 1020, 1021, 1023, 1026, 1029, 1043, 2000, 2008, 4014, 4015, 1074, 1077, 1080, 1111, 1113, 2005, 2006, 2007, 2016, 2017, 3016, 1002, 1028, 1037, 4007, 4020, 5000, 5010, 5011, 5012, 5013, 5014, 5015, 5017, 5019, 5052, 5053, 2015, 2021, 2024, 2025, 2032, 2035, 2036, 2037, 3001, 4018, 4034, 1011, 3008, 3020, 3026, 3027, 5013, 1115, 1117, 1121, 2041, 2042, 2044, 2047, 2049, 2050, 2052, 2062, 2063, 2067, 2071, 2076, 2082, 2083, 2090, 2107, 2109, 2112, 2113, 2115, 2126, 2131, 2132, 2138, 2141, 2142, 2143, 2147, 2148, 2150, 2158, 2237, 2238, 2239, 2241, 4051, 4052, 4058, 1001, 1006, 2029, 2032, 2059, 2060, 2062
Last Mile Service Area Name: Roanoke County
Community Name: **Bonsack**
Rural Calssification of the Community: Non-Rural
BIP – Service Status:

BIP - If Service Status is "Underserved" please select at least one applicable option from this list.

BTOP - Service Status: Underserved

BTOP - If Service Status is "Underserved" please select at least one applicable option from this list.
No more than 50% of the households in the proposed funded service area have access to facilities-based, terrestrial broadband service at greater than the minimum broadband transmission speed;

Total Square Miles of Service Area: 2
Total Population : 139,309
Total Number of Households: 55,895
Total Number of Businesses: 2,983
Total Number of Critical Community Facilities, Anchor Institutions and Public Safety Entities: 80

Uploads

The following pages contain the following uploads provided by the applicant:

Upload Name
04) Q-20. Attachment B - Middle Mile Offerings
05) Q-21. Attachment C - Competitor Tables
07) Q-27. Affordability
08) Q-30. Network Diagram
09) Q-31. Attachment D - Engineer Certification*
10) Q-34. Attachment E - Build-Out Timeline
11) Q-37. Management Team Resumes
12) Q-39. Organization Chart
13) Q-40. Attachment F - Legal Opinion*
14) Q-41. Government and Other Key Partnerships
15) Q-44. JOINT APPS ONLY: Additional Budget

16) Q-45. Attachment G - Detailed Project Cost
17) Q-47. Historical Financial Statements
18) Q-48. Attachment H - Subscriber Estimates
21) Q-50. Attachment K - Income Statement
22) Q-50. Attachment L - Balance Sheet
23) Q-50. Attachment M - Statement of Cash Flows
24) Q-50. Financial Assumptions
25) BTOP ONLY Authentication*
26) Pg-22. BTOP ONLY Certification Requirements*
27) Pg-23. BTOP ONLY Att. N - Assur-Construction*
28) Pg-24. BTOP ONLY Attachment O - Lobbying*
29) Pg-25. BTOP ONLY Attachment P - Disclosure*

30) Pg-26. BTOP ONLY Attachment Q - Lobbying*

To preserve the integrity of the uploaded document, headers, footers and page numbers have not been added by the system

Proposed Middle Mile Service Offerings

Service Offering	Distance Band or Point to Point	Minimum Peak Load Network Bandwidth Capacity (Mbps)	Monthly/Yearly Pricing ($)				Other
Circuit	Point to Point	N/A	Mbps	NRC	MRC	YRC	
10	Point to Point	10 Mbps	10	$750	$400	$4,800	NRC:
50	Point to Point	50 Mbps	50	$750	$1,000	$12,000	Non-Recurring Cost
100	Point to Point	100 Mbps	100	$750	$1,500	$18,000	
150	Point to Point	150 Mbps	150	$750	$1,750	$21,000	MRC:
200	Point to Point	200 Mbps	200	$750	$2,000	$24,000	Monthly Recurring Cost
250	Point to Point	250 Mbps	250	$750	$2,400	$28,800	
300	Point to Point	300 Mbps	300	$750	$2,750	$33,000	YRC:
350	Point to Point	350 Mbps	350	$750	$3,250	$39,000	Yearly Recurring Cost
400	Point to Point	400 Mbps	400	$750	$3,750	$45,000	
450	Point to Point	450 Mbps	450	$750	$4,250	$51,000	*These prices are
500	Point to Point	500 Mbps	500	$750	$4,500	$54,000	based on a 24 month
550	Point to Point	550 Mbps	550	$750	$4,750	$57,000	service agreement.
600	Point to Point	600 Mbps	600	$750	$5,000	$60,000	
650	Point to Point	650 Mbps	650	$750	$5,250	$63,000	
700	Point to Point	700 Mbps	700	$750	$5,500	$66,000	
750	Point to Point	750 Mbps	750	$750	$5,750	$69,000	
800	Point to Point	800 Mbps	800	$750	$6,000	$72,000	
850	Point to Point	850 Mbps	850	$750	$6,250	$75,000	
900	Point to Point	900 Mbps	900	$750	$6,500	$78,000	
950	Point to Point	950 Mbps	950	$750	$6,750	$81,000	
1 Gbps	Point to Point	1,000 Mbps	1000	$750	$7,000	$84,000	
	Point to Point						
DS3	Point to Point	45 Mbps	45	$750	$1,500	$18,000	
OC3	Point to Point	155 Mbps	155	$1,500	$3,000	$36,000	
OC12	Point to Point	622 Mbps	622	$1,500	$7,500	$90,000	
OC48	Point to Point	2,500 Mbps	2500	$2,500	$11,880	$142,560	
OC192	Point to Point	10,000 Mbps	10000	$2,500	$18,000	$216,000	

Proposed Middle Mile Service Offerings

ATTACHMENT C – COMPETITOR TABLE – MIDDLE MILE

The proposed project will offer flat-rate, postalized pricing for middle mile services throughout the service areas.

TDS, the incumbent provider for New Castle, in Craig county, and Pemtel, the incumbent provider for Newport in Giles county, do not offer any advertised middle mile transport services.

The only provider with advertised middle mile pricing throughout the proposed service area is Verizon. Verizon service examples and pricing area presented below. Verizon stipulated these are advertised retail rates and do not reflect ICB pricing which may be extended to anchor institutions on a case by case basis. 5 year term pricing.

Verizon Point to Point Ethernet pricing

A Location	NPA-NXX	Z Location	NPA-NXX	Service	10MB	100MB	1GB
Newport	540-544	Blacksburg	540-951	VzB Ethernet Virtual Private Line	$10,725.00	$18,880.00	$83,077.00
NewCastle	540-864	Blacksburg	540-951	VzB Ethernet Virtual Private Line	$9,987.00	$16,880.00	$73,477.00
Roanoke	540-342	Blacksburg	540-951	VZ Ethernet Private Line	$2,998.00	$5,460.00	$19,582.00
Bedford	540-586	Blacksburg	540-951	VZ Ethernet Private Line	$4,510.00	$7,620.00	$26,950.00

Citizens Telephone Cooperative provides middle mile services only in the Blacksburg, Montgomery county area of the proposed service area. They cannot currently provide point to point services to any of the other areas in the proposed service area. Their advertised retail pricing is presented for comparison.

Citizens Middle Mile Transport Service Advertised Pricing

Advertised Retail Transport Pricing				
Mbps	NRC	2yr MRC	3yr MRC	5yr MRC
10	$800.00	$1,200.00	$1,080.00	$960.00
100	$800.00	$3,000.00	$2,700.00	$2,400.00
1,000	$800.00	$8,000.00	$7,200.00	$6,400.00

verizon business

Detailed Quote

Account:	University of Virginia-Charlottesville						
Quote Name:	play	**Revision:**	1	**Term (Years):**	5	**Commit (Annual):**	$4,500
Sales Rep:	James T Mays Jr	**Phone:**	(540) 561-6518	**Created Date:**	7/30/2009	**End Date:**	8/29/2009

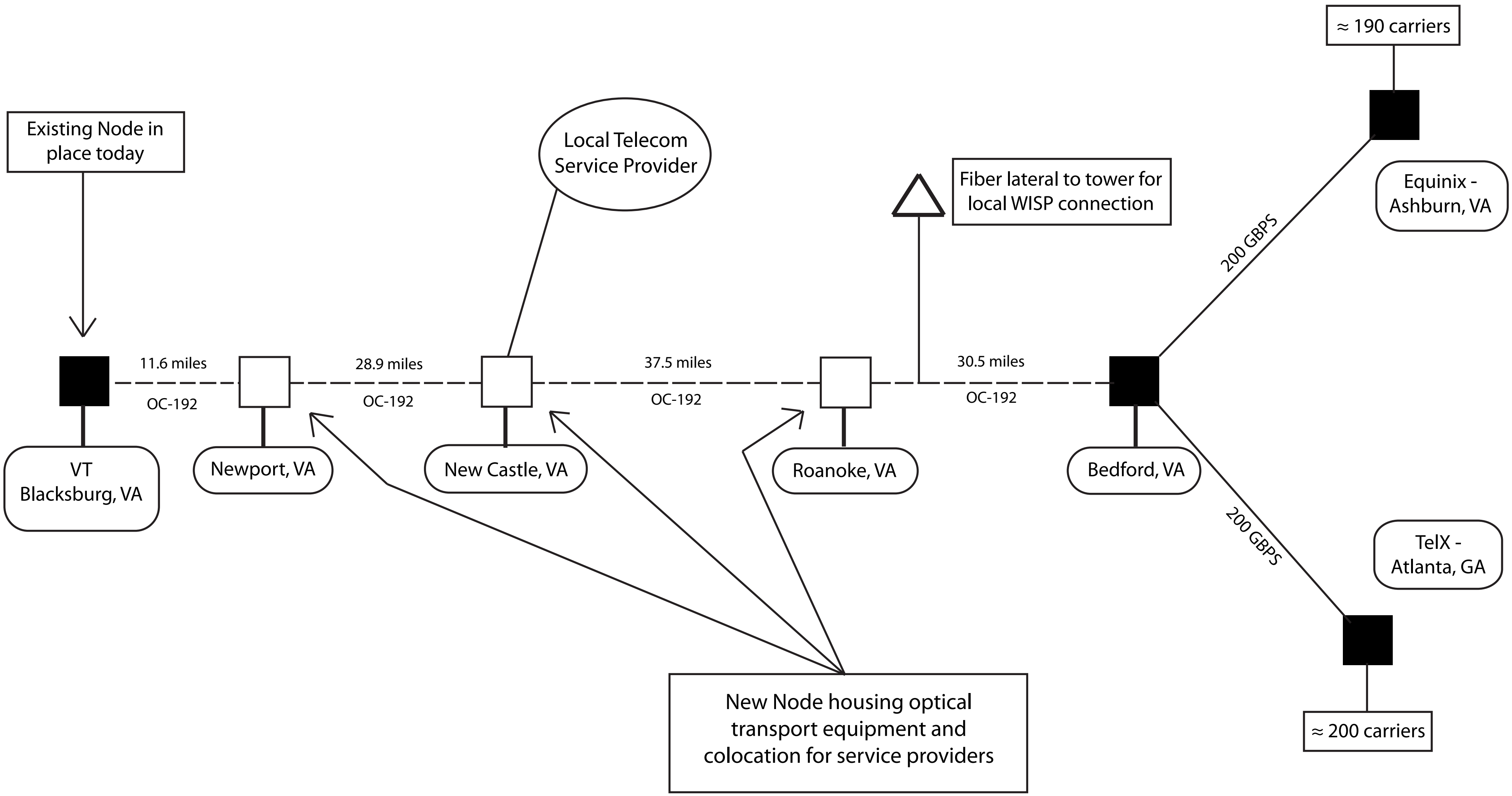
Seq.	Product	Origination Name	Destination Name	Attribute	Net Disc	UoM	Qty	Item Net Price	Extended Price	MRC SubTotal	NRC SubTotal
1	EVPL - National - Site	2000 KRAFT DR STE 1204			0.0	Per Month	1	$0.00	$0.00	$0.00	$0.00
2	EVPL - National - Site	220 RIDGE LINE DR			0.0	Per Month	1	$0.00	$0.00	$0.00	$0.00
3	EVPL - National - Ethernet Virtual Connection	2000 KRAFT DR STE 1204	220 RIDGE LINE DR	Speed: 100 Mbps; Mileage: 11; Service Type: Ethernet; Speed: 100 Mbps;	0.0	Per Month	1	$2150.00	$2150.00	$18,880.00	$7,400.00
3.1	IXC Install Charge				0.0	Each	1	$1000.00	$1000.00		
3.2	Converged Ethernet Access	2000 KRAFT DR STE 1204		Access Speed: 100 Mbps; Interface Type: Fast Ethernet (FastE); CEA Type: 3;	0.0	Per Month	1	$6520.00	$6520.00		
3.2.1	Converged Ethernet Access Install				0.0	Each	1	$3200.00	$3200.00		
3.3	Converged Ethernet Access			Access Speed: 100 Mbps; Interface Type: Fast Ethernet (FastE); CEA Type: 3;	0.0	Per Month	1	$10210.00	$10210.00		
3.3.1	Converged Ethernet Access Install				0.0	Each	1	$3200.00	$3200.00		
					Total MRC:			$18,880.00	**Total NRC:**		$7,400.00

*NOTICE ABOUT STANDARD INTERVALS: The time interval listed on this quote is not a binding commitment, but is used for estimating purposes only. Standard Intervals are measured in business days from the time that Verizon Business's order entry center receives a complete and accurate order from the account team to the time the service is turned up and available for customer use. Incomplete or inaccurate information or similar problems may delay the process. Additional time needed to correct the order is not included in the standard time interval.

*IMPORTANT NOTICE: This quote is provided for informational purposes only and is not a binding offer. Private Line quotes are based on estimated Inter Exchange Carrier (IXC) mileage.IXC mileage of the actual provisioned service may vary. Unless explicitly stated otherwise, quoted prices do not include taxes or surcharges.Customer's service contract with Verizon Business governs its actual prices, subject to Verizon Business's applicable tariffs and onli Guide. Prices valid for 30 days from 7/30/2009.

Network Design

144 Strand Fiber Optic Backbone



VIRGINIA TECH TO BEDFORD FIBER ROUTE

Network Design and Implementation Plan Certification (to be complete for projects requesting more than $1 million in federal assistance)

U.S. Department of Agriculture and U.S. Department of Commerce
BIP and BTOP Program

We the undersigned, certify that the proposed broadband system will work as described in the System Design and Network Diagram sections, and can deliver the proposed services outlined in the Service Offerings Section. Moreover, the system, as designed, can meet the proposed build-out timeframe based on the resources designated in Project Viability Section, and will be substantially complete in two years, and complete within three years.

Virginia Tech Foundation, Inc.

8/12/09
(Date)

(Authorized Representative's Signature)

Name: RAYMOND D. SMOOT, JR.
COO AND SECRETARY-TREASURER

Title:

8/11/09
(Date)

COMMONWEALTH OF VIRGINIA
DARREN R. CONNER
Lic. No. 019270
8/11/09
PROFESSIONAL ENGINEER

(Certifying Engineer's Signature)

Name: Darren R. Conner

Title: Senior Vice President

Time Period	Quarter	List All Relevant Milestones	Support for Reasonableness/Data Points
Year 0	-	•	•
Year 1	Qtr. 1	• Hire staff and start work on node sites • Complete detailed Engineering for Project, complete permit applications	• Weather issues will hamper construction in mountainous regions of service area.
	Qtr. 2	• Begin fiber construction, complete 15 miles	• Based on project work required to be completed and timeline for ordering cable (currently 45 days delivery time).
	Qtr. 3	• Fiber construction, complete 30 miles • Complete node sites, place shelter buildings	• Work for project timeframes and estimated completion of 10 miles of fiber per month, based on soil and rock conditions
	Qtr. 4	• Fiber construction, complete 25 miles	• Work for project timeframes and weather/holiday delays for completion of segment builds
Year 2	Qtr. 1	• Fiber construction, complete 20 miles • Install electronics in node buildings	• Work for project timeframes and weather delays for completion of segment builds
	Qtr. 2	• Fiber construction, complete 20 miles • Testing, project clean up and close-out	• Final segments completed and project close outs begin
	Qtr. 3	• Final punch list checks, network operational	• Turning up network, testing and final verification of fiber results and requirements
	Qtr. 4	• Provision first customer circuits	• Network operational and can be provisioning transport circuits for customers
Year 3	Qtr. 1	• Continue full operations of the network	• 100% operational network ready for customer turnups

	Qtr. 2	•	•
	Qtr. 3	•	•
	Qtr. 4	•	•

	Name: MBC Fiber Project: Blacksburg, VA to Bedford, VA																				
	YEAR 0	YEAR 1				YEAR 2				YEAR 3				YEAR 4				YEAR 5			
		Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4
Infrastructure Funds																					
Infrastructure Funds Advanced (estimate)																					
Percentage of Total Funds																					
Entities Passed & %																					
Households																					
Percentage of Total Households																					
Businesses																					
Percentage of Total Businesses																					
Strategic Institutions (Comm. Anchor, Public Safety, etc)																					
Percentage of Total Institutions																					

Tad Deriso

Title – President and CEO of Mid-Atlantic Broadband Cooperative

Education – BBA Management, Georgia State University, Atlanta, GA

Years of Experience – 16 years

Qualifications – Tad has been working in the field of rural telecommunications for more than sixteen years and has dealt with rural telecommunications providers and cooperatives. During this time, he helped plan and coordinate broadband telecommunications projects for rural communities across the United States. He helped establish the Mid-Atlantic Broadband Cooperative, which is striving to construct an advanced open-access fiber optic network in rural Southside Virginia. Tad, being the General Manager at MBC, focuses on managing construction of the regional fiber network to provide educational support to local communities and for drawing technology-based opportunities for economic development to rural Virginia.

Responsibilities for this project – Tad will be responsible for coordinating the activities of project management team and engineering design team for the overall successful execution of the project.

Hunter Ford

Title – Network Operations Manager for Mid-Atlantic Broadband Cooperative

Role in this project – Engineer and managing network operations

Education – Virginia Tech, Blacksburg, Virginia

Years of Experience – 32 years

Qualifications – Hunter is responsible for managing and maintaining more than 800 miles of fiber that make up the Mid-Atlantic Broadband Cooperation fiber optic outside plant network. He also manages the MBC Network Operations Center facility in South Boston, VA. Before joining MBC, he was employed by Embarq (formerly Sprint and Central Telephone of Virginia) in South Boston, VA. Here he held various roles in network engineering, outside plant planning and supervision.

Responsibilities for this project – Hunter will be responsible for engineering, permitting, construction, and inspection of this project. He will verify that construction is progressing as it should and will inspect the work after it is finished to confirm that the construction has been done correctly and will function properly. The responsibilities that he has already fulfilled include planning and design.

Don Scarce

Title – Engineering Manager

Role in this project – Engineering for placement of the buried and underground fiber cable, securing right of way, and meeting with builders, developers, and owners to secure locations for equipment placement

Years of Experience – 30 years

Education – Don attended Danville Community College in Danville, VA. He also received a Bachelors Degree in Network Operations from the telephone company where he worked.

Qualifications – Don is a retired Verizon Telephone employee, where he worked for over thirty years. In 1995, he, along with George Gover, started a business called Telephone Engineering Consultants (TEC). TEC now maintains offices in the Virginia counties of Lynchburg, Roanoke and Danville. The Danville-Gretna (e-DAN) fiber placement drawings for the Future of the Piedmont Foundation were engineered by TEC, and TEC was on site while this project was being constructed to resolve conflict and for inspection.

Responsibilities for this project – Don will be responsible for engineering, preparation of detail work prints, and preparation of permits for VDOT and railroad crossings. Other responsibilities include meeting with utility companies, telephone companies, VDOT and school officials. He will also be able to provide Project Management and Inspections in this project if these are needed.

Glenn Ratliff

Title – Technical Advisor for Mid-Atlantic Broadband Cooperative

Role in this project – Electronics Engineering Design

Years of Experience – 17 years

Education – Glenn attended the University of Virginia in Charlottesville, Virginia for undergraduate and received a BS in Electrical Engineering. He also received a Master of Engineering in Systems Engineering from the University of Virginia.

Qualifications – In 1992, Glenn founded GCR Company, a technology company that specializes in PCs, LANs, WANs, and specialty software. GCR Company began to offer Internet service (gcronline.com) to Southside Virginia in 1997. GCR Company has grown, and today employs six full-time positions and has sales exceeding $1 million per year. Glenn is the owner, founder, and president of GCR Company. In 1999, he founded GCR Telecommunications to assist the development of GCR Online and to take advantage of technology and services only available to incumbent telephone companies. These two companies work together today to deliver a full range of services, which includes ADSL, SDSL, dedicated T1, web hosting, e-commerce, SONET services, and practically any other traditional telecom or Internet service.

In addition to founding these communication companies, Glenn has substantial background experience with telecommunications. He has extensive knowledge with all types of networks. He has experience designing telco grade fiber optic networks and collocation space in ILEC central offices. He also has experience with management of projects exceeding $3 million.

Responsibilities for this project – Glenn will be responsible for electronics design, and installation of the optical transport network equipment, including power systems and overall project management.

Dana Jones

Title – Accounting/Finance Manager for Mid-Atlantic Broadband Cooperative

Role in this project – Financial Oversight as well as Grant Administrator

Years of Experience – 10 years

Education – Dana attended Lee University in Cleveland, Tennessee for undergraduate and received a BS in Accounting.

Qualifications – As the Accounting and Finance Manager for Mid-Atlantic Broadband Cooperative, Dana manages all the financial aspects for this not-for-profit telecommunication company. Included in this role is monthly financial reporting, grant administration, as well as the daily activities associated with accounts payable and accounts receivable. Outside of her experience with Mid-Atlantic Broadband Cooperation she has been in the accounting profession for over eight years. Within these eight years, Dana has worked for both profit and not-for-profit companies. Her experience has been in multiple industries including banking, education, hospitality, health care and most recently telecommunications.

Responsibilities for this project – The responsibilities that Dana will have in this project will include but not be limited to financial oversight. Included in this role is ensuring our compliance with accounting and audit requirements, as well as Mid-Atlantic Broadband Cooperative transparency and accountability with quarterly and semi-annual financial and technical reports. The responsibility of financial oversight will also include that Mid-Atlantic Broadband Cooperative complies with federal record retention requirements as well as the submittal of funding requests and all the responsibilities associated with those requests.

Jeff Crowder

Title – Program Director for Strategic IT Initiatives, Virginia Tech

Role in this project – Virginia Tech Project Coordinator

Years of experience – 24 years

Education – Jeff received a BA degree from the University of Virginia in 1984 and an M.Ed. degree from Virginia Tech in 1996.

Qualifications - Jeff has worked in Information Technology at Virginia Tech since 1985. Over the last several years, his work has focused on large scale project development for regional and national optical networks for research and economic development.

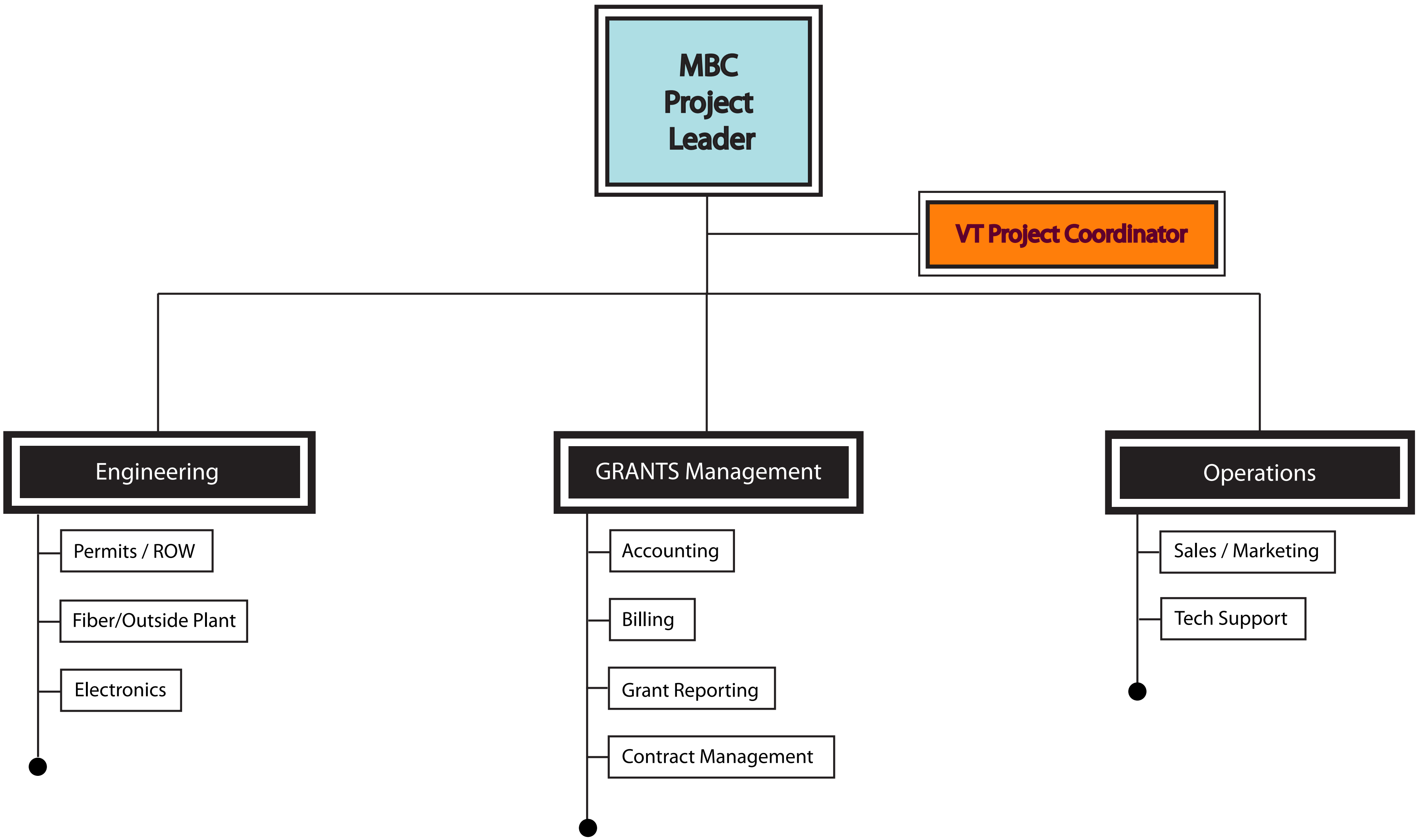
He provided leadership for the early development and operation of NetworkVirginia which delivers advanced, communications services to over 1.4 million people statewide. He founded and developed the Virginia Internet2 gigaPOP program which continues to provide aggregated access to Internet2's Abilene network and multiple other research networks for Virginia universities, colleges, libraries, and K-12 schools. He was a co-founder for the Mid-Atlantic Crossroads, a successful DC-metro R&E network.

Jeff helped to create National LambdaRail (NLR) and currently serves on it's board of directors chairing the Audit Committee. Virginia Tech is a Class A member of NLR with responsibility to facilitate access for all institutions in Virginia, Maryland, and DC. To accomplish this role, Jeff helped to found the Mid Atlantic Terascale Partnership (MATP) consortium and continues to serve as it's program director. Jeff serves as the mid-Atlantic administrator for the National LambdaRail and manages regional member activities for both NLR and MATP.

He is a member of Virginia Tech's eCorridors team and enjoys working with regional projects focused on creating economic development and competitive advantages for rural communities through advanced communications infrastructure development. Prior to the creation of Mid-Atlantic Broadband Cooperative, Jeff managed the construction of the first fiber leg of the current MBC network from Danville to Chatham Virginia as part of the proof of concept phase for the Virginia Tobacco Commission.

Responsibilities for this project – Jeff will serve as the Project Coordinator for Virginia Tech and the Virginia Tech Foundation. He will be responsible for overseeing use of fibers allocated to Virginia Tech for research and education and for ensuring overall program objectives are met. He will manage agreements and relationships with MBC and other relevant parties.

Organizational Chart
for
Mid-Atlantic Broadband Cooperative



Legal Counsel
University Gateway Center
902 Prices Fork Road, Suite 2600 (0490), Blacksburg, Virginia 24061
540-231-2875 Fax 540-231-1126 Email: vtf.law@vt.edu

VIRGINIA TECH FOUNDATION INC.

Legal Opinion

August 11, 2009

Administrator
Rural Utilities Service
U.S. Department of Agriculture
Washington, D.C. 20250-1500

Assistant Secretary
National Telecommunications and Information Administration
U.S. Department of Commerce
Washington, D.C. 20230

Re: Broadband Technology Opportunities Program

Dear Sir:

I have acted as general counsel for the Virginia Tech Foundation, Inc., (the "Applicant."). In such capacity, I have acted as counsel to the Applicant in connection with its ability to apply to the Broadband Technology Opportunities Program and in the review of the grant agreement, as referenced in the Notice of Funds Availability.

I am of the opinion that:

(a) the applicant is duly organized and existing legal entity under the laws of the Commonwealth of Virginia.

(b) the applicant has corporate power: (1) to execute and deliver the grant agreement; and (2) to perform all acts required to be done by it under said agreement.

(c) no legal proceedings have been instituted or are pending against the Applicant, the outcome of which would adversely affect the Applicant's ability to perform the duties under the grant agreement, and there are no judgments against the Applicant which would adversely affect the Applicant's ability to perform the duties under the grant agreement.

Very truly yours,

Kevin G. Sullivan
Legal Counsel

COMMONWEALTH of VIRGINIA

DEPARTMENT OF EDUCATION

P.O. BOX 2120
RICHMOND, VA 23218-2120

August 12, 2009

Mr. Jeff Crowder
Network Infrastructure & Services
Virginia Tech
1770 Forecast Drive
Blacksburg, Virginia 24060

Dear Mr. Crowder:

I am writing to express strong support for the Virginia Tech Foundation and Mid-Atlantic Broadband Cooperative (MBC) proposal entitled *Allegheny Fiber* to the U.S. Department of Commerce's National Telecommunications Information Administration (NTIA) Broadband Technologies Opportunities Program.

The Virginia Department of Education is committed to actively promoting the development of ubiquitous, affordable broadband access for education. We recognize and appreciate the leadership role Virginia Tech has played in pursuit of this goal through the statewide NetworkVirginia program. Similarly, we are very enthusiastic about the success of the Mid-Atlantic Broadband Cooperative and LENOWISCO in constructing open-access fiber backbone networks throughout the tobacco-growing regions of southside and southwest Virginia. These networks are creating significant benefits for education by supporting direct access for institutions and by enabling last mile providers in those regions to deliver broad access to educational content and services.

If funded, the *Allegheny Fiber* project will expand the open-access fiber network outside the tobacco-growing region into rural communities in the central Appalachian region. This expansion will create a significant opportunity for schools in the proposed service area including Montgomery, Giles, Craig, Roanoke, Botetourt, and Bedford counties. The Department of Education will work with Virginia Tech and MBC to make use of the expanded fiber network to maximize returns on the investment for education and public interests.

I have confidence in the expertise and ability of Virginia Tech and the Mid-Atlantic Broadband Cooperative to implement and operate the proposed network and I do not believe the project would be viable absent NTIA funding.

Sincerely,

Tammy McGraw

Tammy McGraw, Ed.D.
Director of Educational Technology

UNIVERSITY of VIRGINIA
OFFICE of the VICE PRESIDENT and CHIEF INFORMATION OFFICER

11 August 2009

Mr. Jeff Crowder
Program Director, Network Infrastructure and Services
Virginia Tech

Dear Mr. Crowder

I am writing on behalf of the members of the Mid-Atlantic Terascale Partnership (MATP) to offer our strong support for your proposal to the Department of Commerce's National Telecommunications Information Administration (NTIA) Broadband Technologies Opportunities Program.

MATP is a consortium of research universities, networks, and federal agencies organized to promote collaboration and access to regional, national, and international high performance networks including National LambdaRail and Internet2. Our members are engaged in a wide array of network-enabled activities including research, education, economic development, health care, emergency response, and public service extending to all communities in our region including the underserved and unserved areas identified in the proposal.

Virginia MATP members intend to connect to the fiber optic and network infrastructure planned through expansion of the open access fiber network in the state. Several of our members were directly involved in the creation and implementation of the existing Mid-Atlantic Broadband Cooperative (MBC) open access network now operating in the tobacco growing regions of the Commonwealth. However, none of our members are located in that region. The proposed expansion of this infrastructure will dramatically improve the opportunity for access for our institutions and will make a significant contribution to the development of regional infrastructure needed to support our collective objectives.

MATP members have been working for several years to develop access for our institutions on par with the proposed infrastructure. We can confirm that construction of fiber to meet our needs in the areas included in the proposal has not been feasible and would not be possible without the BTOP funding sought.

Our members have developed a very strong working relationship with MBC and we are confident that MBC has the technical and management expertise to successfully build and operate the proposed infrastructure. Virginia Tech has been a leader in the development of regional infrastructure. The partnership between Virginia Tech and MBC for the Allegheny Fiber proposal provides a very strong foundation for success.

We are pleased to endorse Virginia Tech's and MBC's proposal to expand Virginia's open access fiber infrastructure and we encourage NTIA to award funding for it.

108 Cresap Road • P.O. Box 400217 • Charlottesville, VA 22904-4217 • 434-982-2249 • Fax: 434-924-3579

For the Mid-Atlantic Terascale Partnership,

Michael R. McPherson

Michael R. McPherson
MATP Chair
Associate Vice President and Deputy CIO, University of Virginia

MATP Members:
College of William and Mary
George Mason University
Old Dominion University
Mid-Atlantic Crossroads (representing 47 universities, federal agencies, and private research firms throughout Virginia, Maryland, and DC)
NASA
University of Virginia
Virginia Commonwealth University
Virginia Tech

Bringing it all together

August 10, 2009

Jeff Crowder
Virginia Tech NI&S (0506)
1770 Forecast Drive
Blacksburg VA 24061

Citizens Telephone Cooperative and its subsidiary, Citizens Cablevision, Inc. both fully support the Middle Mile Project, a.k.a. Allegheny Fiber, being submitted by the Virginia Tech Foundation. This Middle Mile Project which will establish a fiber optic cable route through New Castle, Virginia. This route will enable our company to bring internet backbone connectivity and digital video to small cable system in New Castle, owned by Citizens Cablevision.

Citizens Cablevision and its parent, Citizens Telephone Cooperative, have both explored various federal, state, and other grants to build a fiber connection to New Castle. The proximity of New Castle to Roanoke, Virginia has always disqualified these projects from grant funding.

The cable system in New Castle passes 697 households. The business models indicate that debt financing is not economically feasible to support a middle mile project to reach New Castle, Virginia in addition to the last-mile expenditures required by a service provider.

If the middle mile, the Allegheny Fiber, route is constructed, Citizens Cablevision, Inc. believes that it can make a viable business case to bring Fiber-To-The-Home to the town of New Castle, Virginia and provide broadband and other advanced digital services.

Respectfully,

J. Gregory Sapp

J. Gregory Sapp
CEO/GM

P O Box 137, Floyd VA, 24091 www.citizens.coop

Eric Gentry
Eastern District Supervisor

Barbara Hobbs
Central District Supervisor

Howard Spencer
Western District Supervisor

County of Giles

Paul "Chappy" Baker
At-Large Supervisor

Richard McCoy
At-Large Supervisor

Board of Supervisors

315 North Main Street
Pearisburg, Virginia 24134

August 4, 2009

John Lawson
WAN Networking Engineer Manager
1770 Forecast Drive
Blacksburg, VA 24061

Dear Mr. Lawson,

I am writing to express support for the Virginia Tech, Mid-Atlantic Broadband Cooperative (VT-MBC) proposal to the Department of Commerce Broadband Technologies Opportunity Fund program. VT-MBC is proposing a middle mile project to construct a new fiber optic path with an access node in our community. Access to affordable, high capacity data transport service is crucial for our organization and we are significantly challenged under current conditions. We are fortunate to have the Pembroke Telephone Cooperative which has recently made service available to many rural areas of our county, yet there are still many without service and we characterize those communities as underserved for middle mile access. Any assistance that will expand the broadband capabilities of our community in areas currently without service would be greatly appreciated.

Regards,

Chris McKlarney

Chris McKlarney
County Administrator
County of Giles

Telephone: (540) 921-2525 Fax: (540) 921-1846

Dr. Terry E. Arbogast, II
Division Superintendent

GILES COUNTY PUBLIC SCHOOLS

Dear Mr. Lawson,

I am writing to express support for the Virginia Tech, Mid-Atlantic Broadband Cooperative (VT-MBC) proposal to the Department of Commerce Broadband Technologies Opportunity Fund program. VT-MBC is proposing a middle mile project to construct a new fiber optic path with an access node in our community. Access to affordable, high capacity data transport service is crucial for our organization yet we are significantly challenged under current conditions. We characterize our community as underserved for middle mile access.

We are a K-12 school system looking for an affordable solution to bandwidth. Currently, about 90% of our student SOL testing is administered online. We also offer distant education to all 5 of our schools in the division which also requires more bandwidth. We are using more online educational software for both our teachers and students. Our goal is to provide the best possible education for our students, and in this technology age, we need more bandwidth to reach this goal. We understand that this project will help us reach our goals in providing the needed bandwidth for our school system.

The project will extend Virginia's open-access fiber backbone. Our community is outside the tobacco growing region and is therefore ineligible for support from the Virginia Tobacco Commission which funded the initial network. There is no open access fiber serving our community and affordable high capacity middle mile data service is unavailable in our area. The VT-MBC project is critical for our organization and without BTOP funding it cannot be undertaken.

Giles County Schools urges funding for the VT-MBC middle mile project.

Sincerely,

Jeff Young
Network Administrator
Giles County Public Schools

Budget - Bedford to Blacksburg	Loan Request	Grant Request	Equity	Debt	Bonds	Other Funding	Total
Network & Access Equipment (switching, routing, transport, access)	$ -	$ 240,000	$ -	$ -	$ -	$ 60,000	$ 300,000
Outside Plant (cables, conduits, ducts, poles, towers, repeaters, etc.)	$ -	$ 4,400,000	$ -	$ -	$ -	$ 1,100,000	$ 5,500,000
Buildings and Land - (new construction, improvements, renovations, lease)	$ -	$ 240,000	$ -	$ -	$ -	$ 60,000	$ 300,000
Customer Premise Equipment (modems, set-top boxes, inside wiring, etc.)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Billing and Operational Support Systems (IT systems, software, etc.)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Operating Equipment (vehicles, office equipment, other)	$ -	$ 38,000	$ -	$ -	$ -	$ 9,500	$ 47,500
Professional Services (engineering design, project management, consulting, etc.)	$ -	$ 494,000	$ -	$ -	$ -	$ 123,500	$ 617,500
Testing (network elements, IT system elements, user devices, test generators, lab furnishings, servers/computers, etc.)	$ -	$ 16,000	$ -	$ -	$ -	$ 4,000	$ 20,000
Site Preparation	$ -	$ 72,000	$ -	$ -	$ -	$ 18,000	$ 90,000
Other	$ -	$ 40,000	$ -	$ -	$ -	$ 10,000	$ 50,000
Total Broadband System	$ -	$ 5,540,000	$ -	$ -	$ -	$ 1,385,000	$ 6,925,000

DETAIL OF PROJECT COSTS

SERVICE AREA or COMMON NETWORK FACILITIES:		Eligiblity (Yes/No)	Unit Cost	No. of Units	Total Cost	Support of Reasonableness
NETWORK &ACCESS EQUIPMENT						
Switching						
	N/A					
Routing						
	N/A					
Transport	Optical Transport Equipment	Yes	$100,000	3	$300,000	Existing costs of MBC suppliers
Access						
	N/A					
Other	N/A					
OUTSIDE PLANT						
Cables	Blacksburg to Bedford	Yes	$50,000	110 miles	$5,500,000	Avg. construction costs that MBC is paying. Due to topography of service area, rock is a factor which increases the overall costs. Network will be primarily buried.
Conduits						
	n/a					
Ducts						
	n/a					
Poles						
	n/a					
Towers						
	n/a					

DETAIL OF PROJECT COSTS

Repeaters						
	n/a					
SERVICE AREA or COMMON NETWORK FACILITIES:		**Eligiblity (Yes/No)**	**Unit Cost**	**No. of Units**	**Total Cost**	**Support of Reasonableness**
NETWORK &ACCESS EQUIPMENT						
Other	n/a					
BUILDINGS						
New Construction						
Pre-Fab Huts						Existing cost of MBC suppliers. $60,000 for 12' x 20' concrete shelter, $15,000 for site prep
	Node Shelter	Yes	$75,000	3	$225,000	
Improvements and Renovations						
Other						Existing cost of 30KW generator with low emission EPA Approved diesel engine
	Generator for Node Shelter	Yes	$25,000	3	$75,000	
CUSTOMER PREMISE EQUIPMENT						
Modems						
	N/A					
Set Top Boxes						
	N/A					
Inside Wiring						
	N/A					
Other						
	N/A					
BILLING SUPPORT AND OPERATIONS SUPPORT SYSTEMS						
Billing Support Systems	N/A					
Customer Care Systems						
	N/A					

DETAIL OF PROJECT COSTS

Other Support						
	N/A					
SERVICE AREA or COMMON NETWORK FACILITIES:		**Eligiblity (Yes/No)**	**Unit Cost**	**No. of Units**	**Total Cost**	**Support of Reasonableness**
OPERATING EQUIPMENT						
Vehicles	Project Manager Vehicle	Yes	$20,000	1	$20,000	Average price for a vehicle purchase
	Inspector Vehicle	Yes	$20,000	1	$20,000	
Office Equipment/ Furniture	Computers	Yes	$1,500	3	$4,500	3 laptops for project team
	Desks / Furnishings	Yes	$1,000	3	$3,000	Existing costs for desks
Other						
PROFESSIONAL SERVICES						
Engineering Design	Project Engineering	Yes	$385,000	1	$385,000	7% of capital cost for outside plant fiber build
Project Management	Project Manager/Inspections	Yes	$165,000	1	$165,000	3% of capital cost for outside plant fiber build
Consulting	n/a					
Other	Grants Management	Yes	$67,500	1	$67,500	Grant support (reporting and administration) for project
TESTING						
Network Elements	OTDR Reader for Network	Yes	$10,000	2	$20,000	Purchase of 2 long range OTDR Fiber Testers for project
IT System Elements	n/a					
User Devices	n/a					
Test Generators	n/a					

DETAIL OF PROJECT COSTS

Lab Furnishings	n/a					
Servers/ Computers	n/a					
SERVICE AREA or COMMON NETWORK FACILITIES:		**Eligiblity (Yes/No)**	**Unit Cost**	**No. of Units**	**Total Cost**	**Support of Reasonableness**
OTHER UPFRONT COSTS						
Site Preparation						
	n/a					
Other						
	n/a					

KPMG

VIRGINIA TECH FOUNDATION, INC.
AND SUBSIDIARIES

Consolidated Financial Statements
and Schedules

June 30, 2007

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 1710
10 South Jefferson Street
Roanoke, VA 24011-1331

Independent Auditors' Report

The Board of Directors
Virginia Tech Foundation, Inc.:

We have audited the accompanying consolidated statement of financial position of Virginia Tech Foundation, Inc. and subsidiaries (the Foundation) as of June 30, 2007, and the related consolidated statements of activities and changes in net assets, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2006 consolidated financial statements and, in our report dated September 26, 2006, we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Virginia Tech Foundation, Inc. and subsidiaries as of June 30, 2007, and their changes in net assets and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information in schedules 1 through 4 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual entities. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

KPMG LLP

September 21, 2007

VIRGINIA TECH FOUNDATION, INC.
AND SUBSIDIARIES

Consolidated Statement of Financial Position

June 30, 2007 (with comparative
financial information as of June 30, 2006)

(Dollars in thousands)

Assets		2007	2006
Cash and cash equivalents	$	61,560	45,063
Restricted cash and cash equivalents (note 7)		18,678	1,599
Total cash and cash equivalents		80,238	46,662
Trade accounts and interest receivable, net of allowance for doubtful accounts of $6 in 2007 and $3 in 2006 (note 9)		4,701	4,365
Inventories		2,965	2,873
Prepaid expenses and other assets		4,862	4,497
Short-term investments (note 3)		28,618	9,020
Contributions receivable, net of allowance for uncollectible contributions of $2,724 in 2007 and $2,128 in 2006 (notes 2 and 12)		61,916	54,535
Notes and deeds of trust receivable (notes 6 and 9)		17,302	18,274
Long-term investments (notes 3, 5 and 9)		593,344	530,746
Irrevocable trusts held by others		10,068	9,313
Vintage and other collection items		4,489	4,349
Deferred charges, net		769	371
Net investment in direct financing leases (note 9)		8,167	8,558
Land, buildings, and equipment, net (notes 4, 6, 7, and 9)		122,735	114,619
Trademark, net		705	730
Total assets	$	940,879	808,912
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	6,548	5,985
Deferred revenue and other liabilities (notes 7 and 9)		7,194	4,979
Annuity obligations		5,120	4,552
Liabilities under trust agreements		36,563	33,255
Notes payable (note 6)		39,858	42,513
Bonds payable (note 7)		74,519	52,119
Agency deposits held in trust (note 5)		61,308	54,061
Deferred tax liability (note 8)		2,493	2,300
Total liabilities		233,603	199,764
Net assets:			
Unrestricted		52,606	50,277
Board-designated endowment		19,142	14,863
Total unrestricted		71,748	65,140
Temporarily restricted (notes 12 and 13)		363,533	293,006
Permanently restricted (note 13)		271,995	251,002
Total net assets		707,276	609,148
Commitments and contingencies (notes 3, 4, 6, 7, and 9)			
Total liabilities and net assets	$	940,879	808,912

See accompanying notes to consolidated financial statements.

VIRGINIA TECH FOUNDATION, INC.
AND SUBSIDIARIES

Consolidated Statement of Activities and
Changes in Net Assets

Year ended June 30, 2007 (with summarized
financial information for the year ended June 30, 2006)

(Dollars in thousands)

	2007				2006
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
Revenues, gains and other support:					
Contributions (note 12)	$ 1,713	59,008	17,749	78,470	81,815
Investment income	5,077	9,596	—	14,673	12,143
Rental income (note 9)	11,959	1,233	—	13,192	10,653
Hotel revenues (note 9)	18,969	—	—	18,969	18,587
Golf course revenues	1,137	—	—	1,137	1,004
Other income (note 9)	3,453	11,702	—	15,155	16,191
Net gains on investments (note 3)	4,347	55,578	—	59,925	27,065
Net assets released from restrictions	67,648	(67,648)	—	—	—
Total revenues, gains and other support	114,303	69,469	17,749	201,521	167,458
Expenses and losses (note 10):					
Program services:					
Instruction and academic programs	15,007	—	—	15,007	15,324
Research programs	4,759	—	—	4,759	5,034
Public service programs	4,317	—	—	4,317	4,953
Scholarships	15,885	—	—	15,885	13,504
Grants to University for capital outlay	5,961	—	—	5,961	8,800
Other University programs (note 9)	21,546	—	—	21,546	18,921
Hotel costs (note 9)	9,700	—	—	9,700	10,210
Golf course costs	1,222	—	—	1,222	1,197
Total program services	78,397	—	—	78,397	77,943
Supporting services:					
Corporate research center costs	8,775	—	—	8,775	6,867
Fundraising	9,525	—	—	9,525	8,930
Management and general	2,578	—	—	2,578	1,789
Hotel management and general (note 9)	7,589	—	—	7,589	6,526
Golf course management and general	398	—	—	398	383
Total supporting services	28,865	—	—	28,865	24,495
Total expenses and losses	107,262	—	—	107,262	102,438

(Continued)

VIRGINIA TECH FOUNDATION, INC.
AND SUBSIDIARIES

Consolidated Statement of Activities and
Changes in Net Assets

Year ended June 30, 2007 (with summarized
financial information for the year ended June 30, 2006)

(Dollars in thousands)

		2007				2006
		Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**Total**
Change in valuation of split-interest agreements	$	(77)	(1,058)	(3,244)	(4,379)	(1,771)
Total expenses, losses and change in valuation of split-interest agreements		107,185	(1,058)	(3,244)	102,883	100,667
Change in net assets, before income taxes		7,118	70,527	20,993	98,638	66,791
Income tax expense (note 8)		510	—	—	510	1,996
Change in net assets		6,608	70,527	20,993	98,128	64,795
Net assets at beginning of year		65,140	293,006	251,002	609,148	544,353
Net assets at end of year	$	71,748	363,533	271,995	707,276	609,148

See accompanying notes to consolidated financial statements.

VIRGINIA TECH FOUNDATION, INC.
AND SUBSIDIARIES

Consolidated Statement of Cash Flows

Year ended June 30, 2007 (with comparative financial information for the year ended June 30, 2006)

(Dollars in thousands)

		2007	2006
Cash flows from operating activities:			
Change in net assets	$	98,128	64,795
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Depreciation and amortization		5,139	4,468
Provision for doubtful accounts receivable		57	27
Increase in allowance for uncollectible contributions		596	459
Loss on sale of land		275	66
Loss on disposal of equipment		35	784
Net gains on investments		(59,925)	(27,065)
Noncash contributions of investments		(9,108)	(15,992)
Noncash contribution of irrevocable trust held by others		(125)	—
Contributions restricted for long-term investment		(17,749)	(16,234)
Deferred income taxes		193	1,727
Increase in:			
Trade accounts and interest receivable		(393)	(576)
Inventories		(92)	(67)
Prepaid expenses and other assets		(365)	(2,169)
Contributions receivable		(7,977)	(16,506)
Vintage and other collection items		(140)	(224)
Increase (decrease) in:			
Accounts payable and accrued expenses		1,345	(2,100)
Deferred revenue and other liabilities		2,215	1,662
Annuity obligations		568	279
Net cash provided by (used in) operating activities		12,677	(6,666)
Cash flows from investing activities:			
Purchases of buildings and equipment, and construction expenditures		(18,993)	(19,438)
Purchases of investments		(379,213)	(445,911)
Proceeds from sales and maturities of investments, net of gains and losses on agency deposits held in trust		370,380	456,914
Collections on notes receivable and deeds of trust receivable		1,398	1,705
Advances on notes receivable and deeds of trust receivable		(426)	(327)
Increase in deposits with trustees		(4,330)	(305)
(Increase) decrease in irrevocable trust held by others		(630)	878
Payments received on net investment in direct financing leases		5,097	261
Net cash used in investing activities		(26,717)	(6,223)

(Continued)

VIRGINIA TECH FOUNDATION, INC.
AND SUBSIDIARIES

Consolidated Statement of Cash Flows

Year ended June 30, 2007 (with comparative financial information for the year ended June 30, 2006)

(Dollars in thousands)

		2007	2006
Cash flows from financing activities:			
Proceeds from contributions restricted for investment in endowment	$	17,749	16,234
Payments for bond issuance costs		(433)	(112)
Proceeds from borrowing on bonds payable		25,220	49,860
Principal payments on bonds payable		(2,820)	(33,516)
Proceeds from borrowing on notes payable		4,750	1,250
Principal payments on notes payable		(7,405)	(4,094)
Increase in agency deposits held in trust, net		7,247	823
Increase (decrease) in liabilities under trust agreements		3,308	(632)
Net cash provided by financing activities		47,616	29,813
Net increase in total cash and cash equivalents		33,576	16,924
Total cash and cash equivalents at beginning of year		46,662	29,738
Total cash and cash equivalents at end of year	$	80,238	46,662
Supplemental cash flow disclosure:			
Interest paid	$	3,769	3,111
Income taxes paid		286	285
Noncash investing and financing activities:			
Contributions of investments		9,108	15,992
Contribution of irrevocable trust held by others		125	—
Land, buildings, and equipment financed through accounts payable		335	1,117
Building leased through direct financing capital lease		4,706	—

See accompanying notes to consolidated financial statements.

(1) Description of Organization and Summary of Significant Accounting Policies

(a) Description of Organization

The purpose of Virginia Tech Foundation, Inc. is to receive, invest, and manage private funds given for the support of Virginia Polytechnic Institute and State University (University or Virginia Tech) and to foster and promote the growth, progress, and general welfare of the University. The Virginia Tech Foundation, Inc. (VTF) has incorporated four wholly owned subsidiaries, Virginia Tech Corporate Research Center, Inc. (VTCRC), Virginia Tech Real Estate Foundation, Inc. (VTREF), The Ferrari Foundation, and The River Course, LLC.

VTCRC was organized solely for the benefit of the University and Virginia Tech Foundation, Inc. VTCRC is to engage in any and all activities and business incident to ownership, development, and operation of a research center in support of University programs.

VTREF was organized solely for the benefit of the University and Virginia Tech Foundation, Inc. VTREF is to engage in any and all matters pertaining to certain real property for the benefit of the University. VTREF has incorporated two wholly owned subsidiaries, H. R. Foundation, Inc. (HRF) and VTREF – Foundation Office Building, LLC (VTREF – FOB). HRF was organized solely to engage in any and all activities incident to the ownership, development, and operation of the Hotel Roanoke property in support of the University. VTREF – FOB was organized solely to engage in any and all activities incident to the ownership, development and operation of the Foundation office building.

Hotel Roanoke LLC (a Virginia limited liability company), dba The Hotel Roanoke, a Doubletree Hotel (HRLLC), was established to renovate and refurbish The Hotel Roanoke (Hotel) and operate and manage the 332-room Hotel. HRF owns a 72% interest in the voting rights of HRLLC and the remaining 28% interest in the voting rights is held by VTREF.

The Ferrari Foundation, a nonprofit corporation chartered in Switzerland, was organized to manage the European Studies Center facility located in Riva San Vitale, Switzerland.

The River Course, LLC, a Virginia limited liability company, was established to re-construct, operate, and manage the Pete Dye River Course of Virginia Tech, a golf course located in Pulaski County, Virginia.

(b) Principles of Consolidation

The consolidated financial statements include the financial statements of Virginia Tech Foundation, Inc. and its four wholly owned subsidiaries (collectively, the Foundation). All significant intercompany balances and transactions have been eliminated in consolidation.

(c) Basis of Financial Statement Presentation

The accompanying consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting and in accordance with the provisions of the AICPA's *Audit and Accounting Guide for Not-for-Profit Organizations*.

The Foundation classifies its net assets, revenues, gains and losses based on the existence or absence of donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these permanent endowment funds permit the Foundation to use all or part of the income earned on any related investments for general or specific purposes.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions.

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations. While Board-designated endowment funds have been established by the Board for the same purposes as permanent endowment funds, any portion of Board-designated endowment funds may be expended.

(d) Comparative Financial Information

The consolidated statement of activities and changes in net assets for the year ended June 30, 2007 includes prior year summarized comparative information in total but not by net asset class. As a result, the prior year comparative information presented does not include sufficient detail to constitute a presentation of a complete set of financial statements in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's 2006 consolidated financial statements, from which the summarized information was derived.

(e) Cash and Cash Equivalents

At June 30, 2007 and 2006, cash equivalents of $69,239 and $36,873, respectively, consisted primarily of certificates of deposit and money market mutual funds. For purposes of the consolidated statement of cash flows, cash equivalents have been defined as short-term liquid investments purchased with original maturities of three months or less.

Cash and cash equivalents of permanent endowment funds held temporarily until suitable long-term investment opportunities are identified are included in long-term investments on the consolidated statement of financial position.

(Continued)

(f) Trade Accounts and Interest Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Foundation's best estimate of the amount of probable credit losses in the Foundation's existing accounts receivable. The Foundation determines the allowance based on historical write-off experience and overall economic data. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Foundation does not have any off-balance-sheet credit exposure related to its customers.

(g) Inventories

Inventories, consisting primarily of livestock, golf pro shop merchandise and Hotel guest supplies, food and beverage items and gift shop merchandise, are stated at the lower of cost or market. Cost for livestock inventories is determined using the specific identification method. Cost for golf pro shop merchandise and Hotel inventories is determined using the first-in, first-out method.

(h) Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. Contributions of long-lived assets with no donor-imposed time restrictions are reported as unrestricted support. Contributions of cash and other assets restricted to the acquisition of long-lived assets are reported as restricted support that increases temporarily restricted net assets, and those restrictions expire when the long-lived assets are placed in service.

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

(i) Impairment of Notes Receivable

Management, considering current information and events regarding the borrowers' ability to repay their obligations, considers a note to be impaired when it is probable that the Foundation will be unable to collect all amounts due according to the contractual terms of the note agreement. When a note is considered to be impaired, the amount of the impairment is measured based on the present value of expected future cash flows discounted at the note's effective interest rate. Impairment losses are included in the allowance for impaired notes through a charge to bad debt expense. Cash receipts on impaired notes receivable are applied to reduce the principal amount of such notes until the principal has been recovered and are recognized as interest income thereafter.

(Continued)

(j) Investments

Investments in marketable equity securities and all investments in debt securities are reported at fair value based on quoted market prices in the consolidated statement of financial position with unrealized gains and losses included in the consolidated statement of activities and changes in net assets.

Other investments, such as investments in real estate, interests in internally-managed trusts, joint venture agreements, venture capital funds, partnership interests, and equity securities in closely-held companies are measured at estimated fair value, based on valuations provided by external investment managers. The Foundation believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because these alternative investments are not readily marketable, their estimated value is subject to additional uncertainty, and therefore values realized upon disposition may vary significantly from currently reported values.

The Foundation's investments include various types of investment securities and investment vehicles. Investment securities are exposed to several risks, such as interest rate, currency, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Foundation's consolidated financial statements.

Gains and losses on investments are reported in the consolidated statement of activities and changes in net assets as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Dividend, interest, and other investment income are reported in the period earned as increases in unrestricted net assets unless the use of the assets received is limited by donor-imposed restrictions. Donor-restricted investment income is reported as an increase in temporarily restricted net assets or permanently restricted net assets, depending on the type of restriction.

(k) Irrevocable Trusts Held by Others

Irrevocable trusts held by others represents the Foundation's interest in trust funds managed outside the Foundation in which the Foundation is named as an irrevocable beneficiary of the assets or has the irrevocable right to receive income earned on the assets. These assets are measured at estimated fair value, where practicable, net of the present value of the estimated future benefits to be distributed to the designated beneficiary or beneficiaries over the trust's term.

(l) Vintage and Other Collection Items

Vintage and other collection items are stated at cost, if acquired by purchase, or at estimated fair value at the date of donation, if contributed by a donor.

(Continued)

(m) Deferred Charges

Deferred charges include bond issuance costs which are being amortized over the life of the bonds. Amortization expense recorded in 2007 and 2006 totaled $35 and $24, respectively.

(n) Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost, if acquired by purchase, or at estimated fair value at the date of donation, if contributed by a donor. Certain of the Foundation's physical assets are exhaustible and are used to provide a service. Accordingly, buildings and equipment are reflected net of accumulated depreciation. Depreciation is computed on the straight-line method based on estimated useful lives of 20 to 40 years for buildings and 5 to 10 years for equipment.

Interest is normally expensed as incurred, except when it is incurred in conjunction with major capital additions, and then it is capitalized as part of the asset cost. The amounts of interest capitalized are determined by applying current interest rates to the funds required to finance the construction, net of interest earned on bond proceeds held by trustee. Interest capitalized during the years ended June 30, 2007 and 2006 totaled $126 and $61, respectively.

(o) Trademark

In connection with the donation of The Hotel Roanoke, VTREF also acquired the exclusive right to the trademark associated with the Hotel. The estimated fair value of the trademark at the date of donation in the amount of $1,016 is being amortized on the straight-line method over 40 years commencing with the opening of the Hotel.

Amortization expense recorded in 2007 and 2006 totaled $25 and $26, respectively.

(p) Impairment or Disposal of Long-Lived Assets

Long-lived assets, such as buildings and equipment, are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the assets exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and no longer depreciated.

(Continued)

(q) Income Taxes

The Internal Revenue Service has ruled that VTF and VTREF qualify under Section 501(c)(3) of the Internal Revenue Code and are, therefore, not generally subject to income taxes under present tax laws. However, VTCRC and HRF are taxable corporations.

Income taxes for VTCRC and HRF are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the change in net assets in the period that includes the enactment date.

(r) Derivative Instruments

The Foundation enters into interest rate swap agreements to reduce the impact of changes in interest rates on its floating rate debt. The Foundation is exposed to credit loss in the event of nonperformance by the other party to the interest rate swap agreement. However, the Foundation does not anticipate nonperformance by the counterparty. The Foundation does not require collateral or other security to support financial investments with credit risk.

The Foundation's interest rate swap agreements have been recorded at fair value on the consolidated statement of financial position, and the change in fair value of the agreements has been recognized in the consolidated statement of activities and changes in net assets.

(s) Functional Allocation of Expenses

The costs of providing the Foundation's various programs and supporting services have been summarized on a functional basis in the consolidated statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(t) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(Continued)

(Dollars in thousands)

(2) Contributions Receivable

The following summarizes unconditional promises to give as of June 30, 2007:

Receivable in less than one year	$	25,631
Receivable in one to five years, net of discount ($4,910)		35,673
Receivable in more than five years, net of discount ($1,184)		3,336
Total contributions receivable, net of discounts		64,640
Less allowance for uncollectible contributions		(2,724)
Contributions receivable, net	$	61,916

The discount rates ranged from 4.91% to 5.12% in 2007. The weighted average discount rate was 4.51% in 2007. As of June 30, 2007, there were no conditional promises to give.

(3) Investments

Investments by type of security are as follows:

	June 30			
	2007		2006	
	Cost	Carrying/ fair value	Cost	Carrying/ fair value
Short-term:				
U.S. Government treasuries	$ 27,420	27,627	8,228	8,190
U.S. Government agencies	991	991	830	830
Total short-term	28,411	28,618	9,058	9,020
Long-term:				
Cash and cash equivalents	28,264	28,264	14,493	14,493
U.S. Government treasuries	11,104	11,056	24,072	23,666
U.S. Government agencies	20,997	20,875	18,823	18,519
State, county and municipal securities	7,208	6,307	7,434	6,623
Corporate debt securities	17,762	17,080	39,668	37,819
Common and preferred stock	199,149	263,524	204,405	241,226
Partnerships and other joint ventures	114,294	145,086	83,800	98,874
Foreign securities	51,765	72,207	47,030	57,219
Real estate	23,104	23,641	27,267	27,803
Other	5,304	5,304	4,504	4,504
Total long-term	478,951	593,344	471,496	530,746
Total investments	$ 507,362	621,962	480,554	539,766

(Continued)

(Dollars in thousands)

As of June 30, 2007 and 2006, long-term investments include investment assets held in internally-managed trust funds with a carrying value totaling $62,758 and $56,814, respectively.

At June 30, 2007, the Foundation has committed to make additional capital contributions of approximately $49,000 to various venture capital partnerships over the next five years.

During 2004, the Foundation invested $1,000 to become a member of a communications network infrastructure. Additionally, the Foundation entered into an agreement to make additional investments in the communications network infrastructure over a four-year period. The Foundation contributed $800 in 2007, 2006, 2005 and 2004, under the agreement. Included in other investments as of June 30, 2007 and 2006 is $4,200 and $3,400, respectively, related to this communications network infrastructure. As of June 30, 2007, the Foundation's remaining commitment was $800.

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

	Fair value	Cost	Net gains
June 30, 2007	$ 621,962	507,362	114,600
June 30, 2006	539,766	480,554	59,212
Unrealized net gains for the year, including net gain on agency deposits held in trust of $6,388			55,388
Realized net gains for the year, including net gains on agency deposits held in trust of $1,968			4,537
Total net gains for the year, including net gains on agency deposits held in trust of $8,356			$ 59,925

Investment management fees incurred in 2007 and 2006 totaled $1,763 and $2,122, respectively, and are included in net gains on investments in the accompanying consolidated statements of activities and changes in net assets.

(Continued)

(Dollars in thousands)

(4) Land, Buildings, and Equipment

The following is a summary of land, buildings, and equipment at cost, less accumulated depreciation:

		June 30	
		2007	2006
Land	$	13,128	12,413
Buildings		133,625	113,869
Equipment and other		20,175	19,960
Construction in progress		2,317	12,955
		169,245	159,197
Less accumulated depreciation		(46,510)	(44,578)
Land, buildings, and equipment, net	$	122,735	114,619

Depreciation expense recorded in 2007 and 2006 totaled $5,079 and $4,418, respectively.

As of June 30, 2007, outstanding contractual commitments for projects under construction approximated $723.

(5) Agency Deposits Held in Trust

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.

The following is a summary of agency deposits held in trust:

		June 30	
		2007	2006
University – Pratt Estate	$	46,474	41,047
University – Donaldson Brown Endowment		864	765
University – Other		773	686
Virginia Tech Alumni Association, Inc.		4,689	4,106
Virginia Tech Services, Inc.		3,281	2,439
Other		5,227	5,018
Total agency deposits held in trust	$	61,308	54,061

(Continued)

(Dollars in thousands)

(6) Notes Payable and Notes Receivable

The following is a summary of outstanding notes payable:

		June 30	
		2007	2006
Unsecured commercial note payable due September 10, 2014, plus interest at 4.65%	$	1,126	1,254
Unsecured variable rate commercial note payable due June 30, 2008 with automatic yearly renewal, plus interest at the 30-day LIBOR rate plus 35 basis points (5.67% at June 30, 2007 and 5.68% at June 30, 2006), principal balance not to exceed $13.8 million		12,265	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 (5.37% at June 30, 2007 and 5.40% at June 30, 2006), principal balance not to exceed $55 million		18,750	20,500
Unsecured variable rate commercial note payable due January 31, 2008, plus interest at the 30-day LIBOR rate plus 25 basis point (5.57% at June 30, 2007 and 5.58% at June 30, 2006), principal balance not to exceed $4 million		1,773	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 (6.57% at June 30, 2007 and 6.58% at June 30, 2006), collateralized by interest in a Citation V Ultra airplane		832	832
Total VTF notes payable		34,746	37,052
Unsecured note payable upon the sale of the Hotel and repayment of all debt of the Hotel and HRF		1,775	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		3,337	3,686
Total HRF notes payable		5,112	5,461
Total notes payable	$	39,858	42,513

(Continued)

(Dollars in thousands)

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 $55 million unsecured variable rate note agreement, the Foundation maintains a back-up line of credit with a lender in the amount of $55 million at an annual fee of 0.08% of the total commitment. The total commitment as of June 30, 2007 was $20.65 million. As of June 30, 2007 and 2006, no funds were outstanding under this commitment.

The aggregate annual maturities of notes payable for each of the five years and thereafter subsequent to June 30, 2007 are as follows:

2008	$	16,261
2009		1,960
2010		1,574
2011		4,200
2012		1,327
Thereafter or as cash becomes available from Hotel net operating income		14,536
Total	$	39,858

(7) 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 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 $255 to $490 and are guaranteed by HRLLC. The Term Bonds are eliminated for consolidation purposes as of June 30, 2007 and 2006.

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

The Foundation is obligated under Industrial Development Authority of Montgomery County, Virginia Variable Rate Revenue 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 4.135% and 4.375% at June 30, 2007 and 2006, respectively.

(Dollars in thousands)

The Foundation is obligated under Industrial Development Authority of Montgomery County, Virginia Variable Rate Revenue Bonds dated August 25, 2005 (Series 2005). Bond proceeds were used to refinance previously outstanding Series 2001A and Series 2002A bonds. The remainder was used to finance the construction of and equipment purchases for three facilities to be used in support of the University. The bonds, which mature June 1, 2035, bear a variable interest rate, which including remarketing and credit enhancement fees, was 4.055% and 4.285% at June 30, 2007 and 2006, respectively.

The Foundation is obligated under Industrial Development Authority of Montgomery County, Virginia Variable Rate Revenue Bonds dated January 23, 2007 (Series 2007). Bond proceeds were used to finance the construction of several facilities to be used in support of the University. The bonds, which mature on June 1, 2027 bear a variable interest rate, which including broker – dealer commission fees, was 3.860% at June 30, 2007.

Principal amounts outstanding for these bonds are as follows:

	June 30	
	2007	2006
Bond series:		
Series 2000	$ 2,964	3,134
Series 2001B	355	695
Series 2005	45,980	48,290
Series 2007	25,220	—
Total bonds payable	$ 74,519	52,119

The aggregate annual maturities of bonds payable for each of the five years and thereafter subsequent to June 30, 2007 are as follows:

2008	$ 3,676
2009	3,802
2010	3,679
2011	3,845
2012	3,987
Thereafter	55,530
Total	$ 74,519

To comply with the terms of the Series 2001B bond agreements, the Foundation maintains a letter of credit with a lender in the amount of $360 at annual fees equal to 0.22% of the total commitment. At June 30, 2007 and 2006, no funds were outstanding under this commitment.

(Continued)

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 $48,753 at annual fees equal to 0.20% of the total commitment. At June 30, 2007 and 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 BMA Municipal Swap Index, and was 3.73% and 3.97% at June 30, 2007 and 2006, respectively. Net interest expense associated with these transactions was $4 and $18 for fiscal years 2007 and 2006, respectively. The estimated fair value of the interest rate swap agreements approximated $2 and $3 as of June 30, 2007 and 2006, respectively, in favor of the lending institution.

Effective April 1, 2003, the Foundation entered into an interest rate swap agreement with a lending institution. The 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 5.32% and 5.21% at June 30, 2007 and 2006, respectively. Net interest (income) expense associated with these transactions was ($44) and $78 for fiscal years 2007 and 2006, respectively. The estimated fair value of the interest rate swap agreement approximated $101 and $153 as of June 30, 2007 and 2006, respectively, 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% for a 17-year term ending June 1, 2022. The lending institution participates as a floating rate payer, with a floating interest rate which is calculated based on the weighted average of 70% of USD-LIBOR-BBA and was 3.724% and 3.734% at June 30, 2007 and 2006, respectively. Net interest (income) expense associated with these transactions was ($110) and $25 for fiscal years 2007 and 2006, respectively. The estimated fair value of the interest rate swap agreement approximated $860 and $1,035 as of June 30, 2007 and 2006, respectively, 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 were effective September 1, 2006. The Foundation participates as a fixed rate payer, with a fixed rate of 3.035% and 3.2125% ending August 1, 2010 and June 1, 2025, respectively. The lending institution participates as a floating rate payer, with a floating interest rate which is calculated based on the weighted average of 70% of USD-LIBOR-BBA and was 3.724% and 3.734% at June 30, 2007 and 2006, respectively. Net interest income associated with those transactions was $85 for fiscal year

(Dollars in thousands)

2007. The estimated fair value of the interest rate swap agreements approximated $729 and $851 as of June 30, 2007 and 2006, respectively, in favor of the Foundation.

Effective March 12, 2007, 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 2007 bond issue. The Foundation participates as a fixed rate payer, with a fixed rate of 3.7367% and 3.467% ending June 1, 2027 and June 1, 2012, respectively. The lending institution participates as a floating rate payer, with a floating interest rate which is calculated based on the weighted average of USD-BMA Municipal Swap Index and was 3.70333% at June 30, 2007. Net interest income associated with these transactions was $7 for fiscal year 2007. The estimated fair value of the interest rate swaps agreements approximated $577 as of June 30, 2007 in favor of the Foundation.

Total interest expense incurred on notes payable and bonds payable in 2007 and 2006 totaled $3,843 and $3,158, respectively.

(8) Income Taxes

The Internal Revenue Service has ruled that VTF and VTREF qualify under Section 501(c)(3) of the Internal Revenue Code and are, therefore, not generally subject to income taxes under present tax laws. Management of VTF and VTREF believes that any income tax liability resulting from unrelated business income for the years ended June 30, 2007 and 2006 would not have a significant impact on the Foundation's changes in net assets. As discussed in note 1(q), VTCRC and HRF are taxable corporations.

Income tax expense attributable to change in net assets, before income taxes and minority interest is as follows:

		Current	Deferred	Total
2007:				
Federal	$	272	130	402
State		45	63	108
Total	$	317	193	510
2006:				
Federal	$	229	1,646	1,875
State		40	81	121
Total	$	269	1,727	1,996

(Dollars in thousands)

Reported income tax expense differed from the amounts computed by applying the U.S. Federal income tax rate of 34% to the combined change in net assets of VTCRC and HRF before income taxes and minority interest, as a result of the following:

		2007	2006
Computed "expected" income tax expense on the combined pretax income of VTCRC and of HRF	$	603	710
Increase (decrease) in income taxes resulting from:			
State income tax expense, net of federal benefit		70	80
Change in beginning of the year balance of the valuation allowance for deferred tax assets		(164)	1,231
Other, net		1	(25)
Reported income tax expense	$	510	1,996

The significant components of deferred income tax expense (benefit) are as follows:

		2007	2006
Deferred tax benefit exclusive of the components listed below	$	(189)	(78)
Net operating loss carryforwards		546	574
Increase (decrease) in beginning of the year balance of the valuation allowance for deferred tax assets		(164)	1,231
Total deferred income tax expense	$	193	1,727

(Continued)

(Dollars in thousands)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

		June 30	
		2007	2006
Deferred tax assets:			
Rehabilitation tax credit	$	3,835	3,835
Net operating loss carryforwards		823	1,369
Other		409	304
Total gross deferred tax assets		5,067	5,508
Less valuation allowance		(2,889)	(3,053)
Net deferred tax assets		2,178	2,455
Deferred tax liabilities:			
Land, buildings, and equipment, principally due to differences in depreciation and capital gain recognition		(4,587)	(4,717)
Other		(84)	(38)
Total deferred tax liabilities		(4,671)	(4,755)
Net deferred tax liability	$	(2,493)	(2,300)

The net change in the total valuation allowance for 2007 and 2006 was a decrease of $164 and an increase of $1,231, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and loss carryforwards and tax credits become utilized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based on management's assessment, management believes it is more likely than not that the Foundation will realize the benefits of these deductible differences, net of the existing valuation allowance at June 30, 2007. The amount of the deferred tax asset considered realizable, however, could be reduced in near term if estimates of future taxable income during the carryforward period are reduced.

(Dollars in thousands)

At June 30, 2007, the Foundation has loss carryforwards for HRF for income tax purposes of $2,168 available to offset future taxable income. If not utilized, these loss carryforwards will expire as follows:

Expiration date:		
2019	$	563
2020		665
2021		793
2022		147
	$	2,168

The rehabilitation tax credit of $3,689 expires in 2010 and $146 in 2011. In addition, the Foundation has alternative minimum tax credit carryforwards for HRF of approximately $62, which are available to reduce future Federal regular income taxes, if any, over an indefinite period.

(9) Related Party Transactions

The board of directors of Virginia Tech Services, Inc. may determine to transfer to the Foundation or the University any surplus funds for allocation and use by the University as the President and Board of Visitors deem appropriate. Included in other income of temporarily restricted funds for the years ended June 30, 2007 and 2006 were contributions of $1,500 and $1,000, respectively, from Virginia Tech Services, Inc., which are included in accounts receivable at June 30, 2007 and 2006, respectively.

During fiscal year 2003, the Foundation extended a line of credit to Virginia Tech Services, Inc. for internal use computer software/hardware acquisitions totaling $1,540. The Foundation agreed to finance the amount outstanding under the line of credit over a seven-year period in quarterly installments of $66, including interest at the fixed rate of 5.09%. As of June 30, 2007 and 2006, $556 and $783, respectively, was outstanding under this financing arrangement.

The Foundation rents facilities to various University departments, as well as other University-related entities, for research and project management. For the year ended June 30, 2007, rental income of $5,816 and $59 was earned from the University and Virginia Tech Intellectual Properties, Inc., respectively. For the year ended June 30, 2006, rental income of $4,129 and $39 was earned from the University and Virginia Tech Intellectual Properties, Inc., respectively. In addition, the Foundation provides facilities for the use of various University departments at no charge or below market rates to the University. The fair value rental for this property in excess of actual rental terms totaled $2,017 and $1,621 for the years ended June 30, 2007 and 2006, respectively, and is included in rental income and other University programs expense in the accompanying consolidated statement of activities and changes in net assets.

(Dollars in thousands)

During fiscal year 2003, the Foundation entered into two master lease agreements with the University for the lease of two buildings. The total annual payments under the lease agreements are $577 for the first five years, which will be adjusted for successive fiscal years. The lease agreements terminate in 20 years, at which time the title to the buildings will transfer to the University. Future minimum lease payments receivable under these leases as of June 30, 2007 are as follows:

	Related party	Other	Total
2008	$ 577	—	577
2009	577	—	577
2010	577	—	577
2011	577	—	577
2012	577	—	577
Thereafter	6,120	1,768	7,888
Net minimum future lease receipts	9,005	1,768	10,773
Less unearned income	866	1,740	2,606
Net investment in direct financing leases	$ 8,139	28	8,167

During 2004, the Foundation entered into a 10-year operating lease agreement with the University to provide access to a communications network infrastructure. For each of the years ended June 30, 2007 and 2006, the Foundation recognized revenue of $538 under this lease agreement, which is included in other income. As of June 30, 2007 and 2006, $1,403 and $1,141, respectively, is included in deferred revenue and other liabilities under this lease agreement. Future minimum lease payments receivable under this lease agreement are as follows:

2008	$ 700
2009	600
2010	120
2011	120
2012	120
Thereafter	122
Minimum future lease receipts	$ 1,782

During 2007 and 2006, the Foundation contributed $109 and $110, respectively, to Virginia Tech Intellectual Properties, Inc. for programmatic support.

The Hotel Roanoke Conference Center Commission (the Commission), a corporate body created by Chapter 440 of 1991 Acts of Assembly, has constructed a Conference Center contiguous to the Hotel. On November 8, 1993, the Commission and HRLLC, as lessees, entered into a lease with the Housing Authority, as lessor, for property to be used as a parking lot for the Hotel and Conference Center. The term of the lease is for 50 years commencing February 1, 1995. Annual lease payments are $50 adjusted annually by 50% of the percentage increase in the CPI. However, rent payments are only due and accruable to the extent net revenues of the Hotel exceed debt service. The Commission shall not be responsible for the payment of any rent. For the year ended June 30, 2007 and 2006, rent expense under this lease amounted to $14 and $57, respectively.

The Hotel Roanoke is operated and managed by D. T. Management, Inc. (Doubletree). Under the provisions of The Hotel Roanoke, a Doubletree Hotel, Management Agreement (Management Agreement) dated November 12, 1992 and amended December 14, 1993, Doubletree will receive management fees equal to 3.0% of the Hotel's gross revenues, $1.5 a month for administration of the Catering Agreement with the Commission, and an incentive fee equal to an additional one-half percent of gross revenues for achieving certain operating results. Management fees incurred under this agreement totaled $590 and $573, respectively, for the years ended June 30, 2007 and 2006, respectively. In addition, incentive fees incurred under this agreement totaled $95 and $92, respectively, for the years ended June 30, 2007 and 2006.

On October 15, 1994, HRLLC entered into a Catering Agreement with the Commission in which the Commission granted HRLLC the exclusive right and privilege to perform and provide catering services to the Conference Center for a period of ten years from the date the Conference Center was opened. The agreement was extended for one subsequent term of five years in October 2004 and may be extended for an additional five-year term at the sole discretion of the Commission. Pursuant to the agreement, the Commission receives 12% of gross banquet, catering and conference revenues. For the years ended June 30, 2007 and 2006, Hotel costs include $452 and $478, respectively, for fees incurred under this agreement.

On September 28, 1994, HRLLC and the Commission entered into a deed of easements agreement which states that Conference Service Fees are generated through the use of meeting rooms in both facilities. Therefore, Conference Service Fees shall be shared by the Commission and HRLLC in an equitable proportion. Under the amended agreement, HRLLC receives 16% of Conference Service Fees. For the years ended June 30, 2007 and 2006, Hotel revenues include $220 and $115, respectively, that the Hotel received from the Commission for its portion of Conference Service Fees. In addition, the Hotel paid the Commission $387 and $349 for the years ended June 30, 2007 and 2006, respectively, for Public Room Rental.

(10) Employee Benefits

Retirement benefits are provided for all full-time personnel through a fully funded, immediately vested, defined contribution retirement plan with Teacher's Insurance and Annuity Association and College Retirement Equity Fund (TIAA-CREF). The Foundation currently contributes an amount equal to 12.57% of regular salary for all full-time classified and administrative employees. For the years ended June 30, 2007 and 2006, the Foundation incurred costs related to this plan of $357 and $321, respectively.

(11) Disclosures about Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

(a) Cash and Cash Equivalents, Trade Accounts and Interest Receivable, Accounts Payable, and Accrued Expenses

The carrying amount approximates fair value because of the short maturity of those instruments.

(b) Contributions Receivable, and Notes and Deeds of Trust Receivable

The carrying amount approximates fair value because the carrying amount is calculated by discounting scheduled cash flows through the estimated due dates using an estimated market discount rate, as well as being reduced for estimated amounts deemed uncollectible.

(c) Investments and Irrevocable Trusts Held by Others

The fair values of certain investments and irrevocable trusts held by others are estimated based on quoted market prices or dealer quotes for those or similar investments. For other investments for which there are no quoted market prices or dealer quotes, fair values are estimated based on valuations provided by external investment managers. The Foundation believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because these alternative investments are not readily marketable, their estimated value is subject to additional uncertainty, and therefore values realized upon disposition may vary significantly from currently reported values.

(d) Annuity Obligations and Liabilities Under Trust Agreements

The fair value of annuity obligations and liabilities under trust agreements is estimated using discounted cash flows based on an estimated market discount rate, and approximates the carrying amount.

(e) Notes and Bonds Payable

The fair value of the Foundation's notes and bonds payable are estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Foundation for debt of the same remaining maturities.

(Continued)

(Dollars in thousands)

(f) *Interest Rate Swap Agreements*

The estimated fair value of the interest rate swap agreements (see note 7) was based on the amount the Foundation would receive or pay to settle the agreements at the reporting date, taking into account current interest rates. These estimated fair values were calculated by a lending institution using a proprietary model based upon projections of future cash flows.

(12) Business Concentrations

The Foundation utilizes 69 external investment managers to diversify its investment portfolio and minimize market risk. As of June 30, 2007 and 2006, there are no significant concentrations of market risk that would result from the nature of the Foundation's investments or from a lack of diversity of industry, currency or geographic locations.

For the year ended June 30, 2007, no individual donor accounted for more than 5% of contributions. For the year ended June 30, 2006, contributions from three major donors accounted for approximately 27% of contributions. As of June 30, 2007 and 2006, the Foundation had no contributions receivable from a single donor in excess of 5% of total net assets.

Included in contributions for fiscal year 2007 are the contributions to the Hokie Spirit Memorial Fund of $6,393. The contributions are due to the tragic events of April 16, 2007. The intent is for a majority of the funds to be transferred to the University in the next fiscal year.

(13) Net Assets

Temporarily restricted net assets are summarized as follows at June 30, 2007 and 2006:

		2007	2006
Instruction, scholarships, and academic support	$	352,134	283,137
Property and equipment additions		477	70
Annuity and life income agreements		10,922	9,799
	$	363,533	293,006

Permanently restricted net assets to be used primarily for instruction, scholarships, and academic support are summarized as follows at June 30, 2007 and 2006:

		2007	2006
Permanent endowment funds	$	243,027	223,906
Annuity and life income agreements		28,968	27,096
	$	271,995	251,002

Schedule 1

**VIRGINIA TECH FOUNDATION, INC.
AND SUBSIDIARIES**

Consolidating Schedule of Financial Position Information

June 30, 2007

(Dollars in thousands)

Assets		VTF	VTCRC	VTREF and Subsidiaries	Eliminations	Consolidated totals
Cash and cash equivalents	$	56,672	2,143	2,745	—	61,560
Restricted cash and cash equivalents		18,352	—	326	—	18,678
Trade accounts and interest receivable, net		3,444	344	913	—	4,701
Inventories		2,700	45	220	—	2,965
Prepaid expenses and other assets		4,573	5	284	—	4,862
Short-term investments		27,626	992	—	—	28,618
Contributions receivable, net		61,916	—	—	—	61,916
Notes and deeds of trust receivable		17,126	176	—	—	17,302
Long-term investments		593,135	1,135	—	(926)	593,344
Irrevocable trusts held by others		10,068	—	—	—	10,068
Vintage and other collection items		4,480	—	9	—	4,489
Deferred charges, net		743	—	26	—	769
Net investment in direct financing leases		8,139	—	28	—	8,167
Land, buildings, and equipment, net		70,593	13,185	38,957	—	122,735
Trademark, net		—	—	705	—	705
Investment in subsidiaries		23,121	—	—	(23,121)	—
Notes receivable from subsidiaries		19,019	—	—	(19,019)	—
Due from subsidiaries		7,552	—	—	(7,552)	—
Due from parent		—	—	9	(9)	—
Total assets	$	929,259	18,025	44,222	(50,627)	940,879

(Continued)

Schedule 1

VIRGINIA TECH FOUNDATION, INC.
AND SUBSIDIARIES

Consolidating Schedule of Financial Position Information

June 30, 2007

(Dollars in thousands)

Liabilities and Net Assets		VTF	VTCRC	VTREF and Subsidiaries	Eliminations	Consolidated totals
Liabilities:						
Accounts payable and accrued expenses	$	2,620	823	3,105	—	6,548
Deferred revenue and other liabilities		7,107	688	325	(926)	7,194
Annuity obligations		5,120	—	—	—	5,120
Liabilities under trust agreements		36,563	—	—	—	36,563
Notes payable		34,746	—	5,112	—	39,858
Bonds payable		74,519	—	—	—	74,519
Agency deposits held in trust		61,308	—	—	—	61,308
Deferred tax liability		—	265	2,228	—	2,493
Notes payable to parent company		—	8,484	10,535	(19,019)	—
Due to parent company		—	458	7,103	(7,561)	—
Total liabilities		221,983	10,718	28,408	(27,506)	233,603
Net assets:						
Unrestricted		52,606	—	10,146	(10,146)	52,606
Board-designated endowment		19,142	—	—	—	19,142
Common stock		—	15	—	(15)	—
Additional paid-in capital		—	5,341	1,000	(6,341)	—
Retained earnings		—	1,951	—	(1,951)	—
Total unrestricted		71,748	7,307	11,146	(18,453)	71,748
Temporarily restricted		363,533	—	4,668	(4,668)	363,533
Permanently restricted		271,995	—	—	—	271,995
Total net assets		707,276	7,307	15,814	(23,121)	707,276
Total liabilities and net assets	$	929,259	18,025	44,222	(50,627)	940,879

See accompanying independent auditors' report.

VIRGINIA TECH FOUNDATION, INC.
AND SUBSIDIARIES

Consolidating Schedule of Activities and
Changes in Net Assets Information

Year ended June 30, 2007

(Dollars in thousands)

	VTF				VTREF and Subsidiaries			
	Unrestricted	Temporarily restricted	Permanently restricted	VTCRC unrestricted	Unrestricted	Temporarily restricted	Eliminations	Consolidated totals
Revenues, gains, and other support:								
Contributions	$ 1,713	59,008	17,749	—	—	—	—	78,470
Investment income	5,003	9,596	—	322	172	—	(420)	14,673
Rental income	8,437	1,233	—	3,323	799	—	(600)	13,192
Hotel revenues	—	—	—	—	18,969	—	—	18,969
Golf course revenues	1,137	—	—	—	—	—	—	1,137
Other income	2,875	11,702	—	880	1	—	(303)	15,155
Net gains on investments	4,347	55,578	—	—	—	—	—	59,925
Net assets released from restrictions	67,648	(67,648)	—	—	—	—	—	—
Income from subsidiaries	1,944	—	—	—	—	—	(1,944)	—
Total revenues, gains and other support	93,104	69,469	17,749	4,525	19,941	—	(3,267)	201,521
Expenses and losses:								
Program services:								
Instruction and academic programs	15,007	—	—	—	—	—	—	15,007
Research programs	4,759	—	—	—	—	—	—	4,759
Public service programs	4,317	—	—	—	—	—	—	4,317
Scholarships	15,885	—	—	—	—	—	—	15,885
Grants to University for capital outlay	5,961	—	—	—	—	—	—	5,961
Other University programs	21,546	—	—	—	—	—	—	21,546
Hotel costs	—	—	—	—	9,945	—	(245)	9,700
Golf course costs	1,222	—	—	—	—	—	—	1,222
Total program services	68,697	—	—	—	9,945	—	(245)	78,397
Supporting services:								
Corporate research center costs	5,269	—	—	3,681	—	—	(175)	8,775
Fundraising	9,525	—	—	—	—	—	—	9,525
Management and general	2,684	—	—	—	797	—	(903)	2,578
Hotel management and general	—	—	—	—	7,589	—	—	7,589
Golf course management and general	398	—	—	—	—	—	—	398
Total supporting services	17,876	—	—	3,681	8,386	—	(1,078)	28,865
Total expenses and losses	86,573	—	—	3,681	18,331	—	(1,323)	107,262

(Continued)

**VIRGINIA TECH FOUNDATION, INC.
AND SUBSIDIARIES**

Consolidating Schedule of Activities and
Changes in Net Assets Information

Year ended June 30, 2007

(Dollars in thousands)

	VTF				VTREF and Subsidiaries			
	Unrestricted	Temporarily restricted	Permanently restricted	VTCRC unrestricted	Unrestricted	Temporarily restricted	Eliminations	Consolidated totals
Change in valuation of split-interest agreements	$ (77)	(1,058)	(3,244)	—	—	—	—	(4,379)
Total expenses, losses and change in valuation of split-interest agreements	86,496	(1,058)	(3,244)	3,681	18,331	—	(1,323)	102,883
Change in net assets, before income taxes	6,608	70,527	20,993	844	1,610	—	(1,944)	98,638
Income tax expense	—	—	—	324	186	—	—	510
Change in net assets	6,608	70,527	20,993	520	1,424	—	(1,944)	98,128
Net assets at beginning of year	65,140	293,006	251,002	6,617	8,722	4,668	(20,007)	609,148
Contribution of capital	—	—	—	170	1,000	—	(1,170)	—
Net assets at end of year	$ 71,748	363,533	271,995	7,307	11,146	4,668	(23,121)	707,276

See accompanying independent auditors' report.

VIRGINIA TECH FOUNDATION, INC.
AND SUBSIDIARIES

VTREF and Subsidiaries Consolidating Schedule
of Financial Position Information

June 30, 2007

(Dollars in thousands)

Assets		VTREF	HRF	HRLLC	Eliminations	VTREF and Subsidiaries
Cash and cash equivalents	$	948	871	926	—	2,745
Restricted cash and cash equivalents		—	—	326	—	326
Trade accounts receivable, net		59	6	848	—	913
Inventories		—	—	220	—	220
Prepaid expenses and other assets		—	—	284	—	284
Vintage and other collection items		5	4	—	—	9
Deferred charges, net		—	26	—	—	26
Current deferred tax asset		—	227	—	(227)	—
Net investment in direct financing leases		28	—	—	—	28
Land, buildings, and equipment:						
Land		—	2,705	—	—	2,705
Building		9,769	29,566	—	2,843	42,178
Leasehold improvements		—	—	2,843	(2,843)	—
Furniture, fixtures, and equipment		24	1,948	5,730	—	7,702
Construction in progress		937	—	8	—	945
Total land, buildings, and equipment		10,730	34,219	8,581	—	53,530
Less accumulated depreciation		148	11,106	3,319	—	14,573
Land, buildings, and equipment, net		10,582	23,113	5,262	—	38,957
Trademark, net		705	—	—	—	705
Investment in subsidiaries		14,067	(1,307)	—	(12,760)	—
Bonds receivable from subsidiary		3,975	—	—	(3,975)	—
Notes receivable from subsidiary		1,111	—	—	(1,111)	—
Due from subsidiary		2,714	—	—	(2,714)	—
Due from parent		9	—	—	—	9
Total assets	$	34,203	22,940	7,866	(20,787)	44,222

(Continued)

Schedule 3

VIRGINIA TECH FOUNDATION, INC.
AND SUBSIDIARIES

VTREF and Subsidiaries Consolidating Schedule
of Financial Position Information

June 30, 2007

(Dollars in thousands)

Liabilities and Net Assets		VTREF	HRF	HRLLC	Eliminations	VTREF and Subsidiaries
Liabilities:						
Accounts payable and accrued expenses	$	426	144	2,535	—	3,105
Deferred revenue and other liabilities		325	—	—	—	325
Notes payable		—	5,112	—	—	5,112
Deferred tax liability		—	2,455	—	(227)	2,228
Bonds payable to parent company		3,975	3,975	—	(3,975)	3,975
Notes payable to parent company		10,535	140	971	(1,111)	10,535
Due to parent company		3,128	2,714	—	(2,714)	3,128
Total liabilities		18,389	14,540	3,506	(8,027)	28,408
Net assets:						
Unrestricted		10,146	—	—	—	10,146
Additional paid-in capital		1,000	16,799	(12,732)	(4,067)	1,000
Retained earnings (accumulated deficit)		—	(8,399)	17,092	(8,693)	—
Total unrestricted		11,146	8,400	4,360	(12,760)	11,146
Temporarily restricted		4,668	—	—	—	4,668
Total net assets		15,814	8,400	4,360	(12,760)	15,814
Total liabilities and net assets	$	34,203	22,940	7,866	(20,787)	44,222

See accompanying independent auditors' report.

Schedule 4

VIRGINIA TECH FOUNDATION, INC.
AND SUBSIDIARIES

VTREF and Subsidiaries Consolidating Schedule of Activities and Changes in Net Assets Information

Year ended June 30, 2007

(Dollars in thousands)

	VTREF Unrestricted	VTREF Temporarily restricted	HRF unrestricted	HRLLC unrestricted	Eliminations	VTREF and Subsidiaries
Revenues, gains and other support:						
Investment income	$ 299	—	26	103	(256)	172
Rental income	799	—	385	—	(385)	799
Hotel revenues	—	—	—	18,969	—	18,969
Other income	1	—	—	—	—	1
Income from subsidiary	1,423	—	1,824	—	(3,247)	—
Total revenues, gains and other support	2,522	—	2,235	19,072	(3,888)	19,941
Expenses:						
Cost of hotel revenues	—	—	—	8,599	—	8,599
Management and general	477	—	17	6,915	(385)	7,024
Depreciation and amortization	173	—	800	1,041	—	2,014
Interest	448	—	491	11	(256)	694
Total expenses	1,098	—	1,308	16,566	(641)	18,331
Change in net assets, before income taxes	1,424	—	927	2,506	(3,247)	1,610
Income tax expense	—	—	186	—	—	186
Change in net assets	1,424	—	741	2,506	(3,247)	1,424
Net assets at beginning of year	8,722	4,668	7,095	3,870	(10,965)	13,390
Contribution from VTF to VTREF	1,000	—	—	—	—	1,000
Contribution from VTREF to HRF	—	—	564	—	(564)	—
Distribution to members for debt service	—	—	—	(2,016)	2,016	—
Net assets at end of year	$ 11,146	4,668	8,400	4,360	(12,760)	15,814

See accompanying independent auditors' report.

KPMG

VIRGINIA TECH FOUNDATION, INC.
AND SUBSIDIARIES

Consolidated Financial Statements
and Schedules

June 30, 2008

(With Independent Auditors' Report Thereon)

KPMG

KPMG LLP
Suite 1710
10 South Jefferson Street
Roanoke, VA 24011-1331

Independent Auditors' Report

The Board of Directors
Virginia Tech Foundation, Inc.:

We have audited the accompanying consolidated statement of financial position of Virginia Tech Foundation, Inc. and subsidiaries (the Foundation) as of June 30, 2008, and the related consolidated statements of activities and changes in net assets, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2007 consolidated financial statements and, in our report dated September 21, 2007, we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Virginia Tech Foundation, Inc. and subsidiaries as of June 30, 2008, and their changes in net assets and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information in schedules 1 through 4 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual entities. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

KPMG LLP

September 24, 2008

VIRGINIA TECH FOUNDATION, INC.
AND SUBSIDIARIES

Consolidated Statement of Financial Position

June 30, 2008 (with comparative financial information as of June 30, 2007)

(Dollars in thousands)

Assets		**2008**	**2007**
Cash and cash equivalents	$	37,889	61,560
Restricted cash and cash equivalents (note 7)		4,295	18,678
Total cash and cash equivalents		42,184	80,238
Trade accounts and interest receivable, net of allowance for doubtful accounts of $4 in 2008 and $6 in 2007 (note 9)		6,177	4,701
Inventories		2,874	2,965
Prepaid expenses and other assets (note 7)		3,116	4,862
Short-term investments (note 3)		20,141	28,618
Contributions receivable, net of allowance for uncollectible contributions of $3,174 in 2008 and $2,724 in 2007 (notes 2 and 12)		72,235	61,916
Notes and deeds of trust receivable (notes 6 and 9)		16,898	17,302
Long-term investments (notes 3, 5, and 9)		597,161	593,344
Irrevocable trusts held by others		9,631	10,068
Vintage and other collection items		4,126	4,489
Deferred charges, net		357	769
Net investment in direct financing leases (note 9)		7,915	8,167
Land, buildings, and equipment, net (notes 4, 6, 7, and 9)		142,500	122,735
Trademark, net		679	705
Total assets	$	925,994	940,879
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	7,222	6,548
Deferred revenue and other liabilities (notes 7 and 9)		8,005	7,194
Annuity obligations		5,257	5,120
Liabilities under trust agreements		32,233	36,563
Notes payable (note 6)		41,254	39,858
Bonds payable (note 7)		49,309	74,519
Agency deposits held in trust (note 5)		57,406	61,308
Deferred tax liability (note 8)		3,210	2,493
Total liabilities		203,896	233,603
Net assets:			
Unrestricted		57,081	52,606
Board-designated endowment		19,175	19,142
Total unrestricted		76,256	71,748
Temporarily restricted (notes 12 and 13)		351,064	363,533
Permanently restricted (note 13)		294,778	271,995
Total net assets		722,098	707,276
Commitments and contingencies (notes 3, 4, 6, 7, and 9)			
Total liabilities and net assets	$	925,994	940,879

See accompanying notes to consolidated financial statements.

VIRGINIA TECH FOUNDATION, INC.
AND SUBSIDIARIES

Consolidated Statement of Activities and
Changes in Net Assets

Year ended June 30, 2008 (with summarized
financial information for the year ended June 30, 2007)

(Dollars in thousands)

	2008				2007
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
Revenues, net gains (losses), and other support:					
Contributions (note 12)	$ 924	65,486	25,167	91,577	78,470
Investment income	5,504	5,614	—	11,118	14,673
Rental income (note 9)	13,908	1,136	—	15,044	13,192
Hotel revenues (note 9)	19,651	—	—	19,651	18,969
Golf course revenues	1,180	—	—	1,180	1,137
Other income (notes 7 and 9)	667	13,632	—	14,299	15,155
Net gains (losses) on investments (note 3)	1,303	(8,456)	—	(7,153)	59,925
Net assets released from restrictions	88,926	(88,926)	—	—	—
Total revenues, net gains, (losses), and other support	132,063	(11,514)	25,167	145,716	201,521
Expenses and losses (note 10):					
Program services:					
Instruction and academic programs	17,520	—	—	17,520	15,007
Research programs	4,611	—	—	4,611	4,759
Public service programs	4,449	—	—	4,449	4,317
Scholarships	18,384	—	—	18,384	15,885
Grants to University for capital outlay	9,161	—	—	9,161	5,961
Other University programs (notes 9 and 12)	29,953	—	—	29,953	21,546
Hotel costs (note 9)	9,627	—	—	9,627	9,700
Golf course costs	1,280	—	—	1,280	1,222
Total program services	94,985	—	—	94,985	78,397
Supporting services:					
Corporate research center costs	9,506	—	—	9,506	8,775
Fundraising	10,513	—	—	10,513	9,525
Management and general	2,860	—	—	2,860	2,578
Hotel management and general (note 9)	8,030	—	—	8,030	7,589
Golf course management and general	387	—	—	387	398
Total supporting services	31,296	—	—	31,296	28,865
Total expenses and losses	126,281	—	—	126,281	107,262

(Continued)

VIRGINIA TECH FOUNDATION, INC.
AND SUBSIDIARIES

Consolidated Statement of Activities and
Changes in Net Assets

Year ended June 30, 2008 (with summarized
financial information for the year ended June 30, 2007)

(Dollars in thousands)

	2008				2007
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**Total**
Change in valuation of split-interest agreements	$ 22	955	2,384	3,361	(4,379)
Total expenses and losses, and change in valuation split-interest agreements	126,303	955	2,384	129,642	102,883
Change in net assets, before income taxes	5,760	(12,469)	22,783	16,074	98,638
Income tax expense (note 8)	1,252	—	—	1,252	510
Change in net assets	4,508	(12,469)	22,783	14,822	98,128
Net assets at beginning of year	71,748	363,533	271,995	707,276	609,148
Net assets at end of year	$ 76,256	351,064	294,778	722,098	707,276

See accompanying notes to consolidated financial statements.

**VIRGINIA TECH FOUNDATION, INC.
AND SUBSIDIARIES**

Consolidated Statement of Cash Flows

Year ended June 30, 2008 (with comparative
financial information for the year ended June 30, 2007)

(Dollars in thousands)

		2008	2007
Cash flows from operating activities:			
Change in net assets	$	14,822	98,128
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:			
Depreciation and amortization		5,441	5,139
Write-off of bond issuance costs		363	—
Provision for doubtful accounts receivable		(136)	57
Increase in allowance for uncollectible contributions		450	596
Loss on sale of land		245	275
Loss on disposal of equipment		21	35
Net (gains) losses on investments		7,153	(59,925)
Noncash contributions of investments		(18,711)	(9,108)
Noncash contribution of irrevocable trust held by others		—	(125)
Contributions restricted for long-term investment		(25,167)	(17,749)
Deferred income taxes		717	193
(Increase) decrease in:			
Trade accounts and interest receivable		(1,340)	(393)
Inventories		91	(92)
Prepaid expenses and other assets		1,746	(365)
Contributions receivable		(10,769)	(7,977)
Vintage and other collection items		363	(140)
Increase (decrease) in:			
Accounts payable and accrued expenses		229	1,345
Deferred revenue and other liabilities		811	2,215
Annuity obligations		137	568
Net cash (used in) provided by operating activities		(23,534)	12,677
Cash flows from investing activities:			
Purchases of buildings and equipment, and construction expenditures		(24,952)	(18,993)
Purchases of investments		(806,521)	(379,213)
Proceeds from sales and maturities of investments, net of gains and losses on agency deposits held in trust		817,138	370,380
Collections on notes receivable and deeds of trust receivable		404	1,398
Advances on notes receivable and deeds of trust receivable		—	(426)
(Increase) decrease in deposits with trustees		5,601	(4,330)
(Increase) decrease in irrevocable trust held by others		437	(630)
Payments received on net investment in direct financing leases		252	5,097
Net cash used in investing activities		(7,641)	(26,717)

(Continued)

VIRGINIA TECH FOUNDATION, INC.
AND SUBSIDIARIES

Consolidated Statement of Cash Flows

Year ended June 30, 2008 (with comparative financial information for the year ended June 30, 2007)

(Dollars in thousands)

		2008	2007
Cash flows from financing activities:			
Proceeds from contributions restricted for investment in endowment	$	25,167	17,749
Payments for bond issuance costs		—	(433)
Proceeds from borrowing on bonds payable		—	25,220
Principal payments on bonds payable		(3,675)	(2,820)
Payments for repurchase of treasury bonds payable		(21,535)	—
Proceeds from borrowing on notes payable		3,670	4,750
Principal payments on notes payable		(2,274)	(7,405)
(Decrease) increase in agency deposits held in trust, net		(3,902)	7,247
(Decrease) increase in liabilities under trust agreements		(4,330)	3,308
Net cash (used in) provided by financing activities		(6,879)	47,616
Net (decrease) increase in total cash and cash equivalents		(38,054)	33,576
Total cash and cash equivalents at beginning of year		80,238	46,662
Total cash and cash equivalents at end of year	$	42,184	80,238
Supplemental cash flow disclosures:			
Interest paid	$	3,931	3,769
Income taxes paid		393	286
Noncash investing and financing activities:			
Contributions of investments		18,711	9,108
Contribution of irrevocable trust held by others		—	125
Land, buildings, and equipment financed through accounts payable		780	335
Building leased through direct financing capital lease		—	4,706

See accompanying notes to consolidated financial statements.

(1) Description of Organization and Summary of Significant Accounting Policies

(a) Description of Organization

The purpose of Virginia Tech Foundation, Inc. is to receive, invest, and manage private funds given for the support of Virginia Polytechnic Institute and State University (University or Virginia Tech) and to foster and promote the growth, progress, and general welfare of the University. The Virginia Tech Foundation, Inc. (VTF) has incorporated four wholly owned subsidiaries, Virginia Tech Corporate Research Center, Inc. (VTCRC), Virginia Tech Real Estate Foundation, Inc. (VTREF), The Ferrari Foundation, and The River Course, LLC.

VTCRC was organized solely for the benefit of the University and Virginia Tech Foundation, Inc. VTCRC is to engage in any and all activities and business incident to ownership, development, and operation of a research center in support of University programs.

VTREF was organized solely for the benefit of the University and Virginia Tech Foundation, Inc. VTREF is to engage in any and all matters pertaining to certain real property for the benefit of the University. VTREF has incorporated three wholly owned subsidiaries, H. R. Foundation, Inc. (HRF), VTREF – Foundation Office Building, LLC (VTREF – FOB) and Virginia Tech Research Institute, LLC. HRF was organized solely to engage in any and all activities incident to the ownership, development, and operation of the Hotel Roanoke property in support of the University. VTREF - FOB was organized solely to engage in any and all activities incident to the ownership, development, and operation of the Foundation office building. Virginia Tech Research Institute, LLC was organized solely to engage in any and all activities incident to the ownership, development, and operation of the National Capital Region facility for the University's research initiative.

Hotel Roanoke LLC (a Virginia limited liability company), dba The Hotel Roanoke, a Doubletree Hotel (HRLLC), was established to renovate and refurbish The Hotel Roanoke (Hotel) and operate and manage the 332-room Hotel. HRF owns a 72% interest in the voting rights of HRLLC and the remaining 28% interest in the voting rights is held by VTREF.

The Ferrari Foundation, a nonprofit corporation chartered in Switzerland, was organized to manage the European Studies Center facility located in Riva San Vitale, Switzerland.

The River Course, LLC, a Virginia limited liability company, was established to reconstruct, operate, and manage the Pete Dye River Course of Virginia Tech, a golf course located in Pulaski County, Virginia.

(b) Principles of Consolidation

The consolidated financial statements include the financial statements of Virginia Tech Foundation, Inc. and its four wholly owned subsidiaries (collectively, the Foundation). All significant intercompany balances and transactions have been eliminated in consolidation.

(c) *Basis of Financial Statement Presentation*

The accompanying consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting and in accordance with the provisions of the AICPA's *Audit and Accounting Guide for Not-for-Profit Organizations*.

The Foundation classifies its net assets, revenues, gains, and losses based on the existence or absence of donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these permanent endowment funds permit the Foundation to use all or part of the income earned on any related investments for general or specific purposes.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions.

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations. While Board-designated endowment funds have been established by the Board for the same purposes as permanent endowment funds, any portion of Board-designated endowment funds may be expended.

(d) *Comparative Financial Information*

The consolidated statement of activities and changes in net assets for the year ended June 30, 2008 includes prior year summarized comparative information in total but not by net asset class. As a result, the prior year comparative information presented does not include sufficient detail to constitute a presentation of a complete set of financial statements in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's 2007 consolidated financial statements, from which the summarized information was derived.

(e) *Cash and Cash Equivalents*

At June 30, 2008 and 2007, cash equivalents of $29,913 and $69,239, respectively, consisted primarily of certificates of deposit and money market mutual funds. For purposes of the consolidated statement of cash flows, cash equivalents have been defined as short-term liquid investments purchased with original maturities of three months or less.

Cash and cash equivalents of permanent endowment funds held temporarily until suitable long-term investment opportunities are identified are included in long-term investments on the consolidated statement of financial position.

(Continued)

(f) ***Trade Accounts and Interest Receivable***

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Foundation's best estimate of the amount of probable credit losses in the Foundation's existing accounts receivable. The Foundation determines the allowance based on historical write-off experience and overall economic data. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Foundation does not have any off-balance-sheet credit exposure related to its customers.

(g) ***Inventories***

Inventories, consisting primarily of livestock, golf pro shop merchandise and Hotel guest supplies, food and beverage items, and gift shop merchandise, are stated at the lower of cost or market. Cost for livestock inventories is determined using the specific-identification method. Cost for golf pro shop merchandise and Hotel inventories is determined using the first-in, first-out method.

(h) ***Contributions***

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. Contributions of long-lived assets with no donor-imposed time restrictions are reported as unrestricted support. Contributions of cash and other assets restricted to the acquisition of long-lived assets are reported as restricted support that increases temporarily restricted net assets, and those restrictions expire when the long-lived assets are placed in service.

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

(i) ***Impairment of Notes Receivable***

Management, considering current information and events regarding the borrowers' ability to repay their obligations, considers a note to be impaired when it is probable that the Foundation will be unable to collect all amounts due according to the contractual terms of the note agreement. When a note is considered to be impaired, the amount of the impairment is measured based on the present value of expected future cash flows discounted at the note's effective interest rate. Impairment losses are included in the allowance for impaired notes through a charge to bad debt expense. Cash receipts on impaired notes receivable are applied to reduce the principal amount of such notes until the principal has been recovered and are recognized as interest income thereafter.

(j) Investments

Investments in marketable equity securities and all investments in debt securities are reported at fair value based on quoted market prices in the consolidated statement of financial position with unrealized gains and losses included in the consolidated statement of activities and changes in net assets.

Other investments, such as investments in real estate, interests in internally managed trusts, joint venture agreements, venture capital funds, partnership interests, and equity securities in closely held companies, are measured at estimated fair value, based on valuations provided by external investment managers. The Foundation believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because these alternative investments are not readily marketable, their estimated value is subject to additional uncertainty, and therefore values realized upon disposition may vary significantly from currently reported values.

The Foundation's investments include various types of investment securities and investment vehicles. Investment securities are exposed to several risks, such as interest rate, currency, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Foundation's consolidated financial statements.

Gains and losses on investments are reported in the consolidated statement of activities and changes in net assets as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Dividend, interest, and other investment income are reported in the period earned as increases in unrestricted net assets unless the use of the assets received is limited by donor-imposed restrictions. Donor-restricted investment income is reported as an increase in temporarily restricted net assets.

(k) Irrevocable Trusts Held by Others

Irrevocable trusts held by others represents the Foundation's interest in trust funds managed outside the Foundation in which the Foundation is named as an irrevocable beneficiary of the assets or has the irrevocable right to receive income earned on the assets. These assets are measured at estimated fair value, where practicable, net of the present value of the estimated future benefits to be distributed to the designated beneficiary or beneficiaries over the trust's term.

(l) Vintage and Other Collection Items

Vintage and other collection items are stated at cost, if acquired by purchase, or at estimated fair value at the date of donation, if contributed by a donor.

(Continued)

(m) Deferred Charges

Deferred charges include bond issuance costs, which are being amortized over the life of the bonds. Amortization expense recorded in 2008 and 2007 totaled $49 and $35, respectively.

(n) Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost, if acquired by purchase, or at estimated fair value at the date of donation, if contributed by a donor. Certain of the Foundation's physical assets are exhaustible and are used to provide a service. Accordingly, buildings and equipment are reflected net of accumulated depreciation. Depreciation is computed on the straight-line method based on estimated useful lives of 20 to 40 years for buildings and 5 to 10 years for equipment.

Interest is normally expensed as incurred, except when it is incurred in conjunction with major capital additions, and then it is capitalized as part of the asset cost. The amounts of interest capitalized are determined by applying current interest rates to the funds required to finance the construction, net of interest earned on bond proceeds held by trustee. Interest capitalized during the years ended June 30, 2008 and 2007 totaled $310 and $126, respectively.

(o) Trademark

In connection with the donation of the Hotel, VTREF also acquired the exclusive right to the trademark associated with the Hotel. The estimated fair value of the trademark at the date of donation in the amount of $1,016 is being amortized on the straight-line method over 40 years commencing with the opening of the Hotel.

Amortization expense recorded in 2008 and 2007 totaled $26 and $25, respectively.

(p) Impairment or Disposal of Long-Lived Assets

Long-lived assets, such as buildings and equipment, are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the assets exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and no longer depreciated.

(q) Income Taxes

The Internal Revenue Service has ruled that VTF and VTREF qualify under Section 501(c)(3) of the Internal Revenue Code and are, therefore, not generally subject to income taxes under present tax laws. However, VTCRC and HRF are taxable corporations.

(Continued)

Income taxes for VTCRC and HRF are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the change in net assets in the period that includes the enactment date.

Effective July 1, 2007, the Foundation adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). The adoption of FIN 48 had no effect on the Foundation's consolidated financial statements. Beginning with the adoption of FIN 48 as of July 1, 2007, the Foundation recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Prior to the adoption of FIN 48, the Foundation recognized the effect of income tax positions only if such positions were probable of being sustained.

(r) Derivative Instruments

The Foundation enters into interest rate swap agreements to reduce the impact of changes in interest rates on its floating rate debt. The Foundation is exposed to credit loss in the event of nonperformance by the other party to the interest rate swap agreement. However, the Foundation does not anticipate nonperformance by the counterparty. The Foundation does not require collateral or other security to support financial investments with credit risk.

The Foundation's interest rate swap agreements are recognized as either assets, included in prepaid expenses and other assets, or liabilities, included in deferred revenue and other liabilities, in the consolidated statement of financial position at their respective fair values. Changes in the fair value of the agreements are recorded as other income in the consolidated statement of activities and changes in net assets.

(s) Functional Allocation of Expenses

The costs of providing the Foundation's various programs and supporting services have been summarized on a functional basis in the consolidated statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(Continued)

(Dollars in thousands)

(t) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(2) Contributions Receivable

The following summarizes unconditional promises to give:

		June 30	
		2008	2007
Receivable in less than one year	$	32,602	25,631
Receivable in one to five years, net of discount ($4,092 in 2008 and $4,910 in 2007)		36,535	35,673
Receivable in more than five years, net of discount ($2,338 in 2008 and $1,184 in 2007)		6,272	3,336
Total contributions receivable, net of discounts		75,409	64,640
Less allowance for uncollectible contributions		(3,174)	(2,724)
Contributions receivable, net	$	72,235	61,916

The discount rates ranged from 2.36% to 4.53% in 2008 and 4.91% to 5.12% in 2007. The weighted average discount rate was 3.85% in 2008 and 4.51% in 2007. As of June 30, 2008, there were no conditional promises to give.

(Dollars in thousands)

(3) Investments

Investments by type of security are as follows:

	June 30			
	2008		2007	
	Cost	Carrying/ fair value	Cost	Carrying/ fair value
Short-term:				
Corporate debt securities	$ 6,105	4,731	—	—
U.S. government treasuries	14,907	14,266	27,420	27,627
U.S. government agencies	1,144	1,144	991	991
Total short-term	22,156	20,141	28,411	28,618
Long-term:				
Cash and cash equivalents	13,084	13,084	28,264	28,264
U.S. government treasuries	44,316	46,014	11,104	11,056
U.S. government agencies	5,102	5,218	20,997	20,875
State, county, and municipal securities	7,221	6,309	7,208	6,307
Corporate debt securities	13,680	15,022	17,762	17,080
Common and preferred stock	149,842	161,730	199,149	263,524
Partnerships and other joint ventures	246,034	255,916	114,294	145,086
Foreign securities	60,637	61,836	51,765	72,207
Real estate	25,341	25,928	23,104	23,641
Other	6,104	6,104	5,304	5,304
Total long-term	571,361	597,161	478,951	593,344
Total investments	$ 593,517	617,302	507,362	621,962

As of June 30, 2008 and 2007, long-term investments include investment assets held in internally managed trust funds with a carrying value totaling $57,158 and $62,758, respectively.

At June 30, 2008, the Foundation has committed to make additional capital contributions of approximately $45,400 to various venture capital partnerships over the next five years.

During 2004, the Foundation invested $1,000 to become a member of a communications network infrastructure. Additionally, the Foundation entered into an agreement to make additional investments in the communications network infrastructure over a four-year period. The Foundation contributed $800 in 2008, 2007, 2006, 2005, and 2004, under the agreement. Included in other investments as of June 30, 2008 and 2007 is $5,000 and $4,200, respectively, related to this communications network infrastructure.

(Dollars in thousands)

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

		Fair value	Cost	Net gains (losses)
June 30, 2008	$	617,302	593,517	23,785
June 30, 2007		621,962	507,362	114,600
Unrealized net loss for the year, including net loss on agency deposits held in trust of $9,302				(90,815)
Realized net gains for the year, including net gains on agency deposits held in trust of $8,139				83,662
Total net loss for the year, including net loss on agency deposits held in trust of $1,163			$	(7,153)

Investment management fees incurred in 2008 and 2007 totaled $2,894 and $1,763, respectively, and are included in net gains on investments in the accompanying consolidated statements of activities and changes in net assets.

(4) Land, Buildings, and Equipment

The following is a summary of land, buildings, and equipment at cost, less accumulated depreciation:

		June 30	
		2008	2007
Land	$	13,895	13,128
Buildings		134,311	133,625
Equipment and other		23,227	20,175
Construction in progress		21,376	2,317
		192,809	169,245
Less accumulated depreciation		(50,309)	(46,510)
Land, buildings, and equipment, net	$	142,500	122,735

Depreciation expense recorded in 2008 and 2007 totaled $5,366 and $5,079, respectively.

(Dollars in thousands)

As of June 30, 2008, outstanding contractual commitments for projects under construction approximated $9,500.

(5) Agency Deposits Held in Trust

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.

The following is a summary of agency deposits held in trust:

		June 30	
		2008	2007
University – Pratt Estate	$	43,708	46,474
University – Donaldson Brown Endowment		804	864
University – Other		738	773
Virginia Tech Alumni Association, Inc.		4,364	4,689
Virginia Tech Services, Inc.		3,285	3,281
Other		4,507	5,227
Total agency deposits held in trust	$	57,406	61,308

(6) Notes Payable and Notes Receivable

The following is a summary of outstanding notes payable:

		June 30	
		2008	2007
Unsecured commercial note payable due September 10, 2014, plus interest at 4.65%	$	993	1,126
Unsecured variable rate commercial note payable due June 30, 2009 with automatic yearly renewal, plus interest at the 30-day LIBOR rate plus 35 basis points (2.81% at June 30, 2008 and 5.67% at June 30, 2007), principal balance not to exceed $13.8 million		11,963	12,265
Unsecured variable rate promissory note payable due June 1, 2023, plus interest determined weekly by the remarketing agent based on current market conditions (2.67% at June 30, 2008 and 5.37% at June 30, 2007), principal balance not to exceed $55 million		21,220	18,750

(Dollars in thousands)

		June 30	
		2008	2007
Unsecured variable rate commercial note payable due January 31, 2009, plus interest at the 30-day LIBOR rate plus 25 basis point (2.71% at June 30, 2008 and 5.57% at June 30, 2007), principal balance not to exceed $4 million	$	1,495	1,773
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 (3.71% at June 30, 2008 and 6.57% at June 30, 2007), collateralized by interest in a Citation V Ultra airplane		832	832
Total VTF notes payable		36,503	34,746
Unsecured note payable upon the sale of the Hotel and repayment of all debt of the Hotel and HRF		1,775	1,775
Unsecured note payable to the City of Roanoke Redevelopment and Housing Authority, due in aggregate annual installments of $497, including interest at 4.048%, guaranteed by the U.S. Department of Housing and Urban Development, maturing June 30, 2014		2,976	3,337
Total HRF notes payable		4,751	5,112
Total notes payable	$	41,254	39,858

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

To comply with the terms of the $55 million unsecured variable rate note agreement, the Foundation maintains a back-up line of credit with a lender in the amount of $55 million at an annual fee of 0.13% of the total commitment. The total commitment as of June 30, 2008 was $32.835 million. As of June 30, 2008 and 2007, no funds were outstanding under this commitment.

(Dollars in thousands)

The aggregate annual maturities of notes payable for each of the five years and thereafter subsequent to June 30, 2008 are as follows:

2009	$	19,714
2010		1,525
2011		1,600
2012		1,627
2013		1,655
Thereafter or as cash becomes available from Hotel net operating income		15,133
Total	$	41,254

(7) 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 lender group and provide long-term financing for the renovation of the Hotel Roanoke. On June 1, 2003, the bonds were remarketed to VTREF and the new term rate of 4.10% extended through May 31, 2008. On June 1, 2008, the bonds were remarketed and the new term rate of 5.00% will extend through May 31, 2013. The Term Bonds are subject to mandatory annual sinking fund redemption through 2018 in varying amounts ranging from $275 to $490 and are guaranteed by HRLLC. The Term Bonds are eliminated for consolidation purposes as of June 30, 2008 and 2007.

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

The Foundation is obligated under Industrial Development Authority of Montgomery County, Virginia Variable Rate Revenue Bonds dated August 25, 2005 (Series 2005). Bond proceeds were used to refinance previously outstanding Series 2001A and Series 2002A bonds. The remainder was used to finance the construction of and equipment purchases for three facilities to be used in support of the University. The bonds, which mature June 1, 2035, bear a variable interest rate, which including remarketing and credit enhancement fees, was 1.485% and 4.055% at June 30, 2008 and 2007, respectively.

The Foundation is obligated under Industrial Development Authority of Montgomery County, Virginia Variable Rate Revenue Bonds dated January 23, 2007 (Series 2007). Bond proceeds were used to finance the construction of several facilities to be used in support of the University. The bonds, which mature on June 1, 2027 bear a variable interest rate, which including broker-dealer commission fees, was 1.970% and 3.860% at June 30, 2008 and 2007, respectively.

(Dollars in thousands)

During 2008, the Foundation gave the owners of the Series 2007 bonds their notice of borrower intent to bid in auction to repurchase the Series 2007 bonds. Through June 30, 2008, the Foundation has incrementally repurchased approximately 88% of the Series 2007 bonds at par value plus accrued interest.

Principal amounts outstanding for these bonds are as follows:

		June 30	
		2008	2007
Bond series:			
Series 2000	$	2,789	2,964
Series 2001B		—	355
Series 2005		43,575	45,980
Series 2007		24,480	25,220
Less Series 2007 repurchased and held in treasury		(21,535)	—
Total bonds payable	$	49,309	74,519

The aggregate annual maturities of bonds payable for each of the five years and thereafter subsequent to June 30, 2008 are as follows:

2009	$	2,821
2010		2,654
2011		2,777
2012		2,879
2013		2,971
Thereafter		35,207
Total	$	49,309

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 $46,421 at annual fees equal to 0.20% of the total commitment. At June 30, 2008 and 2007, no funds were outstanding under this commitment.

Effective April 1, 2003, the Foundation entered into an interest rate swap agreement with a lending institution. The agreement was based on the principal balance (notional amount of $2,585) for a promissory note payable. The Foundation participates as a fixed rate payer, with a fixed interest rate of 3.715% for a seven-year term ending February 1, 2010. The lending institution participates as a floating rate payer, with a variable interest rate, which is calculated based on LIBOR and was 2.46% and 5.32% at June 30, 2008 and 2007, respectively. Net interest income associated with these transactions was $11 and $44 for fiscal years 2008 and 2007, respectively. The estimated fair value of the interest rate swap agreement approximated $25, in favor of the lending institution and $101 in favor of the Foundation as of June 30, 2008 and 2007, respectively.

(Continued)

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 of $21,535) for the Series 2001A and Series 2002A bond issues, which were refinanced by the Series 2005 bonds. The Foundation participates as a fixed rate payer, with a fixed rate of 3.265% for a 17-year term ending June 1, 2022. The lending institution participates as a floating rate payer, with a floating interest rate, which is calculated based on the weighted average of 70% of USD-LIBOR-BBA and was 1.722% and 3.724% at June 30, 2008 and 2007, respectively. Net interest expense (income) associated with these transactions was $89 and $(110) for fiscal years 2008 and 2007, respectively. The estimated fair value of the interest rate swap agreement approximated $268 in favor of the lending institution and $860 in favor of the Foundation as of June 30, 2008 and 2007, respectively.

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 of $17,065) for the Series 2005 bond issue and were effective September 1, 2006. The Foundation participates as a fixed rate payer, with a fixed rate of 3.0350% 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 1.722% and 3.724% at June 30, 2008 and 2007, respectively. Net interest expense associated with those transactions was $49 for fiscal year 2008 and $(85) for fiscal year 2007. The estimated fair value of the interest rate swap agreements approximated $125 in favor of the lending institution and $729 in favor of the Foundation as of June 30, 2008 and 2007, respectively.

Effective March 12, 2007, the Foundation entered into two separate interest rate swap agreements with a lending institution. These agreements were based on the principal balances (notional amounts of $24,480) for the Series 2007 bond issue. The Foundation participates as a fixed rate payer, with a fixed rate of 3.7367% and 3.4670% ending June 1, 2027 and June 1, 2012, respectively. The lending institution participates as a floating rate payer, with a floating interest rate, which is calculated based on the weighted average of USD-BMA Municipal Swap Index and was 1.58967% and 3.70333% at June 30, 2008 and 2007, respectively. Net interest expense (income) associated with these transactions was $191 and $(7) for fiscal years 2008 and 2007, respectively. The estimated fair value of the interest rate swap agreements approximated $424 in favor of the lending institution and $577 in favor of the Foundation as of June 30, 2008 and 2007, respectively.

Total interest expense incurred on notes payable and bonds payable in 2008 and 2007 totaled $3,971 and $3,843, respectively.

(8) Income Taxes

The Internal Revenue Service has ruled that VTF and VTREF qualify under Section 501(c)(3) of the Internal Revenue Code and are, therefore, not generally subject to income taxes under present tax laws. Management of VTF and VTREF believes that any income tax liability resulting from unrelated business income for the years ended June 30, 2008 and 2007 would not have a significant impact on the Foundation's changes in net assets. As discussed in note 1(q), VTCRC and HRF are taxable corporations.

(Continued)

(Dollars in thousands)

Income tax expense attributable to change in net assets, before income taxes and minority interest is as follows:

		Current	Deferred	Total
2008:				
Federal	$	454	641	1,095
State		81	76	157
Total	$	535	717	1,252
2007:				
Federal	$	272	130	402
State		45	63	108
Total	$	317	193	510

Reported income tax expense differed from the amounts computed by applying the U.S. federal income tax rate of 34% to the combined change in net assets of VTCRC and HRF before income taxes and minority interest, as a result of the following:

		2008	2007
Computed "expected" income tax expense on the combined pretax income of VTCRC and of HRF	$	896	603
Increase (decrease) in income taxes resulting from:			
State income tax expense, net of federal benefit		104	70
Change in beginning of the year balance of the valuation allowance for deferred tax assets		259	(164)
Other, net		(7)	1
Reported income tax expense	$	1,252	510

The significant components of deferred income tax expense (benefit) are as follows:

		2008	2007
Deferred tax benefit exclusive of the components listed below	$	3	(189)
Net operating loss carryforwards		455	546
Increase (decrease) in beginning of the year balance of the valuation allowance for deferred tax assets		259	(164)
Total deferred income tax expense	$	717	193

(Dollars in thousands)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

		June 30	
		2008	2007
Deferred tax assets:			
Rehabilitation tax credit	$	3,835	3,835
Net operating loss carryforwards		368	823
Other		377	409
Total gross deferred tax assets		4,580	5,067
Less valuation allowance		(3,148)	(2,889)
Net deferred tax assets		1,432	2,178
Deferred tax liabilities:			
Land, buildings, and equipment, principally due to differences in depreciation and capital gain recognition		(4,466)	(4,587)
Other		(176)	(84)
Total deferred tax liabilities		(4,642)	(4,671)
Net deferred tax liability	$	(3,210)	(2,493)

The net change in the total valuation allowance for 2008 and 2007 was an increase of $259 and a decrease of $164, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and loss carryforwards and tax credits become utilized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based on management's assessment, management believes it is more likely than not that the Foundation will realize the benefits of these deductible differences, net of the existing valuation allowance at June 30, 2008. The amount of the deferred tax asset considered realizable, however, could be reduced in near term if estimates of future taxable income during the carryforward period are reduced.

At June 30, 2008, the Foundation has loss carryforwards for HRF for income tax purposes of $970 available to offset future taxable income. If not utilized, these loss carryforwards will expire as follows:

Expiration date:		
2020	$	30
2021		793
2022		147
	$	970

(Continued)

The rehabilitation tax credit of $3,835 expires $3,689 in 2010 and $146 in 2011. In addition, the Foundation has alternative minimum tax credit carryforwards for HRF of approximately $86, which are available to reduce future federal regular income taxes, if any, over an indefinite period.

(9) Related-Party Transactions

The board of directors of Virginia Tech Services, Inc. may determine to transfer to the Foundation or the University any surplus funds for allocation and use by the University as the President and Board of Visitors deem appropriate. Included in other income of temporarily restricted funds for the years ended June 30, 2008 and 2007 were contributions of $1,600 and $1,500, respectively, from Virginia Tech Services, Inc., which are included in accounts receivable at June 30, 2008 and 2007, respectively.

During fiscal year 2003, the Foundation extended a line of credit to Virginia Tech Services, Inc. for internal use computer software/hardware acquisitions totaling $1,540. The Foundation agreed to finance the amount outstanding under the line of credit over a seven-year period in quarterly installments of $66, including interest at the fixed rate of 5.09%. As of June 30, 2008 and 2007, $316 and $556, respectively, was outstanding under this financing arrangement.

The Foundation rents facilities to various University departments, as well as other University-related entities, for research and project management. For the year ended June 30, 2008, rental income of $7,556 and $66 was earned from the University and Virginia Tech Intellectual Properties, Inc., respectively. For the year ended June 30, 2007, rental income of $5,816 and $59 was earned from the University and Virginia Tech Intellectual Properties, Inc., respectively. In addition, the Foundation provides facilities for the use of various University departments at no charge or below market rates to the University. The fair value rental for this property in excess of actual rental terms totaled $999 and $2,017 for the years ended June 30, 2008 and 2007, respectively, and is included in rental income and other University programs expense in the accompanying consolidated statement of activities and changes in net assets.

During fiscal year 2003, the Foundation entered into two master lease agreements with the University for the lease of two buildings. The total annual payments under the lease agreements are $577 for the first five years, which will be adjusted for successive fiscal years. As of July 1, 2008, the total annual payments under the lease agreements are $705, which will increase by 2% annually over the previous year amount.

(Continued)

(Dollars in thousands)

The lease agreements terminate in 20 years, at which time the title to the buildings will transfer to the University. Future minimum lease payments receivable under these leases as of June 30, 2008 are as follows:

	Related party	Other	Total
2009	$ 705	—	705
2010	719	—	719
2011	733	—	733
2012	748	—	748
2013	763	—	763
Thereafter	7,934	1,768	9,702
Net minimum future lease receipts	11,602	1,768	13,370
Less unearned income	3,759	1,696	5,455
Net investment in direct financing leases	$ 7,843	72	7,915

During 2004, the Foundation entered into a 10-year operating lease agreement with the University to provide access to a communications network infrastructure. For each of the years ended June 30, 2008 and 2007, the Foundation recognized revenue of $538 under this lease agreement, which is included in other income. As of June 30, 2008 and 2007, $1,564 and $1,403, respectively, is included in deferred revenue and other liabilities under this lease agreement. Future minimum lease payments receivable under this lease agreement are as follows:

2009	$ 600
2010	121
2011	120
2012	121
2013	120
Minimum future lease receipts	$ 1,082

During both 2008 and 2007, the Foundation contributed $109 to Virginia Tech Intellectual Properties, Inc. for programmatic support.

The Hotel Roanoke Conference Center Commission (the Commission), a corporate body created by Chapter 440 of 1991 Acts of Assembly, has constructed a Conference Center contiguous to the Hotel. On November 8, 1993, the Commission and HRLLC, as lessees, entered into a lease with the Housing Authority, as lessor, for property to be used as a parking lot for the Hotel and Conference Center. The term of the lease is for 50 years commencing February 1, 1995. Annual lease payments are $50 adjusted annually by 50% of the percentage increase in the CPI. However, rent payments are only due and accruable to the extent net revenues of the Hotel exceed debt service. The Commission shall not be responsible for the payment of any rent. For the year ended June 30, 2008 and 2007, rent expense under this lease amounted to $59 and $14, respectively.

The Hotel Roanoke is operated and managed by D. T. Management, Inc. (Doubletree). Under the provisions of The Hotel Roanoke, a Doubletree Hotel, Management Agreement (Management Agreement) dated November 12, 1992 and amended December 14, 1993, Doubletree will receive management fees equal to 3.0% of the Hotel's gross revenues, $1.5 a month for administration of the Catering Agreement with the Commission, and an incentive fee equal to an additional one-half percent of gross revenues for achieving certain operating results. Management fees incurred under this agreement totaled $609 and $590, respectively, for the years ended June 30, 2008 and 2007, respectively. In addition, incentive fees incurred under this agreement totaled $98 and $95, respectively, for the years ended June 30, 2008 and 2007.

On October 15, 1994, HRLLC entered into a Catering Agreement with the Commission in which the Commission granted HRLLC the exclusive right and privilege to perform and provide catering services to the Conference Center for a period of ten years from the date the Conference Center was opened. The agreement was extended for one subsequent term of five years in October 2004 and may be extended for an additional five-year term at the sole discretion of the Commission. Pursuant to the agreement, the Commission receives 12% of gross banquet, catering, and conference revenues. For the years ended June 30, 2008 and 2007, Hotel costs include $439 and $467, respectively, for fees incurred under this agreement.

On September 28, 1994, HRLLC and the Commission entered into a deed of easements agreement, which states that Conference Service Fees are generated through the use of meeting rooms in both facilities. Therefore, Conference Service Fees shall be shared by the Commission and HRLLC in an equitable proportion. Under the amended agreement, HRLLC receives 16% of Conference Service Fees. For the years ended June 30, 2008 and 2007, Hotel revenues include $126 and $220, respectively, that the Hotel received from the Commission for its portion of Conference Service Fees. In addition, the Hotel paid the Commission $509 and $387 for the years ended June 30, 2008 and 2007, respectively, for Public Room Rental.

(10) Employee Benefits

Retirement benefits are provided for all full-time personnel through a fully funded, immediately vested, defined contribution retirement plan with Teacher's Insurance and Annuity Association and College Retirement Equity Fund (TIAA-CREF). The Foundation currently contributes an amount equal to 12.57% of regular salary for all full-time classified and administrative employees. For the years ended June 30, 2008 and 2007, the Foundation contributed $391 and $357, respectively.

(11) Disclosures about Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

(a) Cash and Cash Equivalents, Trade Accounts and Interest Receivable, Accounts Payable, and Accrued Expenses

The carrying amount approximates fair value because of the short maturity of those instruments.

(b) Contributions Receivable, and Notes and Deeds of Trust Receivable

The carrying amount approximates fair value because the carrying amount is calculated by discounting scheduled cash flows through the estimated due dates using an estimated market discount rate, as well as being reduced for estimated amounts deemed uncollectible.

(c) Investments and Irrevocable Trusts Held by Others

The fair values of certain investments and irrevocable trusts held by others are estimated based on quoted market prices or dealer quotes for those or similar investments. For other investments for which there are no quoted market prices or dealer quotes, fair values are estimated based on valuations provided by external investment managers. The Foundation believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because these alternative investments are not readily marketable, their estimated value is subject to additional uncertainty, and therefore values realized upon disposition may vary significantly from currently reported values.

(d) Annuity Obligations and Liabilities Under Trust Agreements

The fair value of annuity obligations and liabilities under trust agreements is estimated using discounted cash flows based on an estimated market discount rate, and approximates the carrying amount.

(e) Notes and Bonds Payable

The fair value of the Foundation's notes and bonds payable are estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Foundation for debt of the same remaining maturities, and approximates the carrying amount.

(f) Interest Rate Swap Agreements

The estimated fair value of the interest rate swap agreements (note 7) was based on the amount the Foundation would receive or pay to settle the agreements at the reporting date, taking into account current interest rates. These estimated fair values were calculated by a lending institution using a proprietary model based upon projections of future cash flows.

(Dollars in thousands)

(12) Business Concentrations

The Foundation utilizes 86 external investment managers to diversify its investment portfolio and minimize market risk. As of June 30, 2008 and 2007, there are no significant concentrations of market risk that would result from the nature of the Foundation's investments or from a lack of diversity of industry, currency or geographic locations.

For the years ended June 30, 2008 and 2007, no individual donor accounted for more than 5% of contributions. As of June 30, 2008 and 2007, the Foundation had no contributions receivable from a single donor in excess of 5% of total net assets.

Included in contributions for fiscal years 2008 and 2007 are the contributions to the Hokie Spirit Memorial Fund of $2,958 and $6,393, respectively. The contributions are due to the tragic events of April 16, 2007. During fiscal year 2008, $6,911 related to the Hokie Spirit Memorial Fund was transferred to the University.

(13) Net Assets

Temporarily restricted net assets are summarized as follows:

		June 30	
		2008	2007
Instruction, scholarships, and academic support	$	340,633	352,134
Property and equipment additions		161	477
Annuity and life income agreements		10,270	10,922
	$	351,064	363,533

Permanently restricted net assets to be used primarily for instruction, scholarships, and academic support are summarized as follows:

		June 30	
		2008	2007
Permanent endowment funds	$	268,625	243,027
Annuity and life income agreements		26,153	28,968
	$	294,778	271,995

(14) Recently Enacted Endowment Legislation

Through June 30, 2008, the Foundation's management and investment of donor-restricted endowment funds was subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA). In 2006, the Uniform Law Commission approved the model act, Uniform Prudent Management of Institutional Funds Act (UPMIFA), that serves as a guideline to states to use in enacting legislation.

Among UPMIFA's most significant changes is the elimination of UMIFA's important concept of historic dollar value threshold, the amount below which an organization could not spend from the fund in favor of a more robust set of guidelines about what constitutes prudent spending. Effective July 1, 2008, the Commonwealth of Virginia enacted UPMIFA, the provisions of which apply to funds existing on or established after that date.

In August 2008, FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for All Endowment Funds* (FSP), was issued, and its guidance is effective for fiscal years ending after December 15, 2008. A key component of that FSP is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. The Foundation will adopt the FSP for the year ending June 30, 2009. The Foundation does not believe the adoption of the FSP will have a material effect on its existing net asset classifications or be operationally significant. Another key component of the FSP is a requirement for expanded disclosures for all endowment funds.

(15) Other Recently Issued Accounting Standards

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (Statement 159). Statement 159 gives the Foundation the irrevocable option to carry most financial assets and liabilities at fair value that are not currently required to be measured at fair value. If the fair value option is elected, changes in fair value would be recorded in the statement of activities and changes in net assets at each subsequent reporting date. SFAS 159 is effective for the Foundation's 2009 fiscal year. The Foundation is currently evaluating the impact the adoption of this Statement could have on its financial condition, results of operations and cash flows.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurement* (Statement 157). Statement 157 defines fair value, establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements. The Statement does not require any new fair value measures. The Statement is effective for fair value measures already required or permitted by other standards for fiscal years beginning after November 15, 2007. The Foundation is required to adopt Statement 157 beginning on July 1, 2008. Statement 157 is required to be applied prospectively, except for certain financial instruments. Any transition adjustment will be recognized as an adjustment to opening net assets in the year of adoption. In November 2007, the FASB proposed a one-year deferral of Statement 157's fair-value measurement requirements for nonfinancial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis. The Foundation is currently evaluating the impact of adopting Statement 157 on its results of operations and financial position.

VIRGINIA TECH FOUNDATION, INC.
AND SUBSIDIARIES

Consolidating Schedule of Financial Position Information

June 30, 2008

(Dollars in thousands)

Assets		VTF	VTCRC	VTREF and Subsidiaries	Eliminations	Consolidated totals
Cash and cash equivalents	$	31,493	2,129	4,267	—	37,889
Restricted cash and cash equivalents		3,790	—	505	—	4,295
Trade accounts and interest receivable, net		5,160	282	735	—	6,177
Inventories		2,603	45	226	—	2,874
Prepaid expenses and other assets		3,026	7	83	—	3,116
Short-term investments		18,997	1,144	—	—	20,141
Contributions receivable, net		72,235	—	—	—	72,235
Notes and deeds of trust receivable		16,741	157	—	—	16,898
Long-term investments		597,055	978	—	(872)	597,161
Irrevocable trusts held by others		9,631	—	—	—	9,631
Vintage and other collection items		4,117	—	9	—	4,126
Deferred charges, net		334	—	23	—	357
Net investment in direct financing leases		7,843	—	72	—	7,915
Land, buildings, and equipment, net		86,559	13,066	42,875	—	142,500
Trademark, net		—	—	679	—	679
Investment in subsidiaries		28,041	—	—	(28,041)	—
Notes receivable from subsidiaries		20,357	—	—	(20,357)	—
Due from subsidiaries		5,810	—	—	(5,810)	—
Due from parent		—	—	—	—	—
Total assets	$	913,792	17,808	49,474	(55,080)	925,994

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

Consolidating Schedule of Financial Position Information

June 30, 2008

(Dollars in thousands)

Liabilities and Net Assets		VTF	VTCRC	VTREF and Subsidiaries	Eliminations	Consolidated totals
Liabilities:						
Accounts payable and accrued expenses	$	3,220	837	3,165	—	7,222
Deferred revenue and other liabilities		7,766	680	431	(872)	8,005
Annuity obligations		5,257	—	—	—	5,257
Liabilities under trust agreements		32,233	—	—	—	32,233
Notes payable		36,503	—	4,751	—	41,254
Bonds payable		49,309	—	—	—	49,309
Agency deposits held in trust		57,406	—	—	—	57,406
Deferred tax liability		—	247	2,963	—	3,210
Notes payable to parent company		—	7,642	12,715	(20,357)	—
Due to parent company		—	279	5,531	(5,810)	—
Total liabilities		191,694	9,685	29,556	(27,039)	203,896
Net assets:						
Unrestricted		57,081	—	11,800	(11,800)	57,081
Board-designated endowment		19,175	—	—	—	19,175
Common stock		—	15	—	(15)	—
Additional paid-in capital		—	5,341	3,450	(8,791)	—
Retained earnings		—	2,767	—	(2,767)	—
Total unrestricted		76,256	8,123	15,250	(23,373)	76,256
Temporarily restricted		351,064	—	4,668	(4,668)	351,064
Permanently restricted		294,778	—	—	—	294,778
Total net assets		722,098	8,123	19,918	(28,041)	722,098
Total liabilities and net assets	$	913,792	17,808	49,474	(55,080)	925,994

See accompanying independent auditors' report.

Schedule 2

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

Consolidating Schedule of Activities and Changes in Net Assets Information

Year ended June 30, 2008

(Dollars in thousands)

	VTF				VTREF and Subsidiaries			
	Unrestricted	Temporarily restricted	Permanently restricted	VTCRC unrestricted	Unrestricted	Temporarily restricted	Eliminations	Consolidated totals
Revenues, net gains (losses), and other support:								
Contributions	$ 924	65,486	25,167	—	—	—	—	91,577
Investment income	5,671	5,614	—	91	103	—	(361)	11,118
Rental income	8,771	1,136	—	3,987	1,466	—	(316)	15,044
Hotel revenues	—	—	—	—	19,651	—	—	19,651
Golf course revenues	1,180	—	—	—	—	—	—	1,180
Other income	236	13,632	—	1,022	1	—	(592)	14,299
Net gains (losses) on investments	1,303	(8,456)	—	—	—	—	—	(7,153)
Net assets released from restrictions	88,926	(88,926)	—	—	—	—	—	—
Income from subsidiaries	2,470	—	—	—	—	—	(2,470)	—
Total revenues, net gains (losses), and other support	109,481	(11,514)	25,167	5,100	21,221	—	(3,739)	145,716
Expenses and losses:								
Program services:								
Instruction and academic programs	17,520	—	—	—	—	—	—	17,520
Research programs	4,611	—	—	—	—	—	—	4,611
Public service programs	4,449	—	—	—	—	—	—	4,449
Scholarships	18,384	—	—	—	—	—	—	18,384
Grants to University for capital outlay	9,161	—	—	—	—	—	—	9,161
Other University programs	29,953	—	—	—	—	—	—	29,953
Hotel costs	—	—	—	—	9,825	—	(198)	9,627
Golf course costs	1,280	—	—	—	—	—	—	1,280
Total program services	85,358	—	—	—	9,825	—	(198)	94,985

(Continued)

Schedule 2

VIRGINIA TECH FOUNDATION, INC.
AND SUBSIDIARIES

Consolidating Schedule of Activities and
Changes in Net Assets Information

Year ended June 30, 2008

(Dollars in thousands)

	VTF			VTCRC	VTREF and Subsidiaries			
	Unrestricted	Temporarily restricted	Permanently restricted	VTCRC unrestricted	Unrestricted	Temporarily restricted	Eliminations	Consolidated totals
Supporting services:								
Corporate research center costs	$ 5,890	—	—	3,778	—	—	(162)	9,506
Fundraising	10,513	—	—	—	—	—	—	10,513
Management and general	2,803	—	—	—	966	—	(909)	2,860
Hotel management and general	—	—	—	—	8,030	—	—	8,030
Golf course management and general	387	—	—	—	—	—	—	387
Total supporting services	19,593	—	—	3,778	8,996	—	(1,071)	31,296
Total expenses and losses	104,951	—	—	3,778	18,821	—	(1,269)	126,281
Change in valuation of split-interest agreements	22	955	2,384	—	—	—	—	3,361
Total expenses and losses, and change in valuation of split-interest agreements	104,973	955	2,384	3,778	18,821	—	(1,269)	129,642
Change in net assets, before income taxes	4,508	(12,469)	22,783	1,322	2,400	—	(2,470)	16,074
Income tax expense	—	—	—	506	746	—	—	1,252
Change in net assets	4,508	(12,469)	22,783	816	1,654	—	(2,470)	14,822
Net assets at beginning of year	71,748	363,533	271,995	7,307	11,146	4,668	(23,121)	707,276
Contribution of capital	—	—	—	—	2,450	—	(2,450)	—
Net assets at end of year	$ 76,256	351,064	294,778	8,123	15,250	4,668	(28,041)	722,098

See accompanying independent auditors' report.

VIRGINIA TECH FOUNDATION, INC.
AND SUBSIDIARIES

VTREF and Subsidiaries Consolidating Schedule of Financial Position Information

June 30, 2008

(Dollars in thousands)

Assets	VTREF	HRF	HRLLC	Eliminations	VTREF and Subsidiaries
Cash and cash equivalents	$ 1,924	1,145	1,198	—	4,267
Restricted cash and cash equivalents	—	—	505	—	505
Trade accounts receivable, net	17	6	712	—	735
Inventories	—	—	226	—	226
Prepaid expenses and other assets	—	—	83	—	83
Vintage and other collection items	5	4	—	—	9
Deferred charges, net	—	23	—	—	23
Current deferred tax asset	—	127	—	(127)	—
Net investment in direct financing leases	72	—	—	—	72
Land, buildings, and equipment:					
Land	—	2,705	—	—	2,705
Building	10,237	29,566	—	3,874	43,677
Leasehold improvements	—	—	3,874	(3,874)	—
Furniture, fixtures, and equipment	49	1,593	7,510	—	9,152
Construction in progress	2,608	—	73	—	2,681
Total land, buildings, and equipment	12,894	33,864	11,457	—	58,215
Less accumulated depreciation	412	11,550	3,378	—	15,340
Land, buildings, and equipment, net	12,482	22,314	8,079	—	42,875
Trademark, net	679	—	—	—	679
Investment in subsidiaries	15,426	(757)	—	(14,669)	—
Bonds receivable from subsidiary	3,720	—	—	(3,720)	—
Notes receivable from subsidiary	3,237	—	—	(3,237)	—
Due from subsidiary	1,589	—	—	(1,589)	—
Total assets	$ 39,151	22,862	10,803	(23,342)	49,474

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

VTREF and Subsidiaries Consolidating Schedule of Financial Position Information

June 30, 2008

(Dollars in thousands)

Liabilities and Net Assets		VTREF	HRF	HRLLC	Eliminations	VTREF and Subsidiaries
Liabilities:						
Accounts payable and accrued expenses	$	556	124	2,485	—	3,165
Deferred revenue and other liabilities		431	—	—	—	431
Notes payable		—	4,751	—	—	4,751
Deferred tax liability		—	3,090	—	(127)	2,963
Bonds payable to parent company		3,720	3,720	—	(3,720)	3,720
Notes payable to parent company		12,715	—	3,237	(3,237)	12,715
Due to parent company		1,811	1,589	—	(1,589)	1,811
Total liabilities		19,233	13,274	5,722	(8,673)	29,556
Net assets:						
Unrestricted		11,800	—	—	—	11,800
Additional paid-in capital		3,450	17,418	(14,947)	(2,471)	3,450
Retained earnings (accumulated deficit)		—	(7,830)	20,028	(12,198)	—
Total unrestricted		15,250	9,588	5,081	(14,669)	15,250
Temporarily restricted		4,668	—	—	—	4,668
Total net assets		19,918	9,588	5,081	(14,669)	19,918
Total liabilities and net assets	$	39,151	22,862	10,803	(23,342)	49,474

See accompanying independent auditors' report.

VIRGINIA TECH FOUNDATION, INC.
AND SUBSIDIARIES

VTREF and Subsidiaries Consolidating Schedule of Activities and Changes in Net Assets Information

Year ended June 30, 2008

(Dollars in thousands)

	VTREF Unrestricted	VTREF Temporarily restricted	HRF unrestricted	HRLLC unrestricted	Eliminations	VTREF and Subsidiaries
Revenues, gains, and other support:						
Investment income	$ 302	—	17	50	(266)	103
Rental income	1,466	—	385	—	(385)	1,466
Hotel revenues	—	—	—	19,651	—	19,651
Other income	1	—	—	—	—	1
Income from subsidiary	1,361	—	2,143	—	(3,504)	—
Total revenues, gains, and other support	3,130	—	2,545	19,701	(4,155)	21,221
Expenses:						
Cost of hotel revenues	—	—	—	8,493	—	8,493
Management and general	666	—	20	7,015	(385)	7,316
Depreciation and amortization	290	—	799	1,189	—	2,278
Interest	520	—	412	68	(266)	734
Total expenses	1,476	—	1,231	16,765	(651)	18,821
Change in net assets, before income taxes	1,654	—	1,314	2,936	(3,504)	2,400
Income tax expense	—	—	746	—	—	746
Change in net assets	1,654	—	568	2,936	(3,504)	1,654
Net assets at beginning of year	11,146	4,668	8,400	4,360	(12,760)	15,814
Contribution from VTF to VTREF	2,450	—	—	—		2,450
Contribution from VTREF to HRF	—	—	620	—	(620)	—
Distribution to members for debt service	—	—	—	(2,215)	2,215	—
Net assets at end of year	$ 15,250	4,668	9,588	5,081	(14,669)	19,918

See accompanying independent auditors' report.

ATTACHMENT H: Broadband Subscriber Estimates

Estimation of take-rate over time for proposed fiber build

Prepared August 12, 2009

		Y	Year 1				Year 2				Year 3				Year 4				Year 5			
			Qtr.1	Qtr.2	Qtr.3	Qtr.4	Qtr.1	Qtr.2	Qtr.3	Qtr.4	Qtr.1	Qtr.2	Qtr.3	Qtr.4	Qtr.1	Qtr.2	Qtr.3	Qtr.4	Qtr.1	Qtr.2	Qtr.3	Qtr.4
Residential	Net add-ons	0	0	0	0	0	13110	13110	13110	13110	6555	6555	6555	6555	3933	3933	3933	3933	2622	2622	2622	2622
	Cumulative Subscribers	0	0	0	0	0	13110	26220	39331	52441	58996	65551	72106	78661	82594	86527	90460	94394	97016	99638	102260	**104882**
Business	Net add-ons	0	0	0	0	0	799	799	799	799	399	399	399	399	240	240	240	240	160	160	160	160
	Cumulative Subscribers	0	0	0	0	0	799	1597	2396	3195	3594	3993	4392	4792	5031	5271	5511	5750	5910	6070	6229	**6389**
Anchor Institutions	Net add-ons	0	0	0	0	0	47	47	47	47	10	10	10	10	7	7	7	7	3	3	3	3
	Cumulative Subscribers	0	0	0	0	0	47	93	140	187	197	207	217	227	234	240	247	254	257	260	264	**267**

We estimate the number of subscribers by first estimating the target proportion of businesses, residences, and anchor institutions in the proposed service area that can reasonably be expected to adopt broadband as a result of this project. We then model certain assumptions about consumer demand for broadband in a function that represents adoption over time, and use that to divide the subset of “likely adopters” into the five-year plan framework.

It should be noted that the underlying model of consumer demand used in this subscriber estimate is different from the one used in the revenue projection for this project. Because this is a middle-mile project, our revenue projections are based on a wholesale model of last-mile providers connecting to our network and provisioning service to the customer premises. Since these last-mile providers will be the ones directly serving the businesses, residences, and anchor institutions who will be the ultimate beneficiaries of the project, the numbers above should be interpreted as demand estimates from the perspective of the last-mile providers.

The target take-rate of 55% (maximum predicted take-rate across service area at project conclusion) is based on rates reported by Citizens Cooperative in an adjacent community. The allocation of subscribers across the five years of this project assumes that subscription to the service will be front-loaded, based on our belief that this service area has been underserved and consumers will be eager to take advantage of newly available broadband. This is formalized by the “Pent-up Demand” adoption curve in the Assumptions section, below. We assume no distinction across quarters within a given year, having no empirical evidence to weight one quarter preferentially over another. Finally, we assume one service type will be offered and make no distinction between differential adoption rates for different services.

ATTACHMENT H: Assumptions

Total Subscribers by Category

Businesses

Target take rate **55.00%**

LOCALITY	TOTAL	SUBSCRIBERS
Bedford City	338	186
Bedford,	1507	829
Botetourt,	807	444
Craig,	71	39
Giles,	321	177
Montgomery,	2022	1112
Roanoke City,	3362	1849
Roanoke,	2176	1197
Salem,	1011	556
TOTAL	**11615**	**6389**

Source: County Business Patterns

Households

Target take rate **55.00%**

LOCALITY	TOTAL	SUBSCRIBERS
Bedford County	27,991	15395
Bedford City	3,214	1768
Botetourt County	12,802	7041
Craig County	2,659	1462
Giles County	7,489	4119
Montgomery County	33,458	18402
Roanoke County	42,093	23151
Roanoke City	48,667	26767
City of Salem	12,321	6777
Total	**190,694**	**104882**
Areas Physically Intersected by Route	9603	5282

Source: US CENSUS

Anchor Institutions

Target take rate **100.00%**

TOTAL	TYPE
121	public K-12 schools
8	higher education institutions
2	medical schools
35	public libraries
9	police
9	fire
9	rescue
9	municipal governments
9	hospitals
5	workforce development centers
3	State Tech Zones
13	historically under-utilized business zones
35	industrial sites.
267	

CURRENT ASSUMPTIONS

	%of total adoption		
Year	Residen	Busines	Anchor
0	0%	0%	0%
1	0%	0%	0%
2	50%	50%	70%
3	25%	25%	15%
4	15%	15%	10%
5	10%	10%	5%
	100%	100%	100%

Quarterly Weights

1	2	3	4
0.25	0.25	0.25	0.25

(assume each quarter has an equal share of new subscribers)

Adoption Curves

Scenario 1: Pent-up demand
(Assumes early initial subscriber interest)

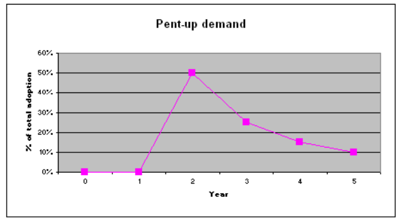
Year	%of total adoption
0	0%
1	0%
2	50%
3	25%
4	15%
5	10%
	100%

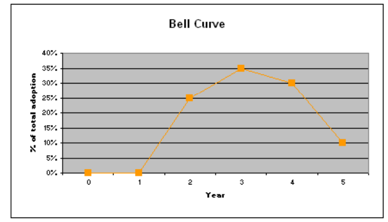
Scenario 2: Bell Curve
(Traditional Innovation Diffusion Model)

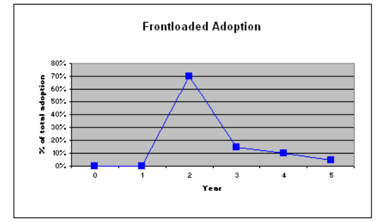
Year	%of total adoption
0	0%
1	0%
2	25%
3	35%
4	30%
5	10%
	100%

Scenario 3: Aggressive, Frontloaded Adoption
(Likely for Anchor Institutions)

Year	%of total adoption
0	0%
1	0%
2	70%
3	15%
4	10%
5	5%
	100%







Income Statement

	Historical		Forcast Period				
	FY 2008	FY 2009	Year 1	Year 2	Year 3	Year 4	Year 5
Revenues							
Network Services Revenues:							
Local Voice Service	$0	$0	$0	$0	$0	$0	$0
Broadband Data	$0	$0	$0	$79,407	$228,938	$345,250	$405,500
Video Service	$0	$0	$0	$0	$0	$0	$0
Network Access Service Revenues	$0	$0	$0	$0	$0	$0	$0
Universal Service Fund	$0	$0	$0	$0	$0	$0	$0
Toll Service/Long Distance Voice	$0	$0	$0	$0	$0	$0	$0
Installation Revenues	$0	$0	$0	$3,094	$9,282	$12,375	$16,088
Other Operating Revenues	$0	$0	$0	$0	$0	$0	$0
Other Revenues	$0	$0	$0	$0	$0	$0	$0
Uncollectible Revenues	$0	$0	$0	$0	$0	$0	$0
Total Revenues	**$0**	**$0**	**$0**	**$82,501**	**$238,220**	**$357,625**	**$421,588**
Expenses							
Backhaul	$0	$0	$0	$0	$0	$0	$0
Network Maintenance/Monitoring	$0	$0	$37,500	$75,000	$78,750	$82,688	$86,822
Utilities	$0	$0	$1,600	$8,400	$9,600	$10,080	$10,584
Leasing	$0	$0	$0	$0	$0	$0	$0
Sales/Marketing	$0	$0	$12,000	$24,000	$24,000	$24,480	$24,970
Customer Care	$0	$0	$0	$3,000	$6,000	$6,120	$6,242
Billing	$0	$0	$0	$3,000	$6,000	$6,120	$6,242
Corporate G&A	$0	$0	$103,111	$108,538	$114,250	$93,058	$88,405
Other Operating Expense	$0	$0	$0	$0	$0	$0	$0
Total Expense	**$0**	**$0**	**$154,211**	**$221,938**	**$238,600**	**$222,546**	**$223,265**
EBITDA	**$0**	**$0**	**-$154,211**	**-$139,437**	**-$381**	**$135,079**	**$198,323**
Depreication	$0	$0	$15,209	$30,417	$30,417	$30,417	$30,417
Amoritizaion	$0	$0	$0	$0	$0	$0	$0
Earnings Before Interest and Taxes	**$0**	**$0**	**-$169,420**	**-$169,854**	**-$30,798**	**$104,662**	**$167,906**
Interest Expense - New RUS Debt	$0	$0	$0	$0	$0	$0	$0
Interest Expense - Existing RUS Debt	$0	$0	$0	$0	$0	$0	$0
Interest Expense - Other	$0	$0	$0	$0	$138,500	$138,500	$138,500
Income Before Taxes	**$0**	**$0**	**-$169,420**	**-$169,854**	**-$169,298**	**-$33,838**	**$29,406**
Property Tax	$0	$0	$490	$980	$1,470	$1,470	$1,470
Income Tax	$0	$0	$0	$0	$0	$0	$0
Net Income	**$0**	**$0**	**-$169,910**	**-$170,834**	**-$170,768**	**-$35,308**	**$27,936**

Balance Sheet

	Historical		Forcast Period				
	FY 2008	FY 2009	Year 1	Year 2	Year 3	Year 4	Year 5
Assets							
Current Assets							
Cash	$0	$0	$221,549	-$186,118	-$374,969	-$448,360	-$413,507
Marketable Securities	$0	$0	$0	$0	$0	$0	$0
Accounts Receivable	$0	$0	$0	$4,000	$25,000	$35,000	$50,000
Notes Receivable	$0	$0	$0	$0	$0	$0	$0
Inventory	$0	$0	$2,500,000	$0	$0	$0	$0
Prepayments	$0	$0	$0	$0	$0	$0	$0
Other Current Assets	$0	$0	$0	$0	$0	$0	$0
Total Current Assets	**$0**	**$0**	**$2,721,549**	**-$182,118**	**-$349,969**	**-$413,360**	**-$363,507**
Non-Current Assets							
Long Term Investments	$0	$0	$0	$0	$0	$0	$0
Amortizable Assets	$0	$0	$0	$0	$0	$0	$0
Plant in Service	$0	$0	$3,073,750	$6,925,000	$6,925,000	$6,925,000	$6,925,000
Less: Accumulated Depreciation	$0	$0	$15,209	$30,417	$30,417	$30,417	$30,417
Net Plant	**$0**	**$0**	**$3,058,541**	**$6,894,583**	**$6,894,583**	**$6,894,583**	**$6,894,583**
Other	$0	$0	$0	$0	$0	$0	$0
Total Non-Current Assets	**$0**	**$0**	**$3,058,541**	**$6,894,583**	**$6,894,583**	**$6,894,583**	**$6,894,583**
Total Assets	**$0**	**$0**	**$5,780,090**	**$6,712,465**	**$6,544,614**	**$6,481,223**	**$6,531,076**
Liabilities and Owners' Equity	FY 2008	FY 2009	Year 1	Year 2	Year 3	Year 4	Year 5
Liabilites							
Current Liabilities							
Accounts Payable	$0	$0	$30,000	$75,000	$65,000	$35,000	$65,000
Notes Payable	$0	$0	$0	$0	$0	$0	$0
Current Portion - Total RUS Debt	$0	$0	$0	$0	$0	$0	$0
Current Portion - Other Debt	$0	$0	$0	$0	$0	$0	$0
Other Current Liabilties	$0	$0	$0	$0	$0	$0	$0
Total Current Liabilities	**$0**	**$0**	**$30,000**	**$75,000**	**$65,000**	**$35,000**	**$65,000**
Long-Term Liabilties							
Exisiting RUS Debt	$0	$0	$0	$0	$0	$0	$0
Proposed RUS Debt	$0	$0	$0	$0	$0	$0	$0
Existing non-RUS Debt	$0	$0	$1,385,000	$1,385,000	$1,246,500	$1,108,000	$969,500
Total Long-Term Liabilties	**$0**	**$0**	**$1,385,000**	**$1,385,000**	**$1,246,500**	**$1,108,000**	**$969,500**
Total Liabilties	**$0**	**$0**	**$1,415,000**	**$1,460,000**	**$1,311,500**	**$1,143,000**	**$1,034,500**
Owner's Equity							
Captial Stock	$0	$0	$0	$0	$0	$0	$0
Additional Paid-In Capital	$0	$0	$2,770,000	$2,770,000	$0	$0	$0
Patroniage Capital Credits	$0	$0	$0	$0	$0	$0	$0
Retained Earnings	$0	$0	$1,595,090	$2,482,465	$5,233,114	$5,338,223	$5,496,576
Total Equity	**$0**	**$0**	**$4,365,090**	**$5,252,465**	**$5,233,114**	**$5,338,223**	**$5,496,576**
Total Liabilties and Owner's Equity	**$0**	**$0**	**$5,780,090**	**$6,712,465**	**$6,544,614**	**$6,481,223**	**$6,531,076**

Statement of Cash Flows

	Historical		Forcast Period				
	FY 2008	FY 2009	Year 1	Year 2	Year 3	Year 4	Year 5
Beginning Cash	$0	$0	$0	$221,549	-$186,118	-$374,969	-$448,360
CASH FLOWS FROM OPERATING ACTIVITIES							
Net Income	$0	$0	-$169,910	-$170,834	-$170,768	-$35,308	$27,936
Adjustments to reconcile Net Income to Net Cash provided by Operating Activities							
Add: Depreciation	$0	$0	$15,209	$30,417	$30,417	$30,417	$30,417
Add: Amortization	$0	$0	$0	$0	$0	$0	$0
Changes in Current Assets and Liabilities							
Marketable Securities	$0	$0	$0	$0	$0	$0	$0
Accounts Receivable	$0	$0	$0	$4,000	$25,000	$35,000	$50,000
Inventory	$0	$0	-$2,500,000	$0	$0	$0	$0
Prepayments	$0	$0	$0	$0	$0	$0	$0
Other Current Assets	$0	$0	$0	$0	$0	$0	$0
Accounts Payable	$0	$0	$30,000	$75,000	$65,000	$35,000	$65,000
Other Current Liabilties	$0	$0	$0	$0	$0	$0	$0
Net Cash Provided (Used) by Operations	**$0**	**$0**	**-$2,624,701**	**-$61,417**	**-$50,351**	**$65,109**	**$173,353**
CASH FLOWS FROM FINANCING ACTIVITIES							
Notes Receivable	$0	$0	$1,038,750	$346,250	$0	$0	$0
Notes Payable	$0	$0	$0	$0	$0	$0	$0
Principle Payments	$0	$0	$0	$0	-$138,500	-$138,500	-$138,500
New Borrowing	$0	$0	$0	$0	$0	$0	$0
Additional Paid-in Capital	$0	$0	$2,770,000	$2,770,000	$0	$0	$0
Additions to Patronage Capital Credits	$0	$0	$0	$0	$0	$0	$0
Payment of Dividends	$0	$0	$0	$0	$0	$0	$0
Net Cash Provided by Financing Activities	**$0**	**$0**	**$3,808,750**	**$3,116,250**	**-$138,500**	**-$138,500**	**-$138,500**
CASH FLOWS FROM INVESTING ACTIVITIES							
Capital Expenditures	$0	$0	-$962,500	-$3,462,500	$0	$0	$0
Amortizable Asset (Net of Amortization)	$0	$0	$0	$0	$0	$0	$0
Long-Term Investments	$0	$0	$0	$0	$0	$0	$0
Net Cash Used by Investing Activities	**$0**	**$0**	**-$962,500**	**-$3,462,500**	**$0**	**$0**	**$0**
Net Increase (Decrease) in Cash	**$0**	**$0**	**$221,549**	**-$407,667**	**-$188,851**	**-$73,391**	**$34,853**
Ending Cash	**$0**	**$0**	**$221,549**	**-$186,118**	**-$374,969**	**-$448,360**	**-$413,507**

Q50 – Pro-Forma Financial Assumptions

The following table explains the assumptions surrounding development of the Income Statement, Balance Sheet and Cash Flow Statement (Attachments K, L and M).

Item	Assumptions	Explanations
Revenue: Broadband Data	Estimated revenue growth from subscriber connections and rates for services	Based on MBC wholesale open access pricing for services
Revenue: Installation	For every transport circuit sold, a non-recurring installation fee is charges	Standard practice in the wholesale middle-mile transport industry for pricing
Expense: Network Maintenance	50% expenses in Year 2, 100% in Year 3 as network becomes fully operational.	Pricing developed from actual MBC costs on a per mile basis for underground utility located, fiber maintenance, etc.
Expense: Utilities	200amp single phase power service powering backbone and distribution optical transport equipment	Average node power costs on a monthly basis in the MBC network area
Expense: Sales & Marketing	Assume $2,000 per month for marketing expenses, including web site, direct marketing, and other advertising methods of middle-mile network	Based on average costs of MBC marketing expenses over middle-mile network
Expense: Customer Care & Billing	Assume $1,000 per month in costs for full year operations cost of billing and customer care expenses charged by MBC	Costs for MBC to handle all customer care and billing issues for customers using the middle-mile network
Expense: Corporate G&A	Assume project manager for overall network and management of asset, and administrative costs to manage the middle-mile network assets	Standard costs for general and administrative purposes
Depreciation	Straight line method, assume 5 years for electronics, 20 years for fiber and node shelters, 3 years for office equipment and vehicles	Based on industry standard depreciation rates
Interest Expense	Costs to pay back VT Foundation for 20% matching funds	Amortized cost over a 10 year period for payback of 20% matching money

Certification Requirements for BTOP

U.S. Department of Commerce
Broadband Technology Opportunities Program

I certify that I am the duly authorized representative of the applicant organization, and that I have been authorized to submit the attached application on its behalf. A copy of the applicant organization's authorization for me to submit this application as its official representative is on file in the applicant's office, and I am identified as the applicant organization's Authorized Organization Representative (AOR) in the Central Contractor Registration database. By signing this certification, I certify that the statements contained in the application are true, complete, and accurate to the best of my knowledge, and that if an award is made, the applicant organization will comply with all applicable award terms and conditions.

8/12/09
(Date)

(Authorized Representative's Signature)

Raymond D. Smoot, Jr.

Name:

COO & Secretary/Treasurer

Title:

Broadband Infrastructure Application Submission to RUS (BIP) and NTIA (BTOP)

Certification Requirements BTOP

U.S. Department of Commerce
Broadband Technology Opportunities Program

(i) I certify that I am authorized to submit this grant application on behalf of the eligible entity(ies) listed on this application, that I have examined this application, that all of the information and responses in this application, including certifications, and forms submitted, all of which are part of this grant application, are material representations of fact and true and correct to the best of my knowledge, that the entity(ies) that is requesting grant funding pursuant to this application and any subgrantees and subcontractors will comply with the terms, conditions, purposes, and federal requirements of the grant program; that no kickbacks were paid to anyone; and that a false, fictitious, or fraudulent statements or claims on this application.are grounds for denial or termination of a grant award, and/or possible punishment by a fine or imprisonment as provided in 18 U.S.C. § 1001 and civil violations of the False Claims Act.

(ii) I certify that the entity(ies) I represent have and will comply with all applicable federal, state, and local laws, rules, regulations, ordinances, codes, orders and programmatic rules and requirements relating to the project. I acknowledge that failure to do so may result in rejection or deobligation of the grant or loan award. I acknowledge that failure to comply with all federal and program rules could result in civil or criminal prosecution by the appropriate law enforcement authorities.

(iii) If requesting BTOP funding, I certify that the entity(ies) I represent has and will comply with all applicable administrative and federal statutory, regulatory, and policy requirements set forth in the DOC Pre-Award Notification, published in the Federal Register on February 11, 2008 (73 FR 7696), as amended; DOC Financial Assistance Standard Terms and Conditions (Mar. 8, 2009); DOC American Recovery and Reinvestment Act Award Terms (April 9, 2009); and any Special Award Terms and Conditions that are included by the Grants Officer in the award."

Virginia Tech Foundation, Inc.

8/12/09
(Date)

(Authorized Representative's Signature)

Raymond D. Smoot, Jr
Name:

COO & Sec/Treasurer
Title:

ASSURANCES - CONSTRUCTION PROGRAMS

OMB Approval No. 4040-0009
Expiration Date 07/30/2010

Public reporting burden for this collection of information is estimated to average 15 minutes per response, including time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding the burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to the Office of Management and Budget, Paperwork Reduction Project (0348-0042), Washington, DC 20503.

PLEASE DO NOT RETURN YOUR COMPLETED FORM TO THE OFFICE OF MANAGEMENT AND BUDGET. SEND IT TO THE ADDRESS PROVIDED BY THE SPONSORING AGENCY.

NOTE: Certain of these assurances may not be applicable to your project or program. If you have questions, please contact the Awarding Agency. Further, certain Federal assistance awarding agencies may require applicants to certify to additional assurances. If such is the case, you will be notified.

As the duly authorized representative of the applicant, I certify that the applicant:

1. Has the legal authority to apply for Federal assistance, and the institutional, managerial and financial capability (including funds sufficient to pay the non-Federal share of project costs) to ensure proper planning, management and completion of the project described in this application.

2. Will give the awarding agency, the Comptroller General of the United States and, if appropriate, the State, the right to examine all records, books, papers, or documents related to the assistance; and will establish a proper accounting system in accordance with generally accepted accounting standards or agency directives.

3. Will not dispose of, modify the use of, or change the terms of the real property title, or other interest in the site and facilities without permission and instructions from the awarding agency. Will record the Federal awarding agency directives and will include a covenant in the title of real property acquired in whole or in part with Federal assistance funds to assure non-discrimination during the useful life of the project.

4. Will comply with the requirements of the assistance awarding agency with regard to the drafting, review and approval of construction plans and specifications.

5. Will provide and maintain competent and adequate engineering supervision at the construction site to ensure that the complete work conforms with the approved plans and specifications and will furnish progress reports and such other information as may be required by the assistance awarding agency or State.

6. Will initiate and complete the work within the applicable time frame after receipt of approval of the awarding agency.

7. Will establish safeguards to prohibit employees from using their positions for a purpose that constitutes or presents the appearance of personal or organizational conflict of interest, or personal gain.

8. Will comply with the Intergovernmental Personnel Act of 1970 (42 U.S.C. §§4728-4763) relating to prescribed standards for merit systems for programs funded under one of the 19 statutes or regulations specified in Appendix A of OPM's Standards for a Merit System of Personnel Administration (5 C.F.R. 900, Subpart F).

9. Will comply with the Lead-Based Paint Poisoning Prevention Act (42 U.S.C. §§4801 et seq.) which prohibits the use of lead-based paint in construction or rehabilitation of residence structures.

10. Will comply with all Federal statutes relating to non-discrimination. These include but are not limited to: (a) Title VI of the Civil Rights Act of 1964 (P.L. 88-352) which prohibits discrimination on the basis of race, color or national origin; (b) Title IX of the Education Amendments of 1972, as amended (20 U.S.C. §§1681 1683, and 1685-1686), which prohibits discrimination on the basis of sex; (c) Section 504 of the Rehabilitation Act of 1973, as amended (29 U.S.C. §794), which prohibits discrimination on the basis of handicaps; (d) the Age Discrimination Act of 1975, as amended (42 U.S.C. §§6101-6107), which prohibits discrimination on the basis of age; (e) the Drug Abuse Office and Treatment Act of 1972 (P.L. 92-255), as amended, relating to nondiscrimination on the basis of drug abuse; (f) the Comprehensive Alcohol Abuse and Alcoholism Prevention, Treatment and Rehabilitation Act of 1970 (P.L. 91-616), as amended, relating to nondiscrimination on the basis of alcohol abuse or alcoholism; (g) §§523 and 527 of the Public Health Service Act of 1912 (42 U.S.C. §§290 dd-3 and 290 ee 3), as amended, relating to confidentiality of alcohol and drug abuse patient records; (h) Title VIII of the Civil Rights Act of 1968 (42 U.S.C. §§3601 et seq.), as amended, relating to nondiscrimination in the sale, rental or financing of housing; (i) any other nondiscrimination provisions in the specific statute(s) underwhich application for Federal assistance is being made; and, (j) the requirements of any other nondiscrimination statute(s) which may apply to the application.

11. Will comply, or has already complied, with the requirements of Titles II and III of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (P.L. 91-646) which provide for fair and equitable treatment of persons displaced or whose property is acquired as a result of Federal and federally-assisted programs. These requirements apply to all interests in real property acquired for project purposes regardless of Federal participation in purchases.

12. Will comply with the provisions of the Hatch Act (5 U.S.C. §§1501-1508 and 7324-7328) which limit the political activities of employees whose principal employment activities are funded in whole or in part with Federal funds.

13. Will comply, as applicable, with the provisions of the Davis-Bacon Act (40 U.S.C. §§276a to 276a-7), the Copeland Act (40 U.S.C. §276c and 18 U.S.C. §874), and the Contract Work Hours and Safety Standards Act (40 U.S.C. §§327-333) regarding labor standards for federally-assisted construction subagreements.

14. Will comply with flood insurance purchase requirements of Section 102(a) of the Flood Disaster Protection Act of 1973 (P.L. 93-234) which requires recipients in a special flood hazard area to participate in the program and to purchase flood insurance if the total cost of insurable construction and acquisition is $10,000 or more.

15. Will comply with environmental standards which may be prescribed pursuant to the following: (a) institution of environmental quality control measures under the National Environmental Policy Act of 1969 (P.L. 91-190) and Executive Order (EO) 11514; (b) notification of violating facilities pursuant to EO 11738; (c) protection of wetlands pursuant to EO 11990; (d) evaluation of flood hazards in floodplains in accordance with EO 11988; (e) assurance of project consistency with the approved State management program developed under the Coastal Zone Management Act of 1972 (16 U.S.C. §§1451 et seq.); (f) conformity of Federal actions to State (Clean Air) implementation Plans under Section 176(c) of the Clean Air Act of 1955, as amended (42 U.S.C. §§7401 et seq.); (g) protection of underground sources of drinking water under the Safe Drinking Water Act of 1974, as amended (P.L. 93-523); and, (h) protection of endangered species under the Endangered Species Act of 1973, as amended (P.L. 93-205).

16. Will comply with the Wild and Scenic Rivers Act of 1968 (16 U.S.C. §§1271 et seq.) related to protecting components or potential components of the national wild and scenic rivers system.

17. Will assist the awarding agency in assuring compliance with Section 106 of the National Historic Preservation Act of 1966, as amended (16 U.S.C. §470), EO 11593 (identification and protection of historic properties), and the Archaeological and Historic Preservation Act of 1974 (16 U.S.C. §§469a-1 et seq).

18. Will cause to be performed the required financial and compliance audits in accordance with the Single Audit Act Amendments of 1996 and OMB Circular No. A-1 33, "Audits of States, Local Governments, and Non-Profit Organizations."

19. Will comply with all applicable requirements of all other Federal laws, executive orders, regulations, and policies governing this program.

*SIGNATURE OF AUTHORIZED CERTIFYING OFFICIAL	*TITLE
[signature]	COO & Secretary/Treasurer
*APPLICANT ORGANIZATION	*DATE SUBMITTED
Virginia Tech Foundation, Inc.	08-11-2009

FORM CD-511
(REV 1-05)

U.S. DEPARTMENT OF COMMERCE

CERTIFICATION REGARDING LOBBYING

Applicants should also review the instructions for certification included in the regulations before completing this form. Signature on this form provides for compliance with certification requirements under 15 CFR Part 28, "New Restrictions on Lobbying." The certifications shall be treated as a material representation of fact upon which reliance will be placed when the Department of Commerce determines to award the covered transaction, grant, or cooperative agreement.

LOBBYING

As required by Section 1352, Title 31 of the U.S. Code, and implemented at 15 CFR Part 28, for persons entering into a grant, cooperative agreement or contract over $100,000 or a loan or loan guarantee over $150,000 as defined at 15 CFR Part 28, Sections 28.105 and 28.110, the applicant certifies that to the best of his or her knowledge and belief, that:

(1) No Federal appropriated funds have been paid or will be paid, by or on behalf of the undersigned, to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress in conncection with the awarding of any Federal contract, the making of any Federal grant, the making of any Federal loan, the entering into of any cooperative agreement, and the extension, continuation, renewal, amendment, or modification of any Federal contract, grant, loan, or cooperative agreement.

(2) If any funds other than Federal appropriated funds have been paid or will be paid to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a member of Congress in connection with this Federal contract, grant, loan, or cooperative agreement, the undersigned shall complete and submit Standard Form-LLL, "Disclosure Form to Report Lobbying." in accordance with its instructions.

(3) The undersigned shall require that the language of this certification be included in the award documents for all subawards at all tiers (including subcontracts, subgrants, and contracts under grants, loans, and cooperative agreements) and that all subrecipients shall certify and disclose accordingly.

This certification is a material representation of fact upon which reliance was placed when this transaction was made or entered into. Submission of this certification is a prerequisite for making or entering into this transaction imposed by section 1352, title 31, U.S. Code. Any person who fails to file the required certification shall be subject to a civil penalty of not less than $10,000 and not more than $100,000 for each such failure occurring on or before October 23, 1996, and of not less than $11,000 and not more than $110,000 for each such failure occurring after October 23, 1996.

Statement for Loan Guarantees and Loan Insurance

The undersigned states, to the best of his or her knowledge and belief, that:

In any funds have been paid or will be paid to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in connection with this commitment providing for the United States to insure or guarantee a loan, the undersigned shall complete and submit Standard Form-LLL, "Disclosure Form to Report Lobbying," in accordance with its instructions.

Submission of this statement is a prerequisite for making or entering into this transaction imposed by section 1352, title 31, U.S. Code. Any person who fails to file the required statement shall be subject to a civil penalty of not less than $10,000 and not more than $100,000 for each such failure occurring on or before October 23, 1996, and of not less than $11,000 and not more than $110,000 for each such failure occurring after October 23, 1996.

As the duly authorized representative of the applicant, I hereby certify that the applicant will comply with the above applicable certification.

NAME OF APPLICANT	AWARD NUMBER AND/OR PROJECT NAME
Virginia Tech Foundation, Inc.	Allegheny Fiber

PRINTED NAME AND TITLE OF AUTHORIZED REPRESENTATIVE

Raymond D. Smoot, Jr. COO & Sec / Treasurer

SIGNATURE	DATE
Raymond D. Smoot, Jr.	8/18/09

NO LOBBYING ACTIVITIES

DISCLOSURE OF LOBBYING ACTIVITIES

Approved by OMB
0348-0046

Complete this form to disclose lobbying activities pursuant to 31 U.S.C. 1352
(See reverse for public burden disclosure.)

1. Type of Federal Action:
☐ a. contract
b. grant
c. cooperative agreement
d. loan
e. loan guarantee
f. loan insurance

2. Status of Federal Action:
☐ a. bid/offer/application
b. initial award
c. post-award

3. Report Type:
☐ a. initial filing
b. material change
For Material Change Only:
year ________ quarter ________
date of last report ____________

4. Name and Address of Reporting Entity:
☐ **Prime** ☐ **Subawardee**
Tier ______, *if known*:

Congressional District, *if known*:

5. If Reporting Entity in No. 4 is a Subawardee, Enter Name and Address of Prime:

Congressional District, *if known*:

6. Federal Department/Agency:

7. Federal Program Name/Description:

CFDA Number, *if applicable*: ____________

8. Federal Action Number, *if known*:

9. Award Amount, *if known*:
$

10. a. Name and Address of Lobbying Registrant (*if individual, last name, first name, MI*):

b. Individuals Performing Services (*including address if different from No. 10a*) (*last name, first name, MI*):

11. Information requested through this form is authorized by title 31 U.S.C. section 1352. This disclosure of lobbying activities is a material representation of fact upon which reliance was placed by the tier above when this transaction was made or entered into. This disclosure is required pursuant to 31 U.S.C. 1352. This information will be reported to the Congress semi-annually and will be available for public inspection. Any person who fails to file the required disclosure shall be subject to a civil penalty of not less that $10,000 and not more than $100,000 for each such failure.

Signature: NO LOBBYING ACTIVITIES
Print Name: ____________
Title: ____________
Telephone No.: ____________ Date: ________

Federal Use Only:

Authorized for Local Reproduction
Standard Form LLL (Rev. 7-97)

FORM CD-512
(REV 12-04)

U.S. DEPARTMENT OF COMMERCE

CERTIFICATION REGARDING LOBBYING
LOWER TIER COVERED TRANSACTIONS

Applicants should review the instructions for certification included in the regulations before completing this form. Signature on this form provides for compliance with certification requirements under 15 CFR Part 28, "New Restrictions on Lobbying."

LOBBYING

As required by Section 1352, Title 31 of the U.S. Code, and implemented at 15 CFR Part 28, for persons entering into a grant, cooperative agreement or contract over $100,000 or a loan or loan guarantee over $150,000 as defined at 15 CFR Part 28, Sections 28.105 and 28.110, the applicant certifies that to the best of his or her knowledge and belief, that:

(1) No Federal appropriated funds have been paid or will be paid, by or on behalf of the undersigned, to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress in connection with the awarding of any Federal contract, the making of any Federal grant, the making of any Federal loan, the entering into of any cooperative agreement, and the extension, continuation, renewal, amendment, or modification of any Federal contract, grant, loan, or cooperative agreement.

(2) If any funds other than Federal appropriated funds have been paid or will be paid to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a member of Congress in connection with this Federal contract, grant, loan, or cooperative agreement, the undersigned shall complete and submit Standard Form-LLL, "Disclosure Form to Report Lobbying," in accordance with its instructions.

(3) The undersigned shall require that the language of this certification be included in the award documents for all subawards at all tiers (including subcontracts, subgrants, and contracts under grants, loans, and cooperative agreements) and that all subrecipients shall certify and disclose accordingly.

This certification is a material representation of fact upon which reliance was placed when this transaction was made or entered into. Submission of this certification is a prerequisite for making or entering into this transaction imposed by section 1352, title 31, U.S. Code. Any person who fails to file the required certification shall be subject to a civil penalty of not less than $10,000 and not more than $100,000 for each such failure occurring on or before October 23, 1996, and of not less than $11,000 and not more than $110,000 for each such failure occurring after October 23, 1996.

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As the duly authorized representative of the applicant, I hereby certify that the applicant will comply with the above applicable certification.

NAME OF APPLICANT	AWARD NUMBER AND/OR PROJECT NAME
Virginia Tech Foundation, Inc.	Allegheny Fiber
PRINTED NAME AND TITLE OF AUTHORIZED REPRESENTATIVE	
Raymond D. Smoot, Jr. COO & Sec / Treasurer	
SIGNATURE Raymond D. Smoot, Jr.	DATE 8/11/2009