

# FINANCIAL REPORT 1997 - 1998

## On the leading edge of technology

*Virginia Tech is a world-class leader in computing, information, instructional, and communications technology, and that technology is permeating just about every aspect of the university, including its instruction, research, outreach, and administrative activities. It is dramatically changing how we operate, how we teach, how our students learn, and the reach and impact we have around the Commonwealth of Virginia.*

*No longer are professors one-way dispensers of information; they are guides and resources for learning. Students are no longer passive receptors of wisdom; they are now active learners, seeking out information and understanding in a technology-rich environment.*

*The appearance at Virginia Tech of numerous instructional initiatives and projects that are based on creative uses of technology is a sign that we are at a watershed in our institutional history. Never before have so many separate initiatives appeared with a singular emphasis on using technology in the service of teaching and learning.*

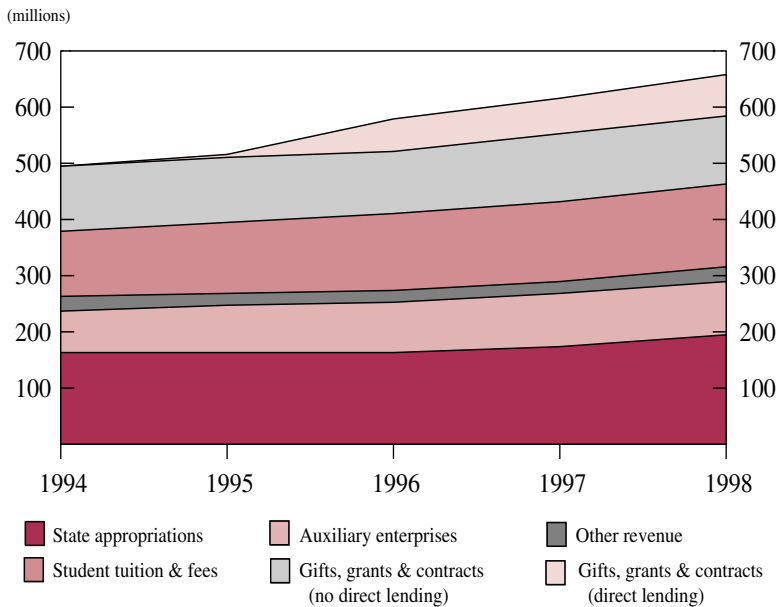
*The results of the current year's financial activity are shown on the following pages, along with trends for the past five years.*

# Current Funds Revenues

Total current funds revenues increased \$38.5 million or 6.2 percent over the previous fiscal year. The largest increase was in State Appropriations, which increased by \$18.8 million or 10.8 percent due to incremental funding for faculty and staff salary and fringe benefit increases, operations and maintenance costs for new buildings, and asbestos abatement in the steam distribution system. State Appropriations reached their highest level ever and exceeded the level of appropriations before the budget cuts in the early 1990's. However, unlike the previous year, where the gifts, grants and contracts revenue category showed the largest growth; gifts, grants and contracts revenues showed almost no growth this year,

excluding the Federal Direct Lending Program. Even though there was a freeze on tuition for in-state students, student tuition and fees were up over 6.6 percent over last year due to tuition and fees increases for out-of-state students, continued growth in out-of-state undergraduate student enrollment, and growth in the continuing education program. Auxiliary enterprise revenues grew by 2.5 percent primarily because sales of personal computers to engineering students previously handled through a related corporation were included in auxiliary enterprise activities this year. The Federal Direct Lending program increased by \$5.4 million, or 8.6 percent, to a total of \$68.1 million.

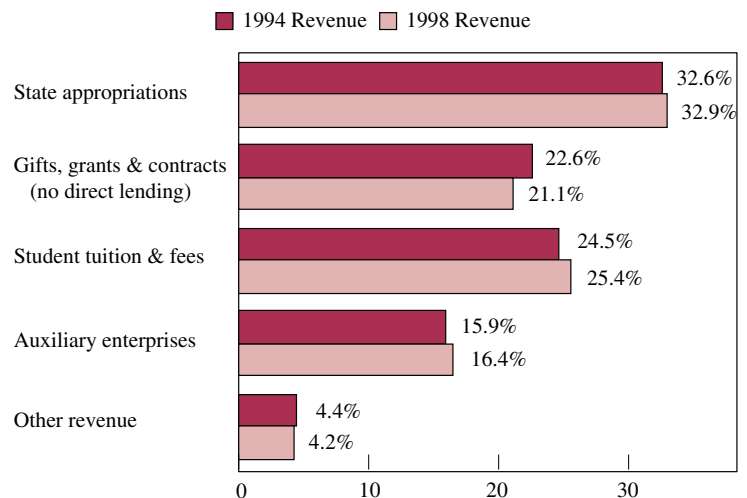
## Five Year Revenue Trend: 1994 - 1998



The graph at the left shows the trend in revenues over the past five years. Total revenues increased by \$161 million during this period, with most of the growth attributed to the addition of the Federal Direct Lending program, auxiliary enterprises revenues, student tuition and fees, and state appropriations.

The graph at the right compares the composition of revenues for fiscal years 1994 and 1998. Because there was no Federal Direct Lending program revenue in 1994, the revenue associated with that program has been excluded from 1998 for this graph. The graph shows a consistency in the relative percentages of the sources of revenues. State appropriations have increased by \$32 million in the last 5 years. Student tuition and fees grew by \$28 million during this period and increased slightly as a percent of total revenues. Gifts, grants and contracts increased by \$12 million, but decreased as a percent of total revenues.

## Comparison of FY94 and FY98 Revenues as a Relative Percent No Direct Lending Included

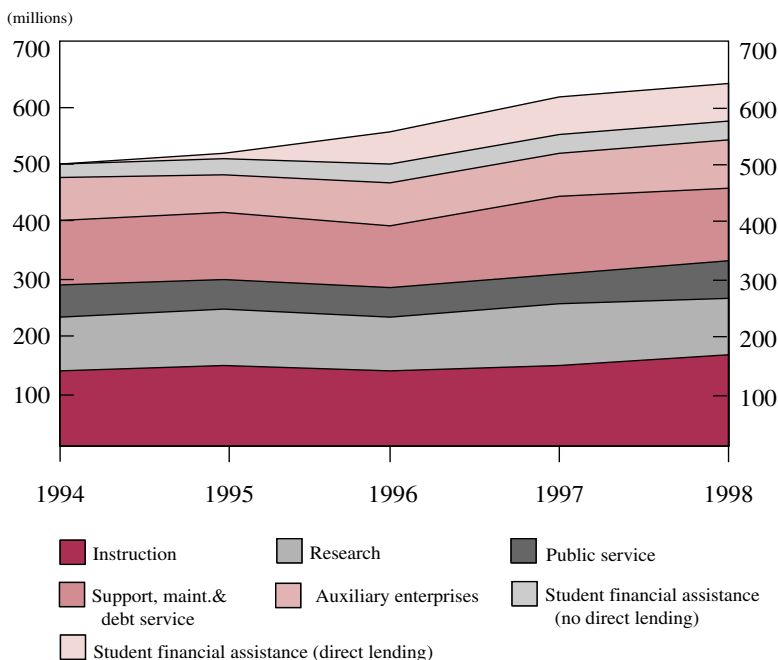


# Current Funds Expenditures and Mandatory Transfers

Total current funds expenditures and mandatory transfers increased by 5.1 percent over the previous year. Total current funds expenditures for salaries and fringe benefits increased by almost \$22 million from the prior year across all categories due to faculty and staff pay increases averaging between 4 percent and 6 percent. Approximately \$14.4 million of these payroll increases effected the Instruction, Research and Public Service expenditure categories and was the primary cause of the \$20.2 million, or 6.5 percent increase in these categories. Most of this growth, \$15.1 million, was in the Instruction category. Research expenditures decreased slightly due to a \$2.6 million decline in federally funded research grants and contracts. Federally sponsored research expenditures are expected to increase next year due to the receipt of a large grant from the National Science Foundation to establish an engineering research center. Auxiliary expenditures grew by about \$4 million

mainly due to faculty and staff pay raises, and the expenditures for personal computers for engineering students which were formerly not included in auxiliaries. While the Support, Maintenance and Debt Service category decreased slightly, the decrease is somewhat misleading. Support and maintenance expenditures and mandatory transfers for current year debt service increased about \$6 million due to salary and fringe benefit increases, debt service and operating expenses for new buildings, and systems costs related to the new administrative systems project and the Year 2000 modifications. However, this \$6 million increase was offset by a \$6.1 million decrease in mandatory transfers not related to current year debt service, which was mostly due to a onetime transfer included in the previous year. The Federal Direct Lending program expenditures grew by \$5.4 million or 8.6 percent.

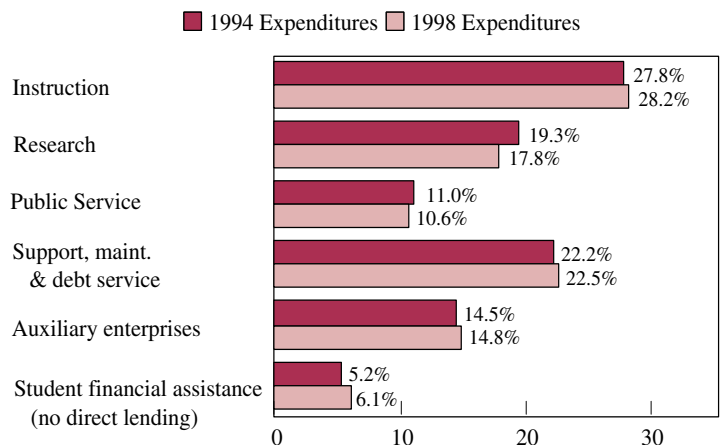
## Five Year Expenditure Trend: 1994 - 1998



The graph at the left shows the trend in expenditures and mandatory transfers over the last five years. A significant increase occurred starting in fiscal year 1995 due to the implementation of the Federal Direct Lending program. Increases in fiscal years 1997 and 1998 were mostly due to faculty and staff salary increases and the costs of new administrative computer systems.

The graph at the right compares expenditures and mandatory transfers categories for fiscal years 1994 and 1998. It shows slight declines in the percent of total expenditures for Research and Public Service, however, total expenditures actually increased from the 1994 totals by \$7 million, and \$6 million, respectively. Although total expenditures for Instruction increased by almost \$26 million, there was only a marginal increase in the percent of total expenditures for Instruction. All other categories increased slightly. Federal Direct Lending program expenditures have been excluded.

## Comparison of FY94 and FY98 Expenditures as a Relative Percent No Direct Lending Included



# Fund Balances

Total fund balances for all fund groups increased by almost \$49 million over the previous year. The largest increase occurred in the Net Investment in Plant fund balance, which grew by about \$47 million. The fund balance increase was due mainly to two factors: current funds expenditures in excess of \$24 million for equipment, (mostly computer and communication equipment), and the construction costs of numerous buildings. Current Funds Unrestricted fund balances decreased by \$0.4 million primarily due to

nonmandatory transfers from the Information Systems and Services auxiliary for upgrading the communications network and wiring for several dormitories. The Plant Funds Retirement of Indebtedness fund balances decreased by almost \$3 million mostly due to the nonmandatory capital transfers for installing fire prevention sprinklers for several dormitories. Endowment and Similar Funds grew by almost \$4 million due to gains related to equity securities.

## University Financial Operating Trends

For the years ended June 30, 1998 – 1994  
(all dollars are in millions)

	1998	1997	1996	1995	1994
<b>CURRENT FUND REVENUES</b>					
Student tuition and fees	\$ 149.0	\$ 139.7	\$ 131.0	\$ 126.3	\$ 121.0
State government appropriations (1)	193.3	174.5	165.3	164.6	161.3
Gifts, grants and contracts - excluding direct lending	124.1	123.6	112.2	113.4	111.7
Gifts, grants and contracts - direct lending program	68.1	62.7	59.0	2.2	-
Auxiliary enterprises	96.3	93.9	87.2	82.5	78.8
Other revenue (3)	25.0	22.9	23.9	24.0	21.8
Total current funds revenues	<u>\$ 655.8</u>	<u>\$ 617.3</u>	<u>\$ 578.6</u>	<u>\$ 513.0</u>	<u>\$ 494.6</u>
<b>CURRENT FUND EXPENDITURES AND MANDATORY TRANSFERS</b>					
Instruction	\$ 164.3	\$ 149.2	\$ 140.4	\$ 148.2	\$ 138.5
Research	103.8	104.1	92.2	97.4	96.6
Public service	61.4	56.0	48.8	55.9	55.2
Support, maintenance and debt service	130.8	131.0	113.9	112.0	111.1
Auxiliary enterprises	85.6	81.4	74.2	70.3	72.4
Student financial assistance - excluding direct lending	35.2	33.4	30.2	29.4	26.0
Student financial assistance - direct lending program	68.1	62.7	59.0	2.2	-
Total current funds expenditures and mandatory transfers	<u>\$ 649.2</u>	<u>\$ 617.8</u>	<u>\$ 558.7</u>	<u>\$ 515.4</u>	<u>\$ 499.8</u>
<b>FUND BALANCES</b>					
Total current funds (3)	\$ 26.5	\$ 25.7	\$ 30.5	\$ 13.0	\$ 19.0
Loan funds	13.1	12.3	11.8	10.9	10.4
Endowment funds (2, 3)	46.9	42.9	35.8	31.9	31.4
Plant funds (3)	661.5	618.4	568.4	536.0	497.3
Total fund balances	<u>\$ 748.0</u>	<u>\$ 699.3</u>	<u>\$ 646.5</u>	<u>\$ 591.8</u>	<u>\$ 558.1</u>

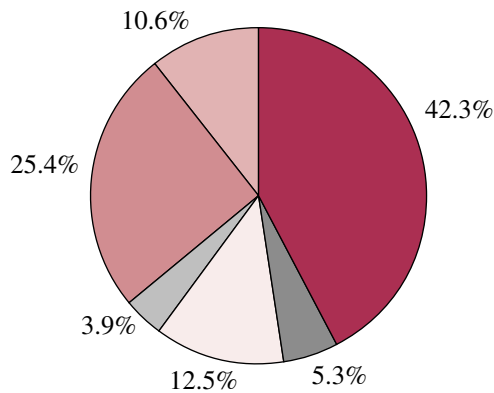
(1) This amount represents the appropriations of state taxpayer funds.  
(2) Excludes endowments owned by affiliated corporations.  
(3) Amounts for 1997 have been restated to comply with GASB Statement Number 31.

# Virginia Tech Foundation, Inc.

The Virginia Tech Foundation, Inc. was incorporated in 1948 to receive and manage private gifts on behalf of the university. During the 1997-98 fiscal year, the foundation recognized \$44 million in contributions for support of the university. Investment income for the year of \$11 million, along with net gains on investments of \$26 million provided an aggregate \$37 million return on investments. Property rental, hotel operating and other income totaled \$23 million. Total income of \$104 million was offset by \$54 million in expenses that supported the university and its programs. Direct support to various university programs aggregated

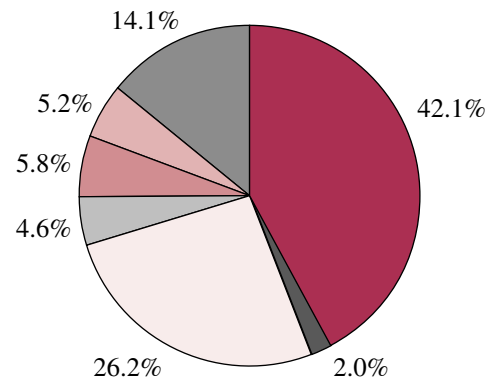
\$33 million, which included \$7.7 million in scholarship support to students and faculty, and \$2.9 million towards university capital projects. Additional expenses such as fund raising and management and general, as well as research center and hotel program costs brought total expenses to \$54 million. The resulting positive change in net assets of \$51 million, along with provisions for income taxes and other net investment gains and losses related to for-profit subsidiaries, increased total assets for the foundation, as of June 30, 1998, to \$499 million.

1998 Revenue, Gains, and Other Support



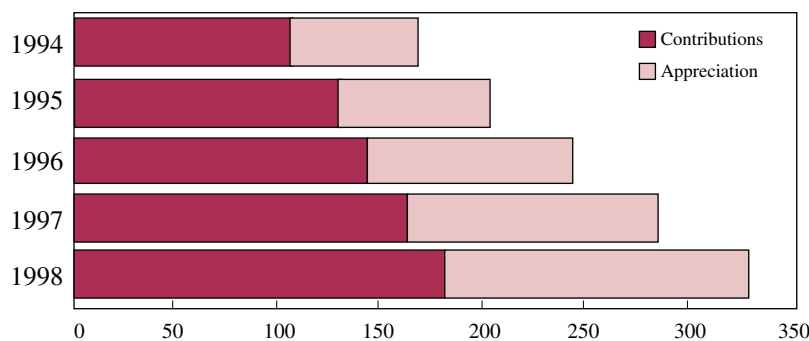
- Contributions (42.3%)
- Investment income (10.6%)
- Net gain on investments (25.4%)
- Rental income (3.9%)
- Hotel Roanoke (12.5%)
- Other income (5.3%)

1998 Expenses



- Program support (42.1%)
- Student financial aid (14.1%)
- University capital outlay (5.2%)
- Fund raising (5.8%)
- Research park (4.6%)
- Hotel Roanoke (26.2%)
- General management (2.0%)

Endowment Market Value 1994-1998



\* Market value of Endowment Funds includes agency deposits held in trust of \$46.5 million (Source: Virginia Tech Foundation Investment Managers, unaudited)

# Affiliated Corporations Financial Highlights

For the years ended June 30, 1998 – 1994

(all dollars in thousands)

	1998	1997 (as restated)	1996	1995	1994
<b>ASSETS</b>					
Virginia Tech Foundation, Inc.	\$ 499,209	\$ 439,052	\$ 379,212	\$ 312,893	\$ 256,809
Virginia Tech Services, Inc.	11,113	11,502	12,224	13,282	7,625
Virginia Tech Alumni Association	1,447	1,332	1,025	870	859
Virginia Tech Intellectual Properties, Inc.	2,443	3,085	13,724	12,073	10,286
Waste Policy Institute, Inc.	10,210	11,136	-	-	-
Total assets	<u>\$ 524,422</u>	<u>\$ 466,107</u>	<u>\$ 406,185</u>	<u>\$ 339,118</u>	<u>\$ 275,579</u>
<b>REVENUES</b>					
Virginia Tech Foundation, Inc.	\$ 104,124	\$ 100,039	\$ 78,041	\$ 56,190	\$ 44,279
Virginia Tech Services, Inc.	19,497	22,421	21,662	16,221	13,901
Virginia Tech Alumni Association	196	199	186	43	87
Virginia Tech Intellectual Properties, Inc.	597	1,006	28,853	29,711	25,700
Waste Policy Institute, Inc.	26,693	29,662	-	-	-
Total revenues	<u>\$ 151,107</u>	<u>\$ 153,327</u>	<u>\$ 128,742</u>	<u>\$ 102,165</u>	<u>\$ 83,967</u>
<b>EXPENDITURES</b>					
Virginia Tech Foundation, Inc.	\$ 54,464	\$ 52,412	\$ 45,293	\$ 32,771	\$ 27,836
Virginia Tech Services, Inc.	19,497	22,342	21,312	16,029	13,785
Virginia Tech Alumni Association	80	27	31	33	35
Virginia Tech Intellectual Properties, Inc.	1,329	688	27,974	28,976	24,821
Waste Policy Institute, Inc.	26,635	29,462	-	-	-
Total expenditures	<u>\$ 102,005</u>	<u>\$ 104,931</u>	<u>\$ 94,610</u>	<u>\$ 77,809</u>	<u>\$ 66,477</u>

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

## Report of the Administration

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

The Auditor of Public Accounts, the Commonwealth of Virginia's auditors, have examined our annual financial statements and their report thereon appears on the next page. Their examination includes a study and evaluation of the university's system of internal controls, financial systems, and policies and procedures, resulting in the issuance of a management letter describing various issues they consider worthy of management's attention. The university has implemented policies and procedures for the adequate and timely resolution of such issues.

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

Minnis E. Ridenour  
Executive Vice President

# Report of the Independent Auditor

October 23, 1998

To the Honorable James S. Gilmore, III  
Governor of Virginia

The Honorable Richard J. Holland  
Chairman, Joint Legislative Audit and Review Commission

The Board of Visitors  
Virginia Polytechnic Institute and State University

We have audited the balance sheet of Virginia Polytechnic Institute and State University as of June 30, 1998, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended. These financial statements are the responsibility of the university's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Virginia Polytechnic Institute and State University as of June 30, 1998, and the changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 1998, on our consideration of the university's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Auxiliary Enterprises Revenues, Expenditures, and Changes in Fund Balances is presented for the purpose of additional analysis and is not a required part of the financial statements of the university. The information in that schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, such information is fairly presented in all material respects to the financial statements taken as a whole.

Our audit was made for the purpose of forming an opinion on the financial statements presented on pages 8-19 of the financial report. The other information provided is not a required part of the financial statements of the university and has not been subjected to the auditing procedures applied in the audit of the financial statements. We express no opinion on the information provided on the other pages of the report.

Sincerely,

Walter J. Kucharski  
*Auditor of Public Accounts*

# Balance Sheet

As of June 30, 1998 and 1997  
*All dollars are in thousands (000's omitted)*

ASSETS	1998	1997 (as restated)	LIABILITIES AND FUND BALANCES	1998	1997 (as restated)
<b>CURRENT FUNDS:</b>			<b>CURRENT FUNDS:</b>		
<b>Unrestricted:</b>			<b>Unrestricted:</b>		
Cash, and cash equivalents (Notes 4, 5, 19)	\$ 35,204	\$ 53,446	Accounts payable (Note 19)	\$ 5,976	\$ 20,068
Investments, at fair value (Notes 4, 5)	1,637	4,791	Accrued expenditures	26,389	25,105
Investments, securities lending (Note 6)	668	-	Obligations under securities lending (Note 6)	668	-
Accounts receivable, net of allowance for doubtful accounts of \$696 in 1998 and \$657 in 1997	5,893	4,694	Accrued compensated absences (Note 1)	20,274	20,327
Notes receivable	-	56	Accrued retirement and severance pay (Note 7)	72	1,495
Inventories	4,399	4,303	Deferred revenue	7,123	7,739
Due from current funds restricted	7,795	4,805	Annuities payable	243	160
Due from plant funds	8,804	4,979	Fund balances	11,892	12,280
Prepaid expenditures	8,237	10,100			
Total unrestricted	<u>72,637</u>	<u>87,174</u>	Total unrestricted	<u>72,637</u>	<u>87,174</u>
<b>Restricted:</b>			<b>Restricted:</b>		
Cash, and cash equivalents (Notes 4, 5, 19)	10,015	7,671	Accrued compensated absences (Note 1)	3,408	3,671
Accrued interest and dividends receivable	130	151	Accounts payable (Note 19)	1,673	2,621
Accounts receivable, including unbilled charges, net of allowance for doubtful accounts of \$971 in 1998 and \$794 in 1997	22,912	21,685	Accrued expenditures	5,672	5,144
Other assets	76	144	Due to current funds unrestricted	7,795	4,805
Total restricted	<u>33,133</u>	<u>29,651</u>	Due to plant funds	4	4
Total current funds	<u>\$ 105,770</u>	<u>\$ 116,825</u>	Fund balances	14,581	13,406
			Total restricted	<u>33,133</u>	<u>29,651</u>
			Total current funds	<u>\$ 105,770</u>	<u>\$ 116,825</u>
<b>LOAN FUNDS:</b>			<b>LOAN FUNDS:</b>		
Cash, and cash equivalents (Notes 4, 5)	\$ 840	\$ 823	Government grants refundable	\$ 11,432	\$ 10,884
Notes receivable, net of allowance for doubtful notes of \$288 in 1998 and \$275 in 1997	12,301	11,503	Matching funds	1,352	1,101
Total loan funds	<u>\$ 13,141</u>	<u>\$ 12,326</u>	Other—restricted	357	341
			Total loan funds	<u>\$ 13,141</u>	<u>\$ 12,326</u>

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



# Balance Sheet

As of June 30, 1998 and 1997  
*All dollars are in thousands (000's omitted)*

ASSETS	1998	1997 (as restated)	LIABILITIES AND FUND BALANCES	1998	1997 (as restated)
<b>ENDOWMENT AND SIMILAR FUNDS:</b>			<b>ENDOWMENT AND SIMILAR FUNDS:</b>		
Investments, at fair value (Notes 4, 5)	\$ 46,826	\$ 42,849	Annuity payable—current	\$ 15	\$ 15
Land	209	209	Annuity payable—long-term	131	146
			Fund balances:		
			Endowment—unrestricted	364	358
			Quasi-endowment—unrestricted	490	445
			Quasi-endowment—restricted	45,972	42,046
			Annuity funds	63	48
Total endowment and similar funds	<u>\$ 47,035</u>	<u>\$ 43,058</u>	Total endowment and similar funds	<u>\$ 47,035</u>	<u>\$ 43,058</u>
<b>PLANT FUNDS:</b>			<b>PLANT FUNDS:</b>		
Cash, and cash equivalents (Notes 4, 5, 19)	\$ 31,713	\$ 53,707	Accounts payable and accrued expenditures (Note 19)	\$ 4,808	\$ 9,690
Investments, at fair value (Notes 4, 5)	26,602	48,745	Retainage payable (Note 8)	2,703	1,594
Accrued interest			Bond anticipation notes payable (Note 9)	2,000	-
and dividends receivable	492	581	Bonds payable, net of discount of \$1,997 in 1998 and \$2,616 in 1997 (Note 10)	135,535	140,282
Accounts receivable	131	232	Other long-term debt (Note 10)	24,866	22,944
Equity in Equipment Trust Fund	7,411	7,558	Due to current funds unrestricted	8,804	4,979
Capital appropriations receivable	2,832	2,935	Fund balances:		
Due from current funds restricted	4	4	Unexpended:		
Investment in plant:			Unrestricted	463	(20)
Land	27,641	27,641	Restricted	540	1,704
Buildings	362,004	312,231	Renewal and replacement:		
Equipment	283,020	250,308	Unrestricted	1,184	1,473
Library books	44,805	43,184	Restricted	(1,897)	(2,053)
Livestock	634	843	Retirement of indebtedness:		
Construction in progress	52,964	49,897	Unrestricted	17,684	21,503
			Restricted	15,670	14,795
Total plant funds	<u>\$ 840,253</u>	<u>\$ 797,866</u>	Net investment in plant	627,893	580,975
			Total plant funds	<u>\$ 840,253</u>	<u>\$ 797,866</u>
<b>AGENCY FUNDS:</b>			<b>AGENCY FUNDS:</b>		
Cash, and cash equivalents (Notes 4, 5)	\$ 3,025	\$ 2,211	Funds held in custody for others	\$ 3,025	\$ 2,211
Total agency funds	<u>\$ 3,025</u>	<u>\$ 2,211</u>	Total agency funds	<u>\$ 3,025</u>	<u>\$ 2,211</u>

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

# Statement of Changes in Fund Balances

For the Year Ended June 30, 1998

*All dollars are in thousands (000's omitted)*

	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds			Net Investment in Plant
	Unrestricted	Restricted			Unexpended	Renewal and Replacement	Retirement of Indebtedness	
<b>REVENUES AND OTHER ADDITIONS:</b>								
Unrestricted current fund revenues (Note 6)	\$ 453,227	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State government appropriations	-	10,803	-	-	1,374	4,790	5,667	-
Federal government appropriations	-	14,134	-	-	-	-	-	-
Federal government grants and contracts (Note 18)	-	134,582	333	-	109	-	-	-
State government grants and contracts	-	6,603	-	-	-	-	-	-
Local government grants and contracts (Note 3)	-	9,976	-	-	-	-	-	-
Private gifts, grants and contracts	-	37,330	-	-	1,551	-	-	-
Interest on loans receivable	-	-	246	-	-	-	-	-
Endowment income	-	1,453	-	-	-	-	-	-
Investment income:								
Interest and dividends	-	-	13	-	11	9	2,403	-
Net increase (decrease) in fair value of investments	-	-	-	5,155	(84)	(84)	(3)	-
Retirement of indebtedness (including \$225 charged to current funds expenditures)	-	-	-	-	-	-	-	11,313
Expended for plant facilities (including \$24,183 charged to current funds expenditures)	-	-	-	-	-	-	-	34,541
Additions from donated assets	-	-	-	-	-	-	-	14,419
Other income	-	-	17	-	-	341	-	-
Total revenues and other additions	<u>453,227</u>	<u>214,881</u>	<u>609</u>	<u>5,155</u>	<u>2,961</u>	<u>5,056</u>	<u>8,067</u>	<u>60,273</u>
<b>EXPENDITURES AND OTHER DEDUCTIONS:</b>								
Educational and general expenditures	352,254	202,481	-	-	-	-	-	-
Indirect costs recovered	-	13,307	-	-	-	-	-	-
Auxiliary enterprise expenditures (Note 6)	85,625	-	-	-	-	-	-	-
Loan cancellations and write-offs	-	-	27	-	-	-	-	-
Administrative and collection cost	-	-	73	-	-	-	76	-
Expended for plant facilities (including \$8,477 not capitalized)	-	-	-	-	4,168	14,667	-	-
Retirement of indebtedness	-	-	-	-	-	-	11,088	-
Interest on indebtedness	-	-	-	-	-	-	4,354	-
Disposal of plant facilities	-	-	-	-	-	-	-	12,897
Loss on bond refinancing (Note 10)	-	-	-	-	-	-	-	458
Total expenditures and other deductions	<u>437,879</u>	<u>215,788</u>	<u>100</u>	<u>-</u>	<u>4,168</u>	<u>14,667</u>	<u>15,518</u>	<u>13,355</u>
<b>TRANSFERS AMONG FUNDS—ADDITIONS (DEDUCTIONS):</b>								
<b>Mandatory:</b>								
Debt service - current year	(9,518)	(116)	-	-	(2,694)	(384)	12,712	-
Debt service - future years	770	-	-	-	2,668	1,147	(4,585)	-
<b>Nonmandatory:</b>								
Capital improvements	(5,842)	-	-	-	552	8,910	(3,620)	-
Allocation of funds	(1,146)	2,198	306	(1,163)	-	(195)	-	-
Total transfers	<u>(15,736)</u>	<u>2,082</u>	<u>306</u>	<u>(1,163)</u>	<u>526</u>	<u>9,478</u>	<u>4,507</u>	<u>-</u>
Net increase (decrease) for year	<u>(388)</u>	<u>1,175</u>	<u>815</u>	<u>3,992</u>	<u>(681)</u>	<u>(133)</u>	<u>(2,944)</u>	<u>46,918</u>
Fund balances as restated, July 1, 1997 (Note 4)	12,280	13,406	12,326	42,897	1,684	(580)	36,298	580,975
Fund balances, June 30, 1998	<u>\$ 11,892</u>	<u>\$ 14,581</u>	<u>\$ 13,141</u>	<u>\$ 46,889</u>	<u>\$ 1,003</u>	<u>\$ (713)</u>	<u>\$ 33,354</u>	<u>\$ 627,893</u>

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

# Statement of Current Funds Revenues, Expenditures, and Other Changes

For the Years Ended June 30, 1998 and 1997

*All dollars are in thousands (000's omitted)*

	1998			1997
	Unrestricted	Restricted	Total	(as restated) Total
<b>REVENUES:</b>				
Student tuition and fees	\$ 148,958	\$ -	\$ 148,958	\$ 139,709
State government appropriations (Note 15)	182,498	10,803	193,301	174,516
Federal government appropriations	-	13,968	13,968	13,169
Federal government grants and contracts	11,170	123,992	135,162	131,798
State government grants and contracts	292	6,566	6,858	7,657
Local government grants and contracts	179	9,771	9,950	9,755
Private gifts, grants and contracts	5,261	34,958	40,219	36,978
Endowment income	27	2,539	2,566	2,373
Investment income:				
Interest and dividends	566	-	566	407
Net increase (decrease) in fair value of investments	(14)	-	(14)	4
Sales and services of educational departments	7,210	-	7,210	6,383
Sales and services of auxiliary enterprises (Note 6)	96,302	-	96,302	93,930
Other	778	-	778	604
Total current revenues	453,227	202,597	655,824	617,283
<b>EXPENDITURES AND MANDATORY TRANSFERS:</b>				
Educational and general:				
Instruction	157,536	6,734	164,270	149,160
Research	35,464	68,307	103,771	104,058
Public service	32,993	28,397	61,390	55,965
Academic support	37,716	1,721	39,437	38,265
Student services	14,204	690	14,894	14,284
Institutional support	34,453	4,885	39,338	38,559
Operation and maintenance of plant	28,342	7	28,349	25,598
Student financial assistance (Note 18)	11,546	91,740	103,286	96,136
Total educational and general expenditures	352,254	202,481	554,735	522,025
Mandatory transfers for debt service - current year	1,372	116	1,488	1,377
Total educational and general	353,626	202,597	556,223	523,402
<b>AUXILIARIES:</b>				
Expenditures (Note 6)	85,625	-	85,625	81,469
Mandatory transfers for debt service - current year	8,146	-	8,146	7,576
Mandatory transfers for debt service - future years	(770)	-	(770)	5,327
Total auxiliaries	93,001	-	93,001	94,372
Total expenditures and mandatory transfers	446,627	202,597	649,224	617,774
<b>OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS):</b>				
Nonmandatory transfers:				
Capital improvements - auxiliaries	(5,066)	-	(5,066)	(4,038)
Capital improvements - all other	(776)	-	(776)	239
Allocation of current funds - auxiliaries	(968)	-	(968)	(838)
Allocation of current funds - all other	(178)	2,198	2,020	1,451
Excess (deficiency) of restricted receipts over transfers to revenue	-	(1,023)	(1,023)	(1,206)
Net increase (decrease) in fund balances	\$ (388)	\$ 1,175	\$ 787	\$ (4,883)

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

# Notes to Financial Statements

For the Year Ended June 30, 1998

## 1. Summary of Significant Accounting Policies

### *Reporting Entity*

Virginia Polytechnic Institute and State University (Virginia Tech), a publicly supported, comprehensive, land-grant university, serves the Commonwealth of Virginia, the nation, and the international community by generating and disseminating knowledge in the humanities, arts, social sciences, scientific, and professional disciplines through instruction, research, and extension.

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

The university has no on behalf payments for fringe benefits and salaries as defined by the Governmental Accounting Standards Board (GASB) Statement Number 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*.

The university has no component units, as defined by Section 2200, of the *GASB Codification of Governmental Accounting and Financial Reporting Standards*; however, the university does have related party corporations whose combined financial conditions are stated in Note 2. These organizations are separate legal entities from Virginia Tech and the university exercises no control over them. For these reasons, the university's related parties are not included in these financial statements.

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

### *Basis of Accounting*

The financial statements of the university have been prepared on the accrual basis, in accordance with the American Institute of Certified Public Accountants' *Audit Guide of Colleges and Universities*, except for depreciation accounting as explained in Note 1, Investment in Plant.

The Statement of Current Funds Revenues, Expenditures, and Other Changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues or expenses.

The university follows the practice of reporting gifts and pledges when collected.

### *Fund Accounting*

To ensure observance of limitations and restrictions placed on the use of the resources available to the university, the accounts of the university are maintained in accordance with the principles of "fund accounting". This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

A summary of fund group definitions is as follows:

- **Current Funds** - Current fund balances are separated into those which are restricted by donors and those which are unrestricted. Restricted funds may only be expended for the purpose indicated by the donor or grantor, whereas unrestricted funds are available for current operations at the discretion of the university.
- **Loan Funds** - Loan funds represent funds which are limited by the terms of their donors or by action of the board of visitors for the purpose of making loans to students.
- **Endowment and Similar Funds** - Endowment and Similar Funds generally include endowment funds and quasi-endowment funds.

Endowment funds are funds which donors or other outside agencies have stipulated, as a condition of the gift, that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income which may either be expended or added to principal.

Quasi-endowment funds are funds which the board of visitors of the university has determined are to be retained and invested. Since these funds are internally designated rather than externally restricted, the board of visitors has the right to decide at any time to expend the principal.

- **Plant Funds** - Plant funds are divided into four groups: Unexpended, Renewal and Replacement, Retirement of Indebtedness, and Investment in Plant.

The Unexpended plant funds represent resources which are specified by external sources or designated by the board of visitors for the acquisition, construction, renovation, and replacement of physical properties.

The Renewal and Replacement fund includes resources held for maintenance, repairs, renovations and replacement of plant facilities.

The Retirement of Indebtedness fund is for the retirement of both principal and interest on debt established under bond indentures.

Investment in Plant represents the capitalized value of physical property owned by the university, along with any associated debt.

- **Agency Funds** - Agency funds consist of funds held by the university as a custodian for others.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the board of visitors. Externally restricted funds may be utilized only in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the board of visitors retains full control to use in achieving any of its institutional purposes.

All changes in fair value of investments, including realized and unrealized gains and losses, arising from the sale or holding of investments and other noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds. In these funds, income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds (see Note 5).

All other unrestricted revenue is accounted for in the unrestricted current fund. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

### *Investments*

Due to the implementation of GASB Statement Number 31, purchased investments, interest-bearing temporary investments classified with cash, and investments received as gifts are now recorded at fair value. In previous years, purchased investments were recorded at cost and investments received as gifts were recorded at the fair market value at the date of acquisition (see Notes 4, 5).

### *Inventories*

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

### *Investment in Plant*

Plant assets consisting of land, buildings, and equipment are stated at appraised historical cost or actual cost where determinable. Library books are valued using published average prices for library acquisitions, and livestock is stated at estimated market value. Other equipment expenditures are capitalized when the unit acquisition cost is \$2,000 or greater and the estimated useful life is two years or more.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as: (1) expenditures, in the case of normal replacement of movable equipment; (2) mandatory transfers, in the case of required provisions for debt amortization and interest and equipment renewal and replacement; and (3) transfers of a nonmandatory nature for all other cases.

No provision is made in the accounts for depreciation of plant assets.

#### Retirement of Indebtedness

The bond covenants for the revenue bonds issued in October 1996, as described in Note 10, established or continued groups of accounts, called systems, held in trust by the Treasurer of Virginia, for managing the net revenues and debt service of certain university auxiliaries. The net revenues of the system accounts for the Dormitory and Dining Hall System, the University Services System (comprised of the Student Centers, Recreational Sports and Student Health auxiliaries), and the Utility System (the Electric Service auxiliary) are accounted for in Plant Funds Retirement of Indebtedness as mandatory transfers. Excess funds of these systems may be used for any lawful purposes of the university, provided approval from the board of visitors is obtained. Mandatory transfers also include transfers from other auxiliary enterprises and other current fund accounts for the payment of debt service not related to these system accounts.

#### Accrued Compensated Absences

Certain salaried employees' attendance and leave regulations make provisions for the granting of a specified number of days of leave with pay each year. The amount reflects, as of June 30, all unused vacation leave, sabbatical leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave pay out policy. The applicable share of employer related taxes payable on the eventual termination payments is also included. The university's liability for the amount of leave earned by employees but not taken, at June 30, 1998 and 1997 is recorded in the financial statements.

#### Deferred Revenue

Deferred revenue represents revenues collected but not earned as of June 30, 1998 and 1997. This is primarily composed of revenue for student tuition accrued in advance of the semester. If a program is conducted over a fiscal year end, deferred revenue is recorded for all revenue related to programs predominately conducted in the next fiscal year.

#### Interest Capitalization

Interest expense is capitalized during construction net of interest income on resources set aside for construction. During the years ended June 30, 1998 and 1997, the university capitalized net interest expense of \$1,620,000 and \$1,285,000, respectively.

## 2. Related Parties

The financial statements incorporate the Instruction, Research, and Extension programs of the university. These financial statements do not include the assets, liabilities, and fund balances of the related parties which support university programs. The related parties of the university are: Virginia Tech Foundation, Inc., Virginia Tech Services, Inc., Virginia Tech Alumni Association, Virginia Tech Athletic Fund, Inc., Virginia Tech Intellectual Properties, Inc., Virginia Tech Corps of Cadets Alumni, Inc., Waste Policy Institute, Inc., and any of the subsidiaries of these corporations. The board of directors of Virginia Tech Services, Inc. is comprised of staff, faculty, and students of the university.

The organizations were examined by other auditors whose reports thereon have been furnished to the university. Amounts included for these organizations are based solely upon the reports of the other auditors. The following is a condensed summary of the combined financial conditions of these organizations (000's omitted):

	1998	1997 (as restated)
Assets		
Cash and investments	\$ 339,425	\$ 287,063
Other assets	<u>132,888</u>	<u>128,700</u>
Total	<u>\$ 472,313</u>	<u>\$ 415,763</u>

	1998	1997 (as restated)
Liabilities and fund balances		
Current liabilities	\$ 30,574	\$ 27,116
Long-term liabilities	46,843	44,393
Fund balances	394,896	344,254
Total	<u>\$ 472,313</u>	<u>\$ 415,763</u>

The aggregate revenues and expenditures of these organizations, determined as if in consolidation with the university, were \$119,723,000 and \$69,081,000 respectively, in 1998 and \$122,569,000 and \$72,721,000, respectively, in 1997 (as restated).

#### Virginia Tech Foundation Activity

The foundation receives gifts and expends funds for the benefit of the university. The revenues and expenditures of the university include funds expended by the foundation and paid directly to the university of approximately \$19,038,000 in 1998 and \$19,580,000 in 1997. The university's revenues and expenditures also include restricted funds paid by the foundation to parties other than the university on behalf of the university of approximately \$7,330,000 in 1998 and \$6,264,000 in 1997.

All assets and income of the university's quasi-endowment funds are managed by the foundation through an agency agreement executed with the university.

## 3. Local Government Support

The university, through the operation of its Cooperative Extension Service, maintains offices in numerous cities and counties throughout the Commonwealth of Virginia. Personnel assigned to these locations receive a substantial portion of their compensation from the local governments. Also included in the expenditures of these extension offices are unit support services, which include such items as rent, telephone, supplies, equipment, and extension program expenses. The amount contributed by the various local governments totaled \$8,537,000 and \$8,182,000 in 1998 and 1997, respectively, and has been included in revenues and expenditures of the accompanying financial statements. The university received other local government support of \$1,439,000 and \$1,500,000 in 1998 and 1997, respectively.

## 4. Restatement of Fund Balances

Effective July 1, 1997, the university adopted the provisions of Statement Number 31 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The statement established fair value accounting and financial reporting standards for investments in interest-earning investment contracts, external investment pools, open-end mutual funds, debt securities, and equity securities. All investment income, including changes in the fair value of investments, is reported as revenue in the Statement of Changes in Fund Balances and in the Statement of Current Funds Revenues, Expenditures, and Other Changes.

The university has retroactively applied the accounting changes by restating the financial statements for the year ended June 30, 1997. Cash equivalent, investment, and fund balance totals have been restated to reflect the difference between cost and fair value of the cash equivalents and investments held as of June 30, 1997. The following schedule reflects the restatement (000's omitted).

	June 30, 1997 (originally reported)	Adjustments	June 30, 1997 (as restated)
Fund balances:			
Current funds:			
Unrestricted	\$ 12,276	\$ 4	\$ 12,280
Restricted	13,406	-	13,406
Loan funds	12,326	-	12,326
Endowment and similar funds	38,230	4,667	42,897
Plant funds:			
Unexpended	1,599	85	1,684
Renewal & replacement	(664)	84	(580)
Retirement of indebtedness	36,197	101	36,298
Net investment in plant	580,975	-	580,975
Agency funds	2,211	-	2,211
Total	<u>\$ 696,556</u>	<u>\$ 4,941</u>	<u>\$ 701,497</u>

## 5. Cash, Cash Equivalents, and Investments

The following information is provided with respect to the credit risk associated with the university's cash, cash equivalents, and investments at June 30, 1998 and 1997.

### Cash and Cash Equivalents

Pursuant to Section 2.1-177, et seq., Code of Virginia, all state funds of the university are maintained by the Treasurer of Virginia who is responsible for the collection, disbursement, custody, and investment of state funds. Cash deposits held by the university are maintained in accounts that are collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.1-359, et seq., Code of Virginia. In accordance with the GASB Statement Number 9, *Definition of Cash and Cash Equivalents*, cash represents cash with the treasurer, cash on hand, and cash deposits including certificates of deposit and temporary investments with original maturities of three months or less.

### Investments

The investment policy of the university is established by the board of visitors and monitored by the Finance and Audit Committee of the board. Credit risk

is the risk that the university may not be able to obtain possession of its investment instrument or collateral at maturity. The university's investments, including cash equivalents, are categorized as described below to give an indication of the level of credit risk assumed by the university at June 30, 1998 and 1997:

- Category 1 - Insured or registered securities or securities held by the university or its agent in the university's name.
- Category 2 - Uninsured or unregistered, with securities held by the counterparty's trust department or agent in the university's name. The university has no category 2 investments for 1998 or 1997.
- Category 3 - Uninsured or unregistered, with securities held by the counterparty, or by its trust department or agent but not in the university's name.
- Non-categorized Investments - Primarily money market and mutual funds, Common Fund, and pooled investments maintained by Virginia Tech Foundation, Inc.

The categorization of investment risk for assets held on June 30, 1998, follows (000's omitted):

	Category		Non-categorized	Reported Amount	Fair Value
	1	3			
Cash equivalents:					
Commercial paper	\$ 1,247	\$ -	\$ -	\$ 1,247	\$ 1,247
Non-categorized	-	-	38,389	38,389	38,389
Total cash equivalents	1,247	-	38,389	39,636	39,636
Investments:					
Commercial paper	1,184	-	-	1,184	1,184
U.S. government securities and					
U.S. government agency securities	21,639	-	-	21,639	21,639
Corporate bonds	5,545	-	-	5,545	5,545
Non-categorized	-	-	46,697	46,697	46,697
Total investments	28,368	-	46,697	75,065	75,065
Total	\$ 29,615	\$ -	\$ 85,086	\$ 114,701	\$ 114,701

The categorization of investment risk for assets held on June 30, 1997, follows (000's omitted):

(As required under GASB Statement Number 31, the cash equivalent and investment totals below have been stated at fair value. In 1997, the investments were reported at cost. The 1997 balances have been restated to fair value. The cost column is presented for comparative purposes only.)

	Category		Non-categorized	Fair Value	Cost
	1	3			
Cash equivalents:					
Commercial paper	\$ 2,995	\$ -	\$ -	\$ 2,995	\$ 2,982
U.S. government securities and					
U.S. government agency securities	6,966	-	-	6,966	6,927
Repurchase agreements	-	4,412	-	4,412	4,412
Non-categorized	-	-	42,908	42,908	42,892
Total cash equivalents	9,961	4,412	42,908	57,281	57,213
Investments:					
Commercial paper	1,475	-	-	1,475	1,472
U.S. government securities and					
U.S. government agency securities	37,507	-	-	37,507	37,462
Corporate bonds	14,758	-	-	14,758	14,599
Non-categorized	-	-	42,645	42,645	37,979
Total investments	53,740	-	42,645	96,385	91,512
Total	\$ 63,701	\$ 4,412	\$ 85,553	\$ 153,666	\$ 148,725

Cash equivalents and investments as of June 30, 1998 and June 30, 1997 for each fund group are shown below at fair value (000s omitted):

Fund group:	Balance at June 30, 1998		Balance at June 30, 1997 (as restated)		Balance at June 30, 1997 (originally reported)	
	Cash Equivalents	Investments	Cash Equivalents	Investments	Cash Equivalents	Investments
Current funds						
Unrestricted	\$ 8,038	\$ 1,637	\$ 3,929	\$ 4,791	\$ 3,925	\$ 4,791
Restricted	394	-	237	-	237	-
Loan funds	5	-	5	-	5	-
Endowment and similar funds	-	46,826	-	42,849	-	38,182
Plant funds	30,825	26,602	52,632	48,745	52,568	48,539
Agency funds	374	-	478	-	478	-
Total	\$ 39,636	\$ 75,065	\$ 57,281	\$ 96,385	\$ 57,213	\$ 91,512

## 6. Securities Lending Transactions

Effective July 1, 1997, the university adopted the provisions of Statement Number 28 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Securities Lending Transactions*. GASB Statement Number 28 established standards of accounting and financial reporting for securities lending transactions in which governmental entities transfer their securities to broker-dealers and other entities for collateral and simultaneously agree to return the collateral for the same securities in the future.

The investments under securities lending and the securities lending transactions reported on the financial statements represents the university's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth of Virginia. Investments and the corresponding securities lending obligations are shown separately on the university's Balance Sheet. For the year ended June 30, 1998 the university's securities lending transactions totaled \$79,000 of securities lending income and \$77,000 of securities lending cost. These totals have been included in Unrestricted Current Fund Revenues and Auxiliary Enterprise Expenditures on the Statement of Changes in Fund Balances and in the auxiliary amounts on the Statement of Current Funds Revenues, Expenditures, and Other Changes. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*.

## 7. Accrued Retirement and Severance Pay

Under the provisions of the Individual Transition Option Plan, the university has accrued expenses totaling \$72,000 and \$1,495,000 during the years ended June 30, 1998 and 1997, respectively. The Individual Transition Option Plan is a board of visitors' approved plan that allowed certain faculty to leave active state service under one of several different options. Estimated payments to be paid in future fiscal years are shown below:

Individual Transition Option Plan	*At June 30, 1998	*At June 30, 1997
1998	\$ -	\$ 1,422,000
1999	72,000	73,000
Total	<u>\$ 72,000</u>	<u>\$ 1,495,000</u>

\* The change in estimated payments as of June 30, 1998 and June 30, 1997 is a result of the early payments of amounts due July 1, 1998 and July 1, 1997.

## 8. Retainage Payable

For the years ended June 30, 1998 and 1997, \$2,703,000 and \$1,594,000, respectively, were held by the university as retainage on various contracts for work which had been performed. The retainage will be remitted to the various contractors upon satisfactory completion of the construction projects.

## 9. Bond Anticipation Notes

The university entered into a note agreement in anticipation of the issuance and sale of bonds by the Commonwealth of Virginia on behalf of the university. The university's board of visitors approved the use of short-term tax-exempt commercial paper on April 21, 1997 for the temporary financing of Cochrane Hall. The Commonwealth of Virginia Treasury Board began selling the commercial paper on November 7, 1997, of which \$2,000,000 was sold to the university. The commercial paper was sold at discounts with maturities ranging from 1 to 270 days. The interest expense of the commercial paper was paid from the interest earnings of the proceeds. On September 16, 1998, \$3,255,000 of long term bonds were issued, of which \$2,000,000 was used to retire the principal of the outstanding tax-exempt commercial paper.

## 10. Long-term Indebtedness

### *Bonds Payable*

The university has issued two categories of bonds pursuant to Section 9 of Article X of the Constitution of Virginia. Section 9(d) bonds are revenue bonds which are limited obligations of the university payable exclusively from the pledged general revenues, as described below, and are not a debt of the Commonwealth of Virginia, legally, morally, or otherwise. Section 9(c) bonds are general obligation revenue bonds issued by the Commonwealth of Virginia on behalf of the university which are secured by the net revenues of the completed project and the full faith, credit, and taxing power of the Commonwealth of Virginia.

There are bond covenants related to some of these bonds that established or continued groups of accounts, called systems, held in trust by the Treasurer of Virginia, for managing the net revenues and debt service of certain university auxiliaries. The revenue bonds issued by the Dorm and Dining Hall System, the University Services System (comprised of the Student Centers, Recreational Sports and Student Health auxiliaries), and the Utility System (the Electric Service auxiliary) are secured by a pledge of each system's net revenues generated from student or customer fees and are further secured by the pledged general revenues of the university. All remaining Section 9(d) revenue bonds are secured by the pledged general revenues of the university. The pledged general revenues include general fund appropriations, tuition and fees, indirect cost recoveries, auxiliary enterprise revenues, and other revenues not required by law to be used for another purpose.

Bonds payable at June 30, 1998 and 1997 consist of the following (000's omitted):

	Interest rates	Maturity	1998	1997
REVENUE BONDS:				
Dormitory and Dining Hall System:				
Series 1996B, issued \$3,020 **	3.80% - 5.70%	2004	\$ 2,360	\$ 2,695
Series 1996B, issued \$5,475 **	3.80% - 5.35%	2009	4,815	5,145
Series 1996B, issued \$1,730	3.80% - 5.70%	2016	1,730	1,730
Utility System:				
Series 1996D, issued \$2,570 *	3.80% - 5.35%	2009	2,260	2,415
Veterinary Medicine:				
Series 1996A, issued \$1,040 **	3.80% - 5.75%	2008	910	975
Northern Virginia Graduate Center:				
Series 1996A, issued \$10,080 **	3.80% - 5.75%	2020	9,845	10,080
Architectural/Engineering, series 1996A, issued \$6,805	3.80% - 5.50%	2016	6,805	6,805
Athletic Facility - Addition, series 1996A, issued \$3,540	3.80% - 5.75%	2004	3,380	3,540
Athletic Facility - Improvements, series 1996A, issued \$6,250	3.80% - 5.75%	2016	6,050	6,250
Coal Fired Facility, series 1996A, issued \$11,035	3.80% - 5.50%	2016	11,035	11,035

	Interest rates	Maturity	1998	1997
Donaldson Brown Hotel & Conference Center:				
Series 1996A, issued \$3,945	3.80% - 5.50%	2016	\$ 3,945	\$ 3,945
Series 1996A, issued \$2,495	3.80% - 5.50%	2016	2,415	2,495
University Services Systems:				
Student Health & Fitness Center, series 1996C, issued \$21,175	3.80% - 5.50%	2016	21,175	21,175
Total revenue bonds			<u>76,725</u>	<u>78,285</u>
GENERAL OBLIGATION REVENUE BONDS:				
Dormitory and Dining Hall:				
Series 1991A, issued \$5,015 – refinanced **	5.60% - 7.60%	2011	890	1,085
Series 1992C, issued \$4,990 – partial refunding *	5.10% - 5.80%	2004	1,270	4,370
Series 1992D, issued \$2,680 – partial refunding *	4.60% - 5.60%	2006	965	2,330
Series 1992D, issued \$2,790 – partial refunding *	4.60% - 5.60%	2006	1,005	2,430
Series 1993B, issued \$4,763 – refunding series 1986B **	3.50% - 4.25%	2001	2,150	2,833
Series 1993B, issued \$3,050 – refunding series 1991A **	3.50% - 5.00%	2011	2,967	2,988
Series 1996, issued \$272 – refunding series 1991A **	4.75%	2003	267	269
Series 1997, issued \$15,895	3.79% - 5.40%	2017	15,895	15,895
Series 1998, issued \$3,158 – refinanced 1992C *	3.50% - 4.70%	2013	3,132	-
Series 1998, issued \$1,380 – refinanced 1992D *	3.50% - 4.70%	2013	1,369	-
Series 1998, issued \$1,440 – refinanced 1992D *	3.50% - 4.70%	2013	1,428	-
Telecommunication, Series 1989A, issued \$24,259	6.40% - 7.20%	2004	8,340	9,445
University Services System – Student Center:				
Series 1988B, issued \$14,095 – refinanced **	6.75% - 7.00%	1998	-	670
Series 1990B, issued \$1,410 – refinanced **	6.40% - 8.40%	2010	60	115
Series 1991A, issued \$3,260 – refinanced **	5.60% - 7.60%	2011	575	700
Series 1993A, issued \$10,885 – refunding series 1988B **	3.75% - 5.20%	2008	10,365	10,485
Series 1993B, issued \$942 – refunding series 1990B **	3.50% - 5.00%	2010	914	921
Series 1993B, issued \$1,987 – refunding series 1991A **	3.50% - 5.00%	2011	1,933	1,947
Series 1996, issued \$143 – refunding series 1990B **	4.75%	2001	139	141
Series 1996, issued \$176 – refunding series 1991A **	4.75%	2003	173	174
Parking Facilities:				
Series 1991A, issued \$4,220 – refinanced **	5.60% - 7.60%	2011	745	905
Series 1993B, issued \$2,569 – refunding series 1991A **	3.50% - 5.00%	2011	2,498	2,517
Series 1996, issued \$230 – refunding series 1991A **	4.75%	2003	225	227
Series 1997, issued \$1,550	5.00%	2017	1,505	1,550
Total general obligation revenue bonds			<u>58,810</u>	<u>61,997</u>
Total bonds payable			<u>\$ 135,535</u>	<u>\$ 140,282</u>

\* See Bond Defeasance – Current Year

\*\* See Bond Defeasance – Previous Years

### Bond Defeasance

#### CURRENT YEAR:

In March 1998 the Commonwealth of Virginia, on behalf of the university, issued \$5,978,000 of section 9(c) revenue bonds to refund \$5,520,000 of outstanding section 9(c) general obligation revenue bonds. All of the issues were advanced refundings, where the net proceeds from the sales of bonds were deposited in irrevocable trusts with escrow agents to provide for all future debt service on the refunded bonds. For financial reporting purposes, these bonds have been considered as an in-substance defeasance and therefore removed from the Bonds Payable line item in the Plant Funds section of the Balance Sheet. The assets in escrow have similarly been excluded. The details of each bond issue refunded are presented below (000's omitted):

Fiscal Year 1998 Defeasance	True Interest Cost	Refunding Bonds Issued	Bonds Refunded	Accounting Loss	Reduction in Debt Service	Gain Discounted at TIC	Defeased Debt at June 30, 1998
Dorm & dining hall system:							
Series 1992C	4.49%	\$ 3,158	\$ 2,925	\$ 233	\$ 260	\$ 185	\$ 2,925
Series 1992D	5.22%	1,440	1,325	115	86	60	1,325
Series 1992D	5.22%	1,380	1,270	110	82	58	1,270
Total		<u>\$ 5,978</u>	<u>\$ 5,520</u>	<u>\$ 458</u>	<u>\$ 428</u>	<u>\$ 303</u>	<u>\$ 5,520</u>

#### PREVIOUS YEARS:

In previous fiscal years in accordance with GASB Statement Number 7, *Advance Refundings Resulting in the Defeasance of Debt*, we have excluded from our financial statements the assets in escrow and the Section 9(c) or 9(d) bonds payable that were defeased in-substance. The total bonds payable considered defeased in previous years outstanding at June 30, 1998 was \$28,450,000.

### Other Long-term Debt

Other long-term debt at June 30, 1998 and 1997 consists of (000's omitted):

	1998	1997
Capital leases payable for Higher Education Equipment Trust Fund with interest rates of 4.10% to 5.35%.	\$ 24,489	\$ 22,343
Installment purchase obligations for equipment purchases through June 1998 with various interest rates and maturing through 2004. The book value of capitalized equipment is \$982 for 1998 and \$827 for 1997.	377	601
Total other long-term debt	24,866	22,944
Total bonds payable	135,535	140,282
Total long-term debt	<u>\$ 160,401</u>	<u>\$ 163,226</u>



A summary of future principal requirements of long-term debt as of June 30, 1998 follows (000's omitted):

Year ending June 30:	
1999	\$ 14,719
2000	14,146
2001	14,969
2002	13,236
2003	10,576
After 2003	94,752
Less: Unamortized discount	(1,997)
Total	<u>\$ 160,401</u>

### Capital Leases

Capital leases represent the university's allocations from the Higher Education Equipment Trust Fund managed by the Virginia College Building Authority for the purpose of acquiring equipment under lease agreements with the authority. The assets under capital leases are recorded at the net present value of the minimum lease payments during the lease term. Equipment acquired and the related liability are recorded in the Net Investment in Plant Fund.

A schedule of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of June 30, 1998, follows (000's omitted):

Year ending June 30:	
1999	\$ 7,368
2000	6,327
2001	6,562
2002	5,032
2003	1,830
Total minimum lease payments	27,119
Less: Amount representing interest	(2,630)
Present value of net minimum lease payments	<u>\$ 24,489</u>

The university has entered into various installment purchase contracts to finance the acquisition of equipment. The length of the purchase agreements range from 2 to 5 years with variable rates of interest. The outstanding principal is included in the Other Long-term Debt line item on the Balance Sheet. Principal payments of these commitments for fiscal years subsequent to June 30, 1998 are as follows (000's omitted):

Year ending June 30:			
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999	\$ 92	\$ 19	\$ 111
2000	84	14	98
2001	75	10	85
2002	67	6	73
2003	47	2	49
After 2003	12	-	12
Total	<u>\$ 377</u>	<u>\$ 51</u>	<u>\$ 428</u>

## 11. Lease Commitments

The university is committed under various operating leases for equipment and space. In general, the leases are for a two-year term and the university has renewal options. In most cases, the university expects that in the normal course of business, these leases will be replaced by similar leases. Rental expense was approximately \$6,742,000 and \$5,437,000 for the years ended June 30, 1998 and 1997, respectively.

A summary of future minimum lease payments under operating leases as of June 30, 1998, follows (000's omitted):

Year ending June 30:	
1999	\$ 3,880
2000	2,722
2001	2,442
2002	2,017
2003	1,190
After 2003	3,419
Total	<u>\$ 15,670</u>

## 12. Capital Improvement Commitments

Outstanding contractual commitments for capital improvement projects at June 30, 1998, included (000's omitted):

Advance communication and information technology center	\$ 21,125
New residence halls	7,234
New dining hall	1,882
Upper quad conversion plan	935
Fire protection-sprinklers	762
Student health & fitness center	494
Coal fired facilities	462
Other projects	1,403
Total	<u>\$ 34,297</u>

These commitments are funded by the following: \$11,388 from private funds, \$8,700 from revenue bond issues, \$7,839 from 21st century bonds, and \$2,146 from general obligation bond proceeds. Other funding sources include auxiliary enterprises, indirect cost recoveries, and state general appropriations.

## 13. Contributions to Pension Plans

### Virginia Retirement System

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

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

The university's expenditures include the amount assessed by the commonwealth for contribution to VRS which totaled approximately \$15,637,000 and \$13,668,000 for the years ended June 30, 1998 and 1997, respectively.

### Optional Retirement Plan

Full-time faculty and certain administrative staff participate in a defined contribution plan administered by five different providers rather than the VRS. The five different providers are TIAA/CREF Insurance companies, Fidelity Investments Tax-Exempt Services and Met Life Resources, Great-West Life Assurance Co., T. Rowe Price Associates, and VALIC. This plan is a fixed-contribution program where the retirement benefits received are based upon the employer's (5.4 percent) and employees' (5 percent) contributions, plus interest and dividends.

Individual contracts issued under the plan provide for full and immediate vesting of both the university's and the employees' contributions. Total pension costs under this plan were approximately \$7,506,000 and \$7,042,000 for years ended June 30, 1998 and 1997, respectively. Contributions to the optional retirement plan were calculated using the base salary amount of approximately \$72,174,000 and \$67,707,000 for fiscal years 1998 and 1997.

### Federal Pension Plans

Certain Cooperative Extension Service professional employees are participants in either the Federal Employee Retirement System (FERS) or the Federal Civil Service Retirement System (CSRS). FERS and CSRS are defined benefit plans in which benefits are based upon the highest basic pay over any three consecutive years and the years of creditable service. Pension costs under these plans were approximately \$1,039,000 and \$863,000 for the years ended 1998 and 1997, respectively. Contributions to FERS and CSRS were calculated using the base salary amount of approximately \$12,304,000 and \$11,487,000 for the fiscal years 1998 and 1997.

In addition, the university contributed \$57,000 and \$59,000 for the years ended June 30, 1998 and 1997 in employer contributions to the Thrift Savings Plan, a defined contribution plan, in which the university matches employee contributions within certain limitations.

## 14. Post-Employment Benefits

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

## 15. Appropriations

The Appropriation Act specifies that unexpended general fund appropriations which remain on the last day of the current year, ending on June 30, 1998, shall be reappropriated for expenditure in the first month of the next year, beginning on July 1, 1998, except as may be specifically provided otherwise by the General Assembly. The governor may, at his discretion, un-allot funds from the reappropriated balances which relate to unexpended appropriations for payments to individuals, aid-to-localities, or any pass-through grants.

During the year ended June 30, 1998, the following adjustments were made to the university's original appropriation (000's omitted):

Original legislative appropriation per Chapter 924	<u>\$ 179,297</u>
Adjustments:	
Classified salary increases	2,645
Health insurance premium surcharge	650
Retirement system rate change	446
Telecommunications, computer, and personnel reversions to central fund	(289)
Lag pay	(194)
Delayed opening architecture building	(121)
Graduate assistantship from student financial assistance	70
University of Virginia NOVA operations	63
Transfers from education & general to the minority scholarships in agriculture	(50)
Other items	(19)
Total adjustments	<u>3,201</u>
Adjusted appropriation	<u>\$ 182,498</u>

## 16. Surety Bond

The employees of the university were covered for Faithful Performance of Duty in the amount of \$500,000 for each loss by a self-insurance program administered by the Commonwealth of Virginia's Department of General Services, Division of Risk Management. The deductible was \$2,500 per claim. Detailed information is available at the statewide level in the commonwealth's *Comprehensive Annual Financial Report*.

## 17. Grants and Contracts Contingencies

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

In addition, the university is required to comply with various federal regulations issued by the Office of Management and Budget. Failure to comply with certain systems requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. As of June 30, 1998, the university estimates that no material liabilities will result from such audits or questions.

## 18. Federal Direct Lending Program

In June 1995, the university began participating in the Federal Direct Lending Program. Under this program the university receives funds from the U.S. Department of Education for Stafford and Plus Parent Loan Programs and disburses these funds to eligible students. Prior to June 1995 the university did not receive such funds. Since the university is not responsible for the collection of these loans, it does not show a notes receivable on the Balance Sheet and it accounts for these programs in Current Funds Restricted.

The Current Funds Restricted Federal Government Grants and Contracts fund addition per the Statement of Changes in Fund Balances totals of \$134,582,000 and \$130,605,000 included funds for these federal loan programs of \$68,129,000 and \$62,530,000, for the years ended June 30, 1998 and 1997, respectively. The Current Funds Restricted Student Financial Assistance expenditure line item per the Statement of Current Funds Revenues, Expenditures, and Other Changes for the years ended June 30, 1998 and 1997, totals of \$91,740,000 and \$86,416,000 included \$68,098,000 and \$62,706,000 respectively for these loan programs.

## 19. Implementation of New Accounting System

The significant decrease in cash and accounts payable over the previous year is mainly due to a onetime change in procedures due to the implementation of a new accounting system July 1, 1998. In order to ensure timely payment to vendors and to avoid data conversion problems, all year-end disbursement vouchers with due dates on or before July 6, 1998, were submitted to the Commonwealth of Virginia for payment on the university's behalf. All such vouchers submitted before June 30, 1998 are not shown as accounts payable because the disbursement vouchers were considered paid when submitted to the commonwealth for payment. All vouchers processed after July 1, 1998, are accrued as expenditures and corresponding accounts payable when entered into the new accounting system and cash is not reduced until the check is created on the due date.

# Schedule of Auxiliary Enterprises

## Revenues, Expenditures and Changes in Fund Balances

For the Year Ended June 30, 1998

*All dollars are in thousands (000's omitted)*

	Dormitory and Dining Hall System (1)	Utility System (1)	University Services System (1)	Information Systems and Services	Athletic Department	All Other (2)	Total
<b>REVENUES:</b>							
Student fees	\$ 26,984	\$ -	\$ 9,615	\$ 2,121	\$ 5,294	\$ 1,633	\$45,647
Sales and services	4,047	13,183	1,862	13,972	10,088	7,503	50,655
Total fees and sales	31,031	13,183	11,477	16,093	15,382	9,136	96,302
Contributions	-	-	-	-	1,175	-	1,175
Net increase in fair value of investments	-	-	-	-	1	-	1
Total revenues	31,031	13,183	11,477	16,093	16,558	9,136	97,478
<b>EXPENSES OF OPERATIONS:</b>							
Personal services	11,505	1,324	5,609	3,730	6,263	2,988	31,419
Contractual services	2,425	568	1,644	4,110	5,338	2,306	16,391
Supplies and materials	8,286	370	594	272	1,659	1,444	12,625
Continuous charges	4,184	9,887	1,062	1,172	1,206	621	18,132
Equipment	638	123	320	4,520	677	318	6,596
Other charges	1	4	-	42	377	38	462
Total expenses of operation	27,039	12,276	9,229	13,846	15,520	7,715	85,625
<b>EXCESS (DEFICIENCY) OF REVENUES OVER</b>							
EXPENSES OF OPERATION BEFORE TRANSFERS:	3,992	907	2,248	2,247	1,038	1,421	11,853
<b>TRANSFERS AMONG FUNDS—ADDITIONS (DEDUCTIONS):</b>							
<b>Mandatory transfers:</b>							
Debt service-current year	(3,208)	(274)	(1,745)	(1,593)	(534)	(792)	(8,146)
Debt service-future years	1,171	(398)	(3)	-	-	-	770
<b>Nonmandatory transfers:</b>							
Capital transfers	(1,955)	(235)	(500)	(2,017)	(331)	(28)	(5,066)
Allocation of funds	-	-	-	-	(919)	(49)	(968)
Total transfers	(3,992)	(907)	(2,248)	(3,610)	(1,784)	(869)	(13,410)
Net increase (decrease) for year	-	-	-	(1,363)	(746)	552	(1,557)
Fund balances, July 1, 1997	-	-	-	3,156	2,729	3,126	9,011
Fund balances, June 30, 1998	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,793</u>	<u>\$ 1,983</u>	<u>\$ 3,678</u>	<u>\$ 7,454</u>

(1) These funds held by the trustee are reported in Plant Funds Retirement of Indebtedness. Therefore, there are no fund balances for these system accounts in Current Funds Unrestricted. As part of the charges related to the bond covenants, Student Orientation which was formerly part of the Student Center auxiliary was excluded for the University Services System and is now reported separately.

(2) All Other includes the following auxiliaries: University Licensing, Student Orientation, Parking Services, Laundry and Tailor Shop, Continuing Education Center, Library Services, Golf Course, Tennis Pavilion, and Hokie Passport.