Financial Report 1998-1999

Building Partnerships for the Future

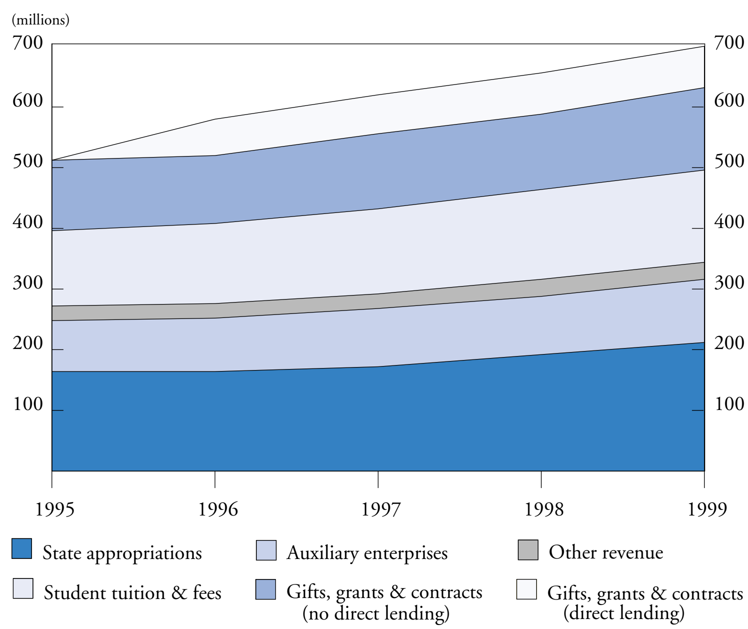
Virginia Tech's founding as a land-grant institution was rooted in an important state and federal partnership. The Morrill Act of 1862 apportioned public land, and the income from the sale was used to establish at least one college in each state. Today, collaboration has become a way of life for the university, a necessity in today's society. Without the thousands of daily partnerships among students, faculty members, other universities, private business, and governmental agencies, Virginia Tech simply could not fulfill its three-part mission of teaching, research, and public service. This year's report highlights just a handful of the essential partnerships that make our campus a better place to learn and our commonwealth a better place to live.

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 $41 million or 6.3 percent over the previous fiscal year. The largest increase was in state appropriations, which increased by $19.4 million or 10 percent. As in the previous year, funding for faculty and staff pay increases accounted for the majority of the growth in this area. Additional general fund appropriations were also provided for the operation, maintenance, and debt service costs of new buildings. Auxiliary enterprises revenue grew by $8.4 million, up 8.7 percent, primarily because of increases in student fees related to debt service for four new dorms and a student health and fitness center. Athletic sales and services revenue also contributed to the growth with increased football ticket sales and post-season bowl revenue. After showing almost no growth in the previous year, gifts, grants and contracts revenue recovered with an $8.6 million or 6.9 percent increase, excluding the Federal Direct Lending program. The growth was due to increased transfers of gifts from the Virginia Tech Foundation in support of university programs. Even though there was a freeze on tuition for instate students, student tuition and fees increased by 3.6 percent. This growth can be attributed to a slight increase in the tuition rate for out-of-state students, the continued growth in out-of-state undergraduate enrollment, and the implementation of the technology fee. The technology fee was used to support the equipment needs in student computer laboratories. The Federal Direct Lending program decreased slightly from the prior year.

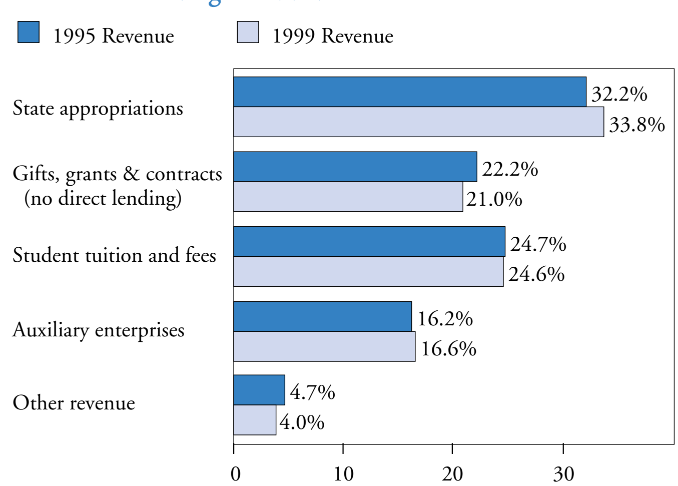
Five Year Revenue Trend: 1995 - 1999



The graph at the left shows the trend in revenues over the past five years. Total revenues increased by $183 million during this period, with over a third of this growth resulting from the Federal Direct Lending program. There were also increases in state appropriations, student tuition and fees, and auxiliary enterprises revenue. In fact, contrary to the trends earlier this decade, state appropriations increased by $20 million more than student tuition and fees during the five-year period.

The graph at the right compares the composition of revenues for fiscal years 1995 and 1999. The Federal Direct Lending program was new in 1995 and had only $2.2 million in revenue. Therefore, the revenue associated with that program has been excluded from both years for this graph. The graph shows that the various revenue percentages have remained fairly consistent between the two years. State appropriations have increased by $48 million in the last five years, but the large dollar value increase caused only a 1.6 percent change in state appropriations as a percent of total revenues. Gifts, grants and contracts increased by $18.5 million during this period but decreased as a percent of total revenues. Student tuition and fees and auxiliary enterprises revenue increased by $28 million and $22 million, respectively, and both remained constant as a percent of total revenue.

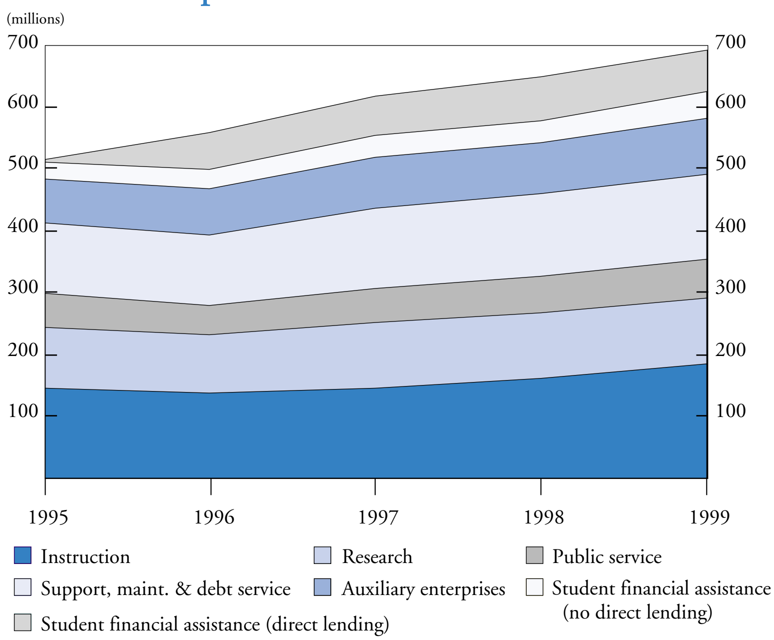
Comparison of FY95 and FY99 Revenues as a Relative Percent No Direct Lending Included



CURRENT FUNDS EXPENDITURES AND MANDATORY TRANSFERS

Total current funds expenditures and mandatory transfers increased by $44.4 million or 6.8 percent over the previous year. The majority of the increase can be directly attributed to faculty and staff pay increases. Total current funds expenditures for salaries and fringe benefits increased by almost $36 million across all expenditure categories. Approximately $25 million affected the instruction, research and public service expenditure categories. An additional growth of $3 million in operating expenditures resulted in an overall $28 million or 8.5 percent increase in these categories. The majority of this growth, $22.5 million, was in instruction while research expenditures increased by $3.6 million or 4 percent between years. Auxiliary expenditures grew by $6 million over the previous year due to faculty and staff salary increases and operational expenses related to new buildings. Support and maintenance expenditures and mandatory transfers grew by $6 million. In the last three years the university issued $86 million in new bonds and notes payable for construction or renovation of facilities. Fiscal year 1999 was the first year with debt service paid from unrestricted current funds for this new debt. As in the prior year, salary and fringe benefit increases, systems costs related to the new administrative systems project, and year 2000 modifications also contributed to the growth. Student financial assistance grew by $4.6 million or 13 percent while the Federal Direct Lending program expenditures decreased slightly.

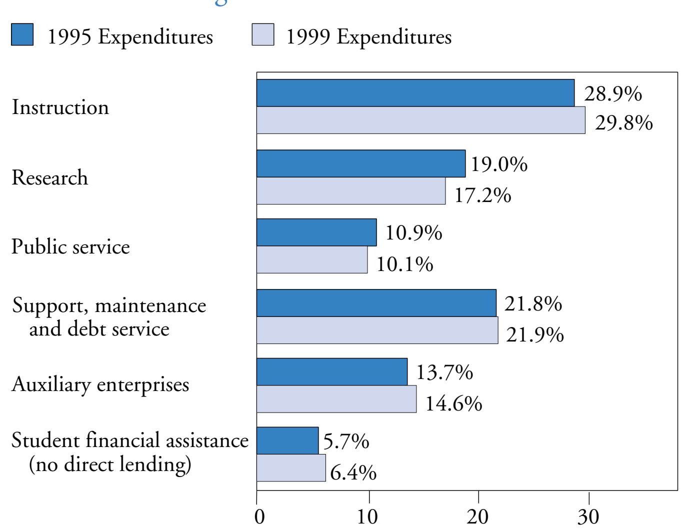
Five Year Expenditure Trend: 1995 - 1999



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 1998 and 1999 were mainly due to faculty and staff salary increases and increased debt service costs.

The graph at the right compares expenditures and mandatory transfers categories for fiscal years 1995 and 1999. Instruction expenditures have increased by $38.6 million over the period, but the growth has only resulted in a marginal increase in the percent of total expenditures. Auxiliary enterprises expenditures and student financial assistance have also increased slightly. Research and public service expenditures have fallen as a percent of the total, but actual expenditures have increased by $10 million and $7 million, respectively. Support, maintenance, and debt service expenditures have increased by $25 million over the period but remained consistent as a percent of total expenditures. Federal Direct Lending program expenditures have been excluded for this comparison.

Comparison of FY95 and FY99 Expenditures as a Relative Percent
No Direct Lending Included



FUND BALANCES

Total fund balances for all fund groups increased by almost $23 million over the previous year. As in prior years, the largest increase occurred in the net investment in plant fund balance, which grew by $18.7 million. This growth was less than previous years primarily because of the estimated write-off for obsolete equipment totaling $27.5 million. As further explained in Note 20 in the Notes to Financial Statements, this estimate was recorded to approximate the results of a university-wide equipment inventory scheduled to be completed in December 1999. Although fund balances for total current funds increased slightly, fund balances for current funds unrestricted decreased by approximately $2 million. This decrease in fund balances was due to a $5 million growth in accrued expenditures for salaries and compensated absences caused by increases in salaries and fringe benefit costs. These accrued expenditures will not be paid, nor will the corresponding general fund appropriations be made available for funding until fiscal year 2000. Therefore, since the university accrued expenditures, but could not accrue the corresponding appropriation revenues, the fund balances decreased. Although mandatory transfers for debt service increased significantly during fiscal year 1999, this did not impact the fund balances of current funds unrestricted because increases in general fund appropriations and student fees revenues offset most of these new costs. All other fund balances had minor changes except for endowment and similar funds, which reported no growth when compared to last year. Due to the volatility of the stock market, an overall decline in the fair market value of endowment investments offset realized gains. This was a notable difference in the trends of the previous three years where the endowment fund balances averaged an annual growth of about $5 million.

UNIVERSITY FINANCIAL OPERATING TRENDS

For the years ended June 30, 1999 – 1995

(all dollars are in millions)

	1999	1998	1997	1996	1995
Current funds revenues					
Student tuition and fees	$ 154.4	$ 149.0	$ 139.7	$ 131.0	$ 126.3
State government appropriations (1)	212.7	193.3	174.5	165.3	164.6
Gifts, grants and contracts — excluding direct lending	132.7	124.1	123.6	112.2	113.4
Gifts, grants and contracts — direct lending program	67.4	68.1	62.7	59.0	2.2
Auxiliary enterprises	104.7	96.3	93.9	87.2	82.5
Other revenue (2)	24.9	25.0	22.9	23.9	24.0
Total current funds revenues	$ 696.8	$ 655.8	$ 617.3	$ 578.6	$ 513.0
Current funds expenditures and mandatory transfers					
Instruction	$ 186.8	$ 164.3	$ 149.2	$ 140.4	$ 148.2
Research	107.4	103.8	104.1	92.2	97.4
Public service	63.3	61.4	56.0	48.8	55.9
Auxiliary enterprises	91.2	85.6	81.4	74.2	70.3
Student financial assistance — excluding direct lending	40.6	35.2	33.4	30.2	29.4
Student financial assistance — direct lending program	67.4	68.1	62.7	59.0	2.2
Support, maintenance and debt service					
Academic support	40.5	39.4	38.3	36.5	36.0
Student services	13.7	14.9	14.3	11.0	10.4
Institutional support	38.8	39.3	38.5	30.7	32.0
Operation and maintenance of plant	30.4	28.4	25.6	25.8	24.7
Mandatory transfers — current year	14.2	9.6	9.0	7.9	9.9
Mandatory transfers — future years	(0.7)	(0.8)	5.3	2.0	(1.0)
Total support, maintenance and debt service	136.9	130.8	131.0	113.9	112.0
Total current funds expenditures and mandatory transfers	$ 693.6	$ 649.2	$ 617.8	$ 558.7	$ 515.4
Fund balances					
Total current funds (2)	$ 26.8	$ 26.5	$ 25.7	$ 30.5	$ 13.0
Loan funds	13.9	13.1	12.3	11.8	10.9
Endowment funds (2, 3)	46.9	46.9	42.9	35.8	31.9
Plant funds (2)	683.2	661.5	618.4	568.4	536.0
Total fund balances	$ 770.8	$ 748.0	$ 699.3	$ 646.5	$ 591.8

(1) This amount represents the appropriations of state taxpayer funds.

(2) Amounts for 1997 have been restated to comply with GASB Statement Number 31.

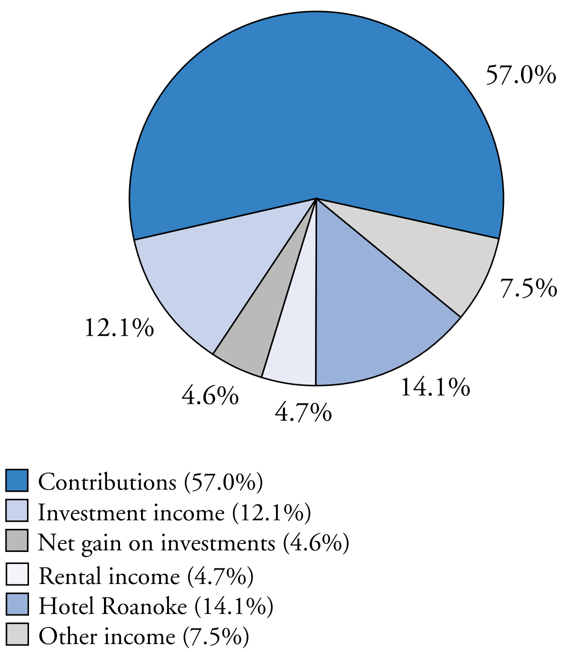
(3) Excludes endowments owned by affiliated corporations.

VIRGINIA TECH FOUNDATION, INC.

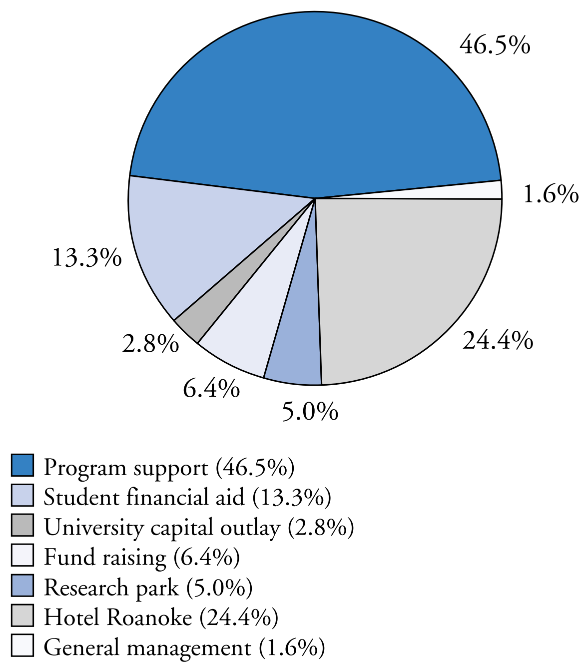
The purpose of the Virginia Tech Foundation, Inc. is to receive, invest, and manage private funds given for the support of programs at Virginia Tech and to foster and promote the growth, progress, and general welfare of the university. During the 1998-99 fiscal year, the foundation recognized $54 million in contributions for support of the university. Investment income for the year of $12 million, along with net gains on investments of $4 million provided an aggregate $16 million return on investments. Property rental, hotel operating, and other income totaled $25 million. Total income of $95 million was offset by $61 million in expenses that supported the university and its programs.

Direct support to various university programs aggregated $38 million, which included $8.1 million in scholarship support to students and faculty, and $1.7 million towards university capital projects. Additional expenses such as fund raising, management and general, as well as research center and hotel program costs brought total expenses to $61 million. The resulting positive change in net assets of $34 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, 1999, to $541 million.

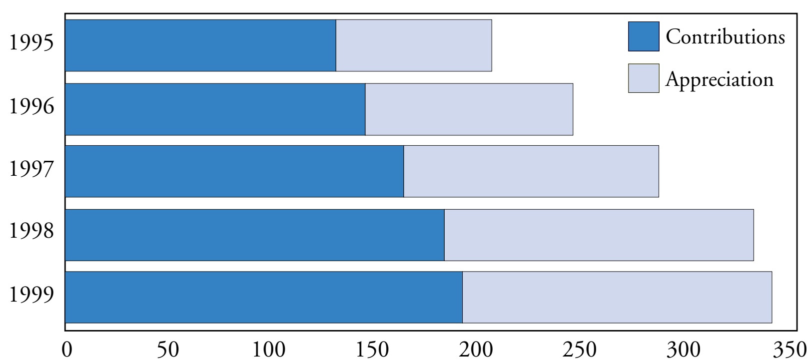
1999 Revenue, Gains and Other Support



1999 Expenses



Endowment Market Value 1995-1999



* Market value of Endowment Funds includes agency deposits held in trust of $46.1 million (Source: Virginia Tech Foundation Investment Managers, unaudited)

AFFILIATED CORPORATIONS FINANCIAL HIGHLIGHTS

For the years ended June 30, 1999 – 1995

All dollars in thousands (000's omitted)

	1999	1998 (as restated)	1997	1996	1995
Assets					
Virginia Tech Foundation, Inc.	$ 540,613	$ 499,209	$ 439,052	$ 379,212	$ 312,893
Virginia Tech Services, Inc.	10,449	11,113	11,502	12,224	13,282
Virginia Tech Alumni Association	3,923	1,447	1,332	1,025	870
Virginia Tech Intellectual Properties, Inc.	2,032	2,443	3,085	13,724	12,073
Waste Policy Institute, Inc.	8,801	10,098	11,136	-	-
Total assets	$ 565,818	$ 524,310	$ 466,107	$ 406,185	$ 339,118
Revenues					
Virginia Tech Foundation, Inc.	$ 95,359	$ 104,124	$ 100,039	$ 78,041	$ 56,190
Virginia Tech Services, Inc.	21,208	19,497	22,421	21,662	16,221
Virginia Tech Alumni Association	2,567	196	199	186	43
Virginia Tech Intellectual Properties, Inc.	726	597	1,006	28,853	29,711
Waste Policy Institute, Inc.	19,397	26,643	29,662	-	-
Total revenues	$ 139,257	$ 151,057	$ 153,327	$ 128,742	$ 102,165
Expenditures					
Virginia Tech Foundation, Inc.	$ 60,891	$ 54,464	$ 52,412	$ 45,293	$ 32,771
Virginia Tech Services, Inc.	21,365	19,497	22,342	21,312	16,029
Virginia Tech Alumni Association	91	80	27	31	33
Virginia Tech Intellectual Properties, Inc.	1,789	1,329	688	27,974	28,976
Waste Policy Institute, Inc.	19,787	26,811	29,462	-	-
Total expenditures	$ 103,923	$ 102,181	$ 104,931	$ 94,610	$ 77,809

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 and 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 27, 1999

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, 1999, 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, 1999, 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 27, 1999, 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, 1999 and 1998
All dollars are in thousands (000's omitted)

Assets	1999	1998
Current funds:		
Unrestricted:		
Cash, and cash equivalents (Notes 4, 18)	$ 51,978	$ 35,204
Investments, at fair value (Note 4)	4,829	1,637
Investments, securities lending (Note 5)	872	668
Accounts receivable, net of allowance for doubtful accounts of $701 in 1999 and $696 in 1998	5,714	5,893
Due from the Commonwealth of Virginia (Note 6)	6,681	-
Inventories	5,199	4,399
Due from current funds restricted	8,324	7,795
Due from plant funds (Note 6)	-	8,804
Prepaid expenditures	8,442	8,237
Total unrestricted	92,039	72,637
Restricted:		
Cash, and cash equivalents (Notes 4, 18)	13,020	10,015
Accrued interest and dividends receivable	138	130
Accounts receivable, including unbilled charges, net of allowance for doubtful accounts of $1,217 in 1999 and $971 in 1998	24,995	22,912
Other assets	176	76
Total restricted	38,329	33,133
Total current funds	$ 130,368	$ 105,770
Loan funds:		
Cash, and cash equivalents (Note 4)	$ 834	$ 840
Notes receivable, net of allowance for doubtful notes of $294 in 1999 and $288 in 1998	13,104	12,301
Total loan funds	$ 13,938	$ 13,141

Liabilities and Fund Balances	1999	1998
Current funds:		
Unrestricted:		
Accounts payable (Note 18)	$ 21,187	$ 5,976
Accrued expenditures	28,572	26,389
Obligations under securities lending (Note 5)	872	668
Accrued compensated absences (Note 1)	23,068	20,274
Accrued retirement and severance pay	-	72
Deferred revenue	7,761	7,123
Annuities payable	341	243
Due to plant funds	319	-
Fund balances	9,919	11,892
Total unrestricted	92,039	72,637
Restricted:		
Accrued compensated absences (Note 1)	4,102	3,408
Accounts payable (Note 18)	3,121	1,673
Accrued expenditures	5,507	5,672
Due to current funds unrestricted	8,324	7,795
Due to endowment funds	346	-
Due to plant funds	4	4
Fund balances	16,925	14,581
Total restricted	38,329	33,133
Total current funds	$ 130,368	$ 105,770
Loan funds:		
Government grants refundable	$ 11,728	$ 11,432
Matching funds	1,874	1,352
Other — restricted	336	357
Total loan funds	$ 13,938	$ 13,141

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

BALANCE SHEET

As of June 30, 1999 and 1998
All dollars are in thousands (000's omitted)

Assets	1999	1998
Endowment and similar funds:		
Investments, at fair value (Note 4)	$ 46,498	$ 46,826
Due from current funds restricted	346	-
Land	209	209
Total endowment and similar funds	$ 47,053	$ 47,035
Plant funds:		
Cash, and cash equivalents (Notes 4, 18)	$ 25,279	$ 31,713
Investments, at fair value (Note 4)	24,359	26,602
Accrued interest and dividends receivable	439	492
Accounts receivable	204	131
Equity in Equipment Trust Fund (Note 6)	-	7,411
Capital appropriations receivable	11,082	2,832
Due from current funds unrestricted	319	-
Due from current funds restricted	4	4
Investment in plant:		
Land	27,641	27,641
Buildings	408,995	362,004
Equipment (Note 20)	267,949	283,020
Library books	47,029	44,805
Livestock	740	634
Construction in progress	38,084	52,964
Total plant funds	$ 852,124	$ 840,253
Agency funds:		
Cash, and cash equivalents (Note 4)	$ 3,914	$ 3,025
Total agency funds	$ 3,914	$ 3,025

Liabilities and Fund Balances	1999	1998
Endowment and similar funds:		
Annuity payable — current	$ 15	$ 15
Annuity payable — long-term	117	131
Fund balances:		
Endowment — unrestricted	357	364
Quasi-endowment — unrestricted	489	490
Quasi-endowment — restricted	45,998	45,972
Annuity funds	77	63
Total endowment and similar funds	$ 47,053	$ 47,035
Plant funds:		
Accounts payable and accrued expenditures (Note 18)	$ 6,126	$ 4,808
Retainage payable (Note 7)	1,822	2,703
Bond anticipation notes payable (Note 8)	1,500	2,000
Bonds payable, net of discount of $1,451 in 1999 and $1,997 in 1998 (Note 9)	130,988	135,535
Other long-term debt (Notes 6, 9)	18,312	24,866
Notes Payable (Note 9)	10,145	-
Due to current funds unrestricted (Note 6)	-	8,804
Fund balances:		
Unexpended:		
Unrestricted	211	463
Restricted	2,300	540
Renewal and replacement:		
Unrestricted	2,192	1,184
Restricted	345	(1,897)
Retirement of indebtedness:		
Unrestricted	17,893	17,684
Restricted	13,666	15,670
Net investment in plant	646,624	627,893
Total plant funds	$ 852,124	$ 840,253
Agency funds:		
Funds held in custody for others	$ 3,914	$ 3,025
Total agency funds	$ 3,914	$ 3,025

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, 1999

All dollars are in thousands (000's omitted)

	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds			
	Unrestricted	Restricted			Unexpended	Renewal and Replacement	Retirement of Indebtedness	Net Investment in Plant
Revenues and other additions:								
Unrestricted current fund revenues (Note 5)	$ 488,100	$ -	$ -	$ -	$ -	$ -	$ -	$ -
State government appropriations	-	12,082	-	-	12,967	8,393	6,953	148
Federal government appropriations	-	12,613	-	-	-	-	-	-
Federal government grants and contracts (Note 17)	-	134,444	310	-	71	-	-	-
State government grants and contracts	-	10,762	-	-	-	-	-	-
Local government grants and contracts (Note 3)	-	10,638	-	-	-	-	-	-
Private gifts, grants and contracts	-	39,912	-	-	981	68	6	-
Interest on loans receivable	-	-	271	-	-	-	-	-
Endowment income	-	1,654	-	-	-	-	-	-
Investment income:								
Interest and dividends	-	-	8	-	311	80	2,449	-
Net increase (decrease) in fair value of investments	-	-	-	709	(1)	-	(266)	-
Retirement of indebtedness (including $141 charged to current funds expenditures)	-	-	-	-	-	-	-	14,903
Expended for plant facilities (including $28,475 charged to current funds expenditures)	-	-	-	-	-	-	-	45,489
Additions from donated assets	-	-	-	-	-	-	-	1,950
Other income	-	-	15	-	-	236	-	-
Total revenues and other additions	488,100	222,105	604	709	14,329	8,777	9,142	62,490
Expenditures and other deductions:								
Educational and general expenditures	380,419	208,533	-	-	-	-	-	-
Indirect costs recovered	-	13,537	-	-	-	-	-	-
Auxiliary enterprise expenditures (Note 5)	91,155	-	-	-	-	-	-	-
Loan cancellations and write-offs	-	-	23	-	-	-	-	-
Administrative and collection cost	-	-	78	-	-	-	53	-
Expended for plant facilities (including $6,578 not capitalized)	-	-	-	-	12,168	11,424	-	
Retirement of indebtedness	-	-	-	-	-	-	14,762	-
Interest on indebtedness	-	-	-	-	-	-	7,451	-
Disposal of plant facilities (Note 20)	-	-	-	-	-	-	-	43,759
Total expenditures and other deductions	471,574	222,070	101	-	12,168	11,424	22,266	43,759
Transfers among funds—additions (deductions):								
Mandatory:								
Debt service — current year	(14,052)	(119)	-	-	(1,108)	(124)	15,403	-
Debt service — future years	692	-	-	-	665	335	(1,692)	-
Nonmandatory:								
Capital improvements	(3,222)	-	-	-	(210)	5,814	(2,382)	-
Allocation of funds	(1,917)	2,428	294	(677)	-	(128)	-	-
Total transfers	(18,499)	2,309	294	(677)	(653)	5,897	11,329	-
Net increase (decrease) for year	(1,973)	2,344	797	32	1,508	3,250	(1,795)	18,731
Fund balances, July 1, 1998	11,892	14,581	13,141	46,889	1,003	(713)	33,354	627,893
Fund balances, June 30, 1999	$ 9,919	$ 16,925	$ 13,938	$ 46,921	$ 2,511	$ 2,537	$ 31,559	$ 646,624

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, 1999 and 1998

All dollars are in thousands (000's omitted)

	1999			1998
	Unrestricted	Restricted	Total	Total
Revenues:				
Student tuition and fees	$ 154,402	$ -	$ 154,402	$ 148,958
State government appropriations (Note 14)	200,650	12,069	212,719	193,301
Federal government appropriations	-	12,690	12,690	13,968
Federal government grants and contracts	11,042	123,261	134,303	135,162
State government grants and contracts	66	10,182	10,248	6,858
Local government grants and contracts	122	10,734	10,856	9,950
Private gifts, grants and contracts	7,424	37,310	44,734	40,219
Endowment income	44	2,406	2,450	2,566
Investment income:				
Interest and dividends	1,220	-	1,220	566
Net increase (decrease) in fair value of investments	(19)	-	(19)	(14)
Sales and services of educational departments	8,050	-	8,050	7,210
Sales and services of auxiliary enterprises (Note 5)	104,659	-	104,659	96,302
Other	440	-	440	778
Total current revenues	488,100	208,652	696,752	655,824
Expenditures and mandatory transfers:				
Educational and general:				
Instruction	180,101	6,681	186,782	164,270
Research	35,911	71,487	107,398	103,771
Public service	33,982	29,340	63,322	61,390
Academic support	38,839	1,707	40,546	39,437
Student services	12,962	730	13,692	14,894
Institutional support	34,105	4,700	38,805	39,338
Operation and maintenance of plant	30,351	14	30,365	28,349
Student financial assistance (Note 17)	14,168	93,874	108,042	103,286
Total educational and general expenditures	380,419	208,533	588,952	554,735
Mandatory transfers for debt service — current year	2,744	119	2,863	1,488
Total educational and general	383,163	208,652	591,815	556,223
Auxiliaries:				
Expenditures (Note 5)	91,155	-	91,155	85,625
Mandatory transfers for debt service — current year	11,308	-	11,308	8,146
Mandatory transfers for debt service — future years	(692)	-	(692)	(770)
Total auxiliaries	101,771	-	101,771	93,001
Total expenditures and mandatory transfers	484,934	208,652	693,586	649,224
Other transfers and additions (deductions):				
Nonmandatory transfers:				
Capital improvements — auxiliaries	(3,617)	-	(3,617)	(5,066)
Capital improvements — all other	395	-	395	(776)
Allocation of current funds — auxiliaries	(973)	-	(973)	(968)
Allocation of current funds — all other	(944)	2,428	1,484	2,020
Excess (deficiency) of restricted receipts over transfers to revenue	-	(84)	(84)	(1,023)
Net increase (decrease) in fund balances	$ (1,973)	$ 2,344	$ 371	$ 787

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

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 1999

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 4).

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 recorded at fair value (see Note 4).

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 one year 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 non-mandatory 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 9, 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, 1999 and 1998 is recorded in the financial statements.

Deferred Revenue

Deferred revenue represents revenues collected but not earned as of June 30, 1999. 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, 1999 and 1998, the university capitalized net interest expense of $797,000 and $1,620,000, 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):

	1999	1998 (as restated)
Assets		
Cash and investments	$360,715	339,433
Other assets	146,660	132,768
Total	$507,375	$472,201
Liabilities and fund balances		
Current liabilities	$ 34,589	$ 30,574
Long-term liabilities	44,197	46,851
Fund balances	428,589	394,776
Total	$507,375	$472,201

The aggregate revenues and expenditures of these organizations, determined as if in consolidation with the university, were $105,633,000 and $71,820,000 respectively, in 1999 and $119,674,000 and $69,150,000, respectively, in 1998 (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 $22,335,000 in 1999 and $19,038,000 in 1998. 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 $6,730,000 in 1999 and $7,330,000 in 1998.

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 $9,639,000 and $8,537,000 in 1999 and 1998, respectively, and has been included in revenues and expenditures of the accompanying financial statements. The university received other local government support of $999,000 and $1,439,000 in 1999 and 1998, respectively.

4. 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, 1999 and 1998.

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, 1999 and 1998:

- 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 1999 or 1998.
- 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. The university has no category 3 investments for 1999 or 1998.
- 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, 1999, follows (000's omitted):

	Category 1	Non-categorized	Fair Value
Cash equivalents:			
U.S. government securities and			
U.S. government agency securities	$ 10,927	$ -	$ 10,927
Money market funds	-	15,305	15,305
Total cash equivalents	10,927	15,305	26,232
Investments:			
U.S. government securities and			
U.S. government agency securities	24,321	-	24,321
Corporate bonds	4,887	-	4,887
Other — maintained by Virginia Tech Foundation	-	46,478	46,478
Total investments	29,208	46,478	75,686
Total	$ 40,135	$ 61,783	$ 101,918

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

	Category 1	Non-categorized	Fair Value
Cash equivalents:			
Commercial paper	$ 1,247	$ -	$ 1,247
Money market funds	-	38,389	38,389
Total cash equivalents	1,247	38,389	39,636
Investments:			
Commercial paper	1,184	-	1,184
U.S. government securities and			
U.S. government agency securities	21,639	-	21,639
Corporate bonds	5,545	-	5,545
Other — maintained by Virginia Tech Foundation	-	46,697	46,697
Total investments	28,368	46,697	75,065
Total	$ 29,615	$ 85,086	$ 114,701

Cash equivalents and investments as of June 30, 1999 and June 30, 1998 for each fund group are shown below at fair value (000's omitted):

	Balance at June 30, 1999		Balance at June 30, 1998	
	Cash Equivalents	Investments	Cash Equivalents	Investments
Fund group:				
Current funds				
Unrestricted	$ 3,135	$ 4,829	$ 8,038	$ 1,637
Restricted	618	-	394	-
Loan funds	6	-	5	-
Endowment and similar funds	-	46,498	-	46,826
Plant funds	22,227	24,359	30,825	26,602
Agency funds	246	-	374	-
Total	$ 26,232	$ 75,686	$ 39,636	$ 75,065

5. Securities Lending Transactions

GASB Statement Number 28, *Accounting and Financial Reporting for Securities Lending Transactions,* establishes 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 years ended June 30, 1999 and 1998, respectively, securities lending transactions totaled $29,000 and $79,000 of securities lending income and $28,000 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.*

6. Equipment Trust Fund Program

The Equipment Trust Fund (ETF) Program was established to provide state-supported institutions of higher education bond proceeds for financing the acquisition and replacement of instructional and research equipment. The program is managed by the Virginia College Building Authority (VCBA). In the past, the VCBA used the bond proceeds to reimburse the university for the equipment purchased, so in effect, VCBA purchased the equipment and leased it to the university (see Note 9, Capital Leases). For fiscal year 1999, financing agreements for ETF were changed so that the university now owns the equipment from the date of purchase. As a result, the reporting for the ETF program has changed. In previous years, any amounts not reimbursed by the VCBA, were reported as Equity in Equipment Trust and an interfund obligation between Current Funds Unrestricted and Plant Fund on the Balance Sheet. Other Long-Term Debt (reported in the Plant Funds section) also increased for equipment purchased through the ETF program.

For the year ended June 30, 1999, a Due from the Commonwealth of Virginia totaling $6,681,000 in Current Funds Unrestricted has replaced the amount previously reported as Equity in Equipment Trust. Lease amounts previously reported in Other Long-Term Debt are now reported as a fund addition to the Expended for Plant Facilities line on the Statement of Changes in Fund Balances. These amounts represent equipment purchased by the university and not reimbursed by VCBA at June 30, 1999.

7. Retainage Payable

For the years ended June 30, 1999 and 1998, $1,822,000 and $2,703,000, 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.

8. Bond Anticipation Notes

For the year ended June 30, 1998 the university had outstanding $2,000,000 in tax-exempt commercial paper issued for the temporary financing of Cochrane Hall. Proceeds from the issuance of long-term bonds during fiscal year 1999 were used to retire the principal of the outstanding tax-exempt commercial paper. On May 19, 1999, the Treasury Board sold tax-exempt commercial paper of which $1,500,000 was sold on behalf of the university. The short-term, tax-exempt commercial paper was used as temporary financing on the construction of Dietrick Hall's heating, ventilation and air-conditioning (HVAC) system. Long term bonds were issued for $1,800,000 on September 29, 1999, of which $1,500,000 was used to retire the principal of the outstanding tax-exempt commercial paper.

9. Long-term Indebtedness

Bonds Payable

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

Section 9 (d) bonds are revenue bonds which are limited obligations of the university payable exclusively from pledged general revenues and are not a debt of the Commonwealth of Virginia, legally, morally, or otherwise. 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. The university has issued Section 9 (d) bonds directly through underwriters and also participates in the Public Higher Education Financing Program (Pooled Bond Program) created by the Virginia General Assembly in 1996. Through the Pooled Bond Program, the Virginia College Building Authority (VCBA) also issues Section 9 (d) bonds and uses the proceeds to purchase debt obligations (notes) of the university and various other institutions of higher education. These notes are also secured by the general revenue of the university (see Note 9, Notes Payable).

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.

Bond covenants related to some of these bonds, both 9 (c) and 9 (d), established or continued groups of accounts, called systems. These systems are 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.

Bonds payable at June 30, 1999 and 1998 consist of the following (000's omitted):

	Interest rates	Maturity	1999	1998
Revenue bonds:				
Dormitory and dining hall system:				
Series 1996B, issued $3,020 **	3.80% - 5.70%	2004	$ 2,010	$ 2,360
Series 1996B, issued $5,475 **	3.80% - 5.35%	2009	4,475	4,815
Series 1996B, issued $1,730	3.80% - 5.70%	2016	1,670	1,730
Utility system, series 1996D, issued $2,570 **	3.80% - 5.35%	2009	2,100	2,260
Veterinary medicine, series 1996A, issued $1,040 **	3.80% - 5.75%	2008	840	910
Northern Virginia Graduate Center, series 1996A, issued $10,080 **	3.80% - 5.75%	2020	9,600	9,845
Architectural/engineering, series 1996A, issued $6,805	3.80% - 5.50%	2016	6,570	6,805
Athletic facility – addition, series 1996A, issued $3,540	3.80% - 5.75%	2004	3,065	3,380
Athletic facility – improvements, series 1996A, issued $6,250	3.80% - 5.75%	2016	5,840	6,050
Coal fired facility, series 1996A, issued $11,035	3.80% - 5.50%	2016	10,655	11,035
Donaldson Brown Hotel and Conference Center:				
Series 1996A, issued $3,945	3.80% - 5.50%	2016	3,810	3,945
Series 1996A, issued $2,495	3.80% - 5.50%	2016	2,330	2,415
University services systems:				
Student Health and Fitness Center, series 1996C, issued $21,175	3.80% - 5.50%	2016	20,430	21,175
Total revenue bonds			73,395	76,725
General obligation revenue bonds:				
Dormitory and dining hall system:				
Series 1991A, issued $5,015 – refinanced **	5.60% - 7.60%	2011	686	890
Series 1992C, issued $4,990 – partial refunding **	5.10% - 5.80%	2004	1,085	1,270
Series 1992D, issued $2,680 – partial refunding **	4.60% - 5.60%	2006	865	965
Series 1992D, issued $2,790 – partial refunding **	4.60% - 5.60%	2006	900	1,005
Series 1993B, issued $4,763 – refunding series 1986B **	3.50% - 4.25%	2001	1,460	2,150
Series 1993B, issued $3,050 – refunding series 1991A **	3.50% - 5.00%	2011	2,944	2,967
Series 1996, issued $272 – refunding series 1991A **	4.75%	2003	265	267
Series 1997, issued $15,895	3.79% - 5.40%	2017	15,375	15,895
Series 1998, issued $3,158 – refinanced 1992C **	3.50% - 4.70%	2013	3,113	3,132
Series 1998, issued $1,380 – refinanced 1992D **	3.50% - 4.70%	2013	1,362	1,369
Series 1998, issued $1,440 – refinanced 1992D **	3.50% - 4.70%	2013	1,421	1,428
Series 1999, issued $3,255	4.00% - 5.50%	2018	3,120	-
Telecommunication, series 1989A, issued $24,259	6.40% - 7.20%	2004	7,163	8,340
University services system – student center:				
Series 1990B, issued $1,410 – refinanced **	6.40% - 8.40%	2010	-	60
Series 1991A, issued $3,260 – refinanced **	5.60% - 7.60%	2011	445	575
Series 1993A, issued $10,885 – refunding series 1988B **	3.75% - 5.20%	2008	9,525	10,365
Series 1993B, issued $942 – refunding series 1990B **	3.50% - 5.00%	2010	906	914
Series 1993B, issued $1,987 – refunding series 1991A **	3.50% - 5.00%	2011	1,918	1,933
Series 1996, issued $143 – refunding series 1990B **	4.75%	2001	137	139
Series 1996, issued $176 – refunding series 1991A **	4.75%	2003	171	173

	Interest rates	Maturity	1999	1998
Parking facilities:				
Series 1991A, issued $4,220 – refinanced **	5.60% - 7.60%	2011	575	745
Series 1993B, issued $2,569 – refunding series 1991A **	3.50% - 5.00%	2011	2,479	2,498
Series 1996, issued $230 – refunding series 1991A **	4.75%	2003	223	225
Series 1997, issued $1,550	5.00%	2017	1,455	1,505
Total general obligation revenue bonds			57,593	58,810
Total bonds payable			$ 130,988	$ 135,535

** See Bond Defeasance – Previous Years

Bond Defeasance

In previous fiscal years in accordance with Government Accounting Standards Board 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, 1999 was $32,045,000.

Notes Payable and Other Long-term Debt

	1999	1998
Notes payable at June 30, 1999 and 1998 consists of (000's omitted):		
Dormitory and dining hall notes payable to VCBA under the pooled 9 (d) bond program. Series 1999, with an average coupon rate of 4.53%, issued $10,145, maturing through 2018.	$ 10,145	$ -
Other long-term debt at June 30, 1999 and 1998 consists of (000's omitted):		
Capital leases payable for Higher Education Equipment Trust Fund with interest rates of 4.10% to 5.35%.	18,076	24,489
Installment purchase obligations for equipment purchases through June 1999 with various interest rates and maturing through 2004. The book value of capitalized equipment is $565 for 1999 and $982 for 1998.	236	377
Total other long-term debt	18,312	24,866
Total bonds payable	130,988	135,535
Total long-term debt	$ 159,445	$ 160,401

A summary of future principal requirements of long-term debt as of June 30, 1999 follows (000's omitted):

Year ending June 30:	
2000	$ 14,567
2001	15,411
2002	13,705
2003	11,074
2004	10,895
After 2004	95,244
Less: Unamortized discount	(1,451)
Total	$ 159,445

Notes Payable

Notes payable represent a loan agreement and promissory note between the Virginia College Building Authority (VCBA) and the university to finance the construction of Harper Hall. The agreement shall be payable solely from the pledged general revenues of the university. Principal payments of these commitments for fiscal years subsequent to June 30, 1999 are as follows (000's omitted):

Year ending June 30:	Principal	Interest	Total
2000	$ 340	$ 430	$ 770
2001	350	418	768
2002	365	406	771
2003	375	393	768
2004	390	379	769
After 2004	8,325	3,226	11,551
Total	$ 10,145	$ 5,252	$ 15,397

Capital Leases

Capital leases represent the university's allocations from the Higher Education Equipment Trust Fund managed by the VCBA 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, 1999, follows (000's omitted):

Year ending June 30:	
2000	$ 6,327
2001	6,562
2002	5,027
2003	1,830
2004	-
Total minimum lease payments	19,746
Less: Amount representing interest	(1,670)
Present value of net minimum lease payments	$ 18,076

Installment Purchase Obligations

The university has entered into various installment purchase contracts to finance the acquisition of equipment. The length of the purchase agreements range from two to five 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, 1999 are as follows (000's omitted):

Year ending June 30:	Principal	Interest	Total
2000	$ 61	$ 12	$ 73
2001	57	9	66
2002	55	6	61
2003	51	2	53
2004	12	-	12
After 2004	-	-	-
Total	$ 236	$ 29	$ 265

10. 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 $7,974,000 and $6,742,000 for the years ended June 30, 1999 and 1998, respectively.

A summary of future minimum lease payments under operating leases as of June 30, 1999, follows (000's omitted):

Year ending June 30:	
2000	$ 4,637
2001	3,636
2002	2,637
2003	1,473
2004	1,309
After 2004	2,233
Total	$ 15,925

11. Capital Improvement Commitments

The amounts listed below represent the value of obligations remaining on capital improvement project contracts. These obligations are for future effort and as such have not been accrued as expenditures or liabilities on the university's financial statements. Outstanding contractual commitments for capital improvement projects at June 30, 1999, included (000's omitted):

Advance communication and information technology center	$ 11,620
Chemistry/physics — phase II	1,554
Agriculture and forestry research	1,529
Airport parallel taxiway	1,160
Dining system HVAC	1,143
Special purpose housing — phase III	411
Other projects	1,111
Total	$ 18,528

These commitments are funded by the following: $6,394 from private funds, $4,312 from 21st century bonds, $1,159 from general obligation bond proceeds, and $978 from federal funding. Other funding sources include auxiliary enterprises, indirect cost recoveries, and state general appropriations.

12. 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 (PERS) 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 at the statewide level only and can be found in the commonwealth's *Comprehensive Annual Financial Report*. The Commonwealth of Virginia, not the university, has the overall responsibility for contributions to this plan.

The university's expenditures include the amount assessed by the commonwealth for contributions to VRS which totaled approximately $17,641,000 and $15,637,000 for the years ended June 30, 1999 and 1998, 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 $8,365,000 and $7,506,000 for years ended June 30, 1999 and 1998, respectively. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $80,436,000 and $72,174,000 for fiscal years 1999 and 1998.

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 $1,133,000 and $1,039,000 for the years ended 1999 and 1998, respectively. Contributions to FERS and CSRS were calculated using the base salary amount of approximately $12,934,000 and $12,304,000 for the fiscal years 1999 and 1998.

In addition, the university contributed $53,000 and $57,000 for the years ended June 30, 1999 and 1998 in employer contributions to the Thrift Savings Plan, a defined contribution plan, in which the university matches employee contributions within certain limitations.

13. 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 at the statewide level in the commonwealth's *Comprehensive Annual Financial Report*.

14. Appropriations

The Appropriation Act specifies that unexpended general fund appropriations which remain on the last day of the current year, ending on June 30, 1999, shall be reappropriated for expenditure in the first month of the next year, beginning on July 1, 1999, 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, 1999, the following adjustments were made to the university's original appropriation (000's omitted):

Original legislative appropriation per Chapter 935	$ 200,226
Adjustments:	
General fund savings, group life	(1,222)
Classified salary increases	1,144
Health insurance premium	1,048
General fund savings, faculty salaries	(385)
Retiree health credit reversion	(137)
Graduate assistantship from student financial assistance	96
General fund savings, optional retirement plan savings	(92)
Virtual library of Virginia transfer to JMU	(37)
Virtual library of Virginia	28
Transfers from education and general to the minority scholarships in agriculture	(22)
Manville claims	3
Total adjustments	424
Adjusted appropriation	$ 200,650

15. 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*.

16. 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, 1999, the university estimates that no material liabilities will result from such audits or questions.

17. 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 $134,444,000 and $134,582,000 included funds for these federal loan programs of $68,204,000 and $68,129,000, for the years ended June 30, 1999 and 1998, respectively. The Current Funds Restricted Student Financial Assistance expenditure line item per the Statement of Current Funds Revenues, Expenditures, and Other Changes for the fiscal years ended June 30, 1999 and 1998, totals of $93,874,000 and $91,740,000 included $67,358,000 and $68,098,000 respectively for these loan programs.

18. Implementation of New Accounting System

In the fiscal year ended June 30, 1998, 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 were not shown as accounts payable because the disbursement vouchers were considered paid when submitted to the commonwealth for payment. In the fiscal year ended June 30, 1999, all vouchers processed were accrued as expenditures and corresponding accounts payable when entered into the new accounting system and cash was not reduced until the check was created on the due date. This one time change resulted in a significant increase in cash and accounts payable over the fiscal year ended 1998 balances.

19. Year 2000 Issue

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the university's operations.

The university has worked closely with the Virginia Department of Technology Planning's Century Date Change Initiative Project Office (CDCI Office) to ensure year 2000 compliance. The university's focus has been on its centralized and decentralized information systems, facilities and embedded technology, telecommunications, supply chain, and data exchanges. To accomplish this task the university implemented a five-phase plan. The initial phase was an awareness program designed to ensure that university personnel campus wide were informed of the implications associated with microprocessors after January 1, 2000. The second phase was the assessment of systems that could be affected. The assessment phase was completed in August 1997. The third phase was a renovation of identified systems. The renovation phase was completed by December 31, 1998, and included the replacement, retirement or repair of systems that were not year 2000 compliant. The fourth phase was the testing and validation of new and modified systems, which was completed by April 1, 1999. The final phase was the implementation of replaced or repaired systems and was completed by July 1, 1999.

The university has completed an inventory of computer systems and other electronic equipment, necessary to conduct university operations. As of July 1, 1999, testing and implementation has been completed for all systems that have been identified to be mission critical to university operations. A list of the critical systems includes:

- Finance
- Student
- Library
- Facilities
- Electric services
- Student health
- Human resources
- Accounts receivable
- VM and MVS operating systems
- Veterinary hospital administration and billing
- Student/Faculty ID
- Alumni development
- Building automation

Due to the unprecedented nature of the year 2000 issue, its effects and success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. The university's due diligence in preparing for the year 2000 has been verified by the CDCI Office's Year 2000 Compliance Certification Program. However, management cannot absolutely assure that the university is or will be year 2000 ready, that the university's remediation efforts will be successful in whole or in part, or that parties with whom the university does business will be year 2000 ready.

As a result of the successful completion of final testing of the above systems, as of June 30, 1999, there was no significant commitment of future resources to make university computer systems and other electronic equipment year 2000 compliant.

20. Equipment Disposals

Disposals of plant facilities on the Statement of Changes in Fund Balances totaled $43,759,000 for the year ended June 30, 1999, which represents a significant increase over the prior year total. This increase is due to the write-off of obsolete equipment and increased surplus property sales. Consultants have been hired to inventory substantially all of the university's moveable equipment; however, as of October 27, 1999, the inventory is still in the preliminary stages and could not be used to form an estimate. The university has recorded an estimated write-off of $27,500,000 for obsolete equipment based upon a review of the equipment type and useful lives of items listed in inventory.

SCHEDULE OF AUXILIARY ENTERPRISES
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

For the Year Ended June 30, 1999

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
Revenues:							
Student fees	$ 30,086	$ -	$ 12,487	$ 2,585	$ 5,722	$ 1,892	$ 52,772
Sales and services	4,179	13,478	1,888	13,789	11,421	7,132	51,887
Total fees and sales	34,265	13,478	14,375	16,374	17,143	9,024	104,659
Contributions	-	2	852	-	883	-	1,737
Interest and dividends	42	12	30	331	211	200	826
Net increase in fair value of investments	-	-	-	-	1	-	1
Total revenues	34,307	13,492	15,257	16,705	18,238	9,224	107,223
Expense of operations:							
Personal services	12,416	1,329	6,650	4,013	6,880	3,178	34,466
Contractual services	3,453	368	1,701	4,306	4,781	2,344	16,953
Supplies and materials	10,579	439	1,021	-	1,461	1,534	15,034
Continuous charges	4,099	8,462	1,007	1,273	2,890	840	18,571
Equipment	899	95	275	4,538	70	223	6,100
Other charges	3	1	-	27	-	-	31
Total expenses of operation	31,449	10,694	10,654	14,157	16,082	8,119	91,155
Excess (deficiency) of revenues over expenses of operations before transfers:	2,858	2,798	4,603	2,548	2,156	1,105	16,068
Transfers among funds — additions (deductions):							
Mandatory transfers:							
Debt service — current year	(4,650)	(259)	(3,447)	(1,459)	(536)	(957)	(11,308)
Debt service — future years	3,485	(2,249)	(544)	-	-	-	692
Nonmandatory transfers:							
Capital transfers	(1,693)	(290)	(612)	(1,158)	(119)	255	(3,617)
Allocation of funds	-	-	-	-	(973)	-	(973)
Total transfers	(2,858)	(2,798)	(4,603)	(2,617)	(1,628)	(702)	(15,206)
Net increase (decrease) for year	-	-	-	(69)	528	403	862
Fund balances, July 1, 1998	-	-	-	1,793	1,983	3,678	7,454
Fund balances, June 30, 1999	$ -	$ -	$ -	$ 1,724	$ 2,511	$ 4,081	$ 8,316

(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.

(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.