

# Moving Ahead of the Times

Virginia Tech is entering a new period of challenge and immense change. The convergence of the information societ and the digital economy is changing the way we do our work, teach our students, conduct research, and relate to each other. If time is a river of passing events, never before has the current been so swift or strong. And never before has our commitment been so firm to moving ahead of the times.

## Financial Report 1999-2000

A critical key to the university's success today and in the future is also its commitment to fiscal responsibility.

On the following pages are the results of Virginia Tech's financial activities during the 1999-2000 fiscal year.



## Management's Discussion and Analysis

Beginning in fiscal year 2002 the university will implement the new financial reporting requirements contained in Statement Numbers 34 and 35 of the Governmental Accounting Standards Board (GASB). These new pronouncements will significantly change the appearance and nature of the required financial statements. The major changes are (1) financial information will be presented on an entity-wide basis and not by major fund groups (2) depreciation expense will be recognized—currently it is not—and (3) expenses rather than expenditures will be reported. Disbursements for equipment and principal payments for long-term debt will not be included in the new model's Statement of Revenues, Expenses and Changes in Net Assets as they are currently reported in the Statement of Current Funds Revenues, Expenditures and Other Changes. Although the university will not implement the new reporting model until 2002, we have included footnote disclosures about fixed assets and long-term debt and the general concepts for management's discussion and analysis.

The university's financial position and results of operations improved over the previous year for all funds taken as a whole excluding agency funds. As of June 30, 2000, assets, liabilities and fund balances were \$1,110.6 million, \$284.3 million and \$826.3 million, respectively. During the current year assets increased by over \$67.2 million or 6.4% while liabilities only increased by \$11.7 million or 4.3%. Moreover, revenues and fund additions equaled \$883.8 million, while expenditures and fund deductions were only \$828.3 million, resulting in an increase in fund balances over the previous year of \$55.5 million. Revenues and fund additions exceeded the previous year by \$77 million, or 9.6%, and expenditures and fund deductions increased by \$45 million, or 5.8%. The majority of the university's revenues and expenditures and mandatory transfers are included in current funds, which are analyzed in the subsequent pages. As shown in the chart on the next page, Current and Other Assets increased by almost \$44 million. This increase is composed primarily of a \$15 million increase in capital appropriations receivable—primarily for the Chemistry and Physics building—and a \$21.5 million increase in cash and cash equivalents. The increase in cash and cash equivalents can be attributed to the receipt of bond proceeds and an increase in deferred revenue from the athletic program and the Bioinformatics Institute. Deferred revenue increases also explains most of the \$13 million increase in other liabilities. Unrestricted fund balances increased by only three million dollars. Restricted fund balances increased by about \$18 million mostly due to capital appropriation revenues recognized, but not spent during the current year.

During fiscal year 2000 long term debt decreased by \$1.4 million despite two additional bond issues totaling \$12.7 million for dormitory and dining hall projects. See Notes 10, 11, and 12 in the Notes to Financial Statements for further details. Long term debt retired during the year totaled \$14.1 million net of the amortization of discounts. The Equipment Trust program accounted for \$5.5 million of which the majority was paid by the Commonwealth of Virginia on behalf of the university. Fixed assets or capital assets increased by \$23.4 million. The increases were due primarily to equipment purchases totaling over \$35 million and additions to Construction in Progress of over \$22.9 million. The largest construction project, Torgersen Hall, had \$12.0 million of expenditures incurred this year as construction neared completion on this \$26.9 million project. Buildings capitalized during the current year totaled \$27.9 million and were comprised primarily of construction and improvements to dormitories and dining halls. Disposals of equipment totaling \$37.4 million were larger than normal due to the write-off of obsolete items based on a campus-wide inventory completed during the current fiscal year. Over \$13 million of fixed equipment in research-intensive buildings was reclassified from the buildings category to the fixed equipment category in preparation for booking depreciation in fiscal year 2002. See Notes 7 and 8 in the Notes to Financial Statements for a tabular presentation of these changes in fixed assets and further information. The payment of the current year's debt service and additions to Construction in Progress accounted for most of the \$35 million increase in fund balance for plant funds Net Investment in Plant.

The university has an A1 bond rating from Moody's and has a very favorable debt service ratio of 3.4%. At June 30, 2000 the university had outstanding commitments related to capital construction projects totaling only \$19.3 million. Both of these facts indicate the university has the capacity to incur debt for new projects planned in the next several years. At the end of the fiscal year, the university had authorization from the Commonwealth of Virginia for 23 projects totaling more than \$180 million not yet under construction. These projects will be funded with \$91 million of new debt, \$44 million of general fund appropriations, and over \$45 million in gifts to be generated through various fund raising campaigns. The largest four projects are: \$45.8 million for the Alumni and Conference Center, \$27.2 million for the Chemistry and Physics building, \$26 million for the Lane Stadium project (as authorized at June 30, 2000), and \$21.9 million for the Bioinformatics building. This continues the trend of investment in capital assets that has grown by almost \$193 million over the last five years.

As of October 10, 2000, management is not aware of any known facts, decisions, or conditions that would have a significant effect on the university's financial position or results of operations.

## Balance Sheet Trends for all Fund Groups Excluding Agency Funds

For the years ended June 30, 2000—1996

(all dollars in millions)

	2000	1999	1998	1997	1996
<b>Assets</b>					
Current and other assets	\$ 296.6	\$ 252.8	\$ 234.9	\$ 285.8	\$ 200.0
Capital assets	814.0	790.6	771.3	684.3	621.3
Total assets	<u>\$ 1,110.6</u>	<u>\$ 1,043.4</u>	<u>\$ 1,006.2</u>	<u>\$ 970.1</u>	<u>\$ 821.3</u>
<b>Liabilities</b>					
Long-term debt	\$ 158.0	\$ 159.4	\$ 160.4	\$ 163.2	\$ 88.6
Other liabilities	126.3	113.2	97.8	107.6	86.2
Total liabilities	<u>\$ 284.3</u>	<u>\$ 272.6</u>	<u>\$ 258.2</u>	<u>\$ 270.8</u>	<u>\$ 174.8</u>
<b>Fund balances</b>					
Unrestricted	\$ 34.1	\$ 31.0	\$ 32.0	\$ 36.0	\$ 36.0
Restricted	111.0	93.2	88.1	82.3	70.6
Invested in capital assets, net of debt	681.2	646.6	627.9	581.0	539.9
Total fund balances	<u>\$ 826.3</u>	<u>\$ 770.8</u>	<u>\$ 748.0</u>	<u>\$ 699.3</u>	<u>\$ 646.5</u>

## Operating Trends for Current Funds

For the years ended June 30, 2000—1996

(all dollars in millions)

	2000	1999	1998	1997	1996
<b>Current funds revenues</b>					
Student tuition and fees	\$ 149.3	\$ 154.4	\$ 149.0	\$ 139.7	\$ 131.0
State government appropriations (1)	239.6	212.7	193.3	174.5	165.3
Federal government grants and contracts—excluding direct lending	69.2	66.9	67.1	69.1	61.0
Federal government grants and contracts—direct lending program	70.5	67.4	68.1	62.7	59.0
State government grants and contracts	12.8	10.2	6.9	7.7	6.8
Local government grants and contracts	11.6	10.8	10.0	9.8	8.9
Nongovernmental grants and contracts (2)	21.8	19.4	17.8	16.7	16.3
Gifts (2)	31.4	25.4	22.3	20.2	19.2
Auxiliary enterprises	110.9	104.7	96.3	93.9	87.2
Other revenue (3)	30.1	24.9	25.0	23.0	23.9
Total current funds revenues	<u>\$ 747.2</u>	<u>\$ 696.8</u>	<u>\$ 655.8</u>	<u>\$ 617.3</u>	<u>\$ 578.6</u>
<b>Current funds expenditures and mandatory transfers</b>					
Instruction	\$ 196.8	\$ 186.8	\$ 164.3	\$ 149.2	\$ 140.4
Research	123.6	107.4	103.8	104.1	92.2
Public service	67.6	63.3	61.4	56.0	48.8
Auxiliary enterprises	93.4	91.2	85.6	81.4	74.2
Student financial assistance—excluding direct lending	41.0	40.6	35.2	33.4	30.2
Student financial assistance—direct lending program	70.5	67.4	68.1	62.7	59.0
Support, maintenance and debt service					
Academic support	43.5	40.5	39.4	38.3	36.5
Student services	14.2	13.7	14.9	14.3	11.0
Institutional support (4)	37.3	36.6	39.3	38.5	30.7
Operation and maintenance of plant (4)	35.6	32.6	28.4	25.6	25.8
Mandatory transfers—current year	15.2	14.2	9.6	9.0	7.9
Mandatory transfers—future years	1.4	(0.7)	(0.8)	5.3	2.0
Total support, maintenance and debt service	<u>147.2</u>	<u>136.9</u>	<u>130.8</u>	<u>131.0</u>	<u>113.9</u>
Total current funds expenditures and mandatory transfers	<u>\$ 740.1</u>	<u>\$ 693.6</u>	<u>\$ 649.2</u>	<u>\$ 617.8</u>	<u>\$ 558.7</u>
<b>Current funds other transfers and additions (deductions)</b>					
Nonmandatory transfers	\$ (1.2)	\$ (2.7)	\$ (4.8)	\$ (3.2)	\$ (1.2)
Excess (deficiency) of restricted receipts over transfers to revenue	(2.6)	(0.1)	(1.0)	(1.2)	(1.1)
Net increase (decrease) in fund balance	<u>\$ 3.3</u>	<u>\$ 0.4</u>	<u>\$ 0.8</u>	<u>\$ (4.9)</u>	<u>\$ 17.6</u>

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

(2) Amounts for 1996, 1997, 1998, and 1999 have been restated to comply with NACUBO Advisory Report 99-1.

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

(4) Amounts for 1999 have been restated to comply with NACUBO Advisory Report 99-6.

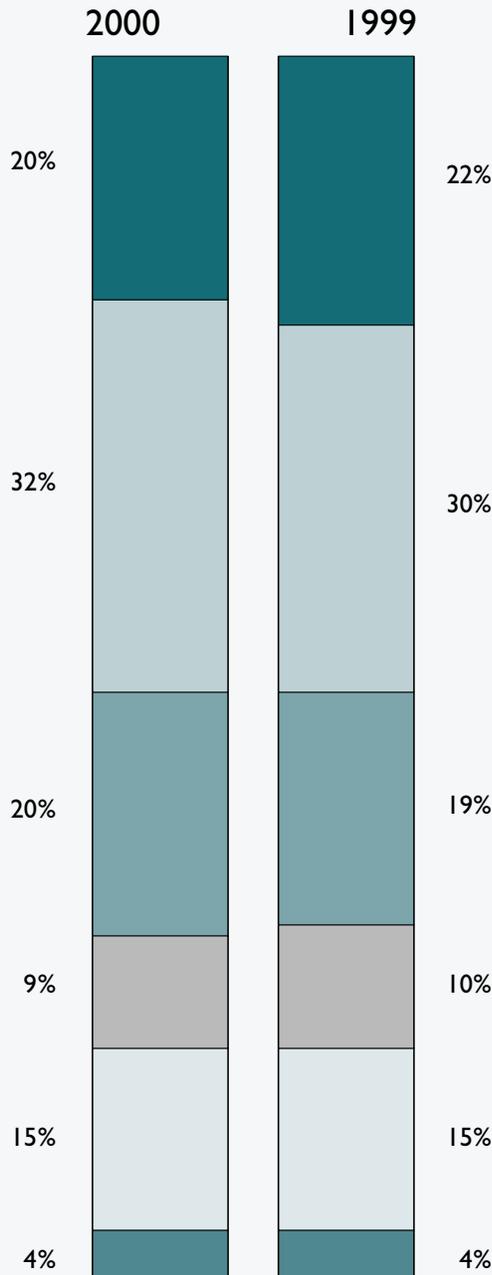
## Current Funds Revenues

Current funds revenues increased by \$50.4 million or by 7.2%. The graphs to the left show sources of revenues as a percent of total revenues have remained fairly stable between the current year and prior year. As in the previous year, the largest increase was state appropriations. State appropriations increased by \$26.9 million, or 12.6% during the current year. The largest part of this increase was over \$11 million to offset the 20% reduction in tuition and fees for in-state undergraduates required by the Appropriation Act. Unlike previous reductions or caps on tuition and fees, the commonwealth fully funded the tuition revenues lost by this requirement. The remainder of the appropriation growth funded increases in faculty and staff salaries, wages, and fringe benefits, as well as various other items. These included funding for critical needs and mandates, support for high-demand technology courses, and additional operations and maintenance costs for new buildings.

Total tuition and fees decreased by \$5.1 million or 3.3%. Normally, a reduction in tuition and fees indicates a reason for concern, such as declining enrollments. In fact this is not the case; instead, the university's increased name recognition and its commitment to the enhancement of the quality of its academic programs has resulted in growth of enrollment for undergraduates from Virginia as well as other states and countries. The 20% reduction required by the commonwealth created an \$11 million decrease in tuition and fees for in-state undergraduates. This decrease was partially offset by increases in enrollment and tuition and fees charged to out-of-state students.

Gifts, grants, and contracts excluding direct lending grew by over \$14 million. Gifts from the Virginia Tech Foundation accounted for over six million dollars of this increase, with the balance distributed evenly across the four categories of grants and contracts.

The growth in auxiliary revenues was due primarily to the success of our athletic programs and marginal increases in comprehensive fees. These fees are used to support auxiliary operations and debt service costs associated with new facilities. Despite the increase in fees, Virginia Tech has the lowest comprehensive fees of all the four-year public colleges and universities in Virginia.



### Increase (Decrease) in Current Funds Revenues

(all dollars in millions)

Student tuition and fees	4%
State appropriations	32%
Gifts, grants and contracts (no direct lending)	20%
Gifts, grants and contracts (direct lending)	9%
Auxiliary enterprises	15%
Other revenue	4%

Total current funds revenues

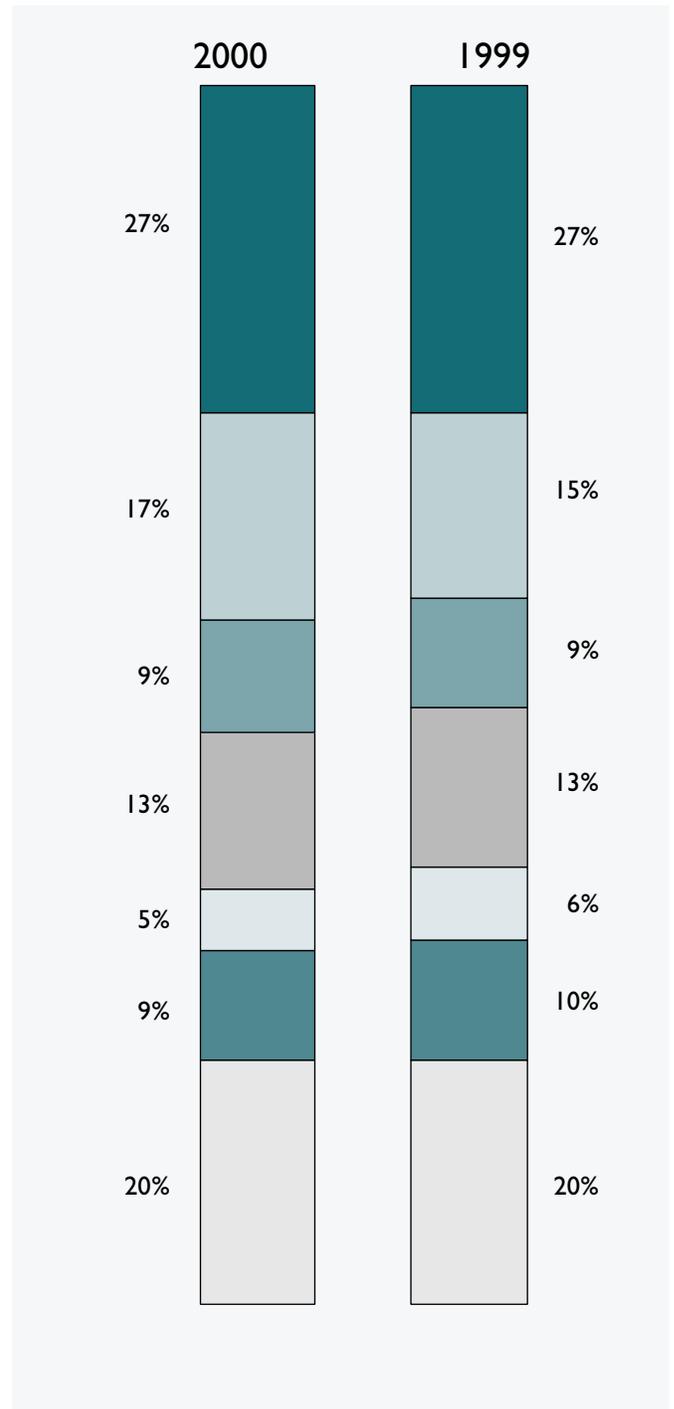
2000	1999	Increase (Decrease)	
		Amount	Percent
\$ 149.3	\$ 154.4	\$ (5.1)	(3.3)%
239.6	212.7	26.9	12.6%
146.8	132.7	14.1	10.6%
70.5	67.4	3.1	4.6%
110.9	104.7	6.2	5.9%
30.1	24.9	5.2	20.9%
<u>\$ 747.2</u>	<u>\$ 696.8</u>	<u>\$ 50.4</u>	<u>7.2%</u>

## Current Funds Expenditures and Mandatory Transfers

Current funds expenditures increased by over \$46 million or 6.7% during the current year. As shown in the graphs at the right, the expenditure categories as a percent of total expenditures and mandatory transfers have remained stable between the current year and prior year. Like most colleges and universities, personnel costs are the largest cost category in current funds expenditures comprising approximately 55% of the total. Salaries, wages, and fringe benefit costs increased by approximately \$32 million or 8.3%. This increase was slightly higher than the average faculty and staff salary increases, of between 4% and 6.25%. This higher than average amount can be attributed to new positions created to address initiatives in instruction, research, and public service. The most significant growth occurred in the research expenditure category, which increased by over \$16.2 million or 15% for total current funds. Over \$9.2 million of this increase was in current funds unrestricted as the university allocated more funding for the Agriculture Experiment Station program and other research initiatives such as cost sharing funds for the Optical Sciences and Engineering Research center, or OSER, (a joint research program with Virginia Tech, the University of Virginia, and Carilion Health System) and start-up funds for the Bioinformatics Institute. The largest increases in grants and contracts for research were related to the Virginia Tech Transportation Institute resulting from the completion of the Smart Road test-bed and to the OSER funding from Carilion Health Systems.

Support, maintenance and debt service costs grew by \$10.3 million due to increases in salaries, debt service, and operation and maintenance of plant costs for new facilities put in service during the current year and prior year.

Auxiliary enterprises operating expenditures increased by only \$2.2 million or 2.4% primarily due to the closure of the Electrical Engineering Personal Computer Auxiliary, which sold personal computers to engineering students.

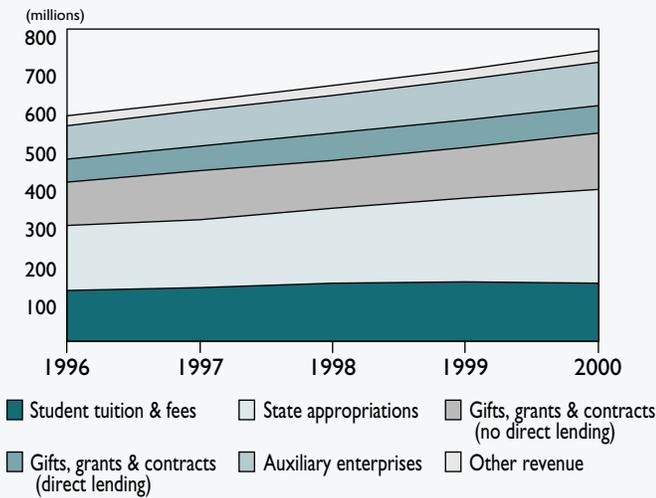


### Increase (Decrease) in Current Funds Expenditures

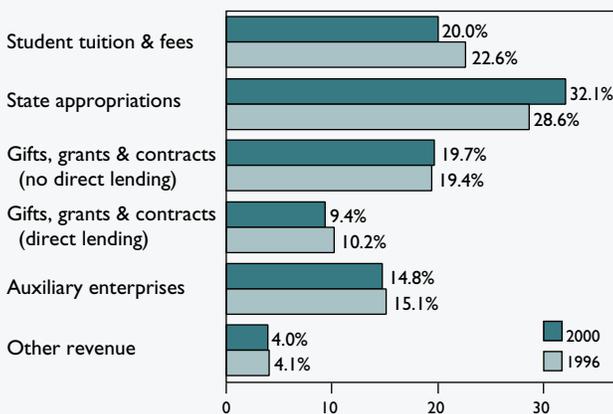
(all dollars in millions)

	2000	1999	Increase (Decrease)	
	Amount	Amount	Amount	Percent
Instruction	\$ 196.8	\$ 186.8	\$ 10.0	5.3%
Research	123.6	107.4	16.2	15.1%
Public service	67.6	63.3	4.3	6.8%
Auxiliary enterprises	93.4	91.2	2.2	2.4%
Student financial assistance (no direct lending)	41.0	40.6	0.4	1.0%
Student financial assistance (direct lending)	70.5	67.4	3.1	4.6%
Support, maintenance and debt service	147.2	136.9	10.3	7.5%
<b>Total current funds expenditures and mandatory transfers</b>	<b>\$ 740.1</b>	<b>\$ 693.6</b>	<b>\$ 46.5</b>	<b>6.7%</b>

## Five Year Revenue Trend: 1996 - 2000



## Comparison of FY00 and FY96 Revenue as a Relative Percent



## Current Funds Revenues —Five Year Trends

As shown in the graphs and chart on this page the university's total current funds revenues increased by over \$168 million or 29% during the last five years. The most remarkable increase is the \$74 million or 45% growth of state appropriations during this period. The increase was primarily to restore funding lost in the budget reductions of the early 1990's, to fund faculty and staff salary and fringe benefit increases, and offset lost tuition revenues for reductions in tuition and fees charged to in-state students. Approximately one third of this increase occurred during the current year. These large increases caused state appropriations to increase as a percent of total current funds revenues by 3.5 percent.

During this period tuition and fees have been capped or reduced. In total they have still grown due to increased enrollment and higher fees for out-of-state students. The overall tuition and fees increase of \$18 million was only 11% of the total current funds growth, thus decreasing its share of the total current funds revenues.

Federal grants and contracts, excluding direct lending, increased by over eight million dollars during this period. However, it was not the main reason for the growth in gifts, grants and contracts revenues. State grants and contracts grew by six million dollars and private or nongovernmental gifts, grants and contracts increased by over \$17 million, most of which was due to an increase in giving from the Virginia Tech Foundation resulting from the fund raising campaign completed during this period.

The increase in auxiliary enterprises revenues is due to the increase in student fees for new facilities and from the continued success of the athletic program.

### Increase (Decrease) in Current Funds Revenues

(all dollars in millions)

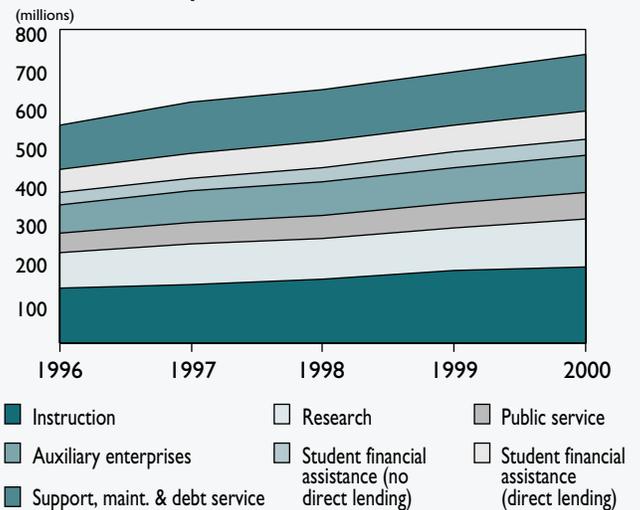
	2000		1996		Increase (Decrease)	
	Amount	Percent	Amount	Percent	Amount	Percent
Student tuition and fees	\$ 149.3	20.0%	\$ 131.0	22.6%	\$ 18.3	14.0%
State appropriations	239.6	32.1%	165.3	28.6%	74.3	45.0%
Gifts, grants and contracts (no direct lending)	146.8	19.7%	112.2	19.4%	34.6	30.8%
Gifts, grants and contracts (direct lending)	70.5	9.4%	59.0	10.2%	11.5	19.5%
Auxiliary enterprises	110.9	14.8%	87.2	15.1%	23.7	27.2%
Other revenue	30.1	4.0%	23.9	4.1%	6.2	25.9%
<b>Total current funds revenues</b>	<b>\$ 747.2</b>		<b>\$ 578.6</b>		<b>\$ 168.6</b>	<b>29.1%</b>

## Current Funds Expenditures and Mandatory Transfers—Five Year Trends

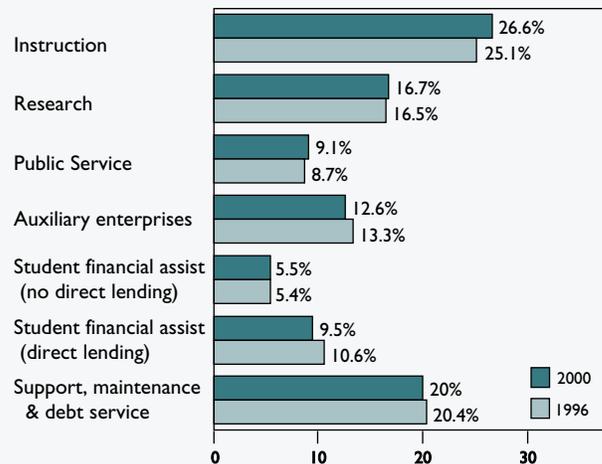
Current funds expenditures increased by over \$181 million or over 32% during the last five years. As shown in the graphs at the right, the expenditure categories as a percent of total expenditures and mandatory transfers have remained stable between fiscal years 2000 and 1996. Likewise personnel costs are the largest cost category in current funds expenditures and have remained at approximately 55% of the total throughout the period. Salaries, wages and fringe benefit costs increased by approximately \$108 million or 35% with the largest share of the increase going to instruction. In addition to the salary increases there have been a large number of initiatives related to instructional technologies, distance learning, and off-campus instructional programs.

More than half of the \$31.4 million increase in research expenditures occurred during the current year as discussed on page 23. Student financial assistance has grown due to increases in fee waivers and scholarships funded from gifts. Support, maintenance and debt service costs increased by \$33 million. This increase is due to growth in salaries, debt service, and operations and maintenance of plant costs for the eleven new buildings put in service during the last five years. Auxiliary enterprises operating expenditures rose by over \$19 million or 26% primarily due to increases in salaries, manpower, and operating costs associated with six of the eleven new buildings put in service during this period.

### Five Year Expenditure Trend: 1996 - 2000



### Comparison of FY00 and FY96 Expenditures as a Relative Percent

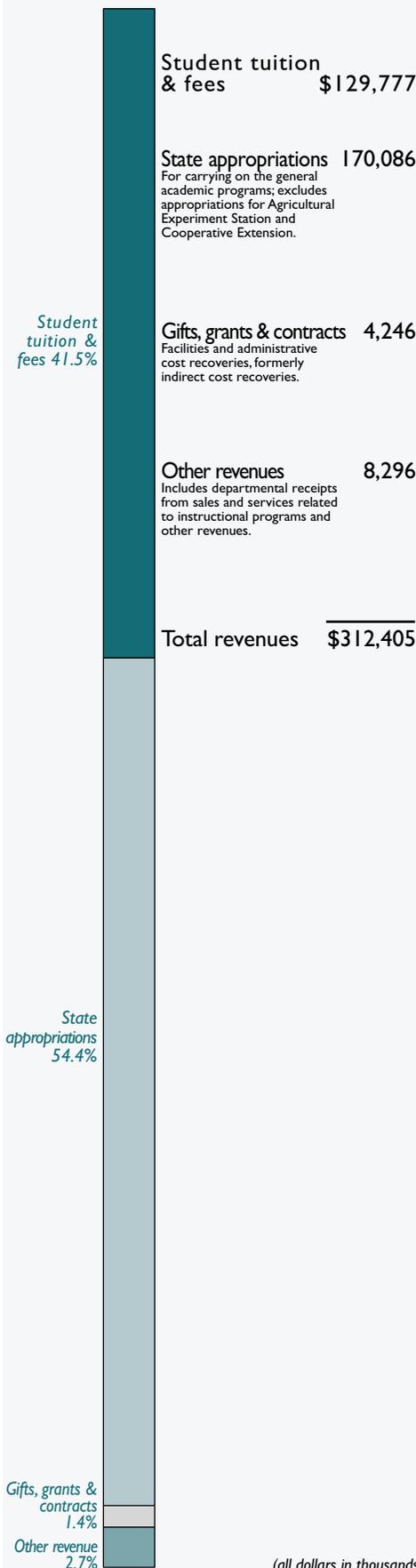


### Increase (Decrease) in Current Funds Expenditures

(all dollars in millions)

	2000		1996		Increase (Decrease)	
	Amount	Percent	Amount	Percent	Amount	Percent
Instruction	\$ 196.8	40.2%	\$ 140.4	26.6%	\$ 56.4	40.2%
Research	123.6	34.1%	92.2	16.7%	31.4	34.1%
Public service	67.6	38.5%	48.8	9.1%	18.8	38.5%
Auxiliary enterprises	93.4	25.9%	74.2	12.6%	19.2	25.9%
Student financial assistance (no direct lending)	41.0	35.8%	30.2	5.5%	10.8	35.8%
Student financial assistance (direct lending)	70.5	19.5%	59.0	9.5%	11.5	19.5%
Support, maintenance and debt service	147.2	29.2%	113.9	20%	33.3	29.2%
<b>Total current funds expenditures &amp; mandatory transfers</b>	<b>\$ 740.1</b>	<b>32.5%</b>	<b>\$ 558.7</b>	<b>26.6%</b>	<b>\$ 181.4</b>	<b>32.5%</b>

## Revenues

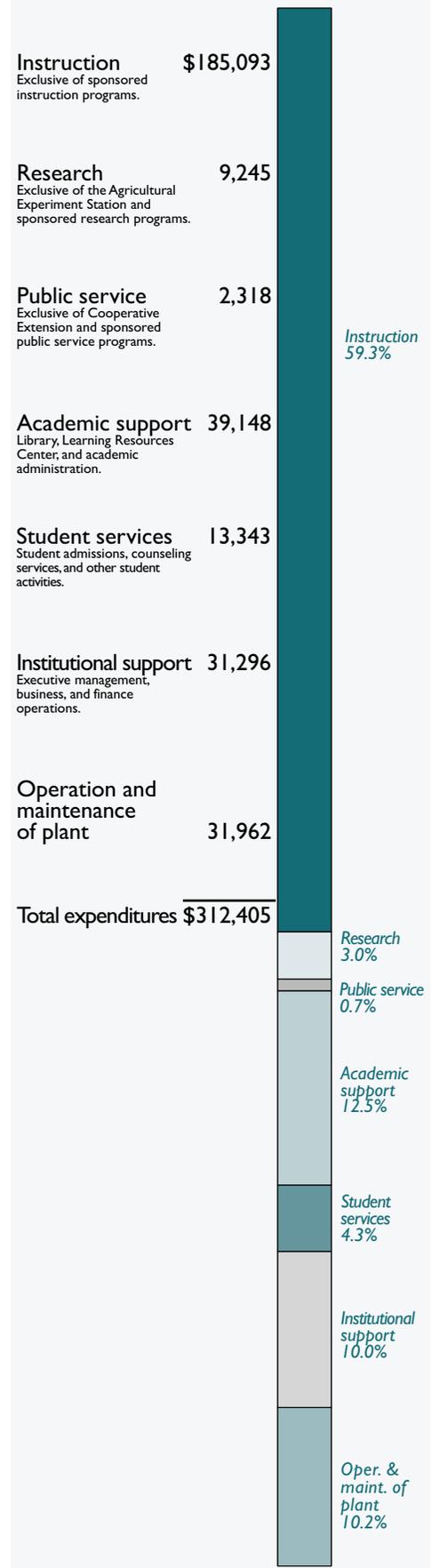


## Sources and Uses of Funds for the Instruction Mission

The Commonwealth of Virginia provides general fund appropriations to the university in support of the following major areas: instruction; Agriculture Experiment Station and Cooperative Extension programs; graduate and undergraduate scholarships; and various capital outlay projects. Instruction is the largest and the graphs on this page are intended to show the university's accountability for these funds. Instruction represents the majority of the Current Unrestricted Funds except those related to auxiliary enterprises, which are required to be self-supporting. It also excludes all restricted funds, which are composed primarily of grants and contracts. Facilities and administrative cost (formerly "indirect" costs) recoveries are included only to the extent required in the Appropriation Act to support instruction.

Since the Commonwealth of Virginia budgets and appropriates funds on a cash basis, the totals presented are on a cash, not accrual basis. Note that state appropriations represent over 54% of the total for this segment of the university, but comprise only 32% of the total current funds revenues.

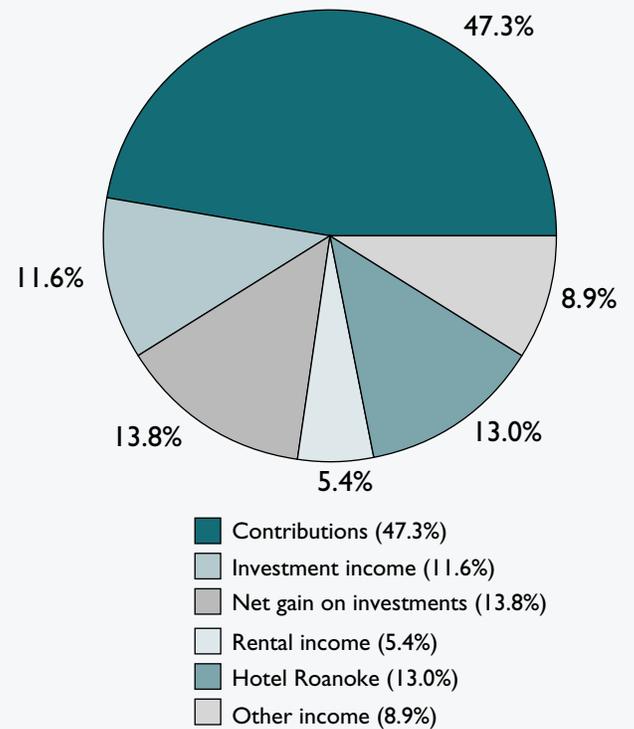
## Expenditures



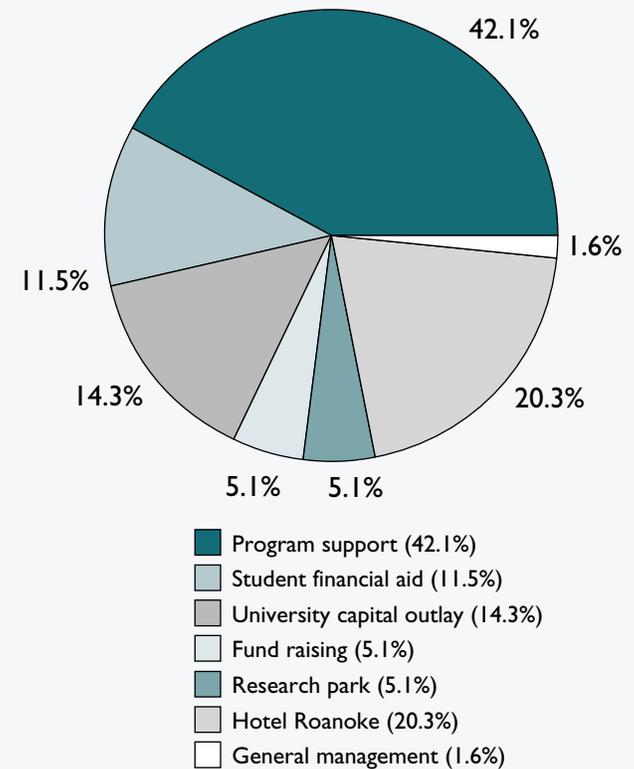
## Virginia Tech Foundation, Inc.

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 1999-2000 fiscal year, the foundation recognized \$49.5 million in contributions for support of the university. Investment income for the year of \$12 million, along with net gains on investments of \$14 million provided an aggregate \$26 million return on investments. Property rental, hotel operating, and other income totaled \$29 million. Total income of \$104.5 million was offset by \$73.6 million in expenses that supported the university and its programs. Direct support to various university programs aggregated \$50 million, including \$8.5 million in scholarship support to students and faculty, and \$10.5 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 \$73.6 million. The resulting positive change in net assets of \$30.9 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, 2000, to \$574.4 million.

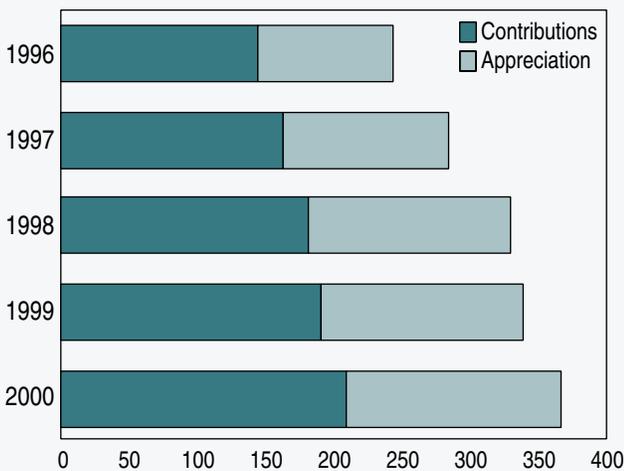
### 2000 Revenue, Gains and Other Support



### 2000 Expenses



### Endowment Market Value 1996-2000



\* Market value of Endowment Funds includes agency deposits held in trust of \$53.2 million (Source: Virginia Tech Foundation Investment Managers, unaudited)

## Affiliated Corporations Financial Highlights

For the years ended June 30, 2000 – 1996

(all dollars in thousands)

	2000	1999 (as restated)	1998	1997	1996
<b>Assets</b>					
Virginia Tech Foundation, Inc.	\$ 574,358	\$ 540,613	\$ 499,209	\$ 439,052	\$ 379,212
Virginia Tech Services, Inc.	11,560	10,449	11,113	11,502	12,224
Virginia Tech Alumni Association	4,174	3,923	1,447	1,332	1,025
Virginia Tech Intellectual Properties, Inc.	1,174	2,032	2,443	3,085	13,724
WPI, Inc.	6,769	8,801	10,098	11,136	-
Total assets	<u>\$ 598,035</u>	<u>\$ 565,818</u>	<u>\$ 524,310</u>	<u>\$ 466,107</u>	<u>\$ 406,185</u>
<b>Revenues</b>					
Virginia Tech Foundation, Inc.	\$ 104,537	\$ 95,359	\$ 104,124	\$ 100,039	\$ 78,041
Virginia Tech Services, Inc.	22,056	21,208	19,497	22,421	21,662
Virginia Tech Alumni Association	325	2,567	196	199	186
Virginia Tech Intellectual Properties, Inc.	749	726	597	1,006	28,853
WPI, Inc.	14,275	19,397	26,643	29,662	-
Total revenues	<u>\$ 141,942</u>	<u>\$ 139,257</u>	<u>\$ 151,057</u>	<u>\$ 153,327</u>	<u>\$ 128,742</u>
<b>Expenditures</b>					
Virginia Tech Foundation, Inc.	\$ 73,589	\$ 60,891	\$ 54,464	\$ 52,412	\$ 45,293
Virginia Tech Services, Inc.	22,049	21,365	19,497	22,342	21,312
Virginia Tech Alumni Association	74	91	80	27	31
Virginia Tech Intellectual Properties, Inc.	1,046	1,776	1,329	688	27,974
WPI, Inc.	14,262	19,787	26,811	29,462	-
Total expenditures	<u>\$ 111,020</u>	<u>\$ 103,910</u>	<u>\$ 102,181</u>	<u>\$ 104,931</u>	<u>\$ 94,610</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 10, 2000

The Honorable James S. Gilmore, III  
Governor of Virginia

The Honorable Vincent F. Callahan, Jr.  
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, 2000, 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, 2000, 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 10, 2000, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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 12-22 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, 2000 and 1999

All dollars are in thousands (000's omitted)

Assets	2000	1999
<b>Current funds:</b>		
<b>Unrestricted:</b>		
Cash, and cash equivalents (Note 4)	\$ 58,897	\$ 51,978
Investments, at fair value (Note 4)	6,433	4,829
Investments, securities lending (Note 5)	899	872
Accounts receivable, net of allowance for doubtful accounts of \$680 in 2000 and \$701 in 1999	5,587	5,714
Due from the Commonwealth of Virginia (Note 6)	7,308	6,681
Inventories	6,147	5,199
Due from current funds restricted	9,171	8,324
Due from plant funds	1,141	-
Due from loan funds	66	-
Prepaid expenditures	10,777	8,442
Total unrestricted	<u>106,426</u>	<u>92,039</u>
<b>Restricted:</b>		
Cash, and cash equivalents (Note 4)	17,632	13,020
Accrued interest and dividends receivable	160	138
Accounts receivable, including unbilled charges, net of allowance for doubtful accounts of \$526 in 2000 and \$1,217 in 1999	24,838	24,995
Due from loan funds	12	-
Other assets	123	176
Total restricted	<u>42,765</u>	<u>38,329</u>
Total current funds	<u>\$ 149,191</u>	<u>\$ 130,368</u>

## Loan funds:

Cash, and cash equivalents (Note 4)	\$ 1,114	\$ 834
Notes receivable, net of allowance for doubtful notes of \$261 in 2000 and \$294 in 1999	13,453	13,104
Total loan funds	<u>\$ 14,567</u>	<u>\$ 13,938</u>

Liabilities and Fund Balances	2000	1999
<b>Current funds:</b>		
<b>Unrestricted:</b>		
Accounts payable	\$ 18,944	\$ 21,187
Accrued expenditures	32,045	28,572
Obligations under securities lending (Note 5)	899	872
Accrued compensated absences (Note 1)	24,292	23,068
Deferred revenue	17,432	7,761
Annuities payable	467	341
Due to plant funds	-	319
Fund balances	12,347	9,919
Total unrestricted	<u>106,426</u>	<u>92,039</u>
<b>Restricted:</b>		
Accrued compensated absences (Note 1)	5,412	4,102
Accounts payable	3,106	3,121
Accrued expenditures	6,613	5,507
Due to current funds unrestricted	9,171	8,324
Due to endowment funds	683	346
Due to plant funds	3	4
Fund balances	17,777	16,925
Total restricted	<u>42,765</u>	<u>38,329</u>
Total current funds	<u>\$ 149,191</u>	<u>\$ 130,368</u>

## Loan funds:

Due to current funds unrestricted	\$ 66	\$ -
Due to current funds restricted	12	-
Fund balances:		
Government grants refundable	11,626	11,728
Matching funds	2,498	1,874
Other—restricted	365	336
Total loan funds	<u>\$ 14,567</u>	<u>\$ 13,938</u>

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

# Balance Sheet

As of June 30, 2000 and 1999

All dollars are in thousands (000's omitted)

## Assets

### Endowment and similar funds:

Investments, at fair value (Note 4)	\$ 47,578	\$ 46,498
Due from current funds restricted	683	346
Land (Note 7)	209	209

Total endowment and similar funds	<u>\$ 48,470</u>	<u>\$ 47,053</u>
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### Plant funds:

Cash, and cash equivalents (Note 4)	\$ 35,054	\$ 25,279
Investments, at fair value (Note 4)	22,158	24,359
Accrued interest and dividends receivable	338	439
Accounts receivable	747	204
Capital appropriations receivable	26,284	11,082
Due from current funds unrestricted	-	319
Due from current funds restricted	3	4
Investment in plant (Note 7):		
Land	27,641	27,641
Buildings	423,302	408,995
Equipment (Note 8)	279,637	267,949
Library books	49,198	47,029
Livestock	761	740
Construction in progress	33,262	38,084

Total plant funds	<u>\$ 898,385</u>	<u>\$ 852,124</u>
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### Agency funds:

Cash, and cash equivalents (Note 4)	\$ 3,631	\$ 3,914
Total agency funds	<u>\$ 3,631</u>	<u>\$ 3,914</u>

## Liabilities and Fund Balances

### Endowment and similar funds:

Annuity payable—current	\$ 15	\$ 15
Annuity payable—long-term	102	117
Fund balances:		
Endowment—unrestricted	357	357
Quasi-endowment—unrestricted	504	489
Quasi-endowment—restricted	47,400	45,998
Annuity funds	92	77
Total endowment and similar funds	<u>\$ 48,470</u>	<u>\$ 47,053</u>

### Plant funds:

Accounts payable and accrued expenditures	\$ 4,629	\$ 6,126
Retainage payable (Note 9)	1,262	1,822
Bond anticipation notes payable (Note 10)	-	1,500
Bonds payable, net of discount of \$982 in 2000 and \$1,451 in 1999 (Notes 11, 12)	124,630	130,988
Other long-term debt (Notes 6, 11, 12)	12,700	18,312
Notes payable (Notes 11, 12)	20,710	10,145
Due to current funds unrestricted	1,141	-
Fund balances:		
Unexpended:		
Unrestricted	337	211
Restricted	14,366	2,300
Renewal and replacement:		
Unrestricted	1,924	2,192
Restricted	3,637	345
Retirement of indebtedness:		
Unrestricted	18,676	17,893
Restricted	13,209	13,666
Net investment in plant	<u>681,164</u>	<u>646,624</u>
Total plant funds	<u>\$ 898,385</u>	<u>\$ 852,124</u>

### Agency funds:

Funds held in custody for others	\$ 3,631	\$ 3,914
Total agency funds	<u>\$ 3,631</u>	<u>\$ 3,914</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, 2000

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
<b>Revenues and other additions:</b>								
Unrestricted current fund revenues (Note 5)	\$ 518,426	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State government appropriations	-	12,711	-	-	20,181	10,574	5,912	-
Federal government appropriations	-	13,841	-	-	-	-	-	-
Federal government grants and contracts (Note 20)	-	140,254	226	-	1,049	-	-	-
State government grants and contracts	-	12,906	-	-	-	-	-	-
Local government grants and contracts (Note 3)	-	11,754	-	-	-	-	-	-
Nongovernmental grants and contracts	-	22,585	-	-	-	-	-	-
Gifts	-	24,645	-	-	9,564	-	-	-
Interest on loans receivable	-	-	291	-	-	-	-	-
Endowment income	-	1,651	-	-	-	-	-	-
Investment income:								
Interest and dividends	-	-	8	-	325	36	2,435	-
Net increase (decrease) in fair value of investments	-	-	-	2,314	-	-	(240)	-
Retirement of indebtedness (including \$73 charged to current funds expenditures)	-	-	-	-	-	-	-	14,579
Expended for plant facilities (including \$36,720 charged to current funds expenditures)	-	-	-	-	-	-	-	56,092
Additions from donated assets	-	-	-	-	-	-	-	1,422
Other income	-	-	9	-	-	258	-	-
<b>Total revenues and other additions</b>	<b>518,426</b>	<b>240,347</b>	<b>534</b>	<b>2,314</b>	<b>31,119</b>	<b>10,868</b>	<b>8,107</b>	<b>72,093</b>
<b>Expenditures and other deductions:</b>								
Educational and general expenditures	401,546	228,628	-	-	-	-	-	-
Indirect costs recovered	-	14,149	-	-	-	-	-	-
Auxiliary enterprise expenditures (Note 5)	93,385	-	-	-	-	-	-	-
Loan cancellations and write-offs	-	-	(7)	-	-	-	-	-
Administrative and collection cost	-	-	64	-	69	-	51	-
Expended for plant facilities (including \$11,052 not capitalized)	-	-	-	-	16,865	13,559	-	-
Retirement of indebtedness	-	-	-	-	-	-	14,506	-
Interest on indebtedness	-	-	-	-	44	-	8,051	-
Disposal of plant facilities (Note 8)	-	-	-	-	-	-	-	37,553
<b>Total expenditures and other deductions</b>	<b>494,931</b>	<b>242,777</b>	<b>57</b>	<b>-</b>	<b>16,978</b>	<b>13,559</b>	<b>22,608</b>	<b>37,553</b>
<b>Transfers among funds—additions (deductions):</b>								
Mandatory:								
Debt service—current year	(15,103)	(120)	-	-	(884)	(103)	16,210	-
Debt service—future years	(1,363)	-	-	-	465	26	872	-
Nonmandatory:								
Capital improvements	(2,139)	8	-	-	(1,530)	5,916	(2,255)	-
Allocation of funds	(2,462)	3,394	74	(882)	-	(124)	-	-
<b>Total transfers</b>	<b>(21,067)</b>	<b>3,282</b>	<b>74</b>	<b>(882)</b>	<b>(1,949)</b>	<b>5,715</b>	<b>14,827</b>	<b>-</b>
<b>Net increase (decrease) for year</b>	<b>2,428</b>	<b>852</b>	<b>551</b>	<b>1,432</b>	<b>12,192</b>	<b>3,024</b>	<b>326</b>	<b>34,540</b>
Fund balances, July 1, 1999	9,919	16,925	13,938	46,921	2,511	2,537	31,559	646,624
<b>Fund balances, June 30, 2000</b>	<b>\$ 12,347</b>	<b>\$ 17,777</b>	<b>\$ 14,489</b>	<b>\$ 48,353</b>	<b>\$ 14,703</b>	<b>\$ 5,561</b>	<b>\$ 31,885</b>	<b>\$ 681,164</b>

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, 2000 and 1999

All dollars are in thousands (000's omitted)

	2000			1999
	Unrestricted	Restricted	Total	(as restated) Total
<b>Revenues:</b>				
Student tuition and fees	\$ 149,310	\$ -	\$ 149,310	\$ 154,402
State government appropriations (Note 17)	226,847	12,729	239,576	212,719
Federal government appropriations	-	14,829	14,829	12,690
Federal government grants and contracts	11,279	128,396	139,675	134,303
State government grants and contracts	235	12,534	12,769	10,248
Local government grants and contracts	129	11,424	11,553	10,856
Nongovernmental grants and contracts (Note 21)	2,255	19,571	21,826	19,383
Gifts (Note 21)	4,974	26,519	31,493	25,351
Endowment income	116	2,746	2,862	2,450
Investment income:				
Interest and dividends	1,557	-	1,557	1,220
Net increase (decrease) in fair value of investments	(32)	-	(32)	(19)
Sales and services of educational departments	8,438	-	8,438	8,050
Sales and services of auxiliary enterprises (Note 5)	110,858	-	110,858	104,659
Other	2,460	-	2,460	440
Total current revenues	<u>518,426</u>	<u>228,748</u>	<u>747,174</u>	<u>696,752</u>
<b>Expenditures and mandatory transfers:</b>				
Educational and general:				
Instruction	186,908	9,908	196,816	186,782
Research	45,122	78,468	123,590	107,398
Public service	35,482	32,113	67,595	63,322
Academic support	41,130	2,404	43,534	40,546
Student services	13,467	774	14,241	13,692
Institutional support (Note 21)	31,299	5,967	37,266	36,669
Operation and maintenance of plant (Note 21)	35,588	8	35,596	32,501
Student financial assistance (Note 20)	12,550	98,986	111,536	108,042
Total educational and general expenditures	<u>401,546</u>	<u>228,628</u>	<u>630,174</u>	<u>588,952</u>
Mandatory transfers for debt service—current year	2,719	120	2,839	2,863
Total educational and general	<u>404,265</u>	<u>228,748</u>	<u>633,013</u>	<u>591,815</u>
<b>Auxiliaries:</b>				
Expenditures (Note 5)	93,385	-	93,385	91,155
Mandatory transfers for debt service—current year	12,384	-	12,384	11,308
Mandatory transfers for debt service—future years	1,363	-	1,363	(692)
Total auxiliaries	<u>107,132</u>	<u>-</u>	<u>107,132</u>	<u>101,771</u>
Total expenditures and mandatory transfers	<u>511,397</u>	<u>228,748</u>	<u>740,145</u>	<u>693,586</u>
<b>Other transfers and additions (deductions):</b>				
Nonmandatory transfers:				
Capital improvements—auxiliaries	(2,183)	-	(2,183)	(3,617)
Capital improvements—all other	44	8	52	395
Allocation of current funds—auxiliaries	(488)	488	-	(973)
Allocation of current funds—all other	(1,974)	2,906	932	1,484
Excess (deficiency) of restricted receipts over transfers to revenue	-	(2,550)	(2,550)	(84)
Net increase (decrease) in fund balances	<u>\$ 2,428</u>	<u>\$ 852</u>	<u>\$ 3,280</u>	<u>\$ 371</u>

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

# Notes to Financial Statements

For the Year Ended June 30, 2000

## 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

In accordance with 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. Equipment expenditures are capitalized when the unit acquisition cost is \$2,000 or greater and the estimated useful life is one year or more. For the year ended June 30, 2000, the university implemented the National Association of College and University Business Officers (NACUBO) Advisory Report 99-7, *Accounting and Reporting for Capitalization of Software*. Applicable cost associated with developing or obtaining software for internal use is valued at actual cost and included in the equipment total on the Balance Sheet.

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 11, 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 recorded 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, 2000 and 1999 is recorded in the financial statements.

### Deferred Revenue

Deferred revenue represents revenues collected but not earned as of June 30, 2000 and 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, 2000 and 1999, the university capitalized net interest expense of \$92,000 and \$797,000, 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., WPI, 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):

	2000	1999 (as restated)
Assets		
Cash and investments	\$ 393,630	\$ 360,715
Other assets	<u>143,738</u>	<u>146,660</u>
Total	<u>\$ 537,368</u>	<u>\$ 507,375</u>
Liabilities and Fund Balances		
Current Liabilities	\$ 34,814	\$ 34,576
Long-term liabilities	42,714	44,197
Fund Balances	<u>459,840</u>	<u>428,602</u>
Total	<u>\$ 537,368</u>	<u>\$ 507,375</u>

The aggregate revenues and expenditures of these organizations, determined as if in consolidation with the university, were \$92,643,000 and \$61,405,000, respectively, in 2000 and \$105,633,000 and \$71,807,000, respectively, in 1999 (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 \$32,977,000 in 2000 and \$22,335,000 in 1999. 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 \$9,679,000 in 2000 and \$6,730,000 in 1999.

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 \$10,313,000 and \$9,639,000 in 2000 and 1999, respectively, and has been included in revenues and expenditures of the accompanying financial statements. The university received other local government support of \$1,441,000 and \$999,000 in 2000 and 1999, 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, 2000 and 1999.

### 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, 2000 and 1999:

- 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 2000 or 1999.
- 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 2000 or 1999.
- 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, 2000, follows (000's omitted):

	Category 1	Non-categorized	Fair Value
Cash equivalents:			
U.S. government securities and U.S. government agency securities	\$ 15,740	\$ -	\$ 15,740
Money market funds	-	34,952	34,952
Total cash equivalents	<u>15,740</u>	<u>34,952</u>	<u>50,692</u>
Investments:			
U.S. government securities and U.S. government agency securities	21,305	-	21,305
Corporate bonds	7,641	-	7,641
Other—maintained by Virginia Tech Foundation	-	47,223	47,223
Total investments	<u>28,946</u>	<u>47,223</u>	<u>76,169</u>
Total	<u>\$ 44,686</u>	<u>\$ 82,175</u>	<u>\$ 126,861</u>

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	<u>10,927</u>	<u>15,305</u>	<u>26,232</u>
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	<u>29,208</u>	<u>46,478</u>	<u>75,686</u>
Total	<u>\$ 40,135</u>	<u>\$ 61,783</u>	<u>\$ 101,918</u>

Cash equivalents and investments as of June 30, 2000 and June 30, 1999 for each fund group are shown below at fair value (000s omitted):

Fund group:	Balance at June 30, 2000		Balance at June 30, 1999	
	Cash Equivalents	Investments	Cash Equivalents	Investments
Current funds				
Unrestricted	\$ 19,244	\$ 6,433	\$ 3,135	\$ 4,829
Restricted	597	-	618	-
Loan funds	6	-	6	-
Endowment and similar funds	-	47,578	-	46,498
Plant funds	30,624	22,158	22,227	24,359
Agency funds	221	-	246	-
Total	<u>\$ 50,692</u>	<u>\$ 76,169</u>	<u>\$ 26,232</u>	<u>\$ 75,686</u>

## 5. Securities Lending Transactions

GASB Statement Number 28, *Accounting and Financial Reporting for Securities Lending Transactions*, establishes standards of accounting and financial reporting for 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, 2000 and 1999, respectively, securities lending transactions totaled \$34,000 and \$29,000 of securities lending income and \$32,000 and \$28,000 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). The VCBA issues bonds and uses the proceeds to reimburse the university and other institutions of higher education for equipment purchased. For fiscal years prior to 1999, the VCBA purchased the equipment and leased it to the university (see Notes 11 and 12, Capital Leases). For fiscal years 1999 and following, financing agreements were changed so that the university now owns the equipment from the date of purchase. The line item Due from the Commonwealth of Virginia in the Current Funds Unrestricted section of the Balance Sheet totaling \$7,308,000 and \$6,681,000 for the years ended June 30, 2000 and 1999, respectively, represents equipment purchased by the university that was not reimbursed by VCBA.

## 7. Changes in Investment in Plant/Fixed Assets

A summary of changes in investment in plant/fixed assets for the year ending June 30, 2000 is presented as follows (000s omitted):

	Beginning Balance	Additions	Retirements	Ending Balance
Land—endowment	\$ 209	\$ -	\$ -	\$ 209
Land—plant funds	27,641	-	-	27,641
Buildings	408,995	27,915	13,608	423,302
Equipment	267,949	49,108	37,420	279,637
Construction in progress	38,084	22,938	27,760	33,262
Library materials	47,029	2,825	656	49,198
Livestock	740	349	328	761
Total capital assets	<u>\$ 790,647</u>	<u>\$ 103,135</u>	<u>\$ 79,772</u>	<u>\$ 814,010</u>

## 8. Equipment Disposals

Disposals of plant facilities on the Statement of Changes in Fund Balances totaled \$37,553,000 and \$43,759,000, for the years ended June 30, 2000 and 1999, respectively. Both of these totals represent a much higher amount than reported in previous fiscal years. In fiscal year 1999, the university hired consultants to inventory substantially all of the university's moveable equipment. Due to the fact that the inventory was still in the preliminary stages, it could not be used as a basis for an actual write-off amount so an estimated write-off of \$27,500,000 was recorded. In fiscal year 2000, regular equipment disposal totaled \$10,992,000 with the balance of disposals related to the write-off of additional equipment resulting from the equipment inventory.

## 9. Retainage Payable

For the years ended June 30, 2000 and 1999, \$1,262,000 and \$1,822,000, 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.

## 10. Bond Anticipation Notes

For the year ended June 30, 1999 the university had outstanding \$1,500,000 in tax-exempt commercial paper issued for the temporary financing on the construction of Dietrick Hall's heating, ventilation and air conditioning (HVAC) system. On September 29, 1999, \$1,800,000 of long term bonds were issued, of which \$1,500,000 was used to retire the principal of the outstanding tax-exempt commercial paper.

## 11. Summary of Long-Term Indebtedness

### Bonds Payable

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

Section 9 (d) bonds are revenue bonds which are limited obligations of the university payable exclusively from pledged general revenues and 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 revenues of the university (see Note 11 and Note 12, 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.

### Notes Payable

Notes payable represents a loan agreement and promissory note between the Virginia College Building Authority and the university to finance the construction of Harper Hall and the Special Purpose Housing Project. The agreement shall be payable solely from the pledged general revenues of the university.

### 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.

### 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.

A summary of changes in long-term liability activity for the year ending June 30, 2000 is presented as follows (000s omitted):

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
Capital lease obligations:					
Equipment Trust	\$ 18,076	\$ -	\$ 5,540	\$ 12,536	\$ 6,038
Bonds Payable:					
Section 9 (c) general obligation revenue bonds	57,593	1,800	4,663	54,730	5,366
Section 9 (d) revenue bonds	73,395	-	3,495	69,900	3,660
Notes payable	10,145	10,905	340	20,710	350
Installment purchase obligations	236	-	72	164	57
Total long-term liabilities	<u>\$ 159,445</u>	<u>\$ 12,705</u>	<u>\$ 14,110</u>	<u>\$ 158,040</u>	<u>\$ 15,471</u>

A summary of future principal commitments for fiscal years subsequent to June 30, 2000 is presented as follows (000's omitted):

Year ending June 30:	Section 9 (c) Bonds	Section 9 (d) Bonds	Notes Payable	Capital Lease Obligations	Installment Purchase Obligations	Total Long-Term Debt
2001	\$ 5,366	\$ 3,660	\$ 350	\$ 6,038	\$ 57	\$ 15,471
2002	4,749	3,845	715	4,751	48	14,108
2003	4,921	4,045	740	1,747	47	11,500
2004	5,083	5,480	775	-	12	11,350
2005	3,512	3,590	810	-	-	7,912
After 2005	32,081	49,280	17,320	-	-	98,681
Less: Unamortized discount	(982)	-	-	-	-	(982)
Total future principal requirements	<u>\$ 54,730</u>	<u>\$ 69,900</u>	<u>\$ 20,710</u>	<u>\$ 12,536</u>	<u>\$ 164</u>	<u>\$ 158,040</u>

A summary of future interest commitments for fiscal years subsequent to June 30, 2000 is presented as follows (000's omitted):

Year ending June 30:	Section 9 (c) Bonds	Section 9 (d) Bonds	Notes Payable	Capital Lease Obligations	Installment Purchase Obligations	Total Interest
2001	\$ 2,787	\$ 3,744	\$ 1,024	\$ 524	\$ 8	\$ 8,087
2002	2,521	3,556	1,003	276	5	7,361
2003	2,271	3,360	973	83	3	6,690
2004	2,013	3,151	940	-	-	6,104
2005	1,748	2,862	906	-	-	5,516
After 2005	8,710	17,822	7,528	-	-	34,060
Total future interest requirements	<u>\$ 20,050</u>	<u>\$ 34,495</u>	<u>\$ 12,374</u>	<u>\$ 883</u>	<u>\$ 16</u>	<u>\$ 67,818</u>

## 12. Detail of Long-Term Indebtedness

### Bonds Payable

Bonds payable at June 30, 2000 and 1999 consist of the following (000's omitted):

	Interest rates	Maturity	2000	1999
<i>Revenue Bonds:</i>				
Dormitory and dining hall system:				
Series 1996B, issued \$3,020 **	3.80% - 5.70%	2004	\$ 1,645	\$ 2,010
Series 1996B, issued \$5,475 **	3.80% - 5.35%	2009	4,115	4,475
Series 1996B, issued \$1,730	3.80% - 5.70%	2016	1,605	1,670
Utility system, series 1996D, issued \$2,570 **	3.80% - 5.35%	2009	1,930	2,100
Veterinary medicine, series 1996A, issued \$1,040 **	3.80% - 5.75%	2008	765	840
Northern Virginia Graduate Center, series 1996A, issued \$10,080 **	3.80% - 5.75%	2020	9,345	9,600
Architectural/engineering, series 1996A, issued \$6,805	3.80% - 5.50%	2016	6,325	6,570
Athletic facility – addition, series 1996A, issued \$3,540	3.80% - 5.75%	2004	2,735	3,065
Athletic facility – improvements, series 1996A, issued \$6,250	3.80% - 5.75%	2016	5,620	5,840
Coal fired facility, series 1996A, issued \$11,035	3.80% - 5.50%	2016	10,255	10,655
Donaldson Brown Hotel and Conference Center:				
Series 1996A, issued \$3,945	3.80% - 5.50%	2016	3,670	3,810
Series 1996A, issued \$2,495	3.80% - 5.50%	2016	2,245	2,330
University services systems:				
Student Health and Fitness Center, series 1996C, issued \$21,175	3.80% - 5.50%	2016	19,645	20,430
Total revenue bonds			<u>69,900</u>	<u>73,395</u>
<i>General Obligation Revenue Bonds:</i>				
Dormitory and dining hall system:				
Series 1991A, issued \$5,015 – refinanced **	5.60% - 7.60%	2011	470	686
Series 1992C, issued \$4,990 – partial refunding **	5.10% - 5.80%	2004	890	1,085
Series 1992D, issued \$2,680 – partial refunding **	4.60% - 5.60%	2006	760	865
Series 1992D, issued \$2,790 – partial refunding **	4.60% - 5.60%	2006	790	900
Series 1993B, issued \$4,763 – refunding series 1986B **	3.50% - 4.25%	2001	747	1,460
Series 1993B, issued \$3,050 – refunding series 1991A **	3.50% - 5.00%	2011	2,920	2,944
Series 1996, issued \$272 – refunding series 1991A **	4.75%	2003	262	265
Series 1997, issued \$15,895	3.79% - 5.40%	2017	14,830	15,375
Series 1998, issued \$3,158 – refinanced 1992C **	3.50% - 4.70%	2013	3,093	3,113
Series 1998, issued \$1,380 – refinanced 1992D **	3.50% - 4.70%	2013	1,354	1,362
Series 1998, issued \$1,440 – refinanced 1992D **	3.50% - 4.70%	2013	1,413	1,421
Series 1999, issued \$3,255	4.00% - 5.50%	2018	3,015	3,120
Series 1999A, issued \$1,800	4.75% - 5.25%	2019	1,800	-
Telecommunication, series 1989A, issued \$24,259	6.40% - 7.20%	2004	5,908	7,163
University services system – student center:				
Series 1991A, issued \$3,260 – refinanced **	5.60% - 7.60%	2011	305	445
Series 1993A, issued \$10,885 – refunding series 1988B **	3.75% - 5.20%	2008	8,650	9,525
Series 1993B, issued \$942 – refunding series 1990B **	3.50% - 5.00%	2010	898	906
Series 1993B, issued \$1,987 – refunding series 1991A **	3.50% - 5.00%	2011	1,903	1,918
Series 1996, issued \$143 – refunding series 1990B **	4.75%	2001	71	137
Series 1996, issued \$176 – refunding series 1991A **	4.75%	2003	170	171
Parking facilities:				
Series 1991A, issued \$4,220 – refinanced **	5.60% - 7.60%	2011	395	575
Series 1993B, issued \$2,569 – refunding series 1991A **	3.50% - 5.00%	2011	2,460	2,479
Series 1996, issued \$230 – refunding series 1991A **	4.75%	2003	221	223
Series 1997, issued \$1,550	5.00%	2017	1,405	1,455
Total general obligation revenue bonds			<u>54,730</u>	<u>57,593</u>
Total bonds payable			<u>\$ 124,630</u>	<u>\$ 130,988</u>

\*\* See Bond Defeasance – Previous Years

### Bond Defeasance

In previous fiscal years in accordance with Governmental 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. For the years ended June 30, 2000 and 1999, bonds payable considered defeased in previous years totaled \$29,935,000 and \$32,045,000, respectively.

### Notes Payable and Other Long-term Debt

	2000	1999
Notes payable at June 30, 2000 and 1999 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.	\$ 9,805	\$ 10,145
Series 1999A, with an average coupon rate of 5.73%, issued \$10,905, maturing through 2019.	10,905	-
Total notes payable	<u>20,710</u>	<u>10,145</u>
Other long-term debt at June 30, 2000 and 1999 consists of (000's omitted):		
Capital leases payable for Higher Education Equipment Trust Fund with interest rates of 4.10% to 5.35%.	12,536	18,076
Installment purchase obligations for equipment purchases through June 2000 with various interest rates and maturing through 2004. The book value of capitalized equipment is \$565 for 2000 and \$565 for 1999.	164	236
Total other long-term debt	<u>12,700</u>	<u>18,312</u>
Total bonds payable	124,630	130,988
Total long-term debt	<u>\$ 158,040</u>	<u>\$ 159,445</u>

### 13. 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 \$8,617,000 and \$7,974,000 for the years ended June 30, 2000 and 1999, respectively.

A summary of future minimum lease payments under operating leases as of June 30, 2000, follows (000's omitted):

Year ending June 30:	
2001	\$ 5,534
2002	4,264
2003	2,692
2004	2,413
2005	959
After 2005	1,753
Total	<u>\$ 17,615</u>

### 14. 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, 2000, included (000's omitted):

Special purpose housing	\$ 7,320
Upper quad conversion	4,531
Alumni hotel and conference center	2,566
Lane Stadium expansion	1,409
Chemistry/physics—phase II	1,214
Agriculture and forestry research	987
Advance communication and information technology center	677
Other projects	619
Total	<u>\$ 19,323</u>

These commitments are funded by the following: \$8,654 from notes payable proceeds, \$6,630 from auxiliary enterprise funds, \$2,108 from state general appropriations, \$1,288 from private funds, and \$251 from 21st century bonds. Other funding sources include indirect cost recoveries and university education and general funds.

### 15. 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

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 \$19,583,000 and \$17,641,000 for the years ended June 30, 2000 and 1999, 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%) and employees' (5%) contributions, plus interest and dividends.

Individual contracts issued under the plan provide for full and immediate vesting of both the university's and the employees' contributions. Total pension costs under this plan were approximately \$9,566,000 and \$8,365,000 for years ended June 30, 2000 and 1999, respectively. Contributions to the optional retirement plan were calculated using the base salary amount of approximately \$91,985,000 and \$80,436,000 for fiscal years 2000 and 1999.

#### 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 \$1,149,000 and \$1,113,000 for the years ended 2000 and 1999, respectively. Contributions to FERS and CSRS were calculated using the base salary amount of approximately \$14,555,000 and \$12,934,000 for the fiscal years 2000 and 1999.

In addition, the university contributed \$57,000 and \$53,000 for the years ended June 30, 2000 and 1999 in employer contributions to the Thrift Savings Plan, a defined contribution plan, in which the university matches employee contributions within certain limitations.

### 16. 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*.

### 17. Appropriations

The Appropriation Act specifies that unexpended general fund appropriations which remain on the last day of the current year, ending on June 30, 2000, shall be reappropriated for expenditure in the first month of the next year, beginning on July 1, 2000, except as may be specifically provided otherwise by the General Assembly. The governor may, at his discretion, un-alloc 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, 2000, the following adjustments were made to the university's original appropriation (000's omitted):

Original legislative appropriation per Chapter 935	\$ 223,450
Adjustments:	
Salary increases	5,106
Health insurance premium	1,584
Higher education retirement contribution savings	(1,308)
Group life insurance contribution savings	(1,182)
Retiree health care credit savings	(814)
Optional retirement contribution savings	(191)
Transfer from student financial assistance program for graduate assistantships	175
Deferred compensation employer match	113
Automobile liability premium payment savings	(86)
Retirement contribution lag pay savings	(33)
Virtual Library of Virginia	24
Virginia Writing Project	9
Total adjustments	<u>3,397</u>
Adjusted appropriation	<u>\$ 226,847</u>

## 18. 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*.

## 19. Grants and Contracts Contingencies

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

In addition, the university is required to comply with various federal regulations issued by the Office of Management and Budget. Failure to comply with certain system requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. As of June 30, 2000, the university estimates that no material liabilities will result from such audits or questions.

## 20. 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 \$140,254,000 and \$134,444,000 included funds for these federal loan programs of \$70,499,000 and \$68,204,000, for the years ended June 30, 2000 and 1999, 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, 2000 and 1999, totals of \$98,986,000 and \$93,874,000 included \$70,502,000 and \$67,358,000 respectively for these loan programs.

## 21. Restatement of Prior Year's Amounts

For the year ended June 30, 2000, the university implemented NACUBO Advisory Report 99-1, *Accounting and Reporting for Nongovernmental Grants and Contracts and Gifts*. This advisory requires the separate line item reporting of gift income. Therefore, the amount reported as Private Gifts, Grants, and Contracts for the fiscal year ending June 30, 1999 has been restated into Gifts, and Nongovernmental Grants and Contracts on the current year's Statement of Current Funds Revenues, Expenditures, and Other Changes.

The university also implemented NACUBO Advisory Report 99-6, *Accounting and Reporting Safety and Security Expenses by Higher Education*. For prior fiscal years, expenses related to safety and security have been included in the Institutional Support line on the Statement of Current Funds Revenues, Expenditures, and Other Changes. The new advisory stipulates these expenditures are now to be included in the Operations and Maintenance of Plant line item. Safety and security expenses totaling \$2,136,000 for the fiscal year ended June 30, 1999 have been reclassified on the current year's Statement of Current Funds, Revenues, Expenditures, and Other Changes.

## 22. Risk Management and Employee Health Care Plans

The university participates in two self-insurance plans maintained by the commonwealth. The state employee health care plan is administered by the Department of Human Resource Management (formerly the Department of Personnel and Training) and the risk management insurance plan is administered by the Department of General Services, Division of Risk Management. Risk management insurance includes worker's compensation, property, general (tort) liability, and automobile plans. Information relating to the commonwealth's self-insurance plans is available at the statewide level in the commonwealth's *Comprehensive Annual Financial Report*.

## Schedule of Auxiliary Enterprises

### Revenues, Expenditures and Changes in Fund Balances

For the Year Ended June 30, 2000

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	\$ 32,444	\$ -	\$ 13,270	\$ 2,677	\$ 5,660	\$ 1,968	\$ 56,019
Sales and services	4,696	14,004	1,997	10,530	15,625	7,987	54,839
Total fees and sales	37,140	14,004	15,267	13,207	21,285	9,955	110,858
Contributions	-	-	427	-	1,340	-	1,767
Interest and dividends	126	15	35	304	334	247	1,061
Total revenues	37,266	14,019	15,729	13,511	22,959	10,202	113,686
<b>Expense of operations:</b>							
Personal services	13,476	1,525	7,218	4,638	7,737	3,390	37,984
Contractual services	2,261	514	1,855	3,752	5,560	2,179	16,121
Supplies and materials	10,628	554	1,009	161	1,862	1,482	15,696
Continuous charges	4,246	9,557	1,189	1,358	3,087	914	20,351
Equipment	628	103	257	1,429	569	215	3,201
Other charges	-	-	-	32	-	-	32
Total expenses of operation	31,239	12,253	11,528	11,370	18,815	8,180	93,385
<b>Excess (deficiency) of revenues over expenses of operations before transfers:</b>	<u>6,027</u>	<u>1,766</u>	<u>4,201</u>	<u>2,141</u>	<u>4,144</u>	<u>2,022</u>	<u>20,301</u>
<b>Transfers among funds—additions (deductions):</b>							
Mandatory transfers:							
Debt service—current year	(5,656)	(274)	(3,609)	(1,321)	(535)	(989)	(12,384)
Debt service—future years	1,097	(1,142)	(1,318)	-	-	-	(1,363)
Nonmandatory transfers:							
Capital transfers	(1,468)	(350)	726	(94)	(1,240)	243	(2,183)
Allocation of funds	-	-	-	-	(488)	-	(488)
Total transfers	(6,027)	(1,766)	(4,201)	(1,415)	(2,263)	(746)	(16,418)
Net increase (decrease) for year	-	-	-	726	1,881	1,276	3,883
Fund balances, July 1, 1999	-	-	-	1,724	2,511	4,081	8,316
Fund balances, June 30, 2000	\$ -	\$ -	\$ -	\$ 2,450	\$ 4,392	\$ 5,357	\$ 12,199

(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, Donaldson Brown Hotel and Conference Center, Library Services, Golf Course, Tennis Pavilion, and Hokie Passport.