FINANCIAL REPORT
2000-2001

TURNING UP THE LAMP OF KNOWLEDGE

VIRGINIA TECH

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. Currently, disbursements for equipment and principal payments for long-term debt are in the Statement of Current Funds Revenues, Expenditures and Other Changes. They will not be included in the new model's Statement of Revenues, Expenses and Changes in Net Assets . Although the university will not implement the new reporting model until 2002, we have included footnote disclosures about capital assets, long-term debt, and the general concepts for management's discussion and analysis as required in the new format.

The university's financial position and results of operations improved over the previous year for all funds taken as a whole. Agency funds have been excluded as required by the new reporting model in the segments that make up management's discussion and analysis. As of June 30, 2001, assets, liabilities and fund balances were $1,149.8 million, $279.2 million and $870.6 million, respectively. During the current year, assets increased by over $39.2 million or 3.5% while liabilities decreased by $5.1 million or 1.8%. Moreover, revenues and fund additions equaled $914.7 million, while expenditures and fund deductions were only $870.4 million, resulting in an increase in fund balances over the previous year of $44.3 million. The increase in total assets is due to growth in capital assets, which increased by $60.9 million, offsetting the $21.7 million decrease in current and other assets. The growth in capital assets can be attributed to equipment purchases totaling almost $35 million, building capitalizations totaling over $48 million, and the purchase of the Heiskell and Wright properties. Building capitalizations during the year included Torgersen Hall ($25.5 million), Special Purpose Housing—Phase III ($8.5 million), and Shanks and Shultz Halls conversions ($7.7 million). The large increases noted above were partially offset by equipment disposals totaling $9.7 million and a net decrease in construction in progress of $17 million. Note 7 in the Notes to Financial Statements contains a tabular presentation of these changes. The decrease in current and other assets is composed primarily of a $20 million decrease in capital appropriations receivable—mainly for the Chemistry and Physics building, more information is available on this reversion in Note 17 in the Notes to Financial Statements.

Long-term debt decreased by $10.5 million during 2001 despite two additional bond issues totaling $4.6 million for the Utility System's substation expansion and the Dry Rendering facility projects. See Notes 9, 10, and 11 in the Notes to Financial Statements for further details. Long-term debt retired during the year totaled $15.1 million net of the amortization of discounts. The Higher Education Equipment Trust Fund accounted for $6 million of which the majority was paid by the Commonwealth of Virginia on behalf of the university.

The university has an A1 bond rating from Moody's and has a very favorable debt service ratio of 3.3%. At June 30, 2001, the university had outstanding commitments related to capital construction projects totaling $32.8 million. Outstanding commitments related to Lane Stadium accounted for over $24.7 million or 75% of the total. On October 10, 2001, the Virginia College Building Authority (VCBA), on behalf of the university, issued $26.3 million in bonds through the Public Higher Education Financing Program, referred to as the Pooled Bond Program. Proceeds from the bonds will be used to purchase a note payable from the university that will serve as permanent financing for the Lane Stadium expansion project. The pledged general revenues of the university secure the notes issued to the VCBA. The university had authorization from the Commonwealth of Virginia for 20 projects totaling more than $177 million that were in early stages of planning or construction at the end of the fiscal year. Funding for the projects will consist of $75 million of new debt, $44 million of general fund appropriations, and over $58 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, $37 million for Lane Stadium expansion, $27.2 million for the Chemistry and Physics building, and $21.9 million for the Bioinformatics building. This continues the trend of investment in capital assets that has grown by almost $191 million over the last five years.

Revenues and fund additions exceeded the previous year by $31 million, or 3.5%, and expenditures and fund deductions increased by $42 million, or 5.1%. The majority of the university's revenues, expenditures and mandatory transfers are included in current funds, which are analyzed in the subsequent pages.

As of October 12, 2001, 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, 2001—1997

All dollars in millions (000's omitted)

	2001	2000	1999	1998	1997
ASSETS					
Current and other assets	$ 274.9	$ 296.6	$ 252.8	$ 234.9	$ 285.8
Capital assets	874.9	814.0	790.6	771.3	684.3
Total assets	$ 1,149.8	$ 1,110.6	$ 1,043.4	$ 1,006.2	$ 970.1
LIABILITIES					
Long-term debt	$ 147.6	$ 158.0	$ 159.4	$ 160.4	$ 163.2
Other liabilities	131.6	126.3	113.2	97.8	107.6
Total liabilities	$ 279.2	$ 284.3	$ 272.6	$ 258.2	$ 270.8
FUND BALANCE					
Unrestricted	$ 32.9	$ 34.1	$ 31.0	$ 32.0	$ 36.0
Restricted	91.3	111.0	93.2	88.1	82.3
Invested in capital assets, net of debt	746.4	681.2	646.6	627.9	581.0
Total fund balance	$ 870.6	$ 826.3	$ 770.8	$ 748.0	$ 699.3

OPERATING TRENDS FOR CURRENT FUNDS

FOR THE YEARS ENDED JUNE 30, 2001—1997

All dollars in millions (000's omitted)

	2001	2000	1999	1998	1997
CURRENT FUND REVENUES					
Student tuition and fees	$ 150.2	$ 149.3	$ 154.4	$ 149.0	$ 139.7
State government appropriations (1)	257.3	239.6	212.7	193.3	174.5
Federal government grants and contracts—excluding direct lending	78.4	69.2	66.9	67.1	69.1
Federal government grants and contracts—direct lending program	69.7	70.5	67.4	68.1	62.7
State government grants and contracts	12.0	12.8	10.2	6.9	7.7
Local government grants and contracts	12.4	11.6	10.8	10.0	9.8
Nongovernmental grants and contracts (2)	27.3	21.8	19.4	17.8	16.7
Gifts (2)	33.5	31.4	25.4	22.3	20.2
Auxiliary enterprises	115.8	110.9	104.7	96.3	93.9
Other revenue (3)	28.3	30.1	24.9	25.0	23.0
Total current funds revenues	$ 784.9	$ 747.2	$ 696.8	$ 655.8	$ 617.3
CURRENT FUND EXPENDITURES AND MANDATORY TRANSFERS					
Instruction	$ 209.1	$ 196.8	$ 186.8	$ 164.3	$ 149.2
Research	139.0	123.6	107.4	103.8	104.1
Public service	69.6	67.6	63.3	61.4	56.0
Auxiliary enterprises	100.5	93.4	91.2	85.6	81.4
Student financial assistance—excluding direct lending	43.5	41.0	40.6	35.2	33.4
Student financial assistance—direct lending program	69.7	70.5	67.4	68.1	62.7
Support, maintenance and debt service					
Academic support	42.8	43.5	40.5	39.4	38.3
Student services	14.4	14.2	13.7	14.9	14.3
Institutional support (4)	38.2	37.3	36.6	39.3	38.5
Operation and maintenance of plant (4)	35.9	35.6	32.6	28.4	25.6
Mandatory transfers—current year	15.1	15.2	14.2	9.6	9.0
Mandatory transfers—future years	(1.5)	1.4	(0.7)	(0.8)	5.3
Total support, maintenance and debt service	144.9	147.2	136.9	130.8	131.0
Total current funds expenditures and mandatory transfers	$ 776.3	$ 740.1	$ 693.6	$ 649.2	$ 617.8
CURRENT FUND OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)					
Nonmandatory transfers	$ (3.7)	$ (1.2)	$ (2.7)	$ (4.8)	$ (3.2)
Excess (deficiency) of restricted receipts over transfers to revenue	1.7	(2.6)	(0.1)	(1.0)	(1.2)
Net increase (decrease) in fund balance	$ 6.6	$ 3.3	$ 0.4	$ 0.8	$ (4.9)

(1) *This amount represents the appropriations of state taxpayer funds.*
(2) *Amounts for 1997, 1998, and 1999 have been restated to comply with* NACUBO Advisory Report 99-1.
(3) *The amount for 1997 has been restated to comply with* GASB Statement Number 31.
(4) *The amount for 1999 has been restated to comply with* NACUBO Advisory Report 99-6.

CURRENT FUNDS REVENUES

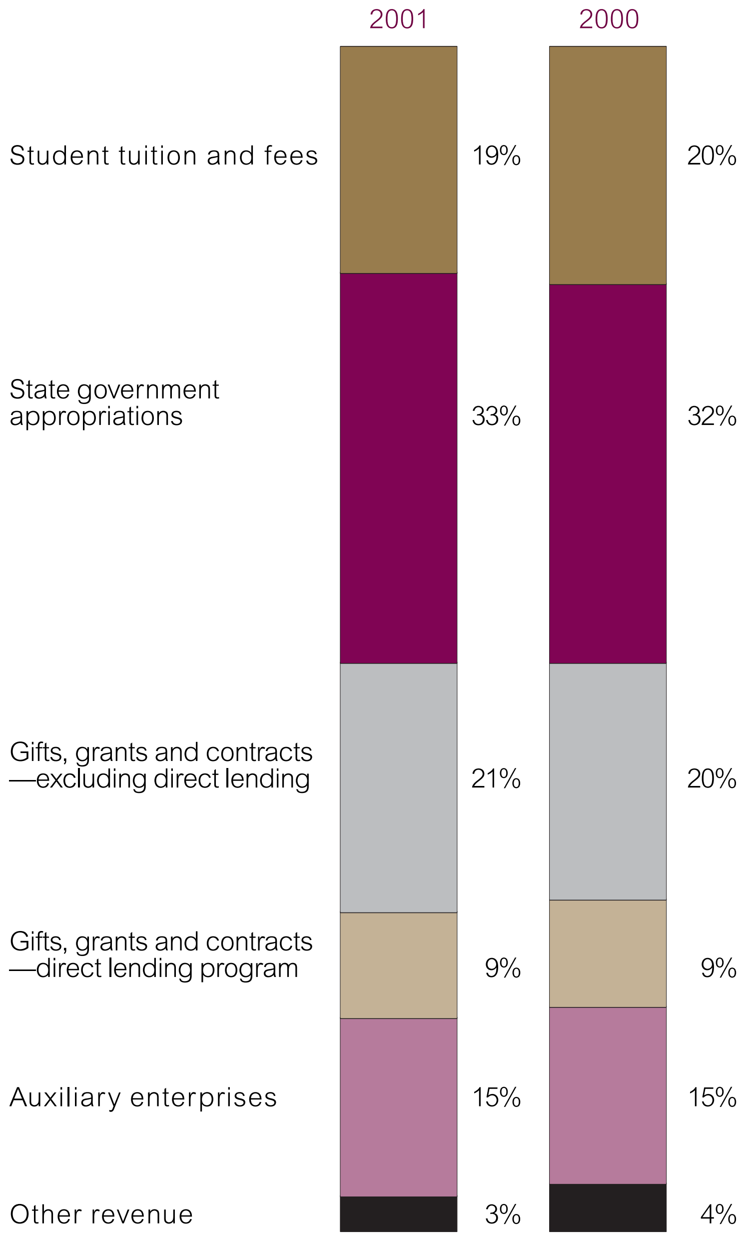
Current funds revenues grew by $37.7 million or by 5.0%. The largest increase over the prior year was in state government appropriations which grew by $17.7 million or 7.4%. This growth was due to increases in funding for faculty and staff salary raises and the associated fringe benefit costs. The remainder of the appropriation growth funded the employer match portion of the new Virginia Deferred Compensation Plan, increased undergraduate student financial assistance, and other critical operating needs and mandates.

Gifts, grants and contracts, excluding direct lending, grew by almost $17 million. This significant increase was due to additional funding from federal and nongovernmental sources. Federal grant and contract revenue increased by nine million dollars over the prior year, while nongovernmental grant and contract revenue grew by almost six million dollars. Federal funding from the National Science Foundation for projects in the Center for Power Electronics Systems accounted for nearly three million dollars of the increase with another two million dollars attributable to increased funding received for projects managed by the Virginia Tech Transportation Institute. The majority of the growth in nongovernmental grant and contract revenue was directly related to funding received for grants and contracts through the Virginia Bioinformatics Institute and the Optical Sciences and Engineering Research Center—a joint research program with Virginia Tech, the University of Virginia, and Carilion Health System.

Auxiliary enterprises increased by $4.9 million. Dormitory and Dining Hall System student fees grew by two million dollars due to increased room and board rates. Athletic contributions grew by almost $1.6 million due to the continued success of our athletic programs. Finally, revenue from the first year of operations for the Software Sales auxiliary totaled almost one million dollars.

Total tuition and fees revenues only increased by $0.9 million. The small increase was expected due to the state mandated freeze on instate undergraduate tuition rates and a marginal rise in tuition and fees charged to out-of-state students and instate graduate students.

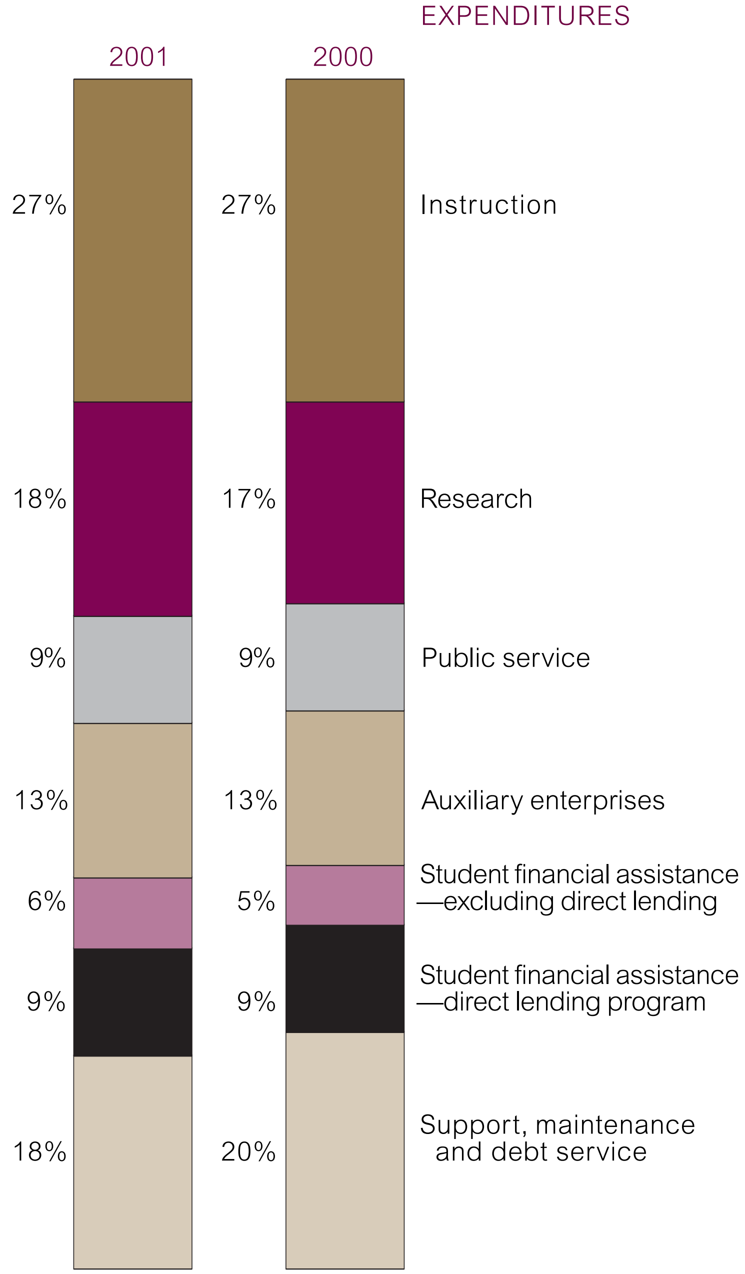
REVENUES



INCREASE (DECREASE) IN CURRENT FUNDS REVENUES

(all dollars in millions)	2001 Amount	2000 Amount	Increase (Decrease) Amount	Increase (Decrease) Percent
Student tuition and fees	$ 150.2	$ 149.3	$ 0.9	0.6 %
State government appropriations	257.3	239.6	17.7	7.4 %
Gifts, grants and contracts—excluding direct lending	163.6	146.8	16.8	11.4 %
Gifts, grants and contracts—direct lending program	69.7	70.5	(0.8)	(1.1)%
Auxiliary enterprises	115.8	110.9	4.9	4.4 %
Other revenue	28.3	30.1	(1.8)	(6.0)%
Total current funds revenues	$ 784.9	$ 747.2	$ 37.7	5.0 %

CURRENT FUNDS EXPENDITURES AND MANDATORY TRANSFERS



Current funds expenditures increased over $36 million or 4.9% from the prior year. Personnel costs, as in the past, represented the largest cost category and were primarily responsible for the growth in expenditures. Approximately 81% of the rise in expenditures was directly related to salary, wage, and fringe benefit costs. This rise of $29 million represented a 7.1% growth over the prior year. This increase was slightly higher than the average faculty and staff salary increase, which ranged between 3.0% and 4.4%. This higher than average amount can be attributed to a greater number of faculty and classified staff employed during the period. Approximately 57% of total current funds expenditures were for personnel costs compared to 55% for the previous fiscal year.

The most significant growth occurred in the research category where research expenditures increased by over $15.4 million or 12.5%. Nearly $12 million of this increase occurred in current funds restricted. The Center for Power Electronics Systems, the Virginia Tech Transportation Institute, the Virginia Bioinformatics Institute, and the Optical Sciences and Engineering Research Center have been the primary causes for the growth in both grant and contract revenues and expenditures. The majority of the projects under these areas are directly connected to the research mission of the university.

Auxiliary enterprises expenditures increased by $7.1 million or 7.6%. The increase was primarily due to a rise in expenditures for the Dormitory and Dining Hall System, the Athletic department, and the new Software Sales auxiliary. Dorm and dining expenditures were up by almost $1.8 million over the prior year. Operational and staffing costs incurred due to additions and renovations of several dormitories and dining hall facilities, contributed to the increase. The Athletic department increased expenditures $2.9 million over the prior period. This was due chiefly to a rise in personnel costs and additional expenses related to several renovation projects. Additionally, the new Software Sales auxiliary generated almost one million dollars of expenditures.

Even with these variances, expenditures have remained stable during the period.

INCREASE (DECREASE) IN CURRENT FUNDS EXPENDITURES

(all dollars in millions)	2001	2000	Increase (Decrease)	
	Amount	Amount	Amount	Percent
Instruction	$ 209.1	$ 196.8	$ 12.3	6.3 %
Research	139.0	123.6	15.4	12.5 %
Public service	69.6	67.6	2.0	3.0 %
Auxiliary enterprises	100.5	93.4	7.1	7.6 %
Student financial assistance—excluding direct lending	43.5	41.0	2.5	6.1 %
Student financial assistance—direct lending program	69.7	70.5	(0.8)	(1.1)%
Support, maintenance and debt service	144.9	147.2	(2.3)	(1.6)%
Total current funds expenditures & mandatory transfers	$ 776.3	$ 740.1	$ 36.2	4.9 %

CURRENT FUNDS REVENUES—FIVE YEAR TRENDS

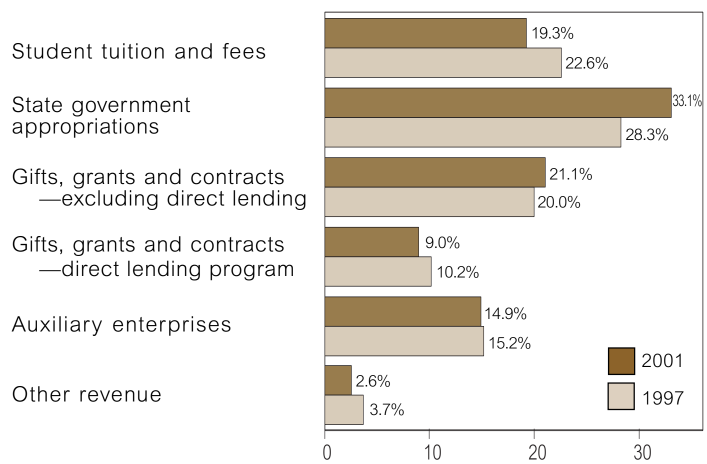
The university's total current funds revenues increased by over $167 million or 27% during the last five years. Almost half of the gain was directly related to growth in state government appropriations which increased by $82.8 million or 47.4%. The growth in funding was primarily to cover faculty and staff salary increases and rising fringe benefit costs. Also, for the first time in fiscal year 2000, additional state government appropriations were received to cover tuition and fee revenue lost due to the state mandated 20% reduction in tuition charged to instate students. This accounted for the larger than normal revenue increase between fiscal years 1999 and 2000. The growth noted above resulted in the rise of state government appropriations from 28.3% of total revenue in 1997 to 33.1% of total revenue in 2001.

Total gifts, grants and contracts, excluding direct lending, have grown by $40.1 million during the five-year period. The largest gain of almost $24 million has been in private or nongovernmental gifts, grants and contracts. This rise was due to a growth in gifts from the Virginia Tech Foundation and increased grant and contract revenue generated by the Virginia Bioinformatics Institute and the Optical Sciences and Engineering Research Center. Federal grants and contracts also grew by $9.3 million, with the majority of the increase occurring between fiscal years 2000 and 2001. Both the Center for Power Electronic Systems and the Virginia Tech Transportation Institute received additional federal grant and contract funds during the current fiscal year.

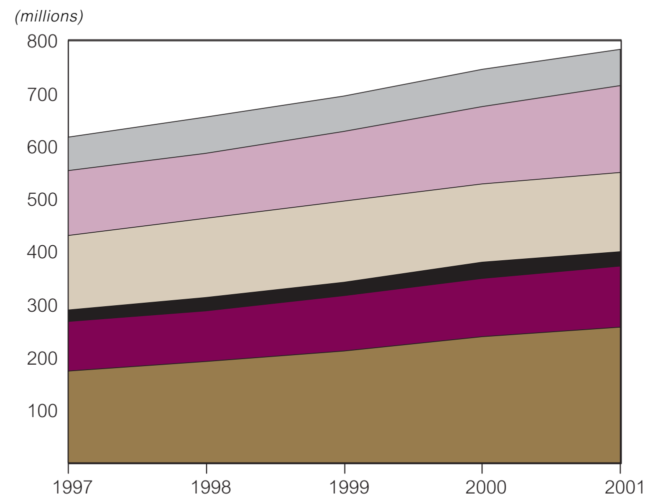
The growth in auxiliary enterprises revenue was due to the increase in student fees assessed to cover expenses related to the construction and operation of new facilities and from the continued success of the athletic program.

Tuition has been capped or reduced during the five-year period. The $10.5 million increase in student tuition and fees resulted from both growth in overall enrollment and higher tuition charged to out-of-state students. Despite this rise, tuition and fees did not keep pace with the growth in other categories. This resulted in an overall decrease in tuition and fees as a percent of total current fund revenue.

COMPARISON OF 2001 AND 1997 REVENUES AS A RELATIVE PERCENT



FIVE YEAR REVENUE TREND: 1997 - 2001



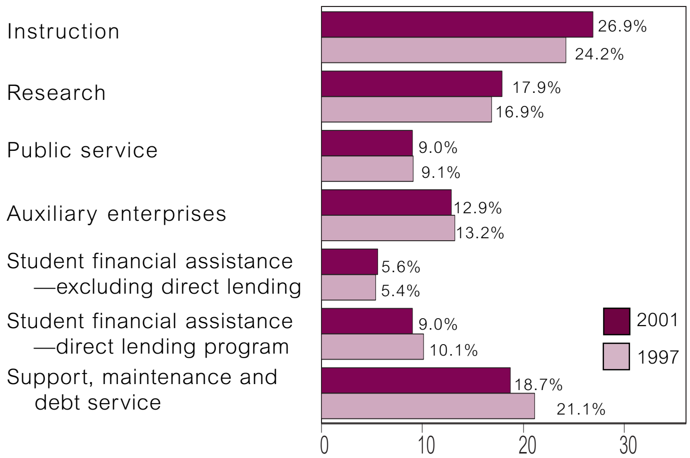
INCREASE (DECREASE) IN CURRENT FUNDS REVENUES

(all dollars in millions)

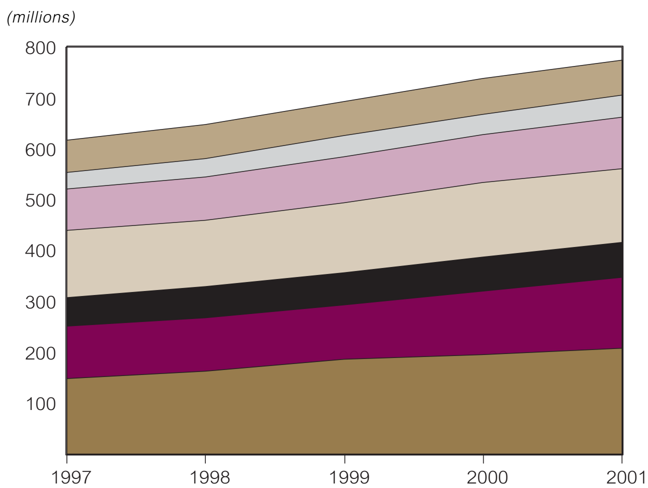
	2001 Amount	1997 Amount	Increase (Decrease) Amount	Increase (Decrease) Percent
Student tuition and fees	$ 150.2	$ 139.7	$ 10.5	7.5%
State government appropriations	257.3	174.5	82.8	47.4%
Gifts, grants and contracts—excluding direct lending	163.6	123.5	40.1	32.5%
Gifts, grants and contracts—direct lending program	69.7	62.7	7.0	11.2%
Auxiliary enterprises	115.8	93.9	21.9	23.3%
Other revenue	28.3	23.0	5.3	23.0%
Total current funds revenues	$ 784.9	$ 617.3	$ 167.6	27.2%

CURRENT FUNDS EXPENDITURES AND MANDATORY TRANSFERS—FIVE YEAR TRENDS

COMPARISON OF 2001 AND 1997 EXPENDITURES AS A RELATIVE PERCENT



FIVE YEAR EXPENDITURE TREND: 1997 - 2001



Current funds expenditures have increased by $158 million or 25.7% with personnel costs remaining the largest cost category during the last five years. Personnel costs have grown from approximately 52% in 1997 to approximately 57% in 2001. This represents an increase of about $119 million with the largest share in the instruction category. There has also been a large rise in grant and contract expenditures. The growth in this area is a direct result of the university's effort to achieve its goal of becoming one of the nations top thirty research institutions. Research expenditures have risen by $35 million since 1997, with almost $32 million of the growth occurring over the last two fiscal years. Other initiatives related to instructional technologies, distance learning, and off-campus instructional programs have also contributed to the overall increase.

Auxiliary enterprises expenditures have increased by $19.1 million during the period. This growth has been primarily due to a rise in expenditures for salaries, wages, and fringe benefits. Cost associated with the operation of new auxiliary facilities and funding for several renovation projects also contributed to the increase.

Expenditures for student financial assistance and operational support, maintenance, and debt service also grew between 1997 and 2001. Student financial assistance increased due to a rise in fee waivers and scholarships funded from gift revenue. Operational support, maintenance and debt service costs increased by $13.9 million. This increase was due to growth in salaries, debt service, and operations and maintenance of plant costs for new facilities that were put into service over the last five years.

The expenditure categories as a percent of total expenditures and mandatory transfers have remained stable during the period.

INCREASE (DECREASE) IN CURRENT FUNDS EXPENDITURES

(all dollars in millions)

	2001 Amount	1997 Amount	Increase (Decrease) Amount	Increase (Decrease) Percent
Instruction	$ 209.1	$ 149.2	$ 59.9	40.2%
Research	139.0	104.1	34.9	33.5%
Public service	69.6	56.0	13.6	24.3%
Auxiliary enterprises	100.5	81.4	19.1	23.5%
Student financial assistance—excluding direct lending	43.5	33.4	10.1	30.2%
Student financial assistance—direct lending program	69.7	62.7	7.0	11.2%
Support, maintenance and debt service	144.9	131.0	13.9	10.6%
Total current funds expenditures & mandatory transfers	$ 776.3	$ 617.8	$ 158.5	25.7%

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 major area and this page diagrams the university's accountability for these appropriations. Expenditures for instruction represent 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 costs (formerly "indirect" costs) recoveries are included only to the extent required in the Appropriation Act to support the instruction area.

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 government appropriations represent 56% of the total for this segment of the university, but comprise only 33% of the total current funds revenues.

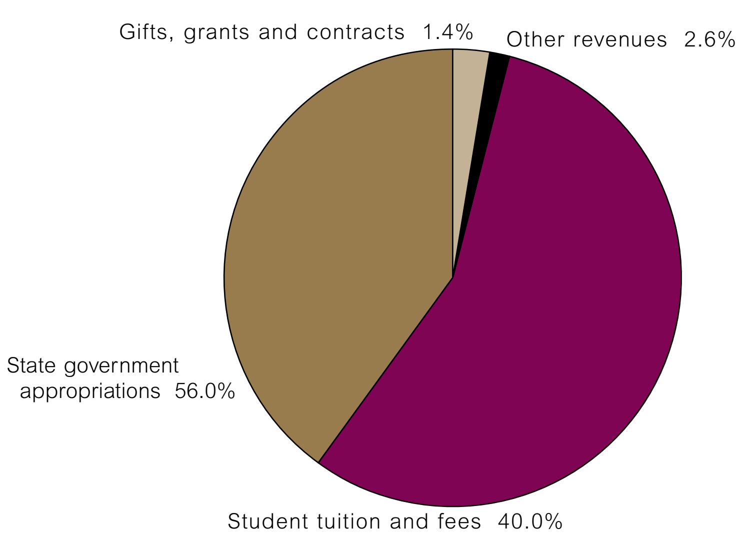
REVENUES

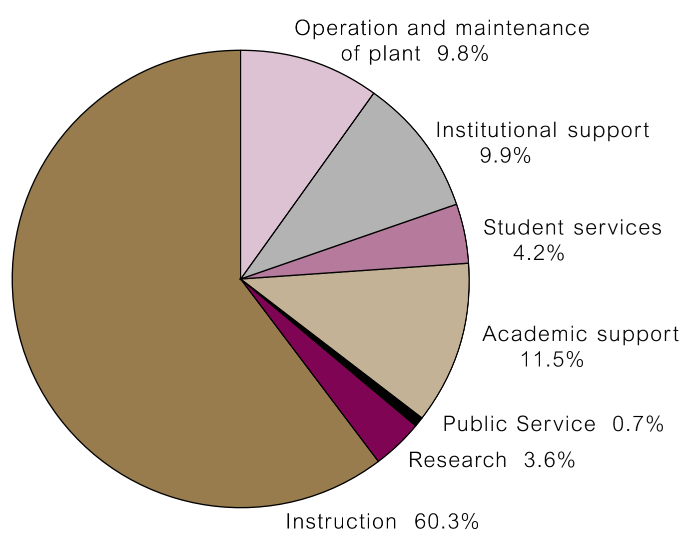
Student tuition & fees	$ 130,363
State government appropriations For carrying on the general academic programs; excludes appropriations for Agricultural Experiment Station and Cooperative Extension.	183,201
Gifts, grants & contracts Facilities and administrative cost recoveries, formerly indirect cost recoveries.	4,739
Other revenues Includes departmental receipts from sales and services related to instructional programs and other revenues.	8,617
Total revenues	$ 326,920

(all dollars in thousands)

EXPENDITURES

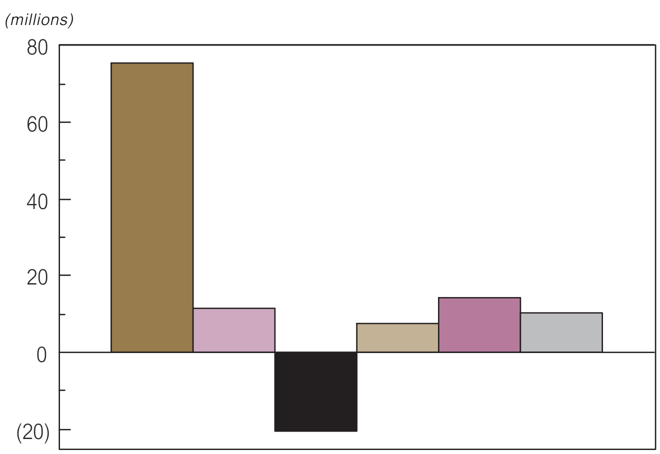
Instruction Exclusive of sponsored instruction programs.	$ 197,019
Research Exclusive of the Agricultural Experiment Station and sponsored research programs.	11,709
Public service Exclusive of Cooperative Extension and sponsored public service programs.	2,448
Academic support Library, Learning Resources Center, and academic administration.	37,567
Student services Student admissions, counseling services, and other student activities.	13,581
Institutional support Executive management, business, and finance operations.	32,484
Operation and maintenance of plant	32,112
Total expenditures	$ 326,920





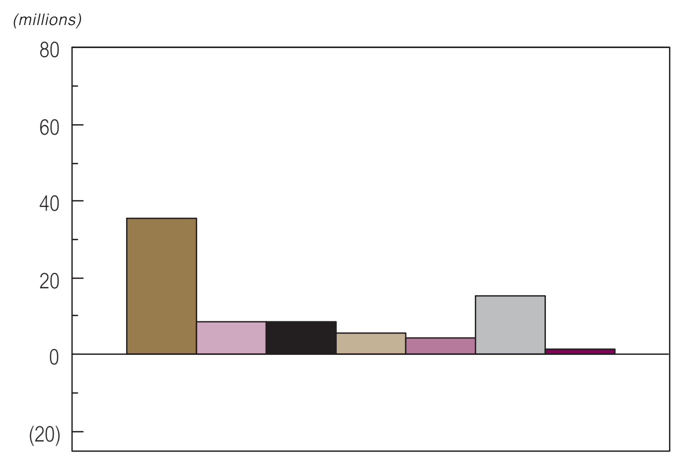
VIRGINIA TECH FOUNDATION, INC.

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 current fiscal year, the foundation recognized $75.4 million in contributions for support of the university. Investment income of $11.3 million, along with net losses on investments of $(20.4) million, resulted in a $(9.1) million loss on investments. Property rental, hotel operating and other income totaled $30.4 million. Total income of $96.7 million was offset by $76.4 million in expenses supporting the university and its programs. Direct support to various university programs aggregated $50.9 million, which included $8.4 million in scholarship support to students and faculty, and $7.7 million towards university capital projects. Additional expenses such as fund raising and general management, as well as research center and hotel program costs, brought total expenses to $76.4 million. The resulting positive change in net assets of $20.3 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, 2001, to $624.5 million.



2001 REVENUE, GAINS & OTHER SUPPORT

- Contributions
- Investment income
- Net loss on investments
- Rental income
- Hotel Roanoke
- Other income

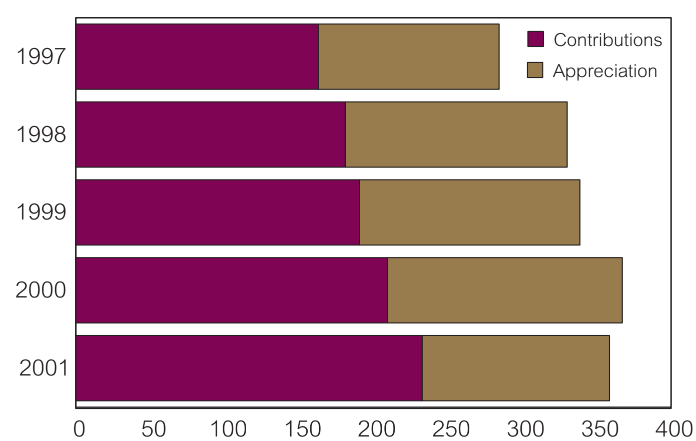


2001 EXPENSES

- Program support
- Student financial aid
- University capital outlay
- Fund raising
- Research park
- Hotel Roanoke
- General management

(all representations in millions of dollars)

ENDOWMENT MARKET VALUE 1997-2001



*Market value of Endowment Funds includes agency deposits held in trust of $48.3 million (Source: Virginia Tech Foundation Investment Managers, unaudited)

AFFILIATED CORPORATIONS FINANCIAL HIGHLIGHTS

FOR THE YEARS ENDED JUNE 30, 2001—1997

All dollars are in thousands (000's omitted)

	2001	2000 (as restated)	1999	1998	1997
ASSETS					
Virginia Tech Foundation, Inc.	$ 624,529	$ 574,358	$ 540,613	$ 499,209	$ 439,052
Virginia Tech Services, Inc.	9,803	11,560	10,449	11,113	11,502
Virginia Tech Alumni Association	3,967	4,174	3,923	1,447	1,332
Virginia Tech Intellectual Properties, Inc.	1,061	1,174	2,032	2,443	3,085
WPI, Inc.	6,960	7,043	8,801	10,098	11,136
Total assets	$ 646,320	$ 598,309	$ 565,818	$ 524,310	$ 466,107
REVENUES					
Virginia Tech Foundation, Inc.	$ 96,687	$ 104,537	$ 95,359	$ 104,124	$ 100,039
Virginia Tech Services, Inc.	21,866	22,056	21,208	19,497	22,421
Virginia Tech Alumni Association	(140)	325	2,567	196	199
Virginia Tech Intellectual Properties, Inc.	892	749	726	597	1,006
WPI, Inc.	12,751	14,275	19,397	26,643	29,662
Total revenues	$ 132,056	$ 141,942	$ 139,257	$ 151,057	$ 153,327
EXPENDITURES					
Virginia Tech Foundation, Inc.	$ 78,040	$ 73,589	$ 60,891	$ 54,464	$ 52,412
Virginia Tech Services, Inc.	21,866	22,049	21,365	19,497	22,342
Virginia Tech Alumni Association	67	74	91	80	27
Virginia Tech Intellectual Properties, Inc.	1,057	1,046	1,776	1,329	688
WPI, Inc.	12,726	14,262	19,787	26,811	29,462
Total expenditures	$ 113,756	$ 111,020	$ 103,910	$ 102,181	$ 104,931

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 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 visitor's 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 and Chief Operating Officer

REPORT OF THE INDEPENDENT AUDITOR

October 12, 2001

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, a component unit of the Commonwealth of Virginia, as of June 30, 2001, 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 auditing standards generally accepted in the United States of America 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, 2001, and the changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, *we have also issued our report dated October 12, 2001 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 36-46 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, 2001 AND 2000

All dollars are in thousands (000's omitted)

ASSETS	2001	2000
CURRENT FUNDS:		
Unrestricted:		
Cash, and cash equivalents (Note 4)	$ 59,865	$ 58,897
Investments, at fair value (Note 4)	3,536	6,433
Investments, securities lending (Note 5)	1,215	899
Accounts receivable, net of allowance for doubtful accounts of $674 in 2001 and $680 in 2000	4,830	5,587
Due from the Commonwealth of Virginia (Note 6)	7,672	7,308
Inventories	6,891	6,147
Due from current funds restricted	9,304	9,171
Due from plant funds	4,001	1,141
Due from loan funds	8	66
Prepaid expenditures	9,909	10,777
Total unrestricted	107,231	106,426
Restricted:		
Cash, and cash equivalents (Note 4)	15,847	17,632
Accrued interest and dividends receivable	-	160
Accounts receivable, including unbilled charges, net of allowance for doubtful accounts of $999 in 2001 and $526 in 2000	31,242	24,838
Due from loan funds	-	12
Other assets	155	123
Total restricted	47,244	42,765
Total current funds	$ 154,475	$ 149,191
LOAN FUNDS:		
Cash, and cash equivalents (Note 4)	$ 1,130	$ 1,114
Notes receivable, net of allowance for doubtful notes of $237 in 2001 and $261 in 2000	13,608	13,453
Total loan funds	$ 14,738	$ 14,567

LIABILITIES AND FUND BALANCES	2001	2000
CURRENT FUNDS:		
Unrestricted:		
Accounts payable	$ 15,602	$ 18,944
Accrued expenditures	33,756	32,045
Obligations under securities lending (Note 5)	1,215	899
Accrued compensated absences (Note 1)	26,207	24,292
Deferred revenue	13,510	17,432
Annuities payable	776	467
Fund balances	16,165	12,347
Total unrestricted	107,231	106,426
Restricted:		
Accrued compensated absences (Note 1)	5,040	5,412
Accounts payable	4,042	3,106
Accrued expenditures	7,147	6,613
Due to current funds unrestricted	9,304	9,171
Due to endowment funds	1,124	683
Due to plant funds	3	3
Fund balances	20,584	17,777
Total restricted	47,244	42,765
Total current funds	$ 154,475	$ 149,191
LOAN FUNDS:		
Due to current funds unrestricted	$ 8	$ 66
Due to current funds restricted	-	12
Fund balances:		
Government grants refundable	11,815	11,626
Matching funds	2,520	2,498
Other restricted	395	365
Total loan funds	$ 14,738	$ 14,567

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

BALANCE SHEET

AS OF JUNE 30, 2001 AND 2000

All dollars are in thousands (000's omitted)

ASSETS	2001	2000
ENDOWMENT AND SIMILAR FUNDS:		
Cash, and cash equivalents (Note 4)	$ 76	$ -
Investments, at fair value (Note 4)	42,843	47,578
Due from current funds restricted	1,124	683
Land (Note 7)	209	209
Total endowment and similar funds	$ 44,252	$ 48,470
PLANT FUNDS:		
Cash, and cash equivalents (Note 4)	$ 34,161	$ 35,054
Investments, at fair value (Note 4)	17,412	22,158
Accrued interest and dividends receivable	407	338
Accounts receivable	3,717	747
Capital appropriations receivable	5,962	26,284
Due from current funds restricted	3	3
Investment in plant (Note 7):		
Land	28,756	27,641
Buildings	471,501	423,302
Equipment	268,189	279,637
Fixed equipment	37,707	-
Library materials	51,801	49,198
Livestock	907	761
Construction in progress	15,817	33,262
Total plant funds	$ 936,340	$ 898,385
AGENCY FUNDS:		
Cash, and cash equivalents (Note 4)	$ 4,044	$ 3,631
Total agency funds	$ 4,044	$ 3,631

LIABILITIES AND FUND BALANCES	2001	2000
ENDOWMENT AND SIMILAR FUNDS:		
Annuity payable—current	$ 15	$ 15
Annuity payable—long-term	87	102
Fund balances:		
Endowment—unrestricted	371	357
Quasi-endowment—unrestricted	533	504
Quasi-endowment—restricted	43,140	47,400
Annuity funds	106	92
Total endowment and similar funds	$ 44,252	$ 48,470
PLANT FUNDS:		
Accounts payable and accrued expenditures	$ 5,872	$ 4,629
Retainage payable (Note 8)	972	1,262
Bond anticipation notes payable (Note 9)	3,000	-
Bonds payable, net of discount of $597 in 2001 and $982 in 2000 (Note 10, 11)	115,989	124,630
Other long-term debt (Notes 6, 10, 11)	6,665	12,700
Notes payable (Note 10, 11)	24,925	20,710
Due to current funds unrestricted	4,001	1,141
Fund balances:		
Unexpended:		
Unrestricted	64	337
Restricted	(872)	14,366
Renewal and replacement:		
Unrestricted	3,080	1,924
Restricted	241	3,637
Retirement of indebtedness:		
Unrestricted	12,700	18,676
Restricted	13,344	13,209
Net investment in plant	746,359	681,164
Total plant funds	$ 936,340	$ 898,385
AGENCY FUNDS:		
Funds held in custody for others	$ 4,044	$ 3,631
Total agency funds	$ 4,044	$ 3,631

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, 2001

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)	$ 544,800	$ -	$ -	$ -	$ -	$ -	$ -	$ -
State government appropriations	-	13,539	-	-	1,900	20,040	6,147	
Federal government appropriations	-	13,592	-	-	-	-	-	-
Federal government grants and contracts (Note 19)	-	148,041	63	-	30	-	-	8
State government grants and contracts	-	11,979	-	-	13	-	-	-
Local government grants and contracts (Note 3)	-	12,320	-	-	-	-	-	-
Nongovernmental grants and contracts	-	30,036	-	-	-	-	-	595
Gifts	-	26,437	-	-	7,812	193	-	-
Interest on loans receivable	-	-	291	-	-	-	-	-
Endowment income	-	1,380	-	-	-	-	-	-
Investment income:								
Interest and dividends	-	-	7	-	235	5	2,440	-
Net increase (decrease) in fair value of investments	-	-	-	(3,181)	-	-	806	-
Retirement of indebtedness (including $62 charged to current funds expenditures)	-	-	-	-	-	-	-	15,476
Expended for plant facilities (including $35,992 charged to current funds expenditures)	-	-	-	-	-	-	-	55,251
Additions from donated assets	-	-	-	-	-	-	-	3,529
Other income	-	-	27	-	650	225	-	-
Total revenues and other additions	544,800	257,324	388	(3,181)	10,640	20,463	9,393	74,859
EXPENDITURES AND OTHER DEDUCTIONS:								
Educational and general expenditures	422,192	239,959	-	-	-	-	-	-
Facilities and administrative costs recovered	-	15,528	-	-	-	-	-	-
Auxiliary enterprise expenditures (Note 5)	100,546	-	-	-	-	-	-	-
Loan cancellations and write-offs	-	-	20	-	-	-	-	-
Administrative and collection cost	-	-	128	-	-	-	52	-
Expended for plant facilities (including $6,498 not capitalized)	-	-	-	-	9,646	16,111	-	-
Retirement of indebtedness	-	-	-	-	-	-	15,414	-
Interest on indebtedness	-	-	-	-	-	-	7,438	-
Transfers to the Commonwealth of Virginia (Note 17)	-	-	-	-	19,079	14,643	-	-
Disposal of plant facilities	-	-	-	-	-	-	-	9,664
Total expenditures and other deductions	522,738	255,487	148	-	28,725	30,754	22,904	9,664
TRANSFERS AMONG FUNDS—ADDITIONS (DEDUCTIONS):								
Mandatory:								
Debt service—current year	(14,960)	(116)	-	-	(1,305)	(148)	16,529	-
Debt service—future years	1,484	-	-	-	700	-	(2,184)	-
Nonmandatory:								
Capital improvements	(4,808)	(8)	-	-	3,179	8,312	(6,675)	-
Allocation of funds	40	1,094	1	(1,022)	-	(113)	-	-
Total transfers	(18,244)	970	1	(1,022)	2,574	8,051	7,670	-
Net increase (decrease) for year	3,818	2,807	241	(4,203)	(15,511)	(2,240)	(5,841)	65,195
Fund balances, July 1, 2000	12,347	17,777	14,489	48,353	14,703	5,561	31,885	681,164
Fund balances, June 30, 2001	$ 16,165	$ 20,584	$ 14,730	$ 44,150	$ (808)	$ 3,321	$ 26,044	$ 746,359

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

STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES

AS OF JUNE 30, 2001 AND 2000

All dollars are in thousands (000's omitted)

	2001			2000
	Unrestricted	Restricted	Total	Total
REVENUES:				
Student tuition and fees	$ 150,187	$ -	$ 150,187	$ 149,310
State government appropriations (Note 16)	243,762	13,530	257,292	239,576
Federal government appropriations	-	12,797	12,797	14,829
Federal government grants and contracts	12,652	135,398	148,050	139,675
State government grants and contracts	623	11,374	11,997	12,769
Local government grants and contracts	227	12,195	12,422	11,553
Nongovernmental grants and contracts	2,779	24,525	27,304	21,826
Gifts	6,153	27,353	33,506	31,493
Endowment income	36	2,903	2,939	2,862
Investment income:				
Interest and dividends	2,475	-	2,475	1,557
Net increase (decrease) in fair value of investments	127	-	127	(32)
Sales and services of educational departments	8,981	-	8,981	8,438
Sales and services of auxiliary enterprises (Note 5)	115,819	-	115,819	110,858
Other	979	-	979	2,460
Total revenues	544,800	240,075	784,875	747,174
EXPENDITURES AND MANDATORY TRANSFERS:				
Educational and general:				
Instruction	200,176	8,922	209,098	196,816
Research	48,545	90,442	138,987	123,590
Public service	38,640	30,971	69,611	67,595
Academic support	40,631	2,167	42,798	43,534
Student services	13,627	781	14,408	14,241
Institutional support	32,362	5,799	38,161	37,266
Operation and maintenance of plant	35,877	4	35,881	35,596
Student financial assistance (Note 19)	12,334	100,873	113,207	111,536
Total educational and general expenditures	422,192	239,959	662,151	630,174
Mandatory transfers for debt service—current year	2,715	116	2,831	2,839
Total educational and general	424,907	240,075	664,982	633,013
AUXILIARIES:				
Expenditures (Note 5)	100,546	-	100,546	93,385
Mandatory transfers for debt service—current year	12,245	-	12,245	12,384
Mandatory transfers for debt service—future years	(1,484)	-	(1,484)	1,363
Total auxiliaries	111,307	-	111,307	107,132
Total expenditures and mandatory transfers	536,214	240,075	776,289	740,145
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS):				
Nonmandatory transfers:				
Capital improvements—auxiliaries	(4,718)	-	(4,718)	(2,183)
Capital improvements—all other	(90)	(8)	(98)	52
Allocation of current funds—auxiliaries	(1,706)	-	(1,706)	-
Allocation of current funds—all other	1,746	1,094	2,840	932
Excess (deficiency) of restricted receipts over transfers to revenue	-	1,721	1,721	(2,550)
Net increase (decrease) in fund balances	$ 3,818	$ 2,807	$ 6,625	$ 3,280

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Virginia Polytechnic Institute and State University is a public land-grant university serving the Commonwealth of Virginia, the nation, and the world community. The discovery and dissemination of new knowledge are central to its mission. Through its focus on teaching and learning, research, and outreach, the university creates, conveys, and applies knowledge to expand personal growth and opportunity, advance social and community development, foster economic competitiveness, and improve the quality of life.

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 and 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 fund represents 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 similar activities 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 materials 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. 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 capital 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 capital 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, 2001 and 2000, is recorded in the financial statements.

Deferred Revenue

Deferred revenue represents revenues collected but not earned as of June 30, 2001 and 2000. 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, 2001 and 2000, the university capitalized net interest expense of $64,000 and $92,000, 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 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):

	2001	2000 (as restated)
Assets		
Cash and investments	$ 419,313	$ 393,630
Other assets	172,213	144,012
Total	$ 591,526	$ 537,642
Liabilities and Fund Balances		
Current Liabilities	$ 33,664	$ 34,849
Long-term liabilities	79,139	42,687
Fund Balances	478,723	460,106
Total	$ 591,526	$ 537,642

The aggregate revenues and expenditures of these organizations, determined as if in consolidation with the university, were $81,264,000 and $62,647,000, respectively, in 2001 and $92,643,000 and $61,405,000, respectively, in 2000.

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 $33,524,000 in 2001 and $32,977,000 in 2000. 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 $10,234,000 in 2001 and $9,679,000 in 2000.

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 $10,675,000 and $10,313,000 in 2001 and 2000, respectively, and has been included in revenues and expenditures of the accompanying financial statements. The university received other local government support of $1,645,000 and $1,441,000 in 2001 and 2000, 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, 2001 and 2000.

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, 2001 and 2000:

- 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 2001 or 2000.
- 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 2001 or 2000.
- 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, 2001, follows (000's omitted):

	Category 1	Non-categorized	Fair Value
Cash equivalents:			
U.S. government securities and U.S. government agency securities	$ 18,455	$ -	$ 18,455
Money market funds	-	36,899	36,899
Total cash equivalents	18,455	36,899	55,354
Investments:			
U.S. government securities and U.S. government agency securities	13,525	-	13,525
Corporate bonds	7,793	-	7,793
Other—maintained by Virginia Tech Foundation	-	42,473	42,473
Total investments	21,318	42,473	63,791
Total	$ 39,773	$ 79,372	$ 119,145

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	15,740	34,952	50,692
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	28,946	47,223	76,169
Total	$ 44,686	$ 82,175	$ 126,861

Cash equivalents and investments as of June 30, 2001 and June 30, 2000 for each fund group are shown below at fair value (000s omitted):

	Balance at June 30, 2001		Balance at June 30, 2000	
	Cash Equivalents	Investments	Cash Equivalents	Investments
Fund group:				
Current funds—unrestricted	$ 22,402	$ 3,536	$ 19,244	$ 6,433
Current funds—restricted	575	-	597	-
Loan funds	7	-	6	-
Endowment and similar funds	75	42,843	-	47,578
Plant funds	32,057	17,412	30,624	22,158
Agency funds	238	-	221	-
Total	$ 55,354	$ 63,791	$ 50,692	$ 76,169

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, 2001 and 2000, respectively, securities lending transactions totaled $64,000 and $34,000 of securities lending income and $61,000 and $32,000 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. HIGHER EDUCATION EQUIPMENT TRUST FUND

The Higher Education Equipment Trust Fund (ETF) 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 10 and 11, 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 $7,672,000 and $7,308,000 for the years ended June 30, 2001 and 2000, respectively, represents equipment purchased by the university that was not reimbursed by VCBA.

7. CHANGES IN INVESTMENT IN CAPITAL ASSETS

A summary of changes in investment in capital assets for the year ending June 30, 2001 is presented as follows (000s omitted):

	Beginning Balance	Reallocations	Additions	Retirements	Ending Balance
Land—endowment	$ 209	$ -	$ -	$ -	$ 209
Land—plant funds	27,641	-	1,115	-	28,756
Buildings	423,302	-	48,199	-	471,501
Equipment	279,637	(36,238)	34,443	9,653	268,189
Fixed equipment	-	36,238	1,480	11	37,707
Library materials	49,198	-	2,603	-	51,801
Livestock	761	-	506	360	907
Construction in progress	33,262	-	28,174	45,619	15,817
Total capital assets	$ 814,010	$ -	$ 116,520	$ 55,643	$ 874,887

8. RETAINAGE PAYABLE

For the years ended June 30, 2001 and 2000, $972,000 and $1,262,000, respectively, were held by the university as retainage on various contracts for work which had been performed. The retainage will be remitted to the various contractors upon satisfactory completion of the construction projects.

9. BOND ANTICIPATION NOTES

For the year ended June 30, 2001, the university had an outstanding treasury loan due to the Commonwealth of Virginia in the amount of $3,000,000 for temporary financing of the Lane Stadium expansion project.

On October 10, 2001, the Virginia College Building Authority (VCBA), on behalf of the university, issued $26,285,000 in bonds through the Public Higher Education Financing Program, referred to as the Pooled Bond Program. Proceeds from the bonds will be used to purchase a note payable from the university that will serve as permanent financing for the Lane Stadium expansion project. The university will use $3,000,000 of the proceeds to repay the treasury loan due to the Commonwealth of Virginia. The pledged general revenues of the university secure the notes issued to the VCBA.

10. 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, facilities and administrative 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 *Notes Payable* below and Note 11, Detail of Long-term Indebtedness, *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 represent loan agreements and promissory notes between the VCBA and the university to finance the construction of Harper Hall, the special purpose housing project, the infectious waste facility, and the Utility System electric substation. 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 (ETF) 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.

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, 2001 is presented as follows (000s omitted):

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
Bonds Payable					
Section 9 (c) general obligation revenue bonds	$ 54,730	$ -	$ 4,981	$ 49,749	$ 4,749
Section 9 (d) revenue bonds	69,900	-	3,660	66,240	3,845
Notes payable	20,710	4,565	350	24,925	825
Capital lease obligations, ETF	12,536	-	6,038	6,498	4,751
Installment purchase obligations	164	65	62	167	63
Total long-term liabilities	$ 158,040	$ 4,630	$ 15,091	$ 147,579	$ 14,233

A summary of future principal commitments for fiscal years subsequent to June 30, 2001 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
2002	$ 4,749	$ 3,845	$ 825	$ 4,751	$ 63	$ 14,233
2003	4,921	4,045	880	1,747	62	11,655
2004	5,083	5,480	925	-	25	11,513
2005	3,512	3,590	965	-	10	8,077
2006	3,687	3,785	1,010	-	7	8,489
After 2006	28,394	45,495	20,320	-	-	94,209
Less: Unamortized discount	(597)	-	-	-	-	(597)
Total future principal requirements	$ 49,749	$ 66,240	$ 24,925	$ 6,498	$ 167	$ 147,579

A summary of future interest commitments for fiscal years subsequent to June 30, 2001 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
2002	$ 2,521	$ 3,558	$ 1,239	$ 276	$ 5	$ 7,599
2003	2,271	3,360	1,202	83	3	6,919
2004	2,013	3,151	1,164	-	-	6,328
2005	1,748	2,862	1,124	-	-	5,734
2006	1,576	2,669	1,081	-	-	5,326
After 2006	7,314	15,153	8,363	-	-	30,830
Total future interest requirements	$ 17,443	$ 30,753	$ 14,173	$ 359	$ 8	$ 62,736

11. DETAIL OF LONG-TERM INDEBTEDNESS

Bonds Payable

Bonds payable at June 30, 2001 and 2000 consist of the following (000's omitted):

	Interest rates	Maturity	2001	2000
Revenue Bonds:				
Dormitory and dining hall system:				
Series 1996B, issued $3,020 *	3.80% - 5.70%	2004	$ 1,260	$ 1,645
Series 1996B, issued $5,475 *	3.80% - 5.35%	2009	3,740	4,115
Series 1996B, issued $1,730	3.80% - 5.70%	2016	1,540	1,605
Utility system, series 1996D, issued $2,570 *	3.80% - 5.35%	2009	1,755	1,930
Veterinary medicine, series 1996A, issued $1,040 *	3.80% - 5.75%	2008	690	765
Northern Virginia Graduate Center, series 1996A, issued $10,080 *	3.80% - 5.75%	2020	9,075	9,345
Architectural/engineering, series 1996A, issued $6,805	3.80% - 5.50%	2016	6,065	6,325
Athletic facility – addition, series 1996A, issued $3,540	3.80% - 5.75%	2004	2,385	2,735
Athletic facility – improvements, series 1996A, issued $6,250	3.80% - 5.75%	2016	5,390	5,620
Coal fired facility, series 1996A, issued $11,035	3.80% - 5.50%	2016	9,840	10,255
Donaldson Brown Hotel and Conference Center:				
Series 1996A, issued $3,945	3.80% - 5.50%	2016	3,520	3,670
Series 1996A, issued $2,495	3.80% - 5.50%	2016	2,155	2,245
University services systems:				
Student Health and Fitness Center, series 1996C, issued $21,175	3.80% - 5.50%	2016	18,825	19,645
Total revenue bonds			66,240	69,900
General Obligation Revenue Bonds:				
Dormitory and dining hall system:				
Series 1991A, issued $5,015 – refinanced *	5.60% - 7.60%	2011	240	470
Series 1992C, issued $4,990 – partial refunding *	5.10% - 5.80%	2004	685	890
Series 1992D, issued $2,680 – partial refunding *	4.60% - 5.60%	2006	650	760
Series 1992D, issued $2,790 – partial refunding *	4.60% - 5.60%	2006	675	790
Series 1993B, issued $4,763 – refunding series 1986B *	3.50% - 4.25%	2001	-	747
Series 1993B, issued $3,050 – refunding series 1991A *	3.50% - 5.00%	2011	2,896	2,920
Series 1996, issued $272 – refunding series 1991A *	4.75%	2003	260	262
Series 1997, issued $15,895	3.79% - 5.40%	2017	14,255	14,830
Series 1998, issued $3,158 – refinanced 1992C *	3.50% - 4.70%	2013	3,072	3,093
Series 1998, issued $1,380 – refinanced 1992D *	3.50% - 4.70%	2013	1,347	1,354
Series 1998, issued $1,440 – refinanced 1992D *	3.50% - 4.70%	2013	1,405	1,413
Series 1999, issued $3,255	4.00% - 5.50%	2018	2,905	3,015
Series 1999A, issued $1,800	4.75% - 5.25%	2019	1,740	1,800
Telecommunication, series 1989A, issued $24,259	6.40% - 7.20%	2004	4,571	5,908
University services system – student center:				
Series 1991A, issued $3,260 – refinanced *	5.60% - 7.60%	2011	155	305
Series 1993A, issued $10,885 – refunding series 1988B *	3.75% - 5.20%	2008	7,735	8,650
Series 1993B, issued $942 – refunding series 1990B *	3.50% - 5.00%	2010	890	898
Series 1993B, issued $1,987 – refunding series 1991A *	3.50% - 5.00%	2011	1,887	1,903
Series 1996, issued $143 – refunding series 1990B *	4.75%	2001	-	71
Series 1996, issued $176 – refunding series 1991A *	4.75%	2003	168	170
Parking facilities:				
Series 1991A, issued $4,220 – refinanced *	5.60% - 7.60%	2011	205	395
Series 1993B, issued $2,569 – refunding series 1991A *	3.50% - 5.00%	2011	2,439	2,460
Series 1996, issued $230 – refunding series 1991A *	4.75%	2003	219	221
Series 1997, issued $1,550	5.00%	2017	1,350	1,405
Total general obligation revenue bonds			49,749	54,730
Total bonds payable			$ 115,989	$ 124,630

* See Bond Defeasance

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, 2001 and 2000, bonds payable considered defeased in previous years totaled $27,685,000 and $29,935,000, respectively.

Notes Payable

Notes payable to Virginia College Building Authority under the pooled 9 (d) bond program at June 30, 2001 and 2000 consists of (000's omitted):

	Average coupon rate	Maturity	2001	2000
Dormitory and dining hall system:				
Series 1999, issued $10,145	4.53%	2018	$ 9,455	$ 9,805
Series 1999A, issued $10,905	5.73%	2019	10,905	10,905
Utility system, series 2000A, issued $2,925	5.25%	2020	2,925	-
Dry rendering facility, series 2000A issued $1,640	5.25%	2020	1,640	-
Total notes payable			$ 24,925	$ 20,710

Other Long-term Debt

Other long-term debt at June 30, 2001 and 2000 consists of (000's omitted):

	2001	2000
Capital leases payable for Higher Education Equipment Trust Fund with interest rates of 4.10% to 5.35%.	$ 6,498	$ 12,536
Installment purchase obligations for equipment purchases through June 2001 with various interest rates and maturing through 2004. The book value of capitalized equipment is $450 for 2001 and $565 for 2000.	167	164
Total other long-term debt	$ 6,665	$ 12,700

Total Long-term Debt Summary

	2001	2000
Total bonds payable	$ 115,989	$ 124,630
Total notes payable	24,925	20,710
Total other long-term debt	6,665	12,700
Total long-term debt	$ 147,579	$ 158,040

12. 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 $9,930,000 and $8,617,000 for the years ended June 30, 2001 and 2000, respectively.

A summary of future minimum lease payments under operating leases as of June 30, 2001, follows (000's omitted):

Year ending June 30:	
2002	$ 5,081
2003	3,211
2004	2,695
2005	1,506
2006	824
After 2006	829
Total	$14,146

13. 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, 2001, included (000's omitted):

Lane Stadium expansion	$24,660
Alumni hotel and conference center	2,116
Dry rendering facility	1,385
Bioinformatics building	995
Agriculture and forestry research	865
Special purpose housing—phase III	576
Chemistry/physics—phase II	482
Other projects	1,723
Total	$32,802

These commitments are funded by the following: $19,633 from general obligation bond proceeds, $9,119 from private funding, $1,687 from auxiliary enterprise funds, and $1,607 from state general appropriations. Other funding sources include facilities and administrative cost recoveries and university education and general funds.

14. 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 $18,715,000 and $19,583,000 for the years ended June 30, 2001 and 2000, 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 $10,524,000 and $9,566,000 for years ended June 30, 2001 and 2000, respectively. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $101,194,000 and $91,985,000 for fiscal years 2001 and 2000, respectively.

Deferred Compensation Plan

University employees may participate in Virginia's Deferred Compensation Plan (DCP). Virginia legislation provides for an employer match of 50% of the deferral amount, up to a maximum match of $20 per pay period. The DCP is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. Employer contributions under the DCP were approximately $1,293,000 and $126,000 for the fiscal years ended June 30, 2001 and 2000, respectively.

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 $1,139,000 and $1,149,000 for the years ended 2001 and 2000, respectively. Contributions to FERS and CSRS were calculated using the base salary amount of approximately $13,001,000 and $14,555,000 for the fiscal years 2001 and 2000, respectively.

In addition, the university contributed $58,000 and $57,000 for the years ended June 30, 2001 and 2000, respectively, in employer contributions to the Thrift Savings Plan. The Thrift Savings Plan is a defined contribution plan in which the university matches employee contributions within certain limitations.

15. 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*.

16. APPROPRIATIONS

The Appropriation Act specifies that unexpended general fund appropriations which remain on the last day of the current year, ending on June 30, 2001, shall be reappropriated for expenditure in the first month of the next year, beginning on July 1, 2001, 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, 2001, the following adjustments were made to the university's original appropriation (000's omitted):

Original legislative appropriation per Chapter 1073	$ 242,534
Adjustments:	
Virginia Retirement System rate reduction savings	(1,650)
Salary increases	1,513
Health insurance premium	1,099
Deferred compensation employer match	1,013
Retiree health care credit savings	(1,010)
Transfer from student financial assistance program for graduate assistantships	218
Agricultural education program	150
Automobile liability premium payment savings	(86)
Electrical and gas industries deregulation savings	(33)
Virtual Library of Virginia	24
Indemnity bond premium payment savings	(10)
Total adjustments	1,228
Adjusted appropriation	$ 243,762

17. CAPITAL OUTLAY REVERSIONS

On February 24, 2001, the Governor issued Executive Order 74 placing a moratorium on spending of general fund appropriations for capital outlay projects not already under contract. Therefore, all unspent general fund appropriations for the following projects were reverted to the commonwealth and are shown on the Statement of Changes in Fund Balance as follows:

	Plant Funds Unexpended	Plant Funds Renewal and Replacement
Chemistry/physics building	$ 17,272	$ -
Livestock arena	1,807	-
Shanks and Shultz Halls conversions	-	10,018
Dairy center	-	3,400
Hampton Roads facility	-	1,225
Total transfers to the Commonwealth of Virginia	$ 19,079	$ 14,643

18. 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, 2001, the university estimates that no material liabilities will result from such audits or questions.

19. 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 $148,041,000 and $140,254,000 included funds for these federal loan programs of $69,687,000 and $70,499,000, for the years ended June 30, 2001 and 2000, 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, 2001 and 2000, totals of $100,873,000 and $98,986,000 included $69,689,000 and $70,502,000, respectively, for these loan programs.

20. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

The university is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; nonperformance of duty; injuries to employees; and natural disasters. The university participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The university pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the *Commonwealth of Virginia's Comprehensive Annual Financial Report.*

21. NOTICE OF FORMAT CHANGES TO FUTURE FINANCIAL REPORTS

Governmental Accounting Standards Board (GASB) Statement Number 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, issued November 1999, establishes accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of GASB Statement Number 34, *Basis Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.* The new statement will be effective for the fiscal year ending June 30, 2002. The standards are designed to provide financial information that responds to the needs of three groups of primary users of general purpose external financial reports: the citizenry, legislative and oversight bodies, and investors and creditors. Under this guidance, the university is required to include management's discussion and analysis (MD&A); basic financial statements; notes to the financial statements; and required supplementary information other than MD&A. The new standards will significantly change the appearance and content of the information currently presented in the financial report. In addition, the required MD&A will provide an analysis of the university's overall financial position and results of operations, including a comparison of the current year results with the prior year. The university is currently in the process of preparing for implementation by assessing and implementing any changes that may be required.

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

FOR THE YEARS ENDED JUNE 30, 2001—1997

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	$ 34,474	$ -	$ 13,540	$ 2,578	$ 5,827	$ 2,108	$ 58,527
Sales and services	4,579	13,864	2,098	10,644	16,133	9,974	57,292
Total fees and sales	39,053	13,864	15,638	13,222	21,960	12,082	115,819
Contributions	134	-	219	-	2,908	29	3,290
Interest and dividends	92	26	62	469	582	398	1,629
Total revenues	39,279	13,890	15,919	13,691	25,450	12,509	120,738
EXPENSE OF OPERATIONS:							
Personal services	14,261	1,536	7,666	4,953	8,461	3,910	40,787
Contractual services	3,681	266	2,406	3,498	6,439	3,022	19,312
Supplies and materials	10,457	598	1,053	910	3,129	1,333	17,480
Continuous charges	4,183	10,199	1,165	1,054	3,533	826	20,960
Equipment	425	182	220	740	180	199	1,946
Other charges	-	-	-	61	-	-	61
Total expenses of operation	33,007	12,781	12,510	11,216	21,742	9,290	100,546
EXCESS OF REVENUES OVER EXPENSES OF OPERATIONS BEFORE TRANSFERS:	6,272	1,109	3,409	2,475	3,708	3,219	20,192
TRANSFERS AMONG FUNDS—ADDITIONS (DEDUCTIONS):							
Mandatory transfers:							
Debt service—current year	(5,697)	(271)	(3,610)	(1,184)	(533)	(950)	(12,245)
Debt service—future years	875	357	252	-	-	-	1,484
Nonmandatory transfers:							
Capital transfers	(1,450)	(1,195)	(51)	-	(1,059)	(963)	(4,718)
Allocation of funds	-	-	-	-	(754)	(952)	(1,706)
Total transfers	(6,272)	(1,109)	(3,409)	(1,184)	(2,346)	(2,865)	(17,185)
Net increase (decrease) for year	-	-	-	1,291	1,362	354	3,007
Fund balances, July 1, 2000	-	-	-	2,450	4,392	5,357	12,199
Fund balances, June 30, 2001	$ -	$ -	$ -	$ 3,741	$ 5,754	$ 5,711	$ 15,206

(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, Tailor Shop, Continuing Education Center, Library Services, Golf Course, Tennis Pavilion, Hokie Passport, and Software Sales.

BUSINESS AND FINANCIAL PERSONNEL

MINNIS E. RIDENOUR
Executive Vice President and Chief Operating Officer

RAYMOND D. SMOOT, JR.
Vice President for Administration and Treasurer

F. SPENCER HALL
Assistant Vice President for Facilities

M. DWIGHT SHELTON, JR.
Vice President for Budget and Financial Management

KENNETH E. MILLER
University Controller

JOHN C. RUDD
Director of Internal Audit and Management Services

JOHN J. CUSIMANO
Director of Investments and Debt Management