

# Shaping the future for 125 years

*When William Addison Caldwell hiked from his Craig County home to Blacksburg to become Virginia Agricultural and Mechanical College's first student 125 years ago, neither he nor the founders of the fledgling school could imagine the changes that would transform the struggling institution into the Virginia Polytechnic Institute and State University of 1997.*

*Today, enrollment is nearing 25,000, numerous programs hold spots on national top 20 lists, many faculty members have national and international reputation in their respective fields, and the university has emerged as a leader in research and technology.*

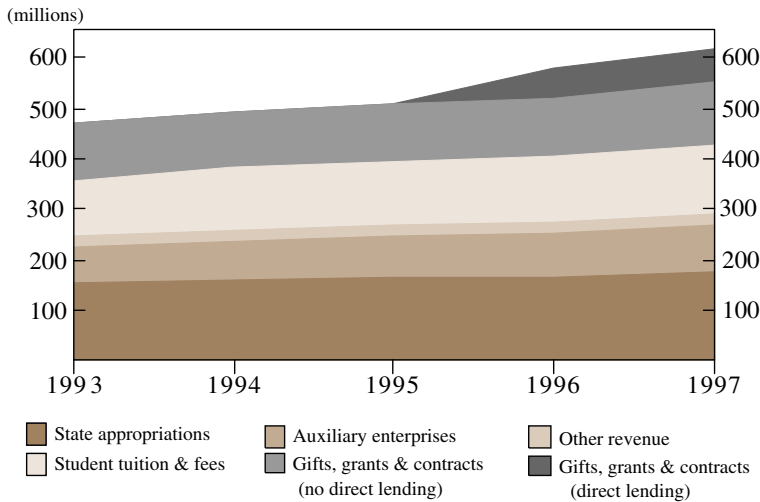
*The results of the current year's financial activity are shown on the following pages, along with trends for the past five years.*

# Current Funds Revenues

Total current funds revenues increased \$38.7 million or 6.7 percent over the previous fiscal year. The growth was balanced. Almost every type of revenue increased by between 5 and 10 percent. The largest percentage increase was in the gifts, grants, and contracts category. Ignoring the Federal Direct Lending Program, revenues increased by 10 percent, or over \$11 million, mostly due to new federally sponsored projects and increased indirect cost recoveries. Even though there was a freeze on tuition for in-state students, student tuition and fees were up nearly 6.6 percent over last year due to an increase in total enrollment of about 1200 students and an increase in the proportion of out-of-state students. State appropriations increased by \$9.2 million or

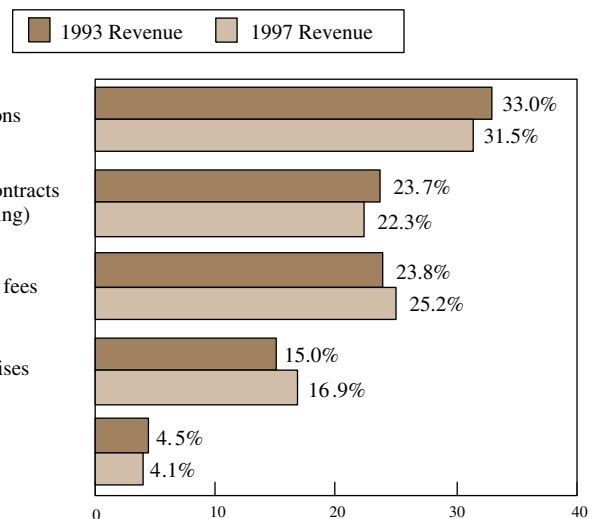
5.6 percent due to incremental funding for the following: faculty and staff salary increases, computer and network equipment and maintenance costs for the Agricultural Experiment Stations, technology initiatives, and new funds for instructional programs. Auxiliary enterprise revenues grew by almost 8 percent, primarily because of student fee revenue increases due to small increases in the comprehensive fees and increased student enrollment, and athletic revenue increases due to football ticket sales and Big East Conference revenues. The category with the largest increase in fiscal year 1996, the Federal Direct Lending program, grew by \$3.7 million to a total of \$62.7 million, or a 6 percent increase.

Five Year Revenue Trend: 1993 - 1997



The graph at the left shows the trend in revenues over the past five years. Total revenues increased by \$145 million during this period, with most of the growth attributed to the addition of the Federal Direct Lending program. There were also increases in auxiliary enterprises revenues and student tuition and fees during this period.

Comparison of FY93 and FY97 Revenues as a Relative Percent  
No Direct Lending Included



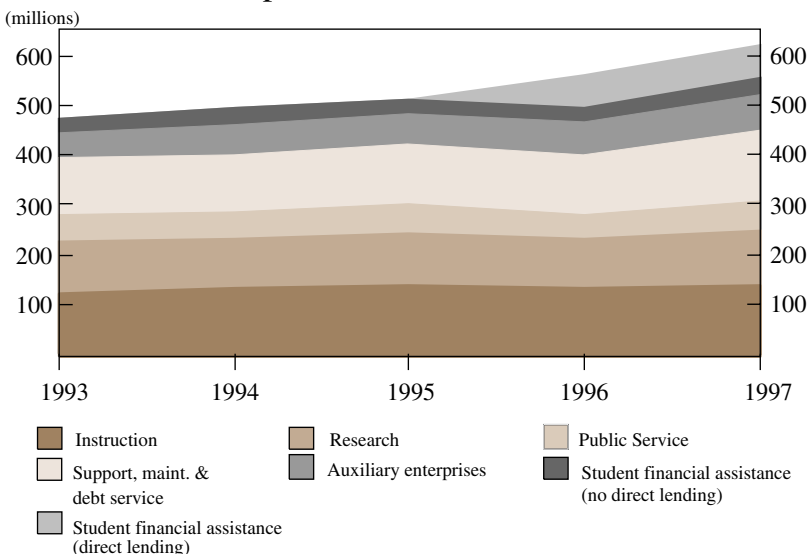
The graph at the right compares revenues for fiscal years 1993 and 1997. Because there was no Federal Direct Lending program revenue in 1993, the revenue associated with that program has been excluded from 1997 for this graph. Although state appropriations have increased by over \$18 million in the last 5 years, they decreased as a percent of the total revenues. However, this increase is misleading, as 1997's appropriations were still \$7.8 million less than the 1990 appropriations. Student tuition and fees grew by over \$27 million during this period and increased as a percent of total revenues.

# Current Funds Expenditures and Mandatory Transfers

Total current funds expenditures and mandatory transfers increased by 10.6 percent over the previous year. Total current funds expenditures for salaries and fringe benefits increased by about \$19 million from the prior year across all categories due to faculty and staff pay increases averaging between 4 and 6 percent. Approximately \$11 million of these payroll increases affected the Instruction, Research, and Public Service expenditure categories and was the primary cause of the \$27.8 million, or 9.9 percent increase in these categories. The balance of the increase can be attributed to the hiring of personnel for positions previously held vacant and the purchase of computer and communication equipment for the Cooperative Extension and Agricultural Experiment Station programs. In total, expenditures for equipment for the Instruction, Research, and Public Service expenditure categories increased by \$5.8 million over the prior year's expenditures. The growth in auxiliary expenditures of 9.7 percent

was due mainly to faculty and staff pay raises, the purchase of an indoor track for athletics, and over \$3 million of network communication equipment purchased by the Information Systems and Services auxiliary. The largest increase of 23.6 percent occurred in the Support, Maintenance and Debt Service category. In addition to pay raises, there were significant new costs for hardware, software, and consultants to support the university's computing center, the new administrative systems project, and the Year 2000 modifications for existing administrative systems. Moreover, mandatory transfers increased about \$4.5 million, not due to current year debt service payments, but due to the transfer of all fund balances from Current Funds to Plant Funds for the Student Center, Student Health, and Recreational Sports auxiliaries. This change from the previous year occurred in conjunction with the new bond covenants related to the revenue bonds issued in October 1996. Federal Direct Lending program expenditures grew by \$3.8 million or 6.3 percent.

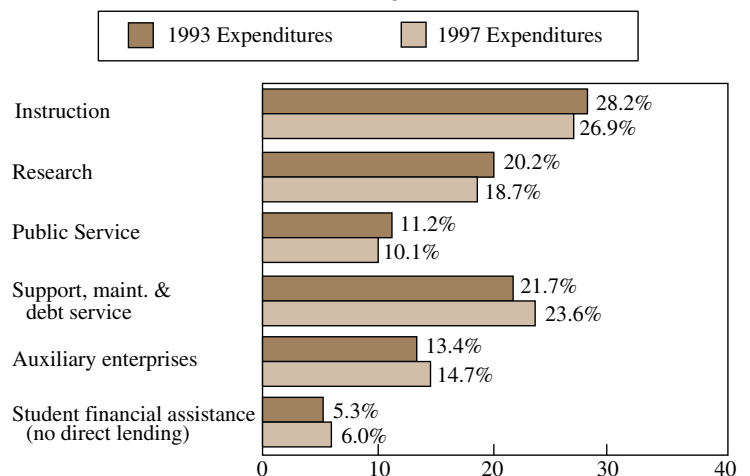
Five Year Expenditure Trend: 1993 - 1997



The graph at the left shows the trend in expenditures and mandatory transfers over the last five years. The peak in fiscal year 1995 was due to the accrual of costs for the early retirement programs for faculty and staff. Another significant increase occurred due to the implementation of the Federal Direct Lending program in fiscal year 1995. Increases in fiscal year 1997 mostly resulted from faculty and staff salary increases, and the purchase of new computer hardware and software for new technology initiatives and administrative systems.

The graph at the right compares expenditures and mandatory transfers categories for fiscal years 1993 and 1997. It shows slight declines in the percent of total expenditures for Instruction, Research and Public Service, however, total expenditures actually increased from the 1993 totals by \$16 million, \$8 million, and \$3 million, respectively. The largest increase of almost 2 percent was in the Support, Maintenance and Debt Service category which was mainly due to the costs of the new administrative systems and one-time mandatory transfers to plant funds for certain auxiliaries. All other categories increased slightly. Federal Direct Lending program expenditures have been excluded.

Comparison of FY93 and FY97 Expenditures as a Relative Percent  
No Direct Lending Included



## Fund Balances

Total fund balances for all fund groups increased by almost \$48 million over the previous year. The largest increase occurred in the Net Investment in Plant fund balance, which grew by over \$41 million. The fund balance increase was due mainly to two factors: current funds expenditures in excess of \$23 million for equipment, (mostly computer and communication equipment), and the construction costs of the new Architecture and Engineering buildings and other projects funded from general fund appropriations and private gifts. Current Funds Unrestricted fund balances decreased by \$5.8 million. This is in contrast to the \$17 million increase in fiscal year 1996. The main reasons for the decrease in fund balances were faculty and staff salary increases, extraordinary purchases of computer and communication equipment, and the increase of mandatory transfers not related to current year debt service for certain auxiliaries. Effective July 1, 1996 the Recreational

Sports, Student Centers, and Student Health auxiliaries were combined into a single entity called the University Services System for reporting purposes in conjunction with the creation of new bond covenants for the bonds payable issued in October 1996. As with the Dormitory and Dining Hall System and the Utility System, all net revenues and fund balances of the University Services System are managed and invested by the Treasurer of Virginia as trustee. These funds held by the trustee are reported in Plant Funds Retirement of Indebtedness, not in Current Funds Unrestricted. In addition, nonmandatory transfers from Current Funds Unrestricted for capital projects increased by over \$1.7 million over the previous year. The fund balances for Current Funds Restricted, Loan Funds, Endowment and Similar Funds, and the other Plant Funds grew slightly from last year.

## University Financial Operating Trends

For the years ended June 30, 1997 - 1993

<i>(all dollars are in millions)</i>	1997	1996	1995	1994	1993
<b>CURRENT FUND REVENUES</b>					
Student fees and tuition	\$ 139.7	\$ 131.0	\$ 126.3	\$ 121.0	\$ 112.4
State government appropriations (1)	174.5	165.3	164.6	161.3	155.8
Gifts, grants and contracts—excluding direct lending	123.6	112.2	113.4	111.7	111.8
Gifts, grants and contracts—direct lending program	62.7	59.0	2.2	-	-
Auxiliary enterprises	93.9	87.2	82.5	78.8	70.7
Other revenue	22.9	23.9	24.0	21.8	21.2
Total current funds revenues	<u>\$ 617.3</u>	<u>\$ 578.6</u>	<u>\$ 513.0</u>	<u>\$ 494.6</u>	<u>\$ 471.9</u>
<b>CURRENT FUND EXPENDITURES &amp; MANDATORY TRANSFERS</b>					
Instruction	\$ 149.2	\$ 140.4	\$ 148.2	\$ 138.5	\$ 133.1
Research	104.1	92.2	97.4	96.6	95.7
Public service	56.0	48.8	55.9	55.2	52.9
Support, maintenance and debt service	131.0	113.9	112.0	111.1	102.3
Auxiliary enterprises	81.4	74.2	70.3	72.4	63.4
Student financial assistance—excluding direct lending	33.4	30.2	29.4	26.0	25.1
Student financial assistance—direct lending program	62.7	59.0	2.2	-	-
Total current funds expenditures & mandatory transfers	<u>\$ 617.8</u>	<u>\$ 558.7</u>	<u>\$ 515.4</u>	<u>\$ 499.8</u>	<u>\$ 472.5</u>
<b>FUND BALANCES</b>					
Total current funds	\$ 25.7	\$ 30.5	\$ 13.0	\$ 19.0	\$ 24.9
Loan funds	12.3	11.8	10.9	10.4	9.9
Endowment funds (2)	38.2	35.8	31.9	31.4	30.3
Plant funds	618.1	568.4	536.0	497.3	471.2
Total fund balances	<u>\$ 694.3</u>	<u>\$ 646.5</u>	<u>\$ 591.8</u>	<u>\$ 558.1</u>	<u>\$ 536.3</u>

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

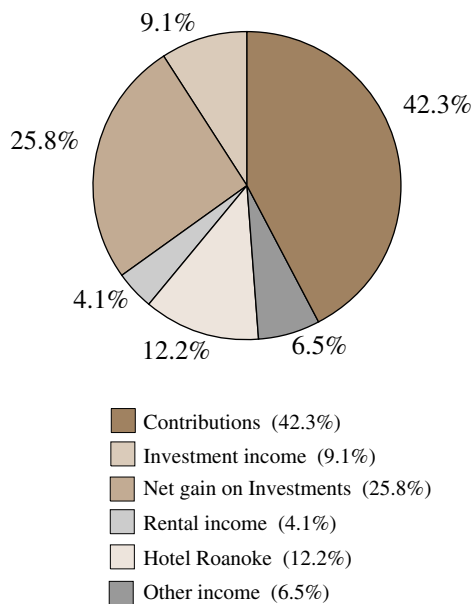
(2) Excludes endowments owned by affiliated corporations.

# Virginia Tech Foundation, Inc.

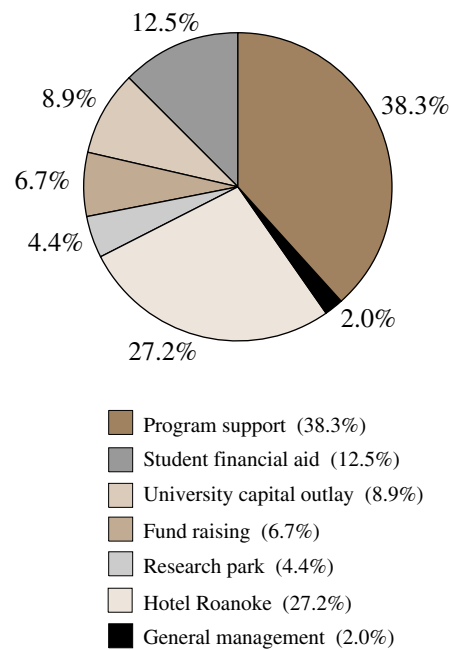
The Virginia Tech Foundation, Inc. was incorporated in 1948 to receive and manage private gifts on behalf of the university. During the 1996-97 fiscal year, the foundation recognized \$42 million in contributions for support of the university. Investment income for the year of \$9 million, along with net gains on investments of \$26 million provided an aggregate \$35 million return on investments. Property rental, hotel operating and other income totaled \$23 million. Total income of \$100 million was offset by \$52 million in expenses that supported the university and its programs. Direct support to various university programs

aggregated \$31 million, which included \$6.5 million in scholarship support to students and faculty, and \$4.7 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 \$52 million. The resulting positive change in net assets of \$48 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, 1997, to \$439 million.

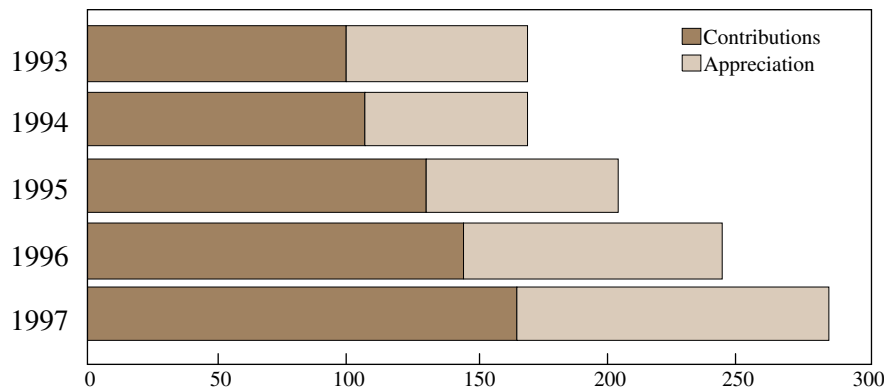
1997 Revenue, Gains and Other Support



1997 Expenses



Endowment Market Value 1993-1997



\*Market value of Endowment Funds includes agency deposits held in trust of \$48 million  
(Source: Virginia Tech Foundation Investment Managers, unaudited)

# Affiliated Corporations Financial Highlights

For the years ended June 30, 1997 – 1993

<i>(all dollars are in thousands)</i>	1997	1996	1995	1994	1993
<b>ASSETS</b>					
Virginia Tech Foundation, Inc.	\$ 439,052	\$ 379,212	\$ 312,893	\$ 256,809	\$ 230,040
Virginia Tech Services, Inc.	11,502	12,224	13,282	7,625	6,476
Virginia Tech Alumni Association	1,332	1,025	870	859	807
Virginia Tech Intellectual Properties, Inc.	14,321	13,724	12,073	10,286	14,509
Total Assets	<u>\$ 466,207</u>	<u>\$ 406,185</u>	<u>\$ 339,118</u>	<u>\$ 275,579</u>	<u>\$ 251,832</u>
<b>REVENUES</b>					
Virginia Tech Foundation, Inc.	\$ 100,039	\$ 78,041	\$ 56,190	\$ 44,279	\$ 46,849
Virginia Tech Services, Inc.	22,421	21,662	16,221	13,901	14,934
Virginia Tech Alumni Association	199	186	43	87	83
Virginia Tech Intellectual Properties, Inc.	30,508	28,853	29,711	25,700	12,707
Total Revenues	<u>\$ 153,167</u>	<u>\$ 128,742</u>	<u>\$ 102,165</u>	<u>\$ 83,967</u>	<u>\$ 74,573</u>
<b>EXPENDITURES</b>					
Virginia Tech Foundation, Inc.	\$ 52,412	\$ 45,293	\$ 32,771	\$ 27,836	\$ 27,784
Virginia Tech Services, Inc.	22,342	21,312	16,029	13,785	14,339
Virginia Tech Alumni Association	27	31	33	35	239
Virginia Tech Intellectual Properties, Inc.	30,150	27,974	28,976	24,821	12,245
Total Expenditures	<u>\$ 104,931</u>	<u>\$ 94,610</u>	<u>\$ 77,809</u>	<u>\$ 66,477</u>	<u>\$ 54,607</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 Corps 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 31, 1997

To the Honorable George F. Allen  
Governor of Virginia

The Honorable W. Tayloe Murphy, 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, 1997, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended. The financial statements are the responsibility of the university's management. Our responsibility is to express an opinion on these 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, 1997, 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 31, 1997, on our consideration of the university's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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

Our audit was made for the purpose of forming an opinion on the financial statements presented on pages 8-19 of the financial report. The other information contained in the financial report 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, 1997 and 1996  
*All dollars are in thousands (000's omitted)*

<u>ASSETS</u>	1997	1996	<u>LIABILITIES AND FUND BALANCES</u>	1997	1996
<b>CURRENT FUNDS:</b>			<b>CURRENT FUNDS:</b>		
Unrestricted:			Unrestricted:		
Cash, and cash equivalents (Note 4)	\$ 53,442	\$ 39,176	Accounts payable	\$ 20,068	\$ 14,206
Investments, at cost (Note 4)	4,791	497	Accrued expenditures	25,105	10,691
Accounts receivable, net of allowance for doubtful accounts of \$657 in 1997 and \$688 in 1996	4,694	5,061	Accrued compensated absences (Note 1)	20,327	19,102
Notes receivable	56	112	Accrued retirement and severance pay (Note 5)	1,495	5,358
Inventories	4,303	5,150	Deferred revenue	7,739	7,142
Due from current funds restricted	4,805	8,262	Annuities payable	160	132
Due from plant funds	4,979	7,945	Fund balances	12,276	18,118
Prepaid expenditures	<u>10,100</u>	<u>8,546</u>			
Total unrestricted	<u>87,170</u>	<u>74,749</u>	Total unrestricted	<u>87,170</u>	<u>74,749</u>
Restricted:			Restricted:		
Cash, and cash equivalents (Note 4)	7,671	6,921	Accrued compensated absences (Note 1)	3,671	3,039
Accrued interest and dividends receivable	151	151	Accounts payable	2,621	2,060
Accounts receivable, including unbilled charges, net of allowance for doubtful accounts of \$794 in 1997 and \$202 in 1996	21,685	21,016	Accrued expenditures	5,144	2,730
Appropriations receivable	-	338	Due to current funds unrestricted	4,805	8,262
Other assets	<u>144</u>	<u>121</u>	Due to plant funds	4	5
Total restricted	<u>29,651</u>	<u>28,547</u>	Fund balances	13,406	12,451
Total current funds	<u>\$ 116,821</u>	<u>\$ 103,296</u>	Total restricted	<u>29,651</u>	<u>28,547</u>
			Total current funds	<u>\$ 116,821</u>	<u>\$ 103,296</u>
<b>LOAN FUNDS:</b>			<b>LOAN FUNDS:</b>		
Cash, and cash equivalents (Note 4)	\$ 823	\$ 838	Government grants refundable	\$ 10,884	\$ 10,405
Notes receivable, net of allowance for doubtful notes of \$275 in 1997 and \$349 in 1996	<u>11,503</u>	<u>10,970</u>	Matching funds	1,101	1,081
Total loan funds	<u>\$ 12,326</u>	<u>\$ 11,808</u>	Other—restricted	341	322
			Total loan funds	<u>\$ 12,326</u>	<u>\$ 11,808</u>

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



# Balance Sheet

As of June 30, 1997 and 1996  
*All dollars are in thousands (000's omitted)*

<u>ASSETS</u>	1997	1996	<u>LIABILITIES AND FUND BALANCES</u>	1997	1996
<b>ENDOWMENT AND SIMILAR FUNDS:</b>			<b>ENDOWMENT AND SIMILAR FUNDS:</b>		
Investments, at cost (Note 4)	\$ 38,182	\$ 35,727	Annuity payable—current	\$ 15	\$ 15
Land	209	209	Annuity payable—long-term	146	161
			Fund balances:		
			Endowment—unrestricted	358	358
			Quasi-endowment—unrestricted	435	223
			Quasi-endowment—restricted	37,389	35,146
			Annuity funds	48	33
			Total endowment and similar funds	<u>\$ 38,391</u>	<u>\$ 35,936</u>
Total endowment and similar funds	<u>\$ 38,391</u>	<u>\$ 35,936</u>			
<b>PLANT FUNDS:</b>			<b>PLANT FUNDS:</b>		
Cash, and cash equivalents (Note 4)	\$ 53,643	\$ 14,981	Accounts payable and accrued expenditures	\$ 9,690	\$ 4,450
Investments, at cost (Note 4)	48,539	24,373	Retainage payable (Note 6)	1,594	408
Accrued interest and dividends receivable	581	280	Notes payable	-	435
Accounts receivable	232	44	Bonds payable, net of discount of \$2,616 in 1997 and \$3,304 in 1996 (Note 7)	140,282	69,609
Equity in Equipment Trust Fund	7,558	5,629	Other long-term debt (Note 7)	22,944	18,955
Capital appropriations receivable	2,935	3,772	Due to current funds unrestricted	4,979	7,945
Due from current funds restricted	4	5	Fund balances:		
Investment in plant:			Unexpended:		
Land	27,641	27,515	Unrestricted	(20)	(222)
Buildings	312,231	302,031	Restricted	1,619	407
Equipment	250,308	226,681	Renewal and replacement:		
Library books	43,184	41,141	Unrestricted	1,473	(786)
Livestock	843	594	Restricted	(2,137)	(695)
Construction in progress	49,897	23,116	Retirement of indebtedness:		
			Unrestricted	21,402	18,350
			Restricted	14,795	11,449
			Net investment in plant	<u>580,975</u>	<u>539,857</u>
Total plant funds	<u>\$ 797,596</u>	<u>\$ 670,162</u>	Total plant funds	<u>\$ 797,596</u>	<u>\$ 670,162</u>
<b>AGENCY FUNDS:</b>			<b>AGENCY FUNDS:</b>		
Cash, and cash equivalents (Note 4)	\$ 2,211	\$ 5,317	Funds held in custody for others	\$ 2,211	\$ 5,422
Investments, at cost (Note 4)	-	105			
Total agency funds	<u>\$ 2,211</u>	<u>\$ 5,422</u>	Total agency funds	<u>\$ 2,211</u>	<u>\$ 5,422</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, 1997

All dollars are in thousands (000's omitted)

	Current Funds		Loan Funds	Endowment and Similar Funds	Plant funds			Net Investment in Plant
	Unrestricted	Restricted			Unexpended	Renewal and Replacement	Retirement of Indebtedness	
<b>REVENUES AND OTHER ADDITIONS:</b>								
Unrestricted current fund revenues	\$ 421,073	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State government appropriations	-	10,853	-	-	8,871	4,742	3,893	-
Federal government appropriations	-	13,502	-	-	-	-	-	-
Federal government grants and contracts (Note 15)	-	130,605	217	-	-	2	-	-
State government grants and contracts	-	7,644	-	-	-	26	-	-
Local government grants and contracts (Note 3)	-	9,682	-	-	-	-	90	-
Private gifts, grants and contracts	-	34,825	-	-	4,066	-	131	-
Interest on loans receivable	-	-	245	-	-	-	-	-
Endowment income	-	1,583	-	-	-	-	-	-
Investment income	-	-	13	-	161	35	2,414	-
Retirement of indebtedness (including \$2,519 charged to current funds expenditures)	-	-	-	-	68	-	-	11,431
Expended for plant facilities (including \$23,125 charged to current funds expenditures)	-	-	-	-	-	-	-	38,330
Realized net gain on sale of investments	-	-	-	3,054	-	-	-	-
Additions from donated assets	-	-	-	-	-	-	-	1,686
Recoveries of write-offs	-	-	51	-	-	-	-	-
Other income	-	-	-	-	-	174	-	-
Total revenues and other additions	<u>421,073</u>	<u>208,694</u>	<u>526</u>	<u>3,054</u>	<u>13,166</u>	<u>4,979</u>	<u>6,528</u>	<u>51,447</u>
<b>EXPENDITURES AND OTHER DEDUCTIONS:</b>								
Educational and general expenditures	325,915	196,110	-	-	-	-	-	-
Indirect costs recovered	-	13,694	-	-	-	-	-	-
Auxiliary enterprise expenditures	81,469	-	-	-	-	-	-	-
Administrative and collection cost	-	-	77	-	-	-	75	-
Expended for plant facilities (including \$5,582 not capitalized)	-	-	-	-	13,055	7,732	-	-
Retirement of indebtedness	-	-	-	-	-	-	8,980	-
Interest on indebtedness	-	-	-	-	10	29	4,144	-
Disposal of plant facilities	-	-	-	-	-	-	-	9,331
Loss on bond refinancing (Note 7)	-	-	-	-	-	-	-	998
Total expenditures and other deductions	<u>407,384</u>	<u>209,804</u>	<u>77</u>	<u>-</u>	<u>13,065</u>	<u>7,761</u>	<u>13,199</u>	<u>10,329</u>
<b>TRANSFERS AMONG FUNDS—ADDITIONS (DEDUCTIONS):</b>								
<b>Mandatory:</b>								
Debt service - current year	(8,857)	(96)	-	-	(788)	(264)	10,005	-
Debt service - future year	(5,327)	-	-	-	1,475	788	3,064	-
<b>Nonmandatory:</b>								
Capital improvements	(3,821)	22	-	-	626	3,173	-	-
Allocation of funds	(1,526)	2,139	69	(584)	-	(98)	-	-
Total transfers	<u>(19,531)</u>	<u>2,065</u>	<u>69</u>	<u>(584)</u>	<u>1,313</u>	<u>3,599</u>	<u>13,069</u>	<u>-</u>
Net increase (decrease) for year	<u>(5,842)</u>	<u>955</u>	<u>518</u>	<u>2,470</u>	<u>1,414</u>	<u>817</u>	<u>6,398</u>	<u>41,118</u>
Fund balances, July 1, 1996	<u>18,118</u>	<u>12,451</u>	<u>11,808</u>	<u>35,760</u>	<u>185</u>	<u>(1,481)</u>	<u>29,799</u>	<u>539,857</u>
Fund balances, June 30, 1997	<u>\$ 12,276</u>	<u>\$ 13,406</u>	<u>\$ 12,326</u>	<u>\$ 38,230</u>	<u>\$ 1,599</u>	<u>\$ (664)</u>	<u>\$ 36,197</u>	<u>\$ 580,975</u>

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

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

For the Years Ended June 30, 1997 and 1996

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

	1997			1996
	Unrestricted	Restricted	Total	Total
<b>REVENUES:</b>				
Student tuition and fees	\$ 139,709	\$ -	\$ 139,709	\$ 130,999
State government appropriations (Note 12)	163,293	11,223	174,516	165,323
Federal government appropriations	-	13,169	13,169	14,105
Federal government grants and contracts	11,680	120,118	131,798	119,959
State government grants and contracts	247	7,410	7,657	6,770
Local government grants and contracts	193	9,562	9,755	8,880
Private gifts, grants and contracts	4,591	32,387	36,978	35,625
Endowment income	36	2,337	2,373	2,300
Investment income	407	-	407	506
Sales and services of educational departments	6,383	-	6,383	6,137
Sales and services of auxiliary enterprises	93,930	-	93,930	87,189
Other	604	-	604	832
Total current revenues	421,073	196,206	617,279	578,625
<b>EXPENDITURES AND MANDATORY TRANSFERS:</b>				
Educational and general:				
Instruction	142,771	6,389	149,160	140,400
Research	33,460	70,598	104,058	92,233
Public service	30,470	25,495	55,965	48,760
Academic support	36,458	1,807	38,265	36,507
Student services	13,584	700	14,284	11,045
Institutional support	33,867	4,692	38,559	30,702
Operation and maintenance of plant	25,585	13	25,598	25,789
Student financial assistance (Note 15)	9,720	86,416	96,136	89,191
Total educational and general expenditures	325,915	196,110	522,025	474,627
Mandatory transfers for debt service - current year	1,281	96	1,377	531
Total educational and general	327,196	196,206	523,402	475,158
<b>AUXILIARIES:</b>				
Expenditures	81,469	-	81,469	74,258
Mandatory transfers for debt service - current year	7,576	-	7,576	7,361
Mandatory transfers for debt service - future years	5,327	-	5,327	1,930
Total auxiliaries	94,372	-	94,372	83,549
Total expenditures and mandatory transfers	421,568	196,206	617,774	558,707
<b>OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS):</b>				
Nonmandatory transfers:				
Capital improvements - auxiliaries	(4,038)	-	(4,038)	(1,158)
Capital improvements - all other	217	22	239	(884)
Allocation of current funds - auxiliaries	(838)	-	(838)	-
Allocation of current funds - all other	(688)	2,139	1,451	899
Excess (deficiency) of restricted receipts over transfers to revenue	-	(1,206)	(1,206)	(1,127)
Net increase (decrease) in fund balances	\$ (5,842)	\$ 955	\$ (4,887)	\$ 17,648

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

# Notes to Financial Statements

For the Year Ended June 30, 1997

## 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 GASB Statement No. 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 gains and losses arising from the sale, collection, or other disposition 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.

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

Purchased investments are recorded at cost and investments received as gifts are recorded at the fair market value at the date of acquisition. Interest-bearing temporary investments classified with cash in the financial statements are recorded at cost, which approximates market.

### Inventories

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

### Investment in Plant

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

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as: (1) expenditures, in the case of normal replacement

of movable equipment; (2) mandatory transfers, in the case of required provisions for debt amortization and interest and equipment renewal and replacement; and (3) transfers of a nonmandatory nature for all other cases.

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

#### Retirement of Indebtedness

The bond covenants for the revenue bonds issued in October 1996, as described in Note 7, established or continued groups of accounts, called systems, held in trust by the Treasurer of Virginia, for managing the net revenues and debt service of certain university auxiliaries. The net revenues of the system accounts for the Dormitory and Dining Hall System, the University Services System, (comprised of the Student Centers, Recreational Sports and Student Health auxiliaries), and the Utility System (the Electric Service auxiliary), are accounted for in Plant Funds Retirement of Indebtedness as mandatory transfers. Excess funds of these systems may be used for any lawful purposes of the university, provided approval from the board of visitors is obtained. Mandatory transfers also include transfers from other auxiliary enterprises and other current fund accounts for the payment of debt service not related to these system accounts.

#### Accrued Compensated Absences

Certain salaried employees' attendance and leave regulations make provisions for the granting of a specified number of days of leave with pay each year. The amount reflects, as of June 30, all unused vacation leave, sabbatical leave and the amount payable upon termination under the Commonwealth of Virginia's sick leave pay out policy. The applicable share of employer related taxes payable on the eventual termination payments is also included. The university's liability for the amount of leave earned by employees but not taken, at June 30, 1997 and 1996 is recorded in the financial statements.

#### Deferred Revenue

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

#### Interest Capitalization

Interest expense is capitalized during construction net of interest income on resources set aside for construction. During the years ended June 30, 1997 and 1996, the university capitalized net interest (income)/expense of \$1,285,000 and (\$126,000), 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., 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):

	1997	1996
Assets:		(as restated)
Cash and investments	\$ 287,063	\$ 241,763
Other assets	128,800	117,997
Total	<u>\$ 415,863</u>	<u>\$ 359,760</u>
Liabilities and fund balances:		
Current liabilities	\$ 27,233	\$ 13,356
Long-term liabilities	44,276	51,719
Fund balances	344,354	294,685
Total	<u>\$ 415,863</u>	<u>\$ 359,760</u>

The aggregate revenues and expenditures of these organizations, determined as if in consolidation with the university, were \$122,469,000 and \$72,800,000, respectively, in 1997 and \$129,094,000 and \$67,655,000, respectively, in 1996 (as restated).

#### Virginia Tech Foundation Activity

The foundation receives gifts and expends funds for the benefit of the university. The revenues and expenditures of the university include funds expended by the foundation and paid directly to the university of approximately \$19,580,000 in 1997 and \$14,832,000 in 1996. The university's revenues and expenditures also include restricted funds paid by the foundation to parties other than the university on behalf of the university of approximately \$6,264,000 in 1997 and \$5,074,000 in 1996.

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

## 3. Local Government Support

The university, through the operation of its Cooperative Extension Service, maintains offices in numerous cities and counties throughout the Commonwealth of Virginia. Personnel assigned to these locations receive a substantial portion of their compensation from the local governments. Also included in the expenditures of these extension offices are unit support services, which include such items as rent, telephone, supplies, equipment, and extension program expenses. The amount contributed by the various local governments totaled \$8,182,000 and \$7,418,000 in 1997 and 1996, respectively, and has been included in revenues and expenditures of the accompanying financial statements. The university received other local government support of \$1,500,000 and \$1,509,000 in 1997 and 1996, 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, 1997 and 1996.

#### 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, 1997 and 1996:

- 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 1997 or 1996.
- Category 3 - Uninsured or unregistered, with securities held by the counterparty, or by its trust department or agent but not in the university's name.
- Non-categorized Investments - Primarily money market and mutual funds, Common Fund, and pooled investments maintained by Virginia Tech Foundation, Inc.

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

	Category		Non-categorized	Cost	Market Value
	1	3			
Cash equivalents:					
Commercial paper	\$ 2,982	\$ -	\$ -	\$ 2,982	\$ 2,995
U.S. government securities and					
U.S. government agency securities	6,927	-	-	6,927	6,966
Repurchase agreements	-	4,412	-	4,412	4,412
Non-categorized	-	-	42,892	42,892	42,908
Total cash equivalents	<u>9,909</u>	<u>4,412</u>	<u>42,892</u>	<u>57,213</u>	<u>57,281</u>
Investments:					
Commercial paper	1,472	-	-	1,472	1,475
U.S. government securities and					
U.S. government agency securities	37,462	-	-	37,462	37,507
Corporate bonds	14,599	-	-	14,599	14,758
Non-categorized	-	-	37,979	37,979	42,645
Total investments	<u>53,533</u>	<u>-</u>	<u>37,979</u>	<u>91,512</u>	<u>96,385</u>
Total	<u>\$ 63,442</u>	<u>\$ 4,412</u>	<u>\$ 80,871</u>	<u>\$ 148,725</u>	<u>\$ 153,666</u>

The categorization of investment risk for assets held on June 30, 1996, follows: (000's omitted)

	Category		Non-categorized	Cost	Market Value
	1	3			
Cash equivalents:					
Repurchase agreements	\$ -	\$ 7,376	\$ -	\$ 7,376	\$ 7,376
Non-categorized	-	-	15,622	15,622	15,622
Total cash equivalents	<u>-</u>	<u>7,376</u>	<u>15,622</u>	<u>22,998</u>	<u>22,998</u>
Investments:					
U.S. government securities and					
U.S. government agency securities	20,238	105	-	20,343	20,466
Corporate bonds	4,989	-	-	4,989	5,024
Non-categorized	-	-	35,370	35,370	37,573
Total investments	<u>25,227</u>	<u>105</u>	<u>35,370</u>	<u>60,702</u>	<u>63,063</u>
Total	<u>\$ 25,227</u>	<u>\$ 7,481</u>	<u>\$ 50,992</u>	<u>\$ 83,700</u>	<u>\$ 86,061</u>

Cash equivalents and investments as of June 30, 1997 and June 30, 1996 for each fund group are shown below (000s omitted):

Fund group:	Balance at June 30, 1997		Balance at June 30, 1996	
	Cash Equivalents	Investments	Cash Equivalents	Investments
Current funds				
Unrestricted	\$ 3,925	\$ 4,791	\$ 11,347	\$ 497
Restricted	237	-	196	-
Loan funds	5	-	5	-
Endowment and similar funds	-	38,182	-	35,727
Plant funds	52,568	48,539	11,064	24,373
Agency funds	478	-	386	105
Total	<u>\$ 57,213</u>	<u>\$ 91,512</u>	<u>\$ 22,998</u>	<u>\$ 60,702</u>

## 5. Accrued Retirement and Severance Pay

Under the provisions of the Individual Transition Option Plan, the university has accrued expenses totaling \$1,495,000 and \$5,358,000 during the years ended June 30, 1997 and 1996, respectively. The Individual Transition Option Plan is a board of visitors' approved plan that allowed certain professional and administrative faculty to leave active state service under one of several different options. Estimated payments to be paid in future fiscal years are shown below:

Individual Transition Option Plan	*At June 30, 1997	*At June 30, 1996
1997	\$ -	\$ 3,610,000
1998	1,422,000	1,674,000
1999	73,000	74,000
Total	<u>\$ 1,495,000</u>	<u>\$ 5,358,000</u>

\* The change in estimated payments as of June 30, 1997 and June 30, 1996 is a result of the early payments of amounts due July 1, 1997 and July 1, 1996.

## 6. Retainage Payable

For the years ended June 30, 1997 and 1996, \$1,594,000 and \$408,000 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.

## 7. Long-term Indebtedness

### Bonds Payable

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

In October 1996, the university issued \$79,160,000 of Section 9 (d) revenue bonds: \$22,185,000 to refund all outstanding Section 9 (d) revenue bonds (see bond defeasance below), and \$56,975,000 to fund capital construction projects. The bond covenants related to these bonds established or continued groups of accounts, called systems, held in trust by the Treasurer of Virginia, for managing the net revenues and debt service of certain university auxiliaries. The revenue bonds issued by the Dorm and Dining Hall System, the University Services System, (comprised of the Student Centers, Recreational Sports and Student Health auxiliaries), and the Utility System (the Electric Service auxiliary), are secured by a pledge of each system's net revenues generated from student or customer fees, and are further secured by the pledged general revenues of the university. All remaining Section 9(d) revenue bonds are secured by the pledged general revenues of the university. The pledged general revenues include general fund appropriations, tuition and fees, indirect cost recoveries, auxiliary enterprise revenues, and other revenues not required by law to be used for another purpose.

Bonds payable at June 30, 1997 and 1996 consist of the following (000's omitted):

<u>Revenue Bonds:</u>	<u>Interest rates</u>	<u>Maturity</u>	<u>1997</u>	<u>1996</u>
<b>Dormitory and Dining Hall System:</b>				
Series 1984B, issued \$4,850 – refinanced *	Variable	2004	\$ -	\$ 2,950
Series 1996B, issued \$3,020*	3.80% - 5.70%	2004	2,695	-
Series 1989, issued \$7,000 – refinanced *	6.40% - 7.00%	2009	-	5,515
Series 1996B, issued \$5,475*	3.80% - 5.35%	2009	5,145	-
Series 1996B, issued \$1,730	3.80% - 5.70%	2016	1,730	-
<b>Utility System:</b>				
Series 1989, issued \$2,999 – refinanced *	6.40% - 7.00%	2009	-	2,360
Series 1996D, issued \$2,570*	3.80% - 5.35%	2009	2,415	-
<b>Veterinary Medicine:</b>				
Series 1992, issued \$1,250 –refinanced *	2.50% - 6.10%	2008	-	1,015
Series 1996A, issued \$1,040*	3.80% - 5.75%	2008	975	-
<b>Northern Virginia Graduate Center:</b>				
Series 1995, issued \$9,845 – refinanced *	Variable	2020	-	9,845
Series 1996A, issued \$10,080 *	3.80% - 5.75%	2020	10,080	-
Architectural/Engineering, series 1996A, issued \$6,805	3.80%- 5.50%	2016	6,805	-
Athletic Facility – Addition, series 1996A, issued \$3,540	3.80% - 5.75%	2004	3,540	-
Athletic Facility – Improvements, series 1996A, issued \$6,250	3.80% - 5.75%	2016	6,250	-
Coal Fired Facility, series 1996A, issued \$11,035	3.80% - 5.50%	2016	11,035	-
<b>Donaldson Brown Hotel &amp; Conference Center:</b>				
Series 1996A, issued \$3,945	3.80% - 5.50%	2016	3,945	-
Series 1996A, issued \$2,495	3.80% - 5.50%	2016	2,495	-
<b>University Services Systems:</b>				
Student Health & Fitness Center, series 1996C, issued \$21,175	3.80% - 5.50%	2016	21,175	-
	<b>Total Revenue Bonds</b>		<u>\$ 78,285</u>	<u>\$ 21,685</u>
<b><u>General Obligation Revenue Bonds:</u></b>				
<b>Dormitory and Dining Hall:</b>				
Series 1991A, issued \$5,015 – refinanced **	5.60% - 7.60%	2011	\$ 1,085	\$ 1,270
Series 1992C, issued \$4,990	5.00% - 6.00%	2013	4,370	4,535
Series 1992D, issued \$2,680	4.50% - 5.90%	2013	2,330	2,425
Series 1992D, issued \$2,790	4.50% - 5.90%	2013	2,430	2,525
Series 1993B, issued \$4,763 - refunding series 1986B **	3.50% - 4.25%	2001	2,833	3,494
Series 1993B, issued \$3,050 – refunding series 1991A **	3.50% - 5.00%	2011	2,988	3,009
Series 1996, issued \$272 – refunding series 1991A **	4.75%	2003	269	271
Series 1997, issued \$15,895	3.79% - 5.40%	2017	15,895	-
Telecommunication, Series 1989A, issued \$24,259, less bond discount of \$8,259	6.40% - 7.20%	2004	9,445	10,482
<b>University Services System - Student Center:</b>				
Series 1988B, issued \$14,095 – refinanced **	6.75% - 7.00%	1998	670	1,295
Series 1990B, issued \$1,410 – refinanced **	6.40% - 8.40%	2010	115	170
Series 1991A, issued \$3,260 – refinanced **	5.60% - 7.60%	2011	700	820
Series 1993A, issued \$10,885 – refunding series 1988B **	3.75% - 5.20%	2008	10,485	10,600
Series 1993B, issued \$942 – refunding series 1990B **	3.50% - 5.00%	2010	921	928
Series 1993B, issued \$1,987 – refunding series 1991A **	3.50% - 5.00%	2011	1,947	1,960
Series 1996, issued \$143 – refunding series 1990B **	4.75%	2001	141	142
Series 1996, issued \$176 – refunding series 1991A **	4.75%	2003	174	175
<b>Parking Facilities:</b>				
Series 1991A, issued \$4,220 – refinanced **	5.60% - 7.60%	2011	905	1,060
Series 1993B, issued \$2,569 – refunding series 1991A **	3.50% - 5.00%	2011	2,517	2,534
Series 1996, issued \$230 – refunding series 1991A**	4.75%	2003	227	229
Series 1997, issued \$1,550	5.00%	2017	1,550	-
	<b>Total General Obligation Revenue Bonds</b>		<u>61,997</u>	<u>47,924</u>
	<b>Total Bonds Payable</b>		<u>\$ 140,282</u>	<u>\$ 69,609</u>

\* See Bond Defeasance – Current Year

\*\* See Bond Defeasance – Previous Years

## Bond Defeasance

Current year:

In October 1996 the university issued \$22,185,000 of section 9 (d) revenue bonds to refund all outstanding section 9(d) revenue bonds. The bonds issued to refund the Dormitory and Dining Hall System Series 1984B bonds and the Northern Virginia Graduate Center Series 1995 bonds were current refundings of variable interest rate bonds and the proceeds of the new bonds were used to retire the entire amount outstanding. The remaining issues were advanced refundings, where the net proceeds from the sales of bonds were deposited in irrevocable trusts with escrow agents to provide for all future debt service on the refunded bonds. For financial reporting purposes, these bonds have been considered as an in-substance defeasance and therefore removed from the Bonds Payable line item in the Plant Funds section of the Balance Sheet. The assets in escrow have similarly been excluded. The details of each bond issue refunded are presented below (000's omitted):

Fiscal Year	True Interest Cost	Refunding Bonds Issued	Other Assets Provided	Bonds Refunded	Accounting Loss	Reduction in Debt Service	Gain Discounted at TIC	Defeased Debt at June 30, 1997
<b>Fiscal Year 1997 Defeasance</b>								
Dorm & Dining Hall System:								
Series 1984B - variable rate	-	\$ 3,020	\$ -	\$ 2,950	\$ 70	\$ -	\$ -	\$ -
Series 1989	5.22%	5,475	498	5,515	458	1,080	276	5,240
Utility System Series 1989	5.22%	2,570	-	2,360	210	150	121	2,245
Veterinary Medicine Series 1992	5.22%	1,040	-	1,015	25	1	9	950
Northern Virginia Graduate Center - variable rate	-	10,080	-	9,845	235	-	-	-
<b>Total</b>		<u>\$ 22,185</u>	<u>\$ 498</u>	<u>\$ 21,685</u>	<u>\$ 998</u>	<u>\$ 1,231</u>	<u>\$ 406</u>	<u>\$ 8,435</u>

Previous years:

In previous fiscal years in accordance with GASB Statement Number 7, Advance Refundings Resulting in the Defeasance of Debt, we have excluded from our financial statements the assets in escrow and the section 9 (c) bonds payable that were defeased in-substance. The total bonds payable considered defeased in previous years outstanding at June 30, 1997 was \$21,145,000.

## Other Long-term Debt

Other Long-term Debt at June 30, 1997 and 1996 consists of (000's omitted):

	1997	1996
Capital Leases Payable for Higher Education Equipment Trust Fund with interest rates of 4.10% to 5.35%.	\$ 22,343	\$ 18,475
Installment purchase obligations for equipment purchases through June 1996 with various interest rates and maturing through 2004. The book value of capitalized equipment is \$827 for 1997 and \$1,361 for 1996.	601	480
<b>Total Other Long-term Debt</b>	<u>22,944</u>	<u>18,955</u>
<b>Total Bonds Payable</b>	<u>140,282</u>	<u>69,609</u>
<b>Total Long-term Debt</b>	<u>\$ 163,226</u>	<u>\$ 88,564</u>

A summary of future principal requirements of long-term debt as of June 30, 1997 follows (000's omitted):

Year ending June 30:	
1998	\$ 11,424
1999	13,370
2000	12,862
2001	13,337
2002	11,533
After 2002	103,316
Less: Unamortized discount	(2,616)
<b>Total</b>	<u>\$ 163,226</u>

## Capital Leases

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

A schedule of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of June 30, 1997, follows (000's omitted):

Year ending June 30:	
1998	\$ 6,124
1999	6,004
2000	4,783
2001	4,731
2002	3,197
<b>Total minimum lease payments</b>	<u>24,839</u>
Less: Amount representing interest	(2,496)
<b>Present value of net minimum lease payments</b>	<u>\$ 22,343</u>

The university has entered into various installment purchase contracts to finance the acquisition of equipment. The length of the purchase agreements range from 2 to 5 years with variable rates of interest. The outstanding principal is included in the Other long-term debt line item on the balance sheet. Principal payments of these commitments for fiscal years subsequent to June 30, 1997 are as follows (000's omitted):

Year ending June 30:	Principal	Interest	Total
1998	\$ 149	\$ 31	\$ 180
1999	147	22	169
2000	95	15	110
2001	80	10	90
2002	70	6	76
After 2002	60	2	62
<b>Total</b>	<u>\$ 601</u>	<u>\$ 86</u>	<u>\$ 687</u>

## 8. 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 \$5,437,000 and \$7,053,000 for the years ended June 30, 1997 and 1996, respectively.

A summary of future minimum lease payments under operating leases as of June 30, 1997, follows (000's omitted):

Year ending June 30:	
1998	\$ 3,380
1999	2,538
2000	1,976
2001	1,767
2002	1,345
After 2002	1,135
<b>Total</b>	<u>\$ 12,141</u>



On November 1, 1997, the university plans to enter into an operating lease for space. Lease payments over the next eleven years will total approximately \$6.3 million.

## 9. Capital Improvement Commitments

Outstanding contractual commitments for capital improvement projects at June 30, 1997, included (000's omitted):

Student Health & Fitness Center	\$ 12,385
New residence halls	10,603
Athletic facilities addition	4,355
Coal fired facilities	4,234
Engineering/Architecture facility	2,426
Parking-Lane Stadium	834
Other projects	1,473
Total	<u>\$ 36,310</u>

These commitments are funded by the following: \$19,826 from revenue bond issues, \$11,497 from general obligation revenue bond proceeds, and \$4,370 from private funds. Other funding sources include 21<sup>st</sup> century bonds issued by the Virginia College Building Authority on behalf of the university, auxiliary enterprises, indirect cost recoveries, and state general appropriations.

## 10. Contributions to Pension Plans

### *Virginia Retirement System*

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

Information regarding types of employees covered, benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions as well as employer and employee obligations to contribute are established can be found in the commonwealth's Comprehensive Annual Financial Report (CAFR).

The university's total VRS contributions were approximately \$13,668,000 and \$13,310,000 for the years ended June 30, 1997 and 1996, respectively, which included the 5 percent employee contribution assumed by the employer. These contributions represent 9.18 and 9.25 percent of covered payroll for the respective years. Contributions to the VRS were calculated using the base salary amount of approximately \$148,883,000 and \$143,895,000 for the fiscal years ended 1997 and 1996. The university's total payroll was approximately \$278,416,000 and \$263,542,000 for the years ended June 30, 1997 and 1996, respectively.

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. The CAFR provides disclosure of the commonwealth's unfunded pension benefit obligation at June 30, 1997. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

### *Optional Retirement Plan*

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

Individual contracts issued under the plan provide for full and immediate vesting of both the university's and the employees' contributions. Total pension costs under this plan were approximately \$7,042,000 and \$6,227,000 for years ended June 30, 1997 and 1996, respectively. Contributions to the optional retirement plan were calculated using the base salary amount of approximately \$67,707,000 and \$59,874,000 for fiscal years 1997 and 1996.

### *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 \$863,000 and \$869,000 for the years ended 1997 and 1996, respectively. Contributions to FERS and CSRS were calculated using the base salary amount of approximately \$11,487,000 and \$11,495,000 for the fiscal years 1997 and 1996.

In addition, the university contributed \$59,000 and \$61,000 for the years ended June 30, 1997 and 1996 in employer contributions to the Thrift Savings Plan, a defined contribution plan, in which the university matches employee contributions within certain limitations.

## 11. 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.

## 12. Appropriations

The Appropriation Act specifies that unexpended general fund appropriations which remain on the last day of the current year, ending on June 30, 1997, shall be re-appropriated for expenditure in the first month of the next year, beginning on July 1, 1997, except as may be specifically provided otherwise by the General Assembly. The governor may, at his discretion, un-allow funds from the re-appropriated balances which relate to unexpended appropriations for payments to individuals, aid-to-localities, or any pass-through grants.

During the year ended June 30, 1997, the following adjustments were made to the university's original appropriation (000's omitted):

Original legislative appropriation per Chapter 912	<u>\$ 167,783</u>
Adjustments:	
Implement Lag Pay	(5,800)
Classified Salary Increases	1,604
Life insurance premium holiday	(327)
Health insurance premium surcharge	108
Transfers from education & general to the minority scholarships in agriculture	(50)
Virtual Library	13
Graduate assistantship from student financial assistance	50
Satellite Transponder industry & technology needs	253
Retirement System rate change	(52)
Telecommunications, computer, and personnel reversions to Central Fund	(289)
Total adjustments	<u>(4,490)</u>
Adjusted appropriation	<u>\$ 163,293</u>

## 13. 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.

## 14. Grants and Contracts Contingencies

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

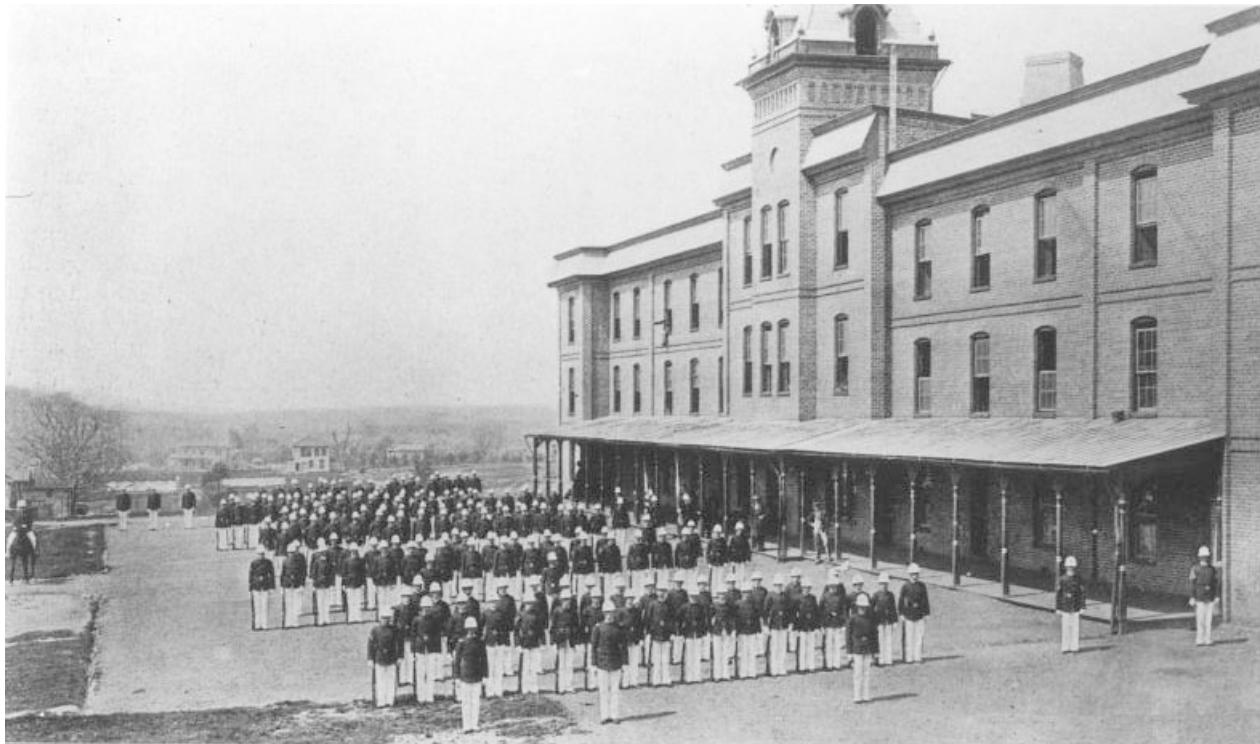
In addition, the university is required to comply with various federal regulations issued by the Office of Management and Budget. Failure to comply with certain systems requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. As of June 30, 1997, the university estimates that no material liabilities will result from such audits or questions.

## 15. 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.

For the fiscal years ended June 30, 1997 and 1996 respectively, the Current Funds Restricted Federal Government Grants and Contracts fund addition per the Statement of Changes in Fund Balances totals of \$130,605,000 and \$119,439,000 included \$62,530,000 and \$59,440,000, respectively for these federal loan programs. 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, 1997 and 1996, totals of \$86,416,000 and \$81,071,000 included \$62,706,000 and \$58,954,000 respectively for these loan programs.

*1997-98 marks the 125th anniversary of the founding of Virginia Tech. The Cadet Battalion assembled in front of Lane Hall, from the university's historical photograph collection, circa 1895.*



# Schedule of Auxiliary Enterprises

## Revenues, Expenditures and Changes in Fund Balances

For the Year Ended June 30, 1997

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

	Dormitory & Dining Hall System	Utility System	University Services System (1)	Information Systems & Services (2)	Athletic Dept.	All Other (3)	Total
<b>REVENUES:</b>							
Student fees	\$ 26,419	\$ -	\$ 9,247	\$ 1,937	\$ 5,009	\$ 1,584	\$ 44,196
Sales and Services	3,486	12,363	1,817	11,643	12,774	7,651	49,734
Total Fees and Sales	29,905	12,363	11,064	13,580	17,783	9,235	93,930
Contributions	12	-	427	-	673	24	1,136
Total revenues	29,917	12,363	11,491	13,580	18,456	9,259	95,066
<b>EXPENSES OF OPERATIONS:</b>							
Personal services	10,371	1,248	5,228	3,169	6,051	2,744	28,811
Contractual services	1,517	363	1,484	4,162	6,154	2,098	15,778
Supplies and materials	8,496	449	578	580	1,292	1,229	12,624
Continuous charges	3,965	9,304	1,034	1,093	1,182	619	17,197
Equipment	687	207	217	4,208	1,049	264	6,632
Other charges	12	-	2	12	353	48	427
Total expenses of operations	25,048	11,571	8,543	13,224	16,081	7,002	81,469
<b>EXCESS (DEFICIENCY) OF REVENUES OVER</b>							
EXPENSES OF OPERATIONS BEFORE TRANSFERS:	4,869	792	2,948	356	2,375	2,257	13,597
<b>TRANSFERS AMONG FUNDS—ADDITIONS (DEDUCTIONS):</b>							
<b>Mandatory transfers:</b>							
Debt service-current year	(3,125)	(232)	(1,748)	(1,725)	(231)	(515)	(7,576)
Debt service-future years	(558)	(377)	(4,392)	-	-	-	(5,327)
<b>Nonmandatory transfers:</b>							
Capital transfers	(1,186)	(183)	(598)	(1,728)	(185)	(158)	(4,038)
Allocation of funds	-	-	-	-	(838)	-	(838)
Total transfers	(4,869)	(792)	(6,738)	(3,453)	(1,254)	(673)	(17,779)
Net increase (decrease) for year	-	-	(3,790)	(3,097)	1,121	1,584	(4,182)
Fund balances (deficit) at beginning of year	-	-	3,790	6,253	1,608	1,542	13,193
Fund balances (deficit) at end of year	\$ -	\$ -	\$ -	\$ 3,156	\$ 2,729	\$ 3,126	\$ 9,011

(1) Effective July 1, 1996, Recreational Sports, Student Center, and Student Health were combined into a single entity called the University Service System for reporting purposes in accordance with the bond covenants for the bonds issued in October 1996. As with the Dormitories and Dining Hall System and the Utility System, all net revenues and fund balances of the University Service System are managed and invested by the Treasurer of Virginia as trustee. These funds held by the trustee are reported in Plant Funds Retirement of Indebtedness. Therefore, there are no fund balances for these system accounts in Current Funds Unrestricted. As part of the changes related to the bond covenants, Student Orientation which was formerly part of the Student Center auxiliary was excluded for the University Services System and is now reported separately.

(2) Information Systems & Services is the former Communications Network Services.

(3) Effective July 1, 1996, University Licensing state funding was changed from Education and General operation to an auxiliary enterprise. Since this department existed previously, the beginning fund balance was brought forward on this schedule, increasing the fund balances (deficit) at the beginning of the year line item by \$297,000. In addition to University Licensing, this column includes the following auxiliaries: Student Orientation, Parking Services, Equine Medical Center, Laundry and Tailor Shop, Continuing Education Center, Library Services, Golf Course, Tennis Pavilion, and Hokie Passport.