VIRGINIA TECH FINANCIAL REPORT 2001-2002

This financial report is prepared using the new Government Accounting Standards Board reporting model. It is designed to assist readers in understanding the accompanying financial statements and provide an objective, easily readable analysis of the university's financial activities based on currently known facts. Accordingly, this year's financial statements differ significantly in form, content, and accounting principles utilized, from those of prior years. Financial data in the new model is consolidated into a single column format similar to corporate financial statements. Careful attention must be paid to the underlying detail to avoid overlooking restrictions placed upon the use of certain funds which were more obvious in the old multiple column format.

Virginia Tech 1872

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maintaining momentum

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SPECIAL NOTES ABOUT THE TABLE OF CONTENTS WITHIN THIS PDF VERSION: This version of the university's financial statements contains two Table of Contents pages. These pages were not printed in the printed copy and are only included in the on-line version. Both Table of Contents pages have imbedded links within them that allow the reader to click on a content item and go to that page. Clicking on a page will return the reader to the Table of Contents page. In the Notes to Financial Statements, click on the gyroscope or page number to return to the main Table of Contents, otherwise the reader is returned to the Table of Contents for Notes to Financial Statements. The Table of Contents pages, along with their ajoining pages, do not have associated page numbers, thus maintaining the pagination of the on-line document with the printed version.

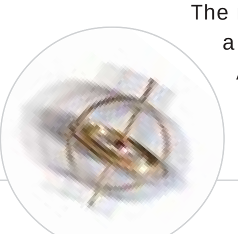
DOCUMENT RESPONSIBILITY: This document was produced by the Office of the University Controller. Kenneth E. Miller, CPA, is the University Controller. Stacy A. King, CPA, is the Manager of Financial Reporting. Questions about this document or requests for copies of the printed version should be referred to Ms. King either via e-mail: kings@vt.edu or phone: (540) 231-8624.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following unaudited Management's Discussion and Analysis (MD&A) is required supplemental information under the new Government Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective, easily readable analysis of the university's financial activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the university's financial condition and results of operations for the fiscal year ended June 30, 2002. Comparative numbers, where presented, are for the fiscal year ended June 30, 2001. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying financial statements, footnotes (Notes to Financial Statements), and other supplementary information. The university's management is responsible for all of the financial information presented, including this discussion and analysis.

Beginning in fiscal year 2002, the university adopted the new GASB reporting model as required by GASB Statement Number 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities,* as amended by GASB Statement Numbers 37 and 38. Accordingly, this year's financial statements differ significantly in form, content, and accounting principles utilized, from those of prior years. Previously, the financial statements focused on accounting for resources received and used rather than the determination of net income. Statements under the old model presented separate columns for each major fund group emphasizing that certain funds could only be used in accordance with restrictions specified by external donors, sponsors, state or federal legislatures, or bond covenants. In the new model, the financial statements are designed to promote the readers' understanding by simplifying and consolidating financial information in a format similar to corporate financial statements. The three new required financial statements are the Statement of Net Assets (balance sheet), the Statement of Revenues, Expenses, and Changes in Net Assets (operating statement), and the Statement of Cash Flows. These statements are summarized and analyzed in the following paragraphs. We have included combining schedules in the supplementary information. These schedules indicate how major fund groups were aggregated to arrive at the single column totals as a bridge between the old and new reporting models.

The new GASB reporting model included several other significant changes. Where comparative figures for fiscal year 2001 are presented, they have been restated using the new GASB format and accounting principles. Note 1 of the Notes to Financial Statements describes the restatement of fiscal year 2001 and further defines the reduction to net assets of over $386 million. The major component of this reduction was recognizing accumulated depreciation on capital assets. Accumulated depreciation greatly exceeded the value of adding infrastructure assets also required by the GASB statements. Another change reflected in the restated totals for fiscal year 2001 and in the current year is the elimination of the Federal Direct Lending Program (Stafford and Plus Parent Loans) revenues and expenses from the Statement of Revenues, Expenses and Changes in Net Assets (SRECNA). The university is a conduit or agent for the federal government in disbursing the loans and is not a party to the loan agreements. This restatement reduced the fiscal year 2001 federal grants and contracts revenues and the student financial assistance expenses by $69.7 million.



Other changes require tuition and fees be reduced by a scholarship allowance for amounts already recognized as gifts or grants and contracts revenues. Additionally, student financial assistance expenses are recognized to the extent that excess financial aid is disbursed or refunded to the students. The new reporting standards eliminate the previous practice of double counting these revenues and expenses. The scholarship allowance totaled $20.7 million for fiscal year 2002. Finally, the new model recognizes expenses instead of expenditures or outflows of resources. For example, in the old reporting model the total cost of capital assets (primarily buildings and equipment) were shown as an expenditure in the year purchased on the operating statements as was the total debt service costs—principal and interest. Depreciation expense is shown on the SRECNA or operating statement in the new GASB model. Recording depreciation expense spreads the costs of an asset over its estimated useful life. Furthermore, interest expense, not the reduction in principal, is shown on the operating statement in the new model.

STATEMENT OF NET ASSETS

The Statement of Net Assets (SNA) presents the assets, liabilities, and net assets (formerly called fund balances) of the university as of the end of the fiscal year. The purpose of the statement is to present a snapshot of the university's financial position to the readers of the financial statements.

The data presented in the SNA aids readers in determining the assets available to continue the operations of the university. It also allows readers to determine how much the university owes to vendors, investors, and lending institutions. Finally, the SNA provides a picture of net assets and their availability for expenditure by the university. Sustained increases in net assets over time are one indicator of the financial health of an organization.

The university's net assets are classified as follows:

- Invested in capital assets—Invested in capital assets, net of related debt represents the university's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. Debt incurred, but not yet expended for capital assets, is not included as a component of invested in capital assets, net of related debt.

- Restricted net assets, expendable—Restricted expendable assets include resources the university is legally or contractually obligated to expend in accordance with restrictions imposed by external third parties.

❍ Restricted net assets, nonexpendable—Nonexpendable restricted net assets consist of endowment and similar type funds where donors or other outside sources have stipulated, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, to be expended or added to principal. The Virginia Tech Foundation, Inc. (VTF) is an affiliated corporation that receives gifts to support university programs as described in Notes 1 and 2 of the Notes to Financial Statements and in the supplementary information. Since VTF is currently not reported as a component unit of the university, the amount of nonexpendable endowments included in the university's financial statements was only $375 thousand. However, at June 30, 2002, the foundation owned endowments with a market value exceeding $285.8 million.

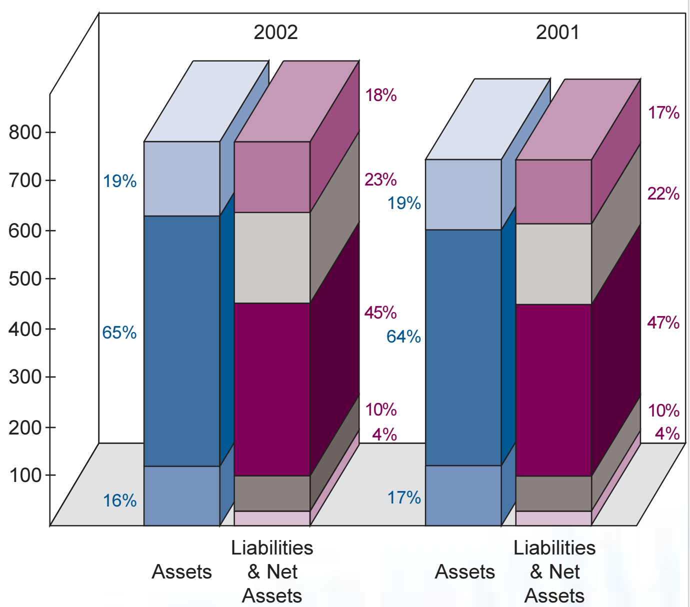
❍ Unrestricted net assets—Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, recoveries of facilities and administrative (indirect) costs, and sales and services of auxiliary enterprises and educational departments. These resources are used for transactions relating to academic departments and general operations of the university, and may be used at the discretion of the university's board of visitors to meet current expenses for any lawful purpose in support of its primary missions of instruction, research, and outreach or public service. These resources also include auxiliary enterprises, self-supporting activities, providing services for students, faculty, and staff. Examples of the university's auxiliaries include student residential and dining programs, and intercollegiate athletics.

SUMMARY OF ASSETS, LIABILITIES, AND NET ASSETS

For the years ended June 30, 2002-2001
(all dollars in millions)

	2002	2001	Increase (Decrease) Amount	Increase (Decrease) Percent
ASSETS				
Current assets	$ 150.7	$ 140.1	$ 10.6	7.6%
Capital assets, net of accumulated depreciation	498.9	469.6	29.3	6.2%
Other assets	120.1	122.9	(2.8)	(2.3)%
Total assets	$ 769.7	$ 732.6	$ 37.1	5.1%
LIABILITIES				
Current liabilities	140.2	127.7	12.5	9.8%
Non-current liabilities	181.0	163.8	17.2	10.5%
Total liabilities	$ 321.2	$ 291.5	$ 29.7	10.2%
NET ASSETS				
Invested in capital assets, net of related debt	344.0	341.1	2.9	0.9%
Restricted	73.7	70.1	3.6	5.1%
Unrestricted	30.8	29.9	0.9	3.0%
Total net assets	$ 448.5	$ 441.1	$ 7.4	1.7%

The mix of Assets, Liabilities and Net Assets is basically unchanged over the past two fiscal years
(all dollars in millions)



The total assets of the university increased by $37.1 million or 5.1% during fiscal year 2002, bringing total assets to $769.7 million at year-end. Almost 80% of the growth was directly related to a net increase of $29.3 million in capital assets, discussed in the next section of this analysis. Current assets also increased by $10.6 million over the prior year. This growth was due largely to the $12 million rise in current cash and cash equivalents. An increase in football season ticket sales by the athletic auxiliary—due to the completion of the Lane Stadium Expansion Project—and an increase in Tobacco Indemnification Commission funds available at year-end are the main contributors to the growth. A $2.9 million decrease in the amount due from the Commonwealth of Virginia partially offset the growth noted in current cash and cash equivalents. This decrease can be linked to a change in the timing of reimbursements received by the university for the fiscal year 2002 allocation from the State Council on Higher Education's Equipment Trust Fund (ETF) Program. This program was established to provide funding to public institutions of higher education in the Commonwealth of Virginia for the acquisition and replacement of equipment critical to their instruction and research missions. ETF program funds accounted for over $7.9 million of the $30.4 million in equipment purchased during the fiscal year.

The total liabilities of the university increased by $29.7 million or 10.2% during fiscal year 2002. Much of this increase in total liabilities can be attributed to a net increase in non-current liabilities of $17.2 million. This change is discussed in the Capital Asset and Debt Administration section below. Current liabilities had a net increase of $12.5 million over the previous year due to growth in deferred revenue and accounts payable. The $7.1 million rise in deferred revenue is due primarily to the increase in season ticket sales resulting from the stadium expansion. The $10 million increase in accounts payable is directly related to the university's liability of $7.1 million in severance pay as a result of university employees being laid off on or before the end of fiscal year 2002. Not all of these layoffs were involuntary. Under certain conditions, employees could elect to be laid off in place of employees originally targeted. Laid off employees could convert their severance pay to retirement contributions under the provisions of the Alternative Severance Option. These layoffs were part of the cut-backs necessary to meet initial reductions in state general fund appropriations from the commonwealth.

Total assets grew by a greater margin than total liabilities with the university's net assets increasing by a corresponding amount of $7.4 million. This amount represents growth from the $0.8 million increase experienced in fiscal year 2001.

CAPITAL ASSET AND DEBT ADMINISTRATION

One of the critical factors in continuing the quality of the university's academic, research, and residential life operations is the development and renewal of its capital assets. The university continues to maintain and upgrade current structures as well as pursue opportunities for additional facilities. Investment in new and upgrading current structures serves to facilitate our current high-quality instructional programs, residential lifestyles, and expand research facilities positioning the university to meet its goal to become a "top 30" research institution by 2010.

Note 8 of the Notes to Financial Statements describes the university's significant investment in capital assets with total additions of over $72.8 million (excluding construction in progress) during fiscal year 2002. The capitalization of the Lane Stadium Expansion project was the primary component of building additions totaling $34 million. The university also made ongoing investments in instructional, research, and computer equipment of $30.4 million. Current year depreciation expense was $44.9 million with net retirements of $2.8 million resulting in a net increase in depreciable capital assets of $25.1 million. The Lane Stadium Expansion was also the primary component of both the additions and reductions in the Construction in Progress category, but the Chemistry/Physics Phase II project was the major contributor to the net increase of $4.2 million.

Non-current liabilities had a net increase of $17.2 million. There were only two issuances of long-term debt in fiscal year 2002. The university issued $26.3 million in notes payable to the Virginia College Building Authority who issued bonds on behalf of the university through its Pooled Bond Program to finance the Lane Stadium Expansion project. Installment purchases also grew by $2.6 million. Financing for these purchases was provided through the Virginia Department of Treasury's Master Equipment Lease Program which facilitated the purchase of computing equipment for the bioinformatics program. This increase was partially offset by normal reclassification of $12.1 million from the non-current to the current category for the amount of debt to be retired in the next fiscal year as outlined in Note 11 of the Notes to Financial Statements.

Commitments to construction contractors, architects, and engineers for capital projects totaled $42.9 million at June 30, 2002. Two projects constituted most of this total: the Chemistry/Physics Phase II for $15 million and the Bioinformatics Phase I for $14.6 million. These commitments represent only a portion of the university's capital projects authorized by the Commonwealth of Virginia. The table on the next page summarizes authorized capital projects, both current and future, and the major sources of funding for each group.

The education and general portion of the university's capital outlay program represents 21 projects currently in various stages of completion. Some of the larger projects in progress include the Bioinformatics Phase I, the Chemistry/Physics Phase II, and the career services facility. In addition to the capital projects currently underway, there are 10 approved new construction and renovation projects for instructional and research facilities. These projects include the biology building, the Bioinformatics Phase II, the fine arts center, the engineering facility phase I, and the vivarium facility. Major funding for the projects will be provided by the Commonwealth of Virginia from voter approved debt under the Virginia Higher Education Bond Referendum. This referendum provides $900 million in debt-financed capital projects to ensure first-rate educational facilities for the commonwealth's universities and colleges. These bonds will be the obligation of the Commonwealth of Virginia. The university will receive $95.3 million of this financing for building construction and renovation projects in support of instructional programs and research initiatives. The university plans to provide additional funding for these projects by issuing $45.8 million in debt.

The university's auxiliary enterprises have approval for 12 capital projects that are also in various stages of completion. Some of the larger projects currently in progress include the alumni/continuing education center/hotel complex, the electric service facility, and various parking auxiliary projects. Five future capital projects are also approved for auxiliary enterprises. The major project is the expansion of the west side of Lane Stadium. Since auxiliaries are required to be self-supporting, no state general fund, capital appropriations are provided for these projects. The projects have been or will be funded from a combination of private gifts, student fees, other customer revenues, and debt financing.

Virginia Tech had authorization for $566.2 million in capital building projects as of July 1, 2002, requiring approximately $212 million in additional debt financing.

The university secured up to $30 million of short-term financing in May 2002 through Wachovia Bank to cover construction draws and interest expense for the following capital projects: the alumni/continuing education center/hotel complex, the Bioinformatics Phase I, the electric service facility, and the career services facility. The university had drawn less than $0.9 million against this line of credit at June 30, 2002. These funds will be repaid from the proceeds of the permanent financing for these projects.

The university issued notes payable totaling $29.2 million in November 2002 to the Virginia College Building Authority, who issued bonds on behalf of the university through its Pooled Bond Program to provide funding for the Bioinformatics Phase I, the electric service facility, and the career services facility. Permanent financing for the alumni/continuing education center/hotel complex is expected to be issued by fall 2003.

The university issued $975,000 in 9 (c) general obligation bonds in October 2002 to finance the construction of parking projects.

There has been no change in the credit rating for the university during fiscal year 2002. The A1 rating from Moody's and AA rating from Standard & Poors were maintained. Based on the $162.5 million in debt outstanding at June 30, 2002, the university's debt service ratio is 3.7% of estimated current funds unrestricted expenditures and mandatory transfers. The rating agencies have not transitioned to a new method for calculating this ratio under the new GASB reporting model. An estimated ratio based on the previous reporting model was used. Even after issuing the additional $212 million in debt for all of the authorized projects the university is still below a 7% debt service ratio using pre-GASB 35 methodology. Based upon this ratio, the university has sufficient debt capacity for future capital projects.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The operating and non-operating activities creating the changes in the university's total net assets are presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present all revenues received and accrued, all expenses paid and accrued, and gains or losses from investments and capital assets.

Generally, operating revenues are received for providing goods and services to the various customers and constituencies of the university. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the missions of the university. Salaries and fringe benefits for faculty and staff are the largest type of operating expense. Non-operating revenues are revenues received for which goods and services are not directly provided. State appropriations and gifts are included in this category, but provide substantial support for paying the operating expenses of the university. Therefore, the university, like most public institutions, will expect to show an operating loss.

FUNDING FOR AUTHORIZED CURRENT AND FUTURE CAPITAL PROJECTS

As of June 30, 2002
(all dollars in millions)

	State Funds (1)	Other University Funds (2)	University Debt Issued Before June 30, 2002	University Debt To Be Issued After June 30, 2002	Total Funding	Cash Basis Project-To-Date Expenses
Current education and general	$ 92.4	$ 67.1	$ 1.7	$ 26.5	$ 187.7	$ 59.1
Current auxiliary enterprise	-	55.3	49.0	50.4	154.7	59.9
Total current	92.4	122.4	50.7	76.9	342.4	119.0
Future education and general	84.6	3.1	-	45.8	133.5	-
Future auxiliary enterprise	-	1.0	-	89.3	90.3	-
Total future	84.6	4.1	-	135.1	223.8	-
Total authorized	$ 177.0	$ 126.5	$ 50.7	$ 212.0	$ 566.2	$ 119.0

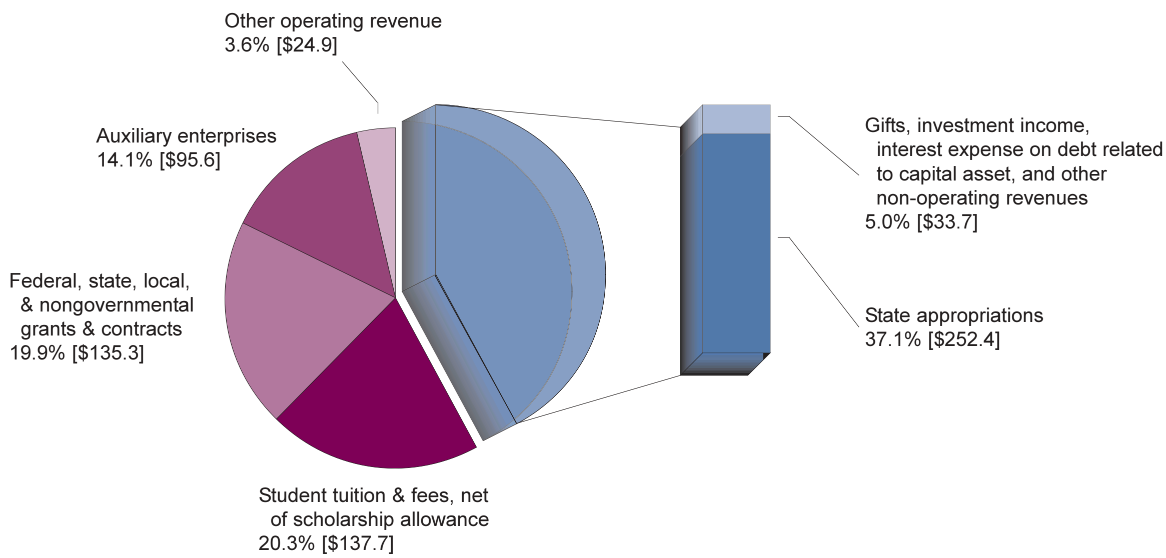
(1) Includes the general fund, capital appropriations and the general obligation bond funds.
(2) Includes private gifts, auxiliary surpluses, student fees, and other customer revenues.

SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the years ended June 30, 2002-2001
(all dollars in millions)

	2002	2001	Increase (Decrease)
Operating revenues	$ 393.5	$ 364.5	$ 29.0
Operating expenses	696.5	664.5	32.0
Operating loss	(303.0)	(300.0)	(3.0)
Non-operating revenues and expenses	286.1	301.2	(15.1)
Income (loss) before other revenues, expenses, gains or losses	(16.9)	1.2	(18.1)
Other revenues, expenses, gains or losses	24.3	(0.4)	24.7
Increase in net assets	7.4	0.8	6.6
Net assets—beginning of year	441.1	440.3	0.8
Net assets—end of year	$ 448.5	$ 441.1	$ 7.4

The following is a graphic illustration of revenues by source (both operating and non-operating) used to fund the university's operating activities for the year ended June 30, 2002. Significant recurring sources of the university's revenues are considered non-operating, as defined by GASB Statement Number 35. These sources are presented in the breakout on the graph below (all dollars in millions).



OPERATING REVENUES

Total operating revenues increased by $29.0 million or 8.0% from the prior fiscal year. Every category of grants and contracts revenue experienced growth during fiscal year 2002. The largest increases were in the federal and the nongovernmental grants and contracts categories. Federal grant and contract revenue totaled $87.3 million, representing an increase of over $10.8 million or 14.1% from the prior fiscal year. A large part of the growth in federal grant and contract revenue was directly related to funding received for grants and contracts through the Virginia Tech Transportation Institute. Nongovernmental grants and contracts increased by $3.1 million from fiscal year 2001 levels to $21.6 million. The majority of the rise in this area was due to growth in the Virginia Bioinformatics Institute. These increases can be attributed to the university's goal to become a "top 30" research institution by 2010. Student tuition and fees, net of scholarship allowances, also increased by $7.2 million or 5.5% in fiscal year 2002. Some of this growth can be attributed to an increase in tuition for out-of-state students and a slight increase in enrollment over the prior fiscal year. Overall, the university's operating revenue increased to $393.5 million in fiscal year 2002, compared to $364.5 million in fiscal year 2001.

NON-OPERATING AND OTHER REVENUES

Non-operating income decreased by over $15 million from the previous year's total. Due to the recent recession and its impact on state tax revenues, the university's state appropriations were reduced by $10.6 million to $252.4 million in fiscal year 2002. Additionally, the economy affected investment income which declined by $3 million from the prior year due to losses and reduced interest earnings. Capital revenues, summarized below, gained $24.6 million. This category is composed of capital appropriations and reversions, capital gifts and grants, and gains or losses on the disposal of capital assets. In fiscal year 2001 the governor placed a moratorium on the spending of general funds for capital outlay projects resulting in a reversion of $33.7 million to the commonwealth. The commonwealth issued debt through Virginia College Building Authority to replace most of these general funds in fiscal year 2002. This financing is the debt of the commonwealth, not the university, and the proceeds are being allocated to Virginia Tech as non-general fund appropriations to partially replace the reverted general funds. The remainder of the reverted funds will be made available to the university in fiscal year 2003.

Total revenues increased at a rate greater than total expenses, resulting in an increase to net assets of $7.4 million in fiscal year 2002, up from $0.8 million in fiscal year 2001.

The table below shows revenue trends over the past two fiscal years.

INCREASE (DECREASE) IN REVENUES

For the years ended June 30, 2002-2001
(all dollars in millions)

			Increase (Decrease)	
	2002	2001	Amount	Percent
OPERATING REVENUES				
Student tuition and fees, net of scholarship allowance	$ 137.7	$ 130.5	$ 7.2	5.5%
Federal, state, local, and nongovernmental grants and contracts	135.3	119.6	15.7	13.1%
Auxiliary enterprises	95.6	90.5	5.1	5.6%
Other operating revenue	24.9	23.9	1.0	4.2%
Total operating revenues	393.5	364.5	29.0	8.0%
NON-OPERATING ACTIVITY				
State appropriations	252.4	263.0	(10.6)	(4.0)%
Gifts, investment income, interest expense on debt related to capital asset, and other non-operating revenues	33.7	38.2	(4.5)	(11.8)%
Total non-operating revenues (expenses)	286.1	301.2	(15.1)	(5.0)%
CAPITAL REVENUES, GAINS (LOSSES)				
Capital appropriations	13.3	22.4	(9.1)	(40.6)%
Capital appropriations reverted to the Commonwealth of Virginia	(0.4)	(33.7)	33.3	98.8%
Capital grants and gifts	13.2	13.9	(0.7)	(5.0)%
Gain (loss) on disposal of capital assets	(1.8)	(2.9)	1.1	37.9%
Total capital revenues, gains (losses)	24.3	(0.3)	24.6	8200%
Total revenues	$ 703.9	$ 665.4	$ 38.5	5.8%

TOTAL EXPENSES

The university is committed to recruiting and retaining outstanding faculty and staff. The personnel compensation package is one way to successfully compete with peer institutions and nonacademic employers. The natural expense category, compensation and benefits, comprises 66% of the university's total operating expenses. The commonwealth provides across-the-board salary increases on a periodic basis. During the biennium just completed, economic conditions of the commonwealth did not accommodate such increases.

Statewide economic uncertainty resulted in significant reductions of state appropriations to the university. This forced the university to implement strategic and short-term cost containment measures. Short-term measures included reductions in discretionary spending, such as travel, the purchases of supplies, and other items. Strategic measures included programmatic changes and workforce reductions.

Operating expenses for fiscal year 2002 totaled $696.5 million, up $32 million over fiscal year 2001. The largest increase occurred in the research area, which grew by $12.5 million. The growth occurred in various areas of the university. Areas experiencing significant expansion include the Virginia Tech Transportation Institute, the Virginia Bioinformatics Institute, the Department of Computer Science, and the Center for High Performance Manufacturing. The majority of the projects under these areas are directly connected to the research mission of the university. Instructional expenses also went up by $10.5 million or 5.3%. Other areas experiencing increased operating expenses were public service and academic support, up $5.3 million and $4.7 million, respectively.

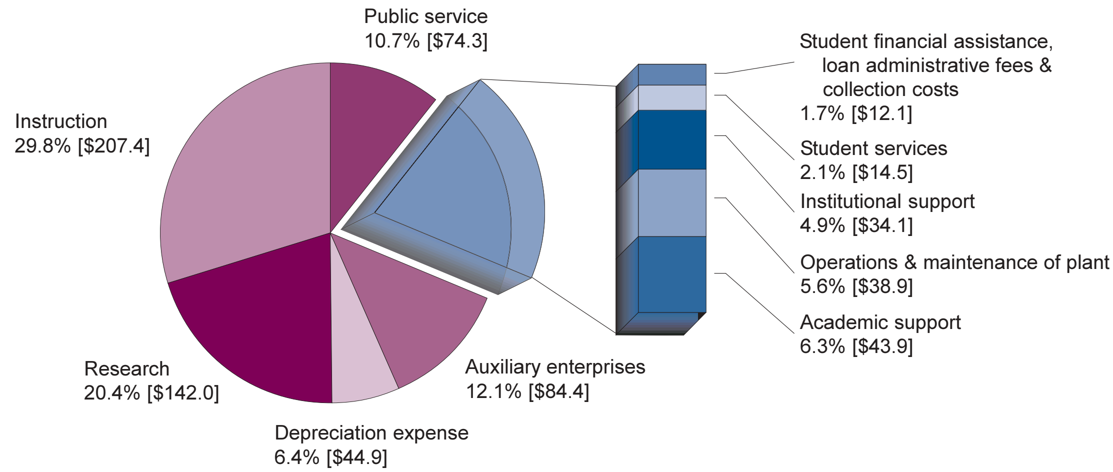
Operating revenues grew at a lesser pace than operating expenses resulting in the university's operating loss increasing by $3 million over the previous fiscal year. The primary reason for the increase in the operating loss was the accrued liability for severance costs mentioned in the Statement of Net Assets discussion. These accrued expenses will not be paid, nor will the corresponding general fund appropriations and other operating revenue sources be made available until fiscal year 2003. Furthermore, since the university accrued the expenses, but could not accrue the corresponding appropriation and other revenues, there was a decrease in unrestricted net assets.

INCREASE (DECREASE) IN OPERATING EXPENSES

For the years ended June 30, 2002-2001
(all dollars in millions)

			Increase (Decrease)	
	2002	2001	Amount	Percent
Instruction	$ 207.4	$ 196.9	$ 10.5	5.3%
Research	142.0	129.5	12.5	9.7%
Public service	74.3	69.0	5.3	7.7%
Auxiliary enterprises	84.4	82.2	2.2	2.7%
Depreciation expense	44.9	46.8	(1.9)	(4.1)%
Subtotal	553.0	524.4	28.6	5.5%
Support, maintenance, and other expenses				
Academic support	43.9	39.2	4.7	12.0%
Student services	14.5	14.2	0.3	2.1%
Institutional support	34.1	34.8	(0.7)	(2.0)%
Operations and maintenance of plant	38.9	38.7	0.2	0.5%
Student financial assistance, loan administrative fees and collection costs	12.1	13.2	(1.1)	(8.3)%
Total support, maintenance, and other expenses	143.5	140.1	3.4	2.4%
Total expenses	$ 696.5	$ 664.5	$ 32.0	4.8%

The following graphic illustration presents operating expenses by function for the year ended June 30, 2002.



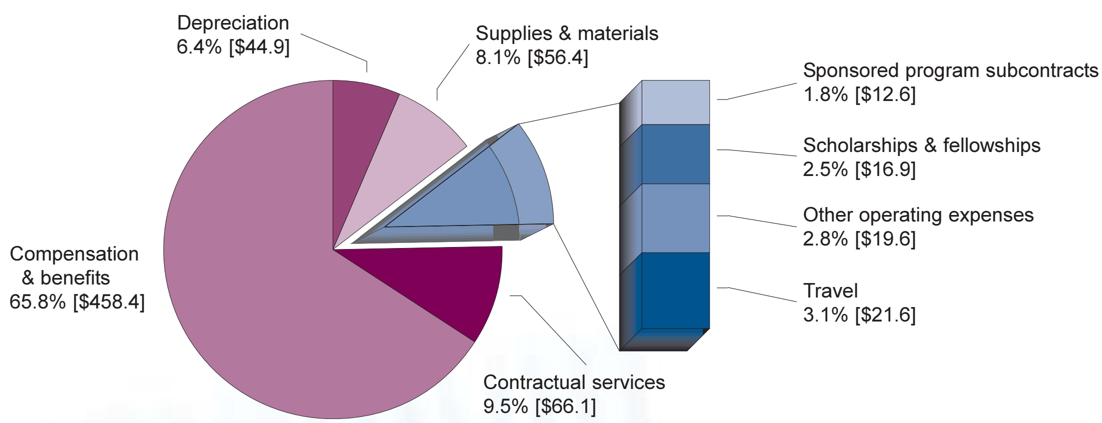
OPERATING EXPENSES BY NATURAL CLASSIFICATION

For the year ended June 30, 2002
(all dollars in millions)

	Amount	Percent
Compensation and benefits	$ 458.4	65.8%
Contractual services	66.1	9.5%
Supplies and materials	56.4	8.1%
Travel	21.6	3.1%
Other operating expenses	19.6	2.8%
Scholarships and fellowships*	16.9	2.5%
Sponsored program subcontracts	12.6	1.8%
Depreciation	44.9	6.4%
Total operating expenses by natural classification	$ 696.5	100.0%

* *Includes research grant and contract fellowships, see Note 28 in Notes to Financial Statements.*

The following graphic illustration presents operating expenses by natural classification for the year ended June 30, 2002.



STATEMENT OF CASH FLOWS

The Statement of Cash Flows presents detailed information about the cash activity of the university during the year. Cash flows from operating activities will always be different from the operating loss on the Statement of Revenues, Expenses and Changes in Net Assets (SRECNA). This difference occurs because the SRECNA is prepared on the accrual basis of accounting and includes non-cash items, such as depreciation expense, and the Statement of Cash Flows presents cash inflows and outflows without regard to accrual items. The Statement of Cash Flows should help readers assess the ability of an institution to generate future cash flows necessary to meet obligations and evaluate its potential for additional financing.

The statement is divided into five sections. The first section, Cash Flows from Operating Activities, deals with operating cash flows and shows the net cash used by the operating activities of the university. The Cash Flows from Non-capital Financing Activities section is second. GASB requires that general appropriations from the commonwealth and non-capital gifts be shown as cash flows from non-capital financing activities. This section reflects the cash received and spending for items other than operating, investing, and capital financing purposes. Cash Flows from Capital and Related Financing Activities, the third section, presents cash used for the acquisition and construction of capital and related items. Included in cash flows from capital financing activities are all plant funds and related long-term debt activities (except depreciation and amortization), as well as gifts to endowment. Cash Flows from Investing Activities, the fourth section, reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received. The last section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenue, Expenses, and Changes in Net Assets.

Major sources of cash for the university included state appropriations ($252.4 million), grants and contracts ($140.4 million), student tuition and fees ($136.9 million), and auxiliary enterprise revenues ($99.6 million). Major uses of cash were employee compensation and benefits ($454.7 million) and operating expenses ($180.8 million).

SUMMARY OF CASH FLOWS

For the year ended June 30, 2002
(all dollars in millions)

Net cash used by operating activities	$ (245.8)
Net cash provided by non-capital financing activities	294.0
Net cash used by capital and related financing activities	(38.1)
Net cash used by investing activities	(14.9)
Net decrease in cash and cash equivalents	(4.8)
Cash and cash equivalents—beginning of year	114.4
Cash and cash equivalents—end of year	$ 109.6

ECONOMIC OUTLOOK

The ten month closure of Ronald Reagan Washington National Airport, the national recession and the corresponding reductions in business activity, during fiscal year 2002, had a significant impact on the university's financial position and results of operations. The commonwealth initially projected a total budget shortfall during fiscal years 2002, 2003, and 2004 of $3.8 billion, with $2.4 billion attributable to the 2002-2004 biennium. Ultimately, the revenue shortfalls resulted in general fund reductions for state agencies in each of the three fiscal years. The university absorbed reductions for the 2002-2004 biennium in several areas of its budget, with general fund reductions for all areas totaling $35.4 million for fiscal year 2003 and $43.1 million for fiscal year 2004. The university was authorized to increase tuition to offset a portion of these reductions. Tuition for the fall 2002 semester was increased by nine percent for all students. This action is projected to generate approximately $9.1 million, net of increases in student financial assistance, to partially cover the reductions for fiscal year 2003 and 2004. Since the university is required to establish a balanced budget for each fiscal year, budget savings strategies were implemented and budget reductions were assigned to its academic and support units. These strategies included layoffs or severances of filled positions comprising 105 instructional faculty, 88 administrative faculty, and 12.5 classified positions.

The Commonwealth of Virginia continued to closely monitor revenue activities as fiscal year 2003 began. The recovery of the national economy has been delayed and has been more modest than was originally projected. Revenue forecasts had to be revised, once again, by the commonwealth as a result of this delay. The projected deficit for the three fiscal years is now estimated at $5.3 billion. Once mandatory cost increases are factored into the budget, this deficit could further increase to $5.8 billion. The governor assigned additional reductions to the university's educational and general programs for the 2002-2004 biennium in October 2002. These incremental reductions totaled $26.0 million and $29.3 million for fiscal years 2003 and 2004, respectively. The reductions will eliminate $61.4 million from the general fund for 2003, with a corresponding total of $72.4 million for fiscal year 2004. Overall, the university will have lost 27.6% of its general fund operating support in fiscal year 2004, as compared to the fiscal year 2002 general fund appropriations.

Given that general fund appropriations represent over one-third of the support for the university's total operating expenses, these reductions are substantial. Management has developed strategic plans that cut administrative costs, eliminate selected programs and activities, reorganize units and programs thus creating efficiencies and maximizing revenues while attempting to minimize the impact on the university's core missions of instruction, research, and public service. These strategic plans will be implemented during 2002-2003 to address the October 2002 assigned reductions from the commonwealth. This action will further impact staffing levels for both faculty and classified staff. General fund reductions will be partially offset by further increases in tuition and fee revenues. A midyear tuition increase has been implemented for the Spring 2003 semester. Despite these tuition and fee increases, the university remains a bargain when compared to other public institutions in its national peer group as well as other public institutions within the Commonwealth of Virginia. Even with the increases, the university's tuition and fees remain below the 60th percentile of the rates charged by its benchmark institutions.

Uncertainty remains in regards to the extent the commonwealth will need to implement additional measures to balance the budget for 2002-2004. As a result, it is unclear to what extent, if any, institutions of higher education will be further impacted. Economic factors related to the Commonwealth of Virginia can be found in the commonwealth's *Comprehensive Annual Financial Report.*

The university's overall financial position remains strong. Even with the general fund reductions, revenue shortfalls, and economic uncertainty, the university generated an overall increase in net assets during fiscal year 2002. Management will continue to maintain a close watch over resources to ensure the ability to react to unknown internal and external issues.

REPORT OF THE INDEPENDENT AUDITOR

October 31, 2002

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit and Review Commission

The Board of Visitors
Virginia Polytechnic Institute and State University

We have audited the accompanying Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flows of Virginia Polytechnic Institute and State University (a component unit of the Commonwealth of Virginia) as of June 30, 2002, and for the year then ended, which collectively comprise the university's basic financial statements. 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. The prior year summarized comparative information has been derived from the university's 2001 financial statements, and in our report dated October 12, 2001, we expressed an unqualified opinion on those financial statements.

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 the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, 2002, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 of the Notes to Financial Statements, the university has implemented a new financial model, as required by the provisions of GASB Statement Number 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statement Number 37, *Basic Financial Statements—and Management's Discussion and Analysis for State and Local Governments* and GASB Statement Number 38, *Certain Financial Statements Notes Disclosures*, as of July 1, 2001.

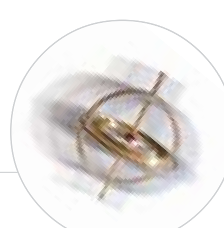
In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2002 on our consideration of the university's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report 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.

Management's Discussion and Analysis on pages 26 through 34 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 as a whole.

Sincerely,

Walter J. Kucharski
AUDITOR OF PUBLIC ACCOUNTS



STATEMENT OF NET ASSETS

As of June 30, 2002 with summarized financial information as of June 30, 2001

(all dollars in thousands)

	2002	2001
ASSETS		
Current assets		
Cash and cash equivalents (Note 4)	$ 92,167	$ 80,130
Short-term investments (Note 4)	759	755
Investments, securities lending (Note 5)	811	1,215
Accounts receivable, net of allowance for doubtful accounts of $1,172 in 2002 and $1,241 in 2001 (Note 7)	32,875	34,364
Notes receivable, net of allowance for doubtful accounts of $107 in 2002 and $33 in 2001	2,051	1,898
Due from Commonwealth of Virginia (Note 6)	4,809	7,672
Inventories	7,754	6,891
Prepaid expenses	9,522	7,001
Other current assets	-	155
Total current assets	150,748	140,081
Non-current assets		
Cash and cash equivalents (Note 4)	17,408	34,235
Short-term investments (Note 4)	13,645	7,397
Accrued interest receivable	356	407
Accounts receivable, net of allowance for doubtful accounts of $602 in 2002 and $432 in 2001 (Note 7)	551	3,883
Notes receivable, net of allowance for doubtful notes of $162 in 2002 and $204 in 2001	12,056	11,710
Capital appropriations receivable	8,521	5,962
Long-term investments (Note 4)	65,849	56,397
Prepaid expenses	1,662	2,908
Capital assets, net of accumulated depreciation of $478,739 in 2002 and $449,003 in 2001 (Note 8)	498,907	469,646
Total non-current assets	618,955	592,545
Total assets	$ 769,703	$ 732,626
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenditures (Note 9)	$ 77,331	$ 67,391
Obligations under security lending (Note 5)	892	1,215
Accrued compensated absences (Notes 1, 14)	13,369	13,955
Deferred revenue (Notes 1, 21)	30,958	23,838
Funds held in custody for others	4,629	4,075
Annuities payable	25	15
Bond anticipation notes payable (Note 10)	895	3,000
Long-term debt payable (Notes 6, 11, 12)	12,067	14,233
Total current liabilities	140,166	127,722
Non-current liabilities		
Accrued compensated absences (Notes 1, 14)	16,558	17,292
Federal loan program contributions refundable (Note 14)	12,710	12,317
Annuities payable (Note 14)	1,277	863
Long-term debt payable (Notes 6, 11, 12)	150,471	133,346
Total non-current liabilities	181,016	163,818
Total liabilities	$ 321,182	$ 291,540
NET ASSETS		
Invested in capital assets, net of related debt	$ 344,070	$ 341,118
Restricted, nonexpendable	375	371
Restricted, expendable		
Scholarships, research, instruction, and other	48,634	51,397
Loans	2,878	2,413
Capital projects	8,506	2,513
Debt service	13,245	13,344
Unrestricted	30,813	29,930
Total net assets	$ 448,521	$ 441,086

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the year ended June 30, 2002 with summarized financial information for the year ended June 30, 2001

(all dollars in thousands)

	2002	2001
OPERATING REVENUES		
Student tuition and fees, net of scholarship allowance of $20,672 in 2002 and $18,969 in 2001 (Note 1)	$ 137,689	$ 130,514
Federal appropriations	13,394	13,592
Federal grants and contracts	87,323	76,513
State grants and contracts	13,240	12,113
Local grants and contracts	13,165	12,453
Nongovernmental grants and contracts	21,603	18,467
Sales and services of educational activities	8,951	8,981
Auxiliary enterprise revenue, net of scholarship allowance of $9,055 in 2002 and $7,935 in 2001 (Note 1)	95,555	90,541
Other operating revenues	2,599	1,297
Total operating revenues	393,519	364,471
OPERATING EXPENSES		
Instruction	207,475	196,941
Research	142,002	129,519
Public service	74,309	68,987
Academic support	43,922	39,198
Student services	14,477	14,218
Institutional support	34,098	34,774
Operation and maintenance of plant	38,918	38,707
Student financial assistance	12,012	13,084
Auxiliary enterprises	84,384	82,197
Loan administrative fees and collection costs	47	38
Depreciation expense	44,880	46,823
Total operating expenses	696,524	664,486
OPERATING LOSS	(303,005)	(300,015)
NON-OPERATING REVENUES (EXPENSES)		
State appropriations (Note 19)	252,387	263,031
Gifts	41,088	41,854
Investment income, net of investment expense of $759 in 2002 and $775 in 2001	327	3,722
Other additions	116	-
Interest expense on debt related to capital assets	(7,805)	(7,438)
Net non-operating revenues	286,113	301,169
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(16,892)	1,154
Capital appropriations (Note 20)	13,289	22,357
Capital appropriations reverted to the Commonwealth of Virginia (Note 20)	(444)	(33,722)
Capital grants and gifts	13,286	13,940
Gain (loss) on disposal of capital assets	(1,804)	(2,920)
Total other revenues	24,327	(345)
Increase in net assets	7,435	809
Net assets—beginning of year, as adjusted (Note 1)	441,086	440,277
Net assets—end of year	$ 448,521	$ 441,086

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

STATEMENT OF CASH FLOWS

For the year ended June 30, 2002

(all dollars in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	
Student tuition and fees	$ 136,887
Federal appropriations	13,394
Grants and contracts	140,397
Sales and services of educational activities	8,951
Auxiliary enterprises	99,607
Other operating receipts	2,550
Payments for compensation and fringe benefits	(454,710)
Payments for operating expenses	(180,831)
Payments for scholarships and fellowships	(11,891)
Loans issued to students	(3,786)
Collection of loans from students	3,683
Net cash used by operating activities	(245,749)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
State appropriations	252,387
Gifts received for other than capital purposes	41,345
Federal Direct Lending Program—receipts	68,874
Federal Direct Lending Program—disbursements	(68,871)
Funds held in custody for others—receipts	20,365
Funds held in custody for others—disbursements	(20,075)
Net cash provided by non-capital financing activities	294,025
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital appropriations	10,286
Capital gifts and grants received	17,202
Proceeds from capital debt	29,806
Acquisition and construction of capital assets	(70,962)
Principal paid on capital debt and leases	(17,003)
Interest paid on capital debt and leases	(7,473)
Net cash used by capital and related financing activities	(38,144)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	73,200
Interest on investments	1,205
Purchase of investments and related fees	(89,327)
Net cash used by investing activities	(14,922)
Net increase (decrease) in cash and cash equivalents	(4,790)
Cash and cash equivalents—beginning of year	114,365
Cash and cash equivalents—end of year	$ 109,575

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

STATEMENT OF CASH FLOWS (continued)

For the year ended June 30, 2002

(all dollars in thousands)

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating loss	$(303,005)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation expense	44,880
Changes in assets and liabilities	
Receivables, net of allowance for doubtful accounts	1,197
Inventories	(863)
Prepaid items	(1,120)
Notes receivable, net of allowance for doubtful accounts	(499)
Accounts payable and accrued liabilities	1,575
Accrued payroll	(1,249)
Accrued severance liability	7,142
Compensated absences	(1,320)
Deferred revenue	7,120
Federal loan program contributions refundable	393
Total adjustments	57,256
Net cash used by operating activities	$(245,749)

NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Principal on capital lease debt paid by the Virginia Department of Treasury on behalf of the university	$ 4,612
Change in accounts receivable related to non-operating income	$ 3,928
Capital assets acquired through a gift reducing proceeds of capital grant and contracts	$ (2,314)
Change in fair value of investments recognized as a component of interest income	$ (827)
Change in fair value of interest payable affecting interest paid	$ 332
Capital assets acquired through installment purchase agreements	$ 52
Change in interest receivable affecting interest received	$ 51

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

maintaining momentum

TABLE OF CONTENTS: NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2002

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.

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

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.*

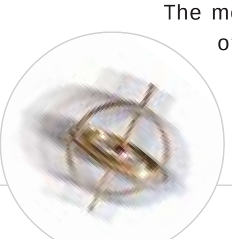
The university has no component units, as defined by Section 2200, of the *GASB Codification of Governmental Accounting and Financial Reporting Standards;* however, the university does have related party corporations whose combined financial conditions are stated in Note 2. These organizations are separate 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.

Financial Statement Presentation

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, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.* 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. The university is required under this guidance 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 most significant changes resulting from the adoption of GASB Statement Numbers 34 and 35 are (1) financial information will be presented on an entity-wide basis and not by major fund groups, (2) depreciation expense will be recognized, and (3) expenses rather than expenditures will be reported.



The university has elected to restate the fiscal year 2001 Statement of Net Assets and the fiscal year 2001 Statement of Revenues, Expenses, and Changes in Net Assets to conform with the new financial statement presentation.

Basis of Accounting

For financial reporting purposes, the university is considered a special-purpose government engaged only in business-type activities. Accordingly, the university's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The university has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The university has elected not to apply FASB pronouncements issued after the applicable date.

Cash Equivalents

For purposes of the statements of net assets and cash flows, the university considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents. Funds invested through the State Non-Arbitrage Program are considered cash equivalents.

Investments

In accordance with GASB Statement Number 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, purchased investments, interest-bearing temporary investments classified with cash, and investments received as gifts are recorded at fair value (see Note 4). Changes in unrealized gain (loss) on the carrying value of the investments are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from federal, state and local governments, and nongovernmental sources, in connection with reimbursement of allowable expenses made pursuant to the university's grants and contracts. Accounts receivable are recorded net of allowance for doubtful accounts.

Inventories

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

Non-current Cash and Investments

Cash and investments externally restricted to make debt service payments, maintain reserve funds, or to purchase or construct capital projects and other non-current assets are classified as non-current assets in the Statement of Net Assets.

Capital Assets

Capital assets consisting of land, buildings, infrastructure, and equipment are stated at appraised historical cost or actual cost where determinable. Construction in progress is capitalized at actual cost as expenses are incurred. Library materials are valued using published average prices for library acquisitions, and livestock is stated at estimated market value. All gifts of capital assets are recorded at fair market value as of the date of donation.

Equipment is capitalized when the unit acquisition cost is $2,000 or greater and the estimated useful life is one year or more. Renovation costs are capitalized when expenses total more than $100,000, the asset value significantly increases, or the useful life is significantly extended. Routine repairs and maintenance are charged to operating expense in the year the expense is incurred.

Depreciation is computed using the straight-line method over the useful life of the assets. The useful life is 40 to 60 years for buildings, 10 to 50 years for infrastructure and land improvements, 10 years for library books, and 3 to 30 years for fixed and movable equipment. Livestock is not depreciated, as it tends to appreciate over the university's normal holding period.

Special collections are not capitalized due to the collections being: (1) held for public exhibition, education, or research in the furtherance of public service rather than financial gain; (2) protected, kept unencumbered, cared for, and preserved; and (3) subject to university policy requiring the proceeds from the sales of collection items to be used to acquire other items for collections.

Interest Capitalization

Interest expense incurred during the construction of capital assets is capitalized, if material, net of interest income earned on resources set aside for this purpose. The university incurred net interest expense of $619,000 and $153,000 for the fiscal years ended June 30, 2002 and 2001, respectively. Interest capitalized for the fiscal years ended June 30, 2002 and 2001, totaled $472,000 and $153,000, respectively.

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 and expense for the amount of leave earned by employees but not taken, at June 30, 2002 and 2001, is recorded in the Statement of Net Assets, and as a component of compensation and benefit expense in the Statement of Revenues, Expenses, and Changes in Net Assets.

Deferred Revenues

Deferred revenue represents revenues collected but not earned as of June 30, 2002 and 2001. This amount is primarily composed of revenue for grants and contracts, prepaid athletic ticket sales, and prepaid student tuition and fees. See Note 21 for a detailed list of deferred revenue amounts.

Non-current Liabilities

Non-current liabilities include (1) the principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable with the next fiscal year, are to be paid from funds that are classified as non-current assets.

Net Assets

The university's net assets are classified as follows:

- Invested in capital assets, net of related debt—Invested in capital assets, net of related debt represents the university's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.
- Restricted net assets, expendable—Restricted expendable assets include resources for which the university is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- Restricted net assets, nonexpendable—Nonexpendable restricted net assets consist of endowment and similar type funds where donors or other outside sources have stipulated, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, to be expended or added to principal.
- Unrestricted net assets—Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, recoveries of facilities and administrative (indirect) cost, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational departments and the general operations of the university, and may be used at the discretion of the university's board of visitors to meet current expenses for any lawful purpose. These resources also include auxiliary enterprises—self-supporting activities providing services for students, faculty, and staff.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the university's policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

In connection with the implementation of GASB Statement Numbers 34 and 35, the following adjustments were made to reflect the cumulative effect of the change in accounting principle (all dollars in thousands):

Fund Balance, June 30, 2000	$ 826,279
Accumulated depreciation—capital assets	(409,549)
Capitalization of infrastructure	46,398
Federal Perkins Loan contributions reclassified as liabilities	(12,128)
Contract advances recognized as deferred revenue	(10,699)
Federal Direct Lending Program recognized as funds held in custody for others	(24)
Net Assets, July 1, 2000	$ 440,277

Income Taxes

The university, as a political subdivision of the Commonwealth of Virginia, is excluded from federal income taxes under Section 115 (1) of the Internal Revenue Code, as amended.

Classifications of Revenues

The university has classified its revenues as either operating or non-operating revenues according to the following criteria:

❍ Operating revenues—Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship allowance; (2) sales and services of auxiliary enterprises, net of scholarship allowance; (3) most federal, state, local, and nongovernmental grants and contracts and federal appropriations; and (4) interest on institutional student loans.

❍ Non-operating revenues—Non-operating revenues are revenues received for which goods and services are not provided. State appropriations, gifts, and other revenue sources that are defined as non-operating revenues by GASB Statement Number 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement Number 34, *Basic Financial Statements and Management Discussion and Analysis—for State and Local Governments* are included in this category.

Scholarship Allowance

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowance in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship allowance is the difference between the stated charge for goods and services provided by the university and the amount paid by students and/or third parties making payments on the students' behalf. Financial aid to students is reported using the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). The alternative method is a simple proportionality algorithm that computes scholarship allowance on a university-wide basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

2. RELATED PARTIES

The financial statements incorporate the instruction, research, and public service programs of the university. These financial statements do not include the assets, liabilities, and net assets of the related parties that 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 positions of these organizations (all dollars in thousands):

	2002	2001
Assets		
Cash and investments	$ 400,773	$ 419,313
Other assets	173,976	172,213
Total	$ 574,749	$ 591,526
Liabilities and Net Assets		
Current liabilities	$ 39,693	$ 33,664
Non-current liabilities	80,307	79,139
Net assets	454,749	478,723
Total	$ 574,749	$ 591,526

The aggregate revenues and expenses of these organizations, determined as if in consolidation with the university, were $41,742,000 and $65,716,000, respectively, in 2002 and $81,264,000 and $62,647,000, respectively, in 2001.

Virginia Tech Foundation Activity

The foundation receives gifts and expends funds for the benefit of the university. The revenues and expenses of the university include funds expended by the foundation and paid directly to the university of approximately $33,639,000 in 2002 and $33,524,000 in 2001. The university's revenues and expenses also include restricted funds paid by the foundation to parties other than the university on behalf of the university of approximately $9,828,000 in 2002 and $10,234,000 in 2001.

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 expenses 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 $11,474,000 and $10,675,000 in 2002 and 2001, respectively, and has been included in revenues and expenses of the accompanying financial statements. The university received other local government support of $1,691,000 and $1,778,000 in 2002 and 2001, 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, 2002 and 2001.

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 and cash equivalents represent cash with the treasurer, cash on hand, and cash deposits including certificates of deposit and temporary investments with original maturities of 90 days 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. Investments fall into two groups: short and long-term. Short-term investments have an original maturity of over 90 days but less than or equal to one year. Long-term investments have an original maturity greater than one year. Credit risk is the risk 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 follows to give an indication of the level of credit risk assumed by the university at June 30, 2002 and 2001:

- 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 counter party's trust department or agent in the university's name. The university has no category 2 investments for 2002 or 2001.
- Category 3—Uninsured or unregistered, with securities held by the counter party, or by its trust department or agent but not in the university's name. The university has no category 3 investments for 2002 or 2001.
- 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, 2002, follows (all dollars in thousands):

	Category 1	Non-categorized	Fair Value
Cash equivalents			
U.S. government securities and U.S. government agency securities	$ 1,518	$ -	$ 1,518
Money market funds	-	36,688	36,688
Total cash equivalents	1,518	36,688	38,206
Investments: short and long-term			
Current			
U.S. government securities and U.S. government agency securities	71	-	71
Corporate bonds	688	-	688
Total current investments	759	-	759
Non-current			
U.S. government securities and U.S. government agency securities	39,240	-	39,240
Corporate bonds	3,041	-	3,041
Other—maintained by Virginia Tech Foundation, Inc.	-	37,213	37,213
Total non-current investments	42,281	37,213	79,494
Total investments	43,040	37,213	80,253
Total cash equivalents and investments	$ 44,558	$ 73,901	$ 118,459

The categorization of investment risk for assets held on June 30, 2001, follows (all dollars in thousands):

	Category 1	Non-categorized	Fair Value
Cash equivalents			
U.S. government securities and U.S. government agency securities	$ 17,990	$ -	$ 17,990
Money market funds	-	36,606	36,606
Total cash equivalents	17,990	36,606	54,596
Investments: short and long-term			
Current			
Corporate bonds	723	-	723
Other—maintained by Virginia Tech Foundation, Inc.	-	32	32
Total current investments	723	32	755
Non-current			
U.S. government securities and U.S. government agency securities	13,990	-	13,990
Corporate bonds	7,070	-	7,070
Other—maintained by Virginia Tech Foundation	-	42,734	42,734
Total non-current investments	21,060	42,734	63,794
Total investments	21,783	42,766	64,549
Total cash equivalents and investments	$ 39,773	$ 79,372	$ 119,145

5. SECURITIES LENDING TRANSACTIONS

GASB Statement Number 28, *Accounting and Financial Reporting for Securities Lending Transactions*, establishes standards of accounting and financial reporting for transactions where governmental entities transfer securities to broker-dealers and other entities for collateral and simultaneously agree to return the collateral for the same securities in the future.

The cash equivalents and investments under securities lending and the securities lending transactions reported on the financial statements represent the university's allocated share of securities received for securities lending transactions held in the general account of the Commonwealth of Virginia. Cash equivalents of $81,000 and investments of $811,000 and the corresponding securities lending obligations are shown on the Statement of Net Assets. For the years ended June 30, 2002 and 2001, respectively, securities lending transactions totaled $41,000 and $64,000 of securities lending income and $37,000 and $61,000 of securities lending cost. These totals have been included as investment income on the Statement of Revenues, Expenses, and Changes in Net Assets. 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*.

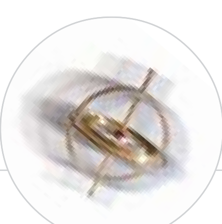
6. HIGHER EDUCATION EQUIPMENT TRUST FUND

The Equipment Trust Fund (ETF) Program was established to provide state-supported institutions of higher education bond proceeds for financing the acquisition and replacement of instructional and research equipment. The program is managed by the Virginia College Building Authority (VCBA). The VCBA issues bonds and uses the proceeds to reimburse the university and other institutions of higher education for equipment purchased. For fiscal years prior to 1999, the VCBA purchased the equipment and leased it to the university (see Notes 11 and 12). The Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA) includes $4,612,000 in capital appropriations received to cover capital lease payments for equipment purchased in fiscal years prior to 1999. For fiscal years 1999 and following, financing agreements were changed so that the university owns the equipment from the date of purchase. The SRECNA includes $6,997,000 in capital grants and gifts as reimbursement for equipment purchased using the fiscal year 2002 ETF allocation. The line item due from the Commonwealth of Virginia on the Statement of Net Assets totaling $4,809,000 and $7,672,000 for the years ended June 30, 2002 and 2001, respectively, represents equipment purchased by the university not yet reimbursed by VCBA.

7. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at June 30, 2002 and 2001 (all dollars in thousands):

	2002	2001
Current receivables		
Grants and contracts	$ 27,411	$ 30,101
Student tuition and fees	4,273	3,240
Auxiliary enterprises and other operating activities	2,363	2,264
Subtotal current receivables	34,047	35,605
Less allowance for doubtful accounts	1,172	1,241
Net current accounts receivable	32,875	34,364
Non-current receivables		
Grants and contracts	621	597
Capital gifts and grants	350	3,718
Auxiliary enterprises and other operating activities	182	-
Subtotal non-current receivables	1,153	4,315
Less allowance for doubtful accounts	602	432
Net non-current accounts receivable	551	3,883
Total receivables	$ 33,426	$ 38,247



8. CAPITAL ASSETS

A summary of changes in capital assets for the year ending June 30, 2002 is presented as follows (all dollars in thousands):

	Beginning Balance	Additions	Retirements	Ending Balance
Depreciable capital assets				
Buildings	$ 445,262	$ 34,076	$ 828	$ 478,510
Moveable equipment	263,037	30,408	15,768	277,677
Fixed equipment	38,940	1,046	926	39,060
Infrastructure	73,922	4,075	102	77,895
Library books	51,800	3,173	272	54,701
Total depreciable capital assets, at cost	872,961	72,778	17,896	927,843
Less accumulated depreciation				
Buildings	155,108	11,540	559	166,089
Moveable equipment	180,570	25,807	13,792	192,585
Fixed equipment	23,343	1,804	521	24,626
Infrastructure	53,970	2,853	-	56,823
Library books	36,012	2,876	272	38,616
Total accumulated depreciation	449,003	44,880	15,144	478,739
Total depreciable capital assets, net of accumulated depreciation	423,958	27,898	2,752	449,104
Non-depreciable capital assets				
Land	28,964	-	-	28,964
Livestock	907	-	83	824
Construction in progress	15,817	39,736	35,538	20,015
Total non-depreciable capital assets	45,688	39,736	35,621	49,803
Total capital assets, net of accumulated depreciation	$ 469,646	$ 67,634	$ 38,373	$ 498,907

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2002 and 2001 consist of the following (all dollars in thousands):

	2002	2001
Accounts payable	$ 29,232	$ 25,512
Accrued salaries and wages payable	39,659	40,907
Accrued severance expense payable	7,142	-
Retainage payable	1,298	972
Total accounts payable and accrued liabilities	$ 77,331	$ 67,391

Retainage payable represents funds held by the university as retainage on various construction contracts for work performed. The retainage will be remitted to the various contractors upon satisfactory completion of the construction projects.

10. BOND ANTICIPATION NOTES

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. The VCBA used proceeds from the bonds to purchase a note payable from the university. The note payable serves as permanent financing for the Lane Stadium south end zone expansion project. The university used $3,000,000 of the proceeds to repay the treasury loan due to the Commonwealth of Virginia at the fiscal year ended June 30, 2001.

Also during fiscal year 2002, the university entered into a bond anticipation note obligation with Wachovia Bank National Association. The amount of the note is $30,000,000, in the form of a line of credit, secured by general revenues of the university. The note will serve as temporary financing for the following capital projects: alumni/continuing education center/hotel complex, Bioinformatics Phase II, electric service facility, and career services facility. As of June 30, 2002, the university has drawn $895,000 against the line of credit.

The university expects to issue $29,210,000 in 9 (d) notes through the VCBA's Pooled Bond Program in November 2002 to serve as permanent financing for three of the four projects noted above. The university has earmarked $21,930,000 for the Bioinformatics Phase II, $4,405,000 for the career services facility, and $2,875,000 for the electric service facility from these proceeds. The university will use proceeds from the notes to repay the bond anticipation note obligation to Wachovia related to these three projects.

11. SUMMARY OF LONG-TERM INDEBTEDNESS

Bonds Payable

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

Section 9 (d) bonds are revenue bonds which are limited obligations of the university payable exclusively from pledged general revenues and are not a debt of the Commonwealth of Virginia, legally, morally, or otherwise. Pledged general revenues include general fund appropriations, student tuition and fees, facilities and administrative (indirect) cost recoveries, auxiliary enterprise revenues, and other revenues not required by law to be used for another purpose. The university has issued Section 9 (d) bonds directly through underwriters and also participates in the Public Higher Education Financing Program (Pooled Bond Program) created by the Virginia General Assembly in 1996. Through the Pooled Bond Program, the Virginia College Building Authority issues Section 9 (d) bonds and uses the proceeds to purchase debt obligations (notes) of the university and various other institutions of higher education. The notes are secured by the pledged general revenues of the university (see Notes Payable below and Note 12, Detail of Long-term Debt Payable, Notes Payable).

Section 9 (c) bonds are general obligation revenue bonds issued by the Commonwealth of Virginia on behalf of the university and 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. The Treasurer of Virginia holds these systems in trust 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 are debt obligations between the Virginia College Building Authority (VCBA) and the university. The VCBA issues bonds through the Pooled Bond Program and uses the proceeds to purchase debt obligations (notes) of the university. The notes are secured by 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.

Installment Purchase Obligations

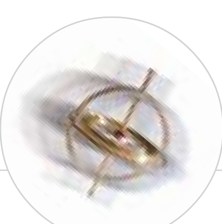
The university has entered into various installment purchase contracts to finance the acquisition of equipment. The length of the purchase agreements range from two to five years with variable rates of interest. The outstanding principal is included in the long-term debt payable line item on the Statement of Net Assets.

A summary of changes in long-term debt payable activity for the year ending June 30, 2002 is presented as follows (all dollars in thousands):

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
Bonds payable					
Section 9 (c) general obligation revenue bonds	$ 49,749	$ -	$ 4,453	$ 45,296	$ 4,921
Section 9 (d) revenue bonds	66,240	-	3,845	62,395	4,045
Notes payable	24,925	26,285	825	50,385	880
Capital lease obligations, ETF	6,498	-	4,751	1,747	1,747
Installment purchase obligations	167	2,677	129	2,715	474
Total long-term debt payable	$ 147,579	$ 28,962	$ 14,003	$ 162,538	$ 12,067

A summary of future principal commitments for fiscal years subsequent to June 30, 2002 is presented as follows (all dollars in thousands):

Year ending June 30:	Section 9 (c) Bonds	Section 9 (d) Bonds	Notes Payable	Capital Lease Obligations	Installment Purchase Obligations	Total Long-Term Debt Payable
2003	$ 4,921	$ 4,045	$ 880	$ 1,747	$ 474	$ 12,067
2004	5,083	5,480	2,925	-	525	14,013
2005	3,512	3,590	2,965	-	543	10,610
2006	3,687	3,785	3,010	-	559	11,041
2007	3,881	3,990	3,050	-	566	11,487
2008 – 2012	15,299	20,605	9,205	-	48	45,157
2013 – 2017	8,695	18,795	11,725	-	-	39,215
2018 – 2022	520	2,105	10,230	-	-	12,855
2023 – 2027	-	-	6,395	-	-	6,395
Less: Unamortized discount	(302)	-	-	-	-	(302)
Total future principal requirements	$ 45,296	$ 62,395	$ 50,385	$ 1,747	$ 2,715	$ 162,538



A summary of future interest commitments for fiscal years subsequent to June 30, 2002 is presented as follows (all dollars in thousands):

Year ending June 30:	Section 9 (c) Bonds	Section 9 (d) Bonds	Notes Payable	Capital Lease Obligations	Installment Purchase Obligations	Total Interest
2003	$ 2,271	$ 3,360	$ 2,324	$ 83	$ 91	$ 8,129
2004	2,013	3,151	2,255	-	77	7,496
2005	1,748	2,862	2,155	-	57	6,822
2006	1,576	2,669	2,050	-	36	6,331
2007	1,394	2,456	1,936	-	14	5,800
2008 – 2012	4,325	9,195	8,353	-	-	21,873
2013 – 2017	1,381	3,266	5,782	-	-	10,429
2018 – 2022	34	236	2,660	-	-	2,930
2023 – 2027	-	-	843	-	-	843
Total future interest requirements	$ 14,742	$ 27,195	$ 28,358	$ 83	$ 275	$ 70,653

12. DETAIL OF LONG-TERM DEBT PAYABLE

Bonds Payable

Bonds payable at June 30, 2002 and 2001 consists of the following (all dollars in thousands):

	Interest rates	Maturity	2002	2001
Revenue Bonds:				
Dormitory and dining hall system:				
Series 1996B, issued $3,020 *	3.80% - 5.70%	2004	$ 860	$ 1,260
Series 1996B, issued $5,475 *	3.80% - 5.35%	2009	3,345	3,740
Series 1996B, issued $1,730	3.80% - 5.70%	2016	1,470	1,540
Utility system, series 1996D, issued $2,570 *	3.80% - 5.35%	2009	1,570	1,755
Veterinary medicine, series 1996A, issued $1,040 *	3.80% - 5.75%	2008	610	690
Northern Virginia Graduate Center, series 1996A, issued $10,080 *	3.80% - 5.75%	2020	8,790	9,075
Architectural/engineering, series 1996A, issued $6,805	3.80% - 5.50%	2016	5,795	6,065
Athletic facility – addition, series 1996A, issued $3,540	3.80% - 5.75%	2004	2,020	2,385
Athletic facility – improvements, series 1996A, issued $6,250	3.80% - 5.75%	2016	5,150	5,390
Coal fired facility, series 1996A, issued $11,035	3.80% - 5.50%	2016	9,400	9,840
Donaldson Brown Hotel and Conference Center:				
Series 1996A, issued $3,945	3.80% - 5.50%	2016	3,360	3,520
Series 1996A, issued $2,495	3.80% - 5.50%	2016	2,060	2,155
University services systems:				
Student Health and Fitness Center, series 1996C, issued $21,175	3.80% - 5.50%	2016	17,965	18,825
Total revenue bonds			62,395	66,240
General Obligation Revenue Bonds:				
Dormitory and dining hall system:				
Series 1991A, issued $5,015 – refinanced *	5.60% - 7.60%	2001	-	240
Series 1992C, issued $4,990 – partial refunding *	5.10% - 5.80%	2004	470	685
Series 1992D, issued $2,680 – partial refunding *	4.60% - 5.60%	2006	535	650
Series 1992D, issued $2,790 – partial refunding *	4.60% - 5.60%	2006	555	675
Series 1993B, issued $3,050 – refunding series 1991A *	3.50% - 5.00%	2011	2,871	2,896
Series 1996, issued $272 – refunding series 1991A *	4.75%	2003	258	260
Series 1997, issued $15,895	3.79% - 5.40%	2017	13,655	14,255
Series 1998, issued $3,158 – refinanced 1992C *	3.50% - 4.70%	2013	3,050	3,072
Series 1998, issued $1,380 – refinanced 1992D *	3.50% - 4.70%	2013	1,339	1,347
Series 1998, issued $1,440 – refinanced 1992D *	3.50% - 4.70%	2013	1,397	1,405
Series 2000, issued $3,255	4.00% - 5.50%	2018	2,790	2,905
Series 2000A, issued $1,800	4.75% - 5.25%	2019	1,680	1,740
Telecommunication, series 1989A, issued $24,259	6.40% - 7.20%	2004	3,143	4,571
University services system – student center:				
Series 1991A, issued $3,260 – refinanced *	5.60% - 7.60%	2001	-	155
Series 1993A, issued $10,885 – refunding series 1988B *	3.75% - 5.20%	2008	6,780	7,735
Series 1993B, issued $942 – refunding series 1990B *	3.50% - 5.00%	2010	806	890
Series 1993B, issued $1,987 – refunding series 1991A *	3.50% - 5.00%	2011	1,870	1,887
Series 1996, issued $176 – refunding series 1991A *	4.75%	2003	167	168

	Interest rates	Maturity	2002	2001
Parking facilities:				
Series 1991A, issued $4,220 – refinanced *	5.60% - 7.60%	2001	$ -	$ 205
Series 1993B, issued $2,569 – refunding series 1991A *	3.50% - 5.00%	2011	2,418	2,439
Series 1996, issued $230 – refunding series 1991A *	4.75%	2003	217	219
Series 1997, issued $1,550	5.00%	2017	1,295	1,350
Total general obligation revenue bonds			45,296	49,749
Total bonds payable			$ 107,691	$ 115,989

** See Bond defeasance – previous years*

Bond Defeasance

In previous fiscal years in accordance with GASB Statement Number 7, *Advance Refundings Resulting in the Defeasance of Debt*, as amended by GASB Statement Number 34, 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, 2002 and 2001, bonds payable considered defeased in previous years totaled $26,115,000 and $27,685,000, respectively.

Notes Payable

Notes payable to VCBA under the pooled 9 (d) bond program at June 30, 2002 and 2001 consists of (all dollars in thousands):

	Average coupon rate	Maturity	2002	2001
Dormitory and dining hall system:				
Series 1999, issued $10,145	4.53%	2018	$ 9,090	$ 9,455
Series 1999A, issued $10,905	5.73%	2019	10,555	10,905
Utility system, series 2000A, issued $2,925	5.25%	2020	2,855	2,925
Infectious waste facility, series 2000A, issued $1,640	5.25%	2020	1,600	1,640
Stadium expansion, series 2001A, issued $26,285	4.60%	2026	26,285	-
Total notes payable			$ 50,385	$ 24,925

Other Long-term Debt

Other long-term debt at June 30, 2002 and 2001 consists of:

	2002	2001
Capital leases payable for Higher Education Equipment Trust Fund with interest rates of 4.10% to 5.35%.	$ 1,747	$ 6,498
Installment purchase obligations for equipment purchases through June 2002 with various interest rates and maturing through 2008. The book value of capitalized equipment is $3,357 for 2002 and $450 for 2001.	2,715	167
Total other long-term debt	$ 4,462	$ 6,665

Total Long-term Debt Payable Summary

	2002	2001
Total bonds payable	$107,691	$ 115,989
Total notes payable	50,385	24,925
Total other long-term debt	4,462	6,665
Total long-term debt payable	$162,538	$ 147,579

13. LONG-TERM DEBT ISSUED AFTER JUNE 30, 2002

On October 23, 2002, the university issued $975,000 in 9 (c) bonds. Proceeds from the bonds will be used to finance various parking projects.

14. CHANGE IN OTHER LIABILITIES

A summary of changes in other liabilities for the year ended June 30, 2002 follows (all dollars in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Accrued compensated absences	$ 31,247	$ 16,187	$ 17,507	$ 29,927	$ 13,369
Federal loan program contribution refundable	12,317	581	188	12,710	-
Annuities payable	878	477	53	1,302	25
Total other liabilities	$ 44,442	$ 17,245	$ 17,748	$ 43,939	$ 13,394

15. 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. During the normal course of business the university expects similar leases will replace these leases. Rental expense was approximately $11,982,000 and $9,930,000 for the years ended June 30, 2002 and 2001, respectively.

A summary of future minimum lease payments under operating leases as of June 30, 2002, follows (all dollars in thousands):

Year ending June 30:	
2003	$ 7,540
2004	5,771
2005	4,151
2006	3,466
2007	2,805
2008 – 2012	3,359
2013 – 2017	3,019
Total	$ 30,111

16. 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 expenses or liabilities on the university's financial statements. Outstanding contractual commitments for capital improvement projects at June 30, 2002, included (all dollars in thousands):

Chemistry/Physics Phase II	$ 15,008
Bioinformatics Phase I	14,608
Upper quad conversion	3,341
Lane Stadium expansion	3,320
Micro electronics lab	1,095
Cheatham Hall addition	1,053
Alumni/continuing education center/ hotel complex	982
Hampton Roads facility replacement	962
Other projects	2,511
Total	$ 42,880

These commitments are funded by the following: $17,469,000 from general obligation bond proceeds, $10,471,000 from 21st century bonds, $4,955,000 from state general appropriations, $3,760,000 from auxiliary enterprise funds, $3,609,000 from private funds, and $2,616,000 from facilities and administrative (indirect) cost recoveries and university education and general funds.

17. 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. Information related to this plan is available at the statewide level only and can be found in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*. The commonwealth, not the university, has the overall responsibility for contributions to this plan.

The university's expenses include the amount assessed by the commonwealth for contributions to VRS, which totaled approximately $13,908,000 and $18,715,000 for the years ended June 30, 2002 and 2001, respectively. VRS retirement contribution rates assessed to the university were lowered from 9.24% to 5.00% as part of the state budget reduction process. This rate decrease resulted in a reduction to retirement contribution expense.

Optional Retirement Plan

Full-time faculty and certain administrative staff participate in a defined contribution plan administered by five different providers other than the VRS. The six different providers are TIAA/CREF Insurance Companies; Fidelity Investments Tax-Exempt Services Co.; Met Life Securities, Inc.; 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 $11,573,000 and $10,524,000 for years ended June 30, 2002 and 2001, respectively. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $111,364,000 and $101,194,000 for fiscal years 2002 and 2001, respectively.

Deferred Compensation Plan

Employees of the university are employees of the Commonwealth of Virginia. State employees may participate in the commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the commonwealth matching up to $20 per pay period. The dollar amount match can change depending on the funding available in the commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. Employer contributions under the Deferred Compensation Plan were approximately $1,397,000 and $1,293,000 for the fiscal years 2002 and 2001, 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 $1,086,000 and $1,139,000 for the years ended 2002 and 2001, respectively. Contributions to FERS and CSRS were calculated using the base salary amount of approximately $12,388,000 and $13,001,000 for the fiscal years 2002 and 2001, respectively.

In addition, the university contributed $55,000 and $58,000 for the years ended June 30, 2002 and 2001, 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.

18. POST-EMPLOYMENT BENEFITS

The commonwealth participates in the VRS administered, statewide group life insurance program that 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*.

19. APPROPRIATIONS

The Appropriation Act specifies that unexpended general fund appropriations that remain on the last day of the current year, ending on June 30, 2002, shall be reappropriated for expenditure in the first month of the next year, beginning on July 1, 2002, except as may be specifically provided otherwise by the General Assembly. The governor may, at his discretion, un-allot funds from the reappropriated balances that relate to unexpended appropriations for payments to individuals, aid-to-localities, or any pass-through grants.

During the year ended June 30, 2002, the following adjustments were made to the university's original appropriation (all dollars in thousands):

Original legislative appropriation per Chapter 1073 as amended:	
Education and general programs	$ 246,913
Student financial assistance	10,197
Uncapitalized maintenance reserve	3,035
Commonwealth Technology Research Fund	2,075
Virginia Retirement System reduction	(1,383)
Unique military activities	1,305
Eminent scholar program	753
Engineering research center fund	300
Other	265
Total appropriation as amended	263,460
Adjustments:	
Reduction of general fund appropriation	(9,677)
Virginia Retirement System rate reduction savings	(4,916)
Health insurance premium	2,047
Salary increases	1,234
Deferred compensation employer match	1,051
Retiree health care credit savings	(861)
Transfer from student financial assistance program for undergraduate internships and graduate assistantships	206
Agricultural education program	150
Group life insurance contribution savings	(138)
Electrical and gas industries deregulation savings	(100)
Other	(69)
Total adjustments	(11,073)
Adjusted appropriation	$ 252,387

20. CAPITAL APPROPRIATIONS

Following are the capital appropriations received by the university from the commonwealth for the year ended June 30, 2002 (all dollars in thousands):

21st Century appropriations	$ 5,569
Equipment trust fund	4,612
Capital project appropriations	1,960
Commonwealth Technology Research Fund	1,148
Total before reversions	13,289
Reversions to the commonwealth	(444)
Total capital appropriations	$ 12,845

21. DEFERRED REVENUE

Deferred revenue consists of the following at June 30, 2002 (all dollars in thousands):

Grants and contracts	$16,088
Prepaid athletic tickets	9,254
Prepaid tuition and fees	4,434
Other auxiliary enterprises	1,182
Total deferred revenue	$30,958

22. 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 allowance of related direct and indirect charges pursuant to such agreements. As of June 30, 2002, the university estimates that no material liabilities will result from such audits or questions.

23. FEDERAL DIRECT LENDING PROGRAM

The university participates 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. The funds can be applied to outstanding student tuition and fee charges or refunded directly to the student.

These loan programs are treated as student payments with the university acting as a fiduciary agent for the student. Therefore, the receipt of the funds from the federal government is not reflected in the federal government grants and contracts total on the Statement of Revenues, Expenses, and Changes in Net Assets. The activity is included in the non-capital financing section of the Statement of Cash Flows. For the fiscal year ended June 30, 2002, cash provided by the program totaled $68,874,000 and cash used by the program totaled $68,871,000.

24. 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; non-performance 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 in the Commonwealth of Virginia's *Comprehensive Annual Financial Report.*

25. JOINT VENTURES

The Hotel Roanoke Conference Center Commission was created by a joint resolution of the university and the city of Roanoke. The purpose of the commission is to establish and operate a publicly owned conference center in the city of Roanoke adjacent to the renovated Hotel Roanoke. The powers of the commission are vested in commissioners. Each participating, governing body appoints three commissioners for a total of six commissioners. The commission has the authority to issue debt, and such debt is the responsibility of the commission. The intention of the commission is to be self-supporting through its user fees. The university and the city of Roanoke equally share in any operating deficit or additional funding needed for capital expenditures. The university made contributions of $175,000 to the commission in fiscal year ended June 30, 2002.

26. JOINTLY GOVERNED ORGANIZATIONS

The Blacksburg-Christiansburg & VPI Water Authority was created by a concurrent resolution of the university and the towns of Blacksburg and Christiansburg. The authority operates and maintains the water supply system for the university and the other participating governing bodies. A five-member board governs the authority with one member appointed by each governing body and two at-large members appointed by the joint resolution of each of the governing bodies The authority's indebtedness is not an obligation of the university and is payable solely from the revenues of the authority. The university paid $439,000 to the authority for the purchase of water for the fiscal year ended June 30, 2002.

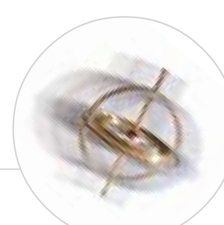
The Blacksburg-VPI Sanitation Authority was created by a concurrent resolution of the university and the town of Blacksburg. The authority operates and maintains the wastewater treatment system for the participating governing bodies. Each participating governing body appoints one member of the five-member board of directors. Three at-large members are appointed by the joint resolution of each of the governing bodies. The authority's indebtedness is not an obligation of the university and is payable solely from the revenues of the authority. The university paid $404,000 to the authority for the purchase of sewer services for the fiscal year ended June 30, 2002.

The Montgomery Regional Solid Waste Authority was created by a joint resolution of the university, the towns of Blacksburg and Christiansburg, and the county of Montgomery. The authority operates and maintains a sanitary landfill and recycling facility. The authority is governed by its board with each participating governing body appointing one board member, and jointly all governing bodies appointing a fifth member. Each governing body provides collection of solid waste and recyclables from within its jurisdiction and delivers the collected materials to the authority for disposal of the waste in the landfill, and processing and marketing of the recyclables. All indebtedness is the obligation of the authority and payable from its revenues. The university paid $241,000 to the authority for tipping fees for the fiscal year ended June 30, 2002.

The Virginia Tech/Montgomery Regional Airport Authority was created by a joint resolution of the university, the towns of Blacksburg and Christiansburg, and the county of Montgomery. The purpose of the authority is to develop a regional airport based on the mission of servicing corporate executive markets and other general aviation markets; obtaining grants, loans and other funding for airport improvements and other activities; and in promoting and assisting in regional economic development. The authority is governed by its board, which consists of five members. Each participating governing body appoints one member of the board, and jointly all governing bodies appointing a fifth member. All indebtedness is the obligation of the authority and payable from its revenues. The authority began operations on July 1, 2002.

27. PACE DONATION

In February 2002, the university was selected to participate with Partners for the Advancement of CAD/CAM/CAE Education (PACE) to integrate 3-D solid modeling and other parametrics-based applications into design, engineering, and manufacturing curricula. As a participant in this group, the university was given a nonexclusive, nontransferable license to install and use, solely for academic and educational purposes, CAD/CAM/CAE products and services. The university is required to return all copies of the software and the associated documentation at the expiration, cancellation, or termination of the agreement. PACE has made donations of the same software package to at least fifteen other universities and some software licenses donated by PACE are already available to education institutions essentially free of charge; therefore, this transaction was not recorded in the financial statements of the university.



28. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The university's operating expenses by functional classification were as follows for the year ended June 30, 2002 (all dollars in thousands):

	Compensation & Benefits	Contractual Services	Supplies & Materials	Travel	Other Operating Expenses	Scholarships & Fellowships	Sponsored Program Subcontracts	Total
Instruction	$180,998	$13,824	$ 5,953	$ 4,436	$ 1,685	$ 532	$ 47	$207,475
Research	98,704	8,989	11,087	5,563	2,395	4,067	11,197	142,002
Public service	48,633	16,715	1,974	4,813	655	123	1,396	74,309
Academic support	28,858	5,428	7,796	960	807	73	-	43,922
Student services	9,664	3,104	794	478	420	17	-	14,477
Institutional support	29,639	871	513	1,025	1,912	138	-	34,098
Operation and maintenance of plant	18,652	2,986	8,175	155	8,937	13	-	38,918
Student financial assistance	122	13	67	-	-	11,810	-	12,012
Auxiliary enterprises	43,108	14,206	20,049	4,201	2,670	150	-	84,384
Subtotal	$458,378	$66,136	$56,408	$21,631	$19,481	$16,923	$12,640	$651,597
Loan administrative fees and collection costs								47
Depreciation expense								44,880
Total operating expenses								$696,524

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 page 35. 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

Minnis E. Ridenour
Executive Vice President and Chief Operating Officer

SUPPLEMENTARY INFORMATION

SOURCES AND USES OF FUNDS FOR THE INSTRUCTION MISSION

Virginia Tech is a comprehensive land-grant university with instruction, research, and public service missions. The Commonwealth of Virginia provides state appropriations to the university in support of the following major mission areas: instruction, Agricultural Experiment Station and Cooperative Extension programs, graduate and undergraduate scholarships, and various capital outlay projects. This page diagrams financial activity related to instruction only—the largest major area.

The university receives both operating and non-operating revenues to support the instruction mission. Revenues, except state appropriations, are reported as operating revenue on the Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA). State appropriations are included as non-operating on the SRECNA. These appropriations are used to support instruction and comprise 53.7% of the total revenues highlighted below.

Expenses related to the instruction mission, detailed below, represent 47.3% of total operating expenses for the university as reported on the SRECNA.

Since the Commonwealth of Virginia budgets and appropriates funds on a cash basis, the totals presented are on a cash, not accrual, basis.

REVENUES

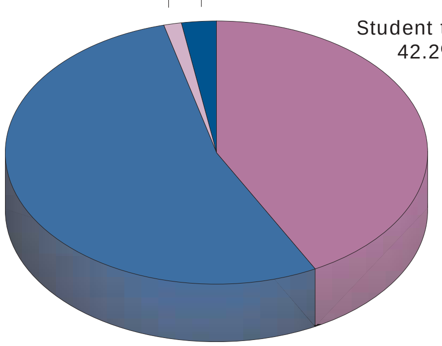
For the year ended June 30, 2002
(all dollars in thousands)

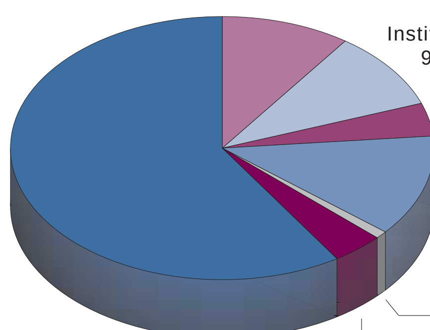
Student tuition and fees	$ 139,038
State appropriations For carrying on the general academic programs; excludes appropriations for Agricultural Experiment Station and Cooperative Extension.	176,894
Gifts, grants, and contracts Facilities and administration (indirect) cost recoveries.	4,466
Other revenues Includes departmental receipts from sales and services related to instructional programs and other revenues.	8,772
Total revenues	$ 329,170

EXPENSES

For the year ended June 30, 2002
(all dollars in thousands)

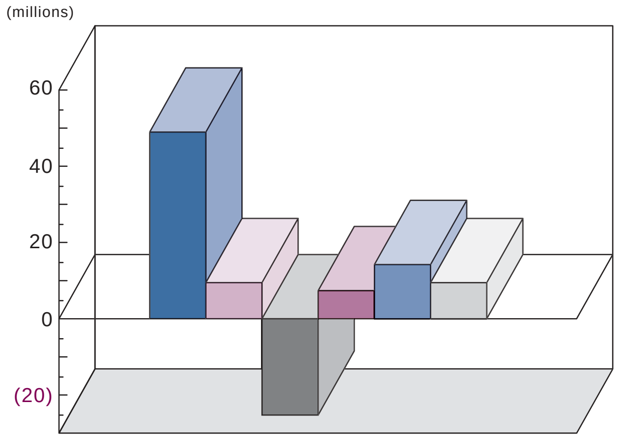
Instruction Exclusive of sponsored instruction programs.	$ 194,725
Research Exclusive of the Agricultural Experiment Station and sponsored research programs.	13,067
Public service Exclusive of Cooperative Extension and sponsored public service programs.	2,824
Academic support Library, Learning Resources Center, and academic administration.	40,951
Student services Student admissions, counseling services, and other student activities.	13,655
Institutional support Executive management, business, and finance operations.	31,491
Operation and maintenance of plant	32,457
Total expenses	$ 329,170





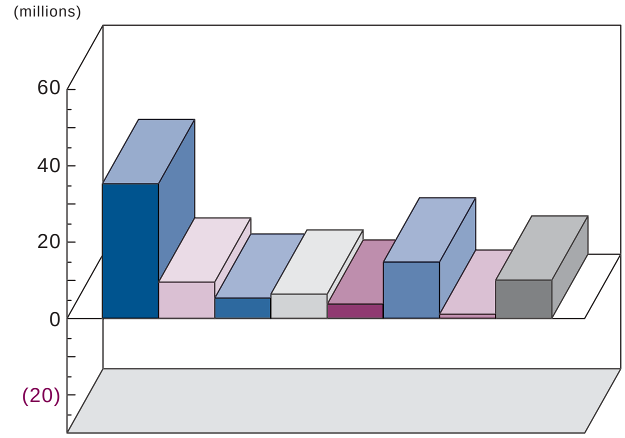
VIRGINIA TECH FOUNDATION, INC.

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 $49.1 million in contributions for support of the university. Investment income of $9.9 million, along with net losses on investments of $(24.8) million, resulted in a $(14.9) million loss on investments. Property rental, hotel operating and other income totaled $31.7 million. Total income of $65.9 million was offset by $77.6 million in expenses that supported the university and its programs. Direct support to various university programs aggregated $51.0 million, which included $9.9 million in scholarship support to students and faculty and $5.6 million towards university capital projects. Additional expenses such as fund raising and management and general, as well as research center and hotel program costs totaled $26.6 million. Total assets decreased by $23.2 million due to losses on investments, a $10.4 million impairment loss in intangibles related to a patent given in fiscal year 2001, and a $1.1 million change in the valuation of split-interest agreements as of June 30, 2002.



2002 REVENUES, GAINS & OTHER SUPPORT

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



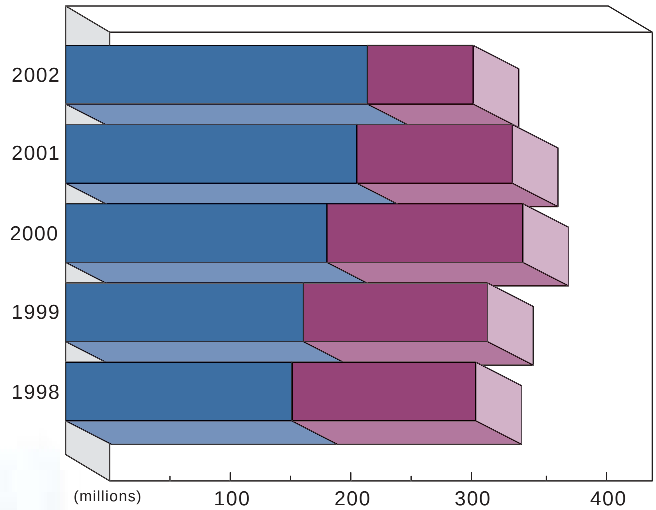
2002 EXPENSES

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

ENDOWMENT MARKET VALUE 1998-2002

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

- Contributions
- Appreciation



AFFILIATED CORPORATIONS FINANCIAL HIGHLIGHTS

For the years ended June 30, 2002-1998

(all dollars in thousands)

	2002	2001	2000	1999	1998
ASSETS					
Virginia Tech Foundation, Inc.	$601,277	$624,529	$574,358	$540,613	$499,209
Virginia Tech Services, Inc.	11,072	9,803	11,560	10,449	11,113
Virginia Tech Alumni Association	3,676	3,967	4,174	3,923	1,447
Virginia Tech Intellectual Properties, Inc.	2,188	1,061	1,174	2,032	2,443
WPI, Inc.	6,761	6,960	7,043	8,801	10,098
Total assets	$624,974	$646,320	$598,309	$565,818	$524,310
REVENUES					
Virginia Tech Foundation, Inc.	$ 65,978	$ 96,687	$104,537	$ 95,359	$104,124
Virginia Tech Services, Inc.	20,142	21,866	22,056	21,208	19,497
Virginia Tech Alumni Association	(225)	(140)	325	2,567	196
Virginia Tech Intellectual Properties, Inc.	1,220	892	749	726	597
WPI, Inc.	10,392	12,751	14,275	19,397	26,643
Total revenues	$ 97,507	$132,056	$141,942	$139,257	$151,057
EXPENSES					
Virginia Tech Foundation, Inc.	$ 89,122	$ 78,040	$ 73,589	$ 60,891	$ 54,464
Virginia Tech Services, Inc.	20,652	21,866	22,049	21,365	19,497
Virginia Tech Alumni Association	67	67	74	91	80
Virginia Tech Intellectual Properties, Inc.	984	1,057	1,046	1,776	1,329
WPI, Inc.	10,653	12,726	14,262	19,787	26,811
Total expenses	$121,478	$113,756	$111,020	$103,910	$102,181

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. Such auditors have examined the financial records of the organizations presented in the table above 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 through 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.

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

For the year ended June 30, 2002

(all dollars in thousands)

	Dormitory and Dining Hall System (1)	Utility System (1)	University Services System (1)	Information Systems & Services	Athletic Department	All Other (2)	Total (3)
REVENUES:							
Student fees	$ 37,302	$ -	$ 14,299	$ 2,695	$ 5,815	$ 2,256	$ 62,367
Sales and services	6,844	13,800	2,056	12,002	15,066	10,616	60,384
Total fees and sales	44,146	13,800	16,355	14,697	20,881	12,872	122,751
Contributions	80	-	63	-	2,309	-	2,452
Interest and dividends	27	1	10	372	251	292	953
Total revenues	44,253	13,801	16,428	15,069	23,441	13,164	126,156
EXPENSE OF OPERATIONS:							
Personal services	15,314	1,457	7,919	4,918	8,950	4,004	42,562
Contractual services	3,101	679	2,422	3,585	6,294	3,391	19,472
Supplies and materials	11,487	721	1,118	1,457	2,471	1,504	18,758
Continuous charges	4,047	10,176	1,206	1,224	3,552	839	21,044
Equipment	728	200	69	1,009	245	632	2,883
Total expenses of operation	34,677	13,233	12,734	12,193	21,512	10,370	104,719
EXCESS OF REVENUES OVER EXPENSES OF OPERATIONS BEFORE TRANSFERS:	9,576	568	3,694	2,876	1,929	2,794	21,437
TRANSFERS AMONG FUNDS—ADDITIONS (DEDUCTIONS):							
Mandatory transfers:							
Debt service—current year	(6,060)	(566)	(3,606)	(1,045)	(531)	(1,106)	(12,914)
Debt service—future years	(1,811)	348	11	-	-	-	(1,452)
Nonmandatory transfers:							
Capital transfers	(1,705)	(350)	(99)	78	(1,085)	(220)	(3,381)
Allocation of funds	-	-	-	-	(426)	-	(426)
Total transfers	(9,576)	(568)	(3,694)	(967)	(2,042)	(1,326)	(18,173)
Net increase (decrease) for year	-	-	-	1,909	(113)	1,468	3,264
Fund balances, July 1, 2001	-	-	-	3,741	5,754	5,711	15,206
Fund balances, June 30, 2002	$ -	$ -	$ -	$ 5,650	$ 5,641	$ 7,179	$ 18,470

(1) These system accounts are funds held by the trustee and no fund balances are reported.

(2) All Other includes the following auxiliaries: University Licensing, Student Orientation, Parking Services, Tailor Shop, Donaldson Brown Hotel and Conference Center, Library Services, Golf Course, Tennis Pavilion, Hokie Passport, and Software Sales.

(3) This schedule accounts for purchases of capital assets as expenses and does not include depreciation. Additionally, all revenues are recorded as charged, including student charges and internal activities. Management uses this method of accounting to monitor individual auxiliary enterprises and to set rates.

CONSOLIDATING SCHEDULE OF NET ASSETS

As of June 30, 2002

(all dollars in thousands)

	Current Funds Unrestricted	Current Funds Restricted	Loan Funds	Endowment & Similar funds	Plant Funds	Agency Funds	Total
ASSETS							
Current assets							
Cash and cash equivalents	$ 59,104	$ 27,114	$ 1,487	$ -	$ -	$ 4,462	$ 92,167
Short-term investments	688	-	-	-	-	71	759
Investments, securities lending	811	-	-	-	-	-	811
Accounts receivable, net of allowance for doubtful accounts	5,878	27,003	-	-	-	(6)	32,875
Notes receivable	-	-	2,051	-	-	-	2,051
Due from Commonwealth of Virginia	4,809	-	-	-	-	-	4,809
Inventories	7,754	-	-	-	-	-	7,754
Prepaid expenses	9,303	219	-	-	-	-	9,522
Other current assets	-	-	-	-	-	-	-
Due to (from) other funds	16,804	(12,029)	(6)	1,393	(6,162)	-	-
Total current assets	105,151	42,307	3,532	1,393	(6,162)	4,527	150,748
Non-current assets							
Cash and cash equivalents	-	-	-	3	17,405	-	$ 17,408
Short-term investments	-	-	-	-	13,645	-	13,645
Accrued interest receivable	-	-	-	-	356	-	356
Accounts receivable, net of allowance for doubtful accounts	44	157	-	-	350	-	551
Notes receivable	-	-	12,056	-	-	-	12,056
Capital appropriations receivable	-	-	-	-	8,521	-	8,521
Long-term investments	9,382	-	-	37,663	18,804	-	65,849
Prepaid expenses	1,662	-	-	-	-	-	1,662
Capital assets	-	-	-	209	498,698	-	498,907
Total non-current assets	11,088	157	12,056	37,875	557,779	-	618,955
Total assets	$ 116,239	$ 42,464	$ 15,588	$ 39,268	$ 551,617	$ 4,527	$ 769,703
LIABILITIES							
Current liabilities							
Accounts payable and accrued expenditures	$ 56,905	$ 11,110	$ -	$ -	$ 9,316	$ -	$ 77,331
Obligations under securities lending	892	-	-	-	-	-	892
Accrued compensated absences	10,963	2,406	-	-	-	-	13,369
Deferred revenue	14,824	16,134	-	-	-	-	30,958
Funds held in custody for others	102	-	-	-	-	4,527	4,629
Annuities payable	10	-	-	15	-	-	25
Bond anticipation notes	-	-	-	-	895	-	895
Long-term debt payable	-	-	-	-	12,067	-	12,067
Total current liabilities	83,696	29,650	-	15	22,278	4,527	140,166
Non-current liabilities							
Accrued compensated absences	13,573	2,985	-	-	-	-	16,558
Federal loan program contributions refundable	-	-	12,710	-	-	-	12,710
Annuities payable	1,204	-	-	73	-	-	1,277
Long-term debt payable	-	-	-	-	150,471	-	150,471
Total non-current liabilities	14,777	2,985	12,710	73	150,471	-	181,016
Total liabilities	$ 98,473	$ 32,635	$ 12,710	$ 88	$ 172,749	$ 4,527	$ 321,182
NET ASSETS							
Invested in capital assets, net of related debt	$ -	$ -	$ -	$ -	$ 344,070	$ -	$ 344,070
Restricted, nonexpendable	-	-	-	375	-	-	375
Restricted, expendable							
Scholarships, research, & instruction	-	9,829	-	38,805	-	-	48,634
Loans	-	-	2,878	-	-	-	2,878
Capital projects	-	-	-	-	8,506	-	8,506
Debt service	-	-	-	-	13,245	-	13,245
Unrestricted	17,766	-	-	-	13,047	-	30,813
Total net assets	$ 17,766	$ 9,829	$ 2,878	$ 39,180	$ 378,868	$ -	$ 448,521

CONSOLIDATING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the year ended, June 30, 2002

(all dollars in thousands)

	Current Funds		Loan	Endowment &	Plant	
	Unrestricted	Restricted	Funds	Similar Funds	Funds	Total
OPERATING REVENUES						
Student tuition and fees, net of scholarship allowance	$137,689	$ -	$ -	$ -	$ -	$ 137,689
Federal appropriations	-	13,394	-	-	-	13,394
Federal grants and contracts	15,095	72,228	-	-	-	87,323
State grants and contracts	944	12,296	-	-	-	13,240
Local grants and contracts	213	12,952	-	-	-	13,165
Nongovernmental grants and contracts	3,259	18,344	-	-	-	21,603
Sales and services of educational departments	8,987	(36)	-	-	-	8,951
Auxiliary enterprise revenue, net of scholarship allowance	95,555	-	-	-	-	95,555
Other operating revenues	1,750	790	59	-	-	2,599
Total operating revenues	263,492	129,968	59	-	-	393,519
OPERATING EXPENSES						
Instruction	197,885	9,590	-	-	-	207,475
Research	43,406	98,596	-	-	-	142,002
Public service	41,378	32,931	-	-	-	74,309
Academic support	41,554	2,368	-	-	-	43,922
Student services	13,557	920	-	-	-	14,477
Institutional support	28,429	5,669	-	-	-	34,098
Operation and maintenance of plant	32,656	9	-	-	6,253	38,918
Student financial assistance	436	11,576	-	-	-	12,012
Auxiliary enterprises	84,384	-	-	-	-	84,384
Loan administrative fees and collection costs	-	-	47	-	-	47
Depreciation expense	-	-	-	-	44,880	44,880
Total operating expenses	483,685	161,659	47	-	51,133	696,524
OPERATING LOSS	(220,193)	(31,691)	12	-	(51,133)	(303,005)
NON-OPERATING REVENUES (EXPENSES)						
State appropriations	234,457	14,895	-	-	3,035	252,387
Gifts	5,701	35,008	379	-	-	41,088
Investment income, net of investment expense	1,024	1,172	-	(3,547)	1,678	327
Other additions	-	-	3	-	113	116
Interest expense debt related to capital assets	-	(72)	-	-	(7,733)	(7,805)
Net non-operating revenues	241,182	51,003	382	(3,547)	(2,907)	286,113
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, AND LOSSES	20,989	19,312	394	(3,547)	(54,040)	(16,892)
Capital appropriations	-	1,148	-	-	12,141	13,289
Capital appropriations reverted to the commonwealth	-	-	-	-	(444)	(444)
Capital grants and gifts	372	2,291	-	-	10,623	13,286
Gain (loss) on disposal of plant assets	-	-	-	-	(1,804)	(1,804)
Total other revenues	372	3,439	-	-	20,516	24,327
INCREASE IN NET ASSETS BEFORE TRANSFERS	21,361	22,751	394	(3,547)	(33,524)	7,435
Mandatory transfers	(17,134)	(117)	-	-	17,251	-
Nonmandatory transfers	(4,900)	1,582	71	(1,423)	4,670	-
Equipment and library book transfers	(16,419)	(4,378)	-	-	20,797	-
Scholarship allowance transfer	18,693	(18,693)	-	-	-	-
Total transfers	(19,760)	(21,606)	71	(1,423)	42,718	-
Increase (decrease) in net assets after transfers	1,601	1,145	465	(4,970)	9,194	7,435
Net assets—beginning of year, as adjusted	16,165	8,684	2,413	44,150	369,674	441,086
Net assets—end of year	$ 17,766	$ 9,829	$ 2,878	$ 39,180	$ 378,868	$ 448,521

BUSINESS AND FINANCIAL PERSONNEL

MINNIS E. RIDENOUR
Executive Vice President and Chief Operating Officer

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

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

F. SPENCER HALL
Assistant Vice President for Facilities

KENNETH E. MILLER
University Controller

JOHN C. RUDD
Director of Internal Audit and Management Services

JOHN J. CUSIMANO
Director of Investments and Debt Management