

AUDIT SUMMARY

Our audit of **Virginia Commonwealth University** for the year ended June 30, 1998, found:

- the financial statements are presented fairly in all material respects;
- no material weaknesses in the internal control over financial reporting;
- no instances of noncompliance with applicable laws and regulations that are required to be reported; and
- adequate corrective action of prior audit findings.

December 11, 1998

The Honorable James S. Gilmore, III
Governor of Virginia

The Honorable Richard J. Holland
Chairman, Joint Legislative Audit
and Review Commission

The Board of Visitors
Virginia Commonwealth University

We have audited the accounts and records of **Virginia Commonwealth University** as of and for the year ended June 30, 1998, and submit herewith our complete reports on financial statements and compliance and internal controls.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the balance sheet of Virginia Commonwealth University as of June 30, 1998, and the related statements of changes in fund balances and current fund revenues, expenditures, and other changes for the year then ended. The financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Virginia Commonwealth University as of June 30, 1998, and the changes in fund balances and current fund revenues, expenditures, and other changes for the year then ended, in conformity with generally accepted accounting principles.

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 - Revenue, Expenditures, and Changes in Fund Balances is presented for the purpose of additional analysis and is not a required part of the financial statements. 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 in relation to the financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of Virginia Commonwealth University as of and for the year ended June 30, 1998, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Status of Prior Findings

The University has taken adequate corrective action with respect to audit findings reported in the prior year.

This report is for the information of the Governor and General Assembly, Board of Visitors, audit committee, management, and the people of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on January 14, 1999.

AUDITOR OF PUBLIC ACCOUNTS

PBB:aom
aom:120

VIRGINIA COMMONWEALTH UNIVERSITY
BALANCE SHEET
As of June 30, 1998
With Comparative Figures for June 30, 1997

	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds	Agency Funds	Total 1998	Total 1997
	Unrestricted	Restricted						
ASSETS								
Cash (Note 2)	\$ 33,122,196	\$ 5,082,709	\$ 321,512	\$ -	\$ 3,227,797	\$ 679	\$ 41,754,893	\$ 45,552,575
Investments (Note 2)	39,695,967	-	-	30,401,202	6,674,975	-	76,772,144	110,292,030
Receivables (Note 3)	17,867,566	8,531,777	22,268,651	-	-	60,912	48,728,906	44,879,964
Inventories	319,199	-	-	-	-	-	319,199	355,578
Prepaid expenses and other assets	2,741,727	503	-	-	-	-	2,742,230	2,173,854
Appropriations receivable	4,603,167	58,097	-	-	8,229,779	-	12,891,043	6,082,265
Due from other funds	-	4,392,334	204,019	-	3,260,158	1,177,502	9,034,013	10,082,028
Investment in plant (Note 3)	-	-	-	-	529,445,327	-	529,445,327	457,669,099
Deferred bond issue costs	-	-	-	-	897,702	-	897,702	1,001,472
Total assets	\$ 98,349,822	\$ 18,065,420	\$ 22,794,182	\$ 30,401,202	\$ 551,735,738	\$ 1,239,093	\$ 722,585,457	\$ 678,088,865
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable and accrued expenditures	\$ 23,117,754	\$ 5,900,228	\$ -	\$ -	\$ 8,371,162	\$ 240,137	\$ 37,629,281	\$ 30,089,938
Accrued compensated absences	21,239,041	-	-	-	-	-	21,239,041	20,570,364
Deposits and deferred revenue	11,024,667	-	-	-	-	-	11,024,667	9,786,277
Due to other funds	9,034,013	-	-	-	-	-	9,034,013	10,082,028
Notes payable	-	-	-	-	460,819	-	460,819	140,731
Long term debt (Note 5)	4,553,565	-	-	-	127,323,188	-	131,876,753	133,652,340
Deposits held in custody for others	-	-	-	-	-	998,956	998,956	5,578,987
Total liabilities	68,969,040	5,900,228	-	-	136,155,169	1,239,093	212,263,530	209,900,665
Fund balances:								
Unrestricted current funds	29,380,782	-	-	-	-	-	29,380,782	31,761,800
Restricted current funds	-	12,165,192	-	-	-	-	12,165,192	13,986,609
Loan Funds, U.S. Government grants	-	-	19,042,358	-	-	-	19,042,358	18,626,896
Loan funds, University-restricted	-	-	3,751,824	-	-	-	3,751,824	3,434,756
Endowment funds	-	-	-	2,625,701	-	-	2,625,701	2,279,773
Quasi-endowment funds-unrestricted	-	-	-	27,775,501	-	-	27,775,501	24,675,621
Unexpended plant funds	-	-	-	-	13,935,716	-	13,935,716	13,152,114
Retirement of indebtedness	-	-	-	-	(681,904)	-	(681,904)	(687,701)
Net investment in plant	-	-	-	-	402,326,757	-	402,326,757	360,958,332
Total fund balances	29,380,782	12,165,192	22,794,182	30,401,202	415,580,569	-	510,321,927	468,188,200
Total liabilities and fund balances	\$ 98,349,822	\$ 18,065,420	\$ 22,794,182	\$ 30,401,202	\$ 551,735,738	\$ 1,239,093	\$ 722,585,457	\$ 678,088,865

The accompanying notes to financial statements are an integral part of this statement.

VIRGINIA COMMONWEALTH UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 1998

	Current Funds		Loan Funds	Endowment and Similar Funds	Unexpended	Plant Funds Retirement of Indebtedness	Investment in Plant
	Unrestricted	Restricted					
Revenues and other additions:							
Unrestricted current funds revenue	\$ 337,690,632	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State appropriations-restricted	-	8,611,072	-	-	22,569,381	2,351,148	-
Federal grants and contracts-restricted	-	159,267,546	373,372	-	-	-	-
State grants and contracts-restricted	-	11,918,979	-	-	-	-	-
Local grants and contracts-restricted	-	1,628,173	-	-	-	-	-
Private gifts, grants and contracts-restricted	-	19,664,276	-	52,205	-	-	1,275,000
Investment income-restricted	-	599,960	39,403	-	1,441,513	8,102	-
Interest on loans receivable	-	-	479,176	-	-	-	-
Retirement of indebtedness	-	-	-	-	-	-	6,548,706
Expended for plant facilities (including \$16,675,303 charged to current funds)	-	-	-	-	-	-	38,442,918
Other	-	5,361,585	61,565	4,111,880	3,697,613	-	81,542
Total revenues and other additions	337,690,632	207,051,591	953,516	4,164,085	27,708,507	2,359,250	46,348,166
Expenditures and other deductions:							
Educational and general expenditures	261,334,088	191,326,532	-	-	-	-	-
Auxiliary enterprise expenditures	30,133,098	-	-	-	-	-	-
Hospitals expenditures	42,940,049	-	-	-	-	-	-
Indirect costs recovered	-	14,479,393	-	-	-	-	-
Loan cancellations and write-offs	-	-	313,284	-	-	-	-
Administrative and collection costs	-	-	4,177	-	-	-	-
Expended for plant facilities (including \$3,461,305 not capitalized)	-	-	-	-	25,228,920	-	-
Retirement of indebtedness	-	-	-	-	-	6,548,706	-
Interest on indebtedness	-	-	-	-	-	6,658,325	-
Disposal of plant facilities	-	-	-	-	-	-	4,356,463
Other uses	-	-	-	195,707	-	-	623,278
Total expenditures and other deductions	334,407,235	205,805,925	317,461	195,707	25,228,920	13,207,031	4,979,741
Transfers among funds - additions (deductions):							
Mandatory:							
Debt service	(8,751,487)	-	-	-	(2,102,091)	10,853,578	-
Federal student financial aid	(665,150)	568,675	96,475	-	-	-	-
Nonmandatory	3,752,222	(3,635,758)	-	(522,570)	406,106	-	-
Total transfers among funds	(5,664,415)	(3,067,083)	96,475	(522,570)	(1,695,985)	10,853,578	-
Net increase (decrease) for the year	(2,381,018)	(1,821,417)	732,530	3,445,808	783,602	5,797	41,368,425
Fund balances (deficits) at beginning of year	31,761,800	13,986,609	22,061,652	26,955,394	13,152,114	(687,701)	360,958,332
Fund balances (deficits) at end of year	\$ 29,380,782	\$ 12,165,192	\$ 22,794,182	\$ 30,401,202	\$ 13,935,716	\$ (681,904)	\$ 402,326,757

The accompanying notes to financial statements are an integral part of this statement.

VIRGINIA COMMONWEALTH UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
For the Fiscal Year Ended June 30, 1998
With Comparative Figures for June 30, 1997

	1998		1997	
	Unrestricted	Restricted	Total	Total
Revenues:				
Educational and general:				
Student tuition and fees	\$ 90,894,246	\$ -	\$ 90,894,246	\$ 87,472,082
State appropriations (Note 13)	131,999,228	8,611,072	140,610,300	122,316,221
Federal grants and contracts	12,350,887	147,846,755	160,197,642	154,501,044
State grants and contracts	135,868	10,187,775	10,323,643	10,960,310
Local grants and contracts	14,139	426,485	440,624	1,087,354
Private gifts, grants, and contracts	1,978,500	21,078,784	23,057,284	19,451,608
Income from trusts	428,413	572,071	1,000,484	812,896
Sales and services of educational departments	5,676,782	-	5,676,782	10,017,791
Other sources	17,201,060	2,034,915	19,235,975	17,905,280
Total educational and general	260,679,123	190,757,857	451,436,980	424,524,586
Auxiliary enterprises:	38,681,564	-	38,681,564	36,532,827
Hospitals:				
Patient service revenues	-	-	-	435,484,366
State appropriations	-	-	-	330,000
Other sources	38,329,945	-	38,329,945	16,158,794
Total hospitals	38,329,945	-	38,329,945	451,973,160
Total revenues	337,690,632	190,757,857	528,448,489	913,030,573
Expenditures and mandatory transfers:				
Educational and general:				
Instruction	139,748,208	17,511,558	157,259,766	149,395,940
Research	9,630,235	60,754,729	70,384,964	69,080,271
Public service	3,176,090	1,176,331	4,352,421	4,143,026
Academic support	39,870,123	1,557,944	41,428,067	36,358,146
Student services	6,467,929	357,446	6,825,375	6,539,398
Institutional support	31,201,367	713,012	31,914,379	31,599,684
Operation and maintenance of plant	24,545,641	11,428	24,557,069	23,931,481
Scholarships and fellowships	6,694,495	109,244,084	115,938,579	109,607,795
Educational and general expenditures	261,334,088	191,326,532	452,660,620	430,655,741
Mandatory transfers for:				
Debt service	2,662,155	-	2,662,155	2,958,998
Federal student financial aid	665,150	(568,675)	96,475	56,519
Total educational and general	264,661,393	190,757,857	455,419,250	433,671,258
Auxiliary enterprises:				
Operating expenditures	30,133,098	-	30,133,098	30,154,903
Mandatory transfers for debt service	6,089,332	-	6,089,332	5,727,420
Total auxiliary enterprises	36,222,430	-	36,222,430	35,882,323
Hospitals:				
Operating expenditures	42,940,049	-	42,940,049	419,553,327
Mandatory transfers for debt service	-	-	-	5,968,278
Total hospitals	42,940,049	-	42,940,049	425,521,605
Total expenditures and mandatory transfers	343,823,872	190,757,857	534,581,729	895,075,186
Other transfers and additions (deductions):				
Excess (deficiency) of restricted receipts over transfers to revenues	-	1,814,341	1,814,341	(516,748)
Nonmandatory transfers from/(to) MCVH	3,752,222	(3,635,758)	116,464	(3,790,537)
Net increase (decrease) in fund balances	\$ (2,381,018)	\$ (1,821,417)	\$ (4,202,435)	\$ 13,648,102

The accompanying notes to financial statements are an integral part of this statement.

VIRGINIA COMMONWEALTH UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As one of only three Carnegie Research Universities-1 in Virginia and its most comprehensive urban university, Virginia Commonwealth University plays a significant role in providing a college-trained workforce, high quality health care, and cultural enrichment for the Richmond area and the Commonwealth.

More than 22,800 undergraduate, graduate, and professional students pursue 141 degree programs on VCU's two campuses: the Academic Campus, situated in the historic Fan District, and the Medical College of Virginia Campus, located two miles east in the commercial and governmental district of downtown Richmond. VCU's one college and ten schools include one of the largest art schools in the country as well as the South's oldest school of social work, and the MCV Campus supports one of the largest academic medical centers in the country.

The financial statements of the University are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants' industry audit guide, *Audits of Colleges and Universities*. Since the University is a component unit of the Commonwealth of Virginia, it is included in the Comprehensive Annual Financial Report of the Commonwealth.

A. Reporting Entity

The accompanying financial statements include the accounts of all organizational units of Virginia Commonwealth University and the Virginia Commonwealth University Intellectual Property Foundation, a component unit, which is blended (consolidated) with University operations. The assets of affiliated organizations, which are separately incorporated and managed by their own Boards, are not included in these statements. The VCU Foundation, VCU Real Estate Foundation, Virginia Commonwealth University Alumni Association, Virginia Biotechnology Research Park Authority, Virginia Commonwealth University School of Engineering Foundation, Medical College of Virginia Hospitals Authority, Medical College of Virginia Foundation, Medical College of Virginia Alumni Association of VCU, MCV Physicians, and M.C.V./V.C.U. Dental Faculty Practice Association are described in Note 7.

B. Basis of Accounting

The financial statements of the University have been prepared on the accrual basis except for depreciation expense relating to capitalized fixed assets which is not recorded. The statement of current funds revenues, expenditures and other changes is a statement of financial activities of current funds related to the current reporting period and does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

C. Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources, the accounts are maintained in accordance with the principles of "fund accounting." Resources are classified for accounting and reporting purposes into funds that may be used for the activities or objectives specified. Separate accounts are maintained for each fund. Funds having similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated for specific purposes by action of the Board of Visitors. Externally restricted funds may be utilized only in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds, of which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets associated with the above restricted or unrestricted funds are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables, and the like, is accounted for in current unrestricted funds, except for income derived from investment of endowment funds, which is accounted for in the fund to which it is restricted, or if unrestricted, as revenue in the unrestricted current funds.

Unrestricted revenue is accounted for in the unrestricted current fund. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

D. Investments

Investments are recorded at market, if purchased, or fair market value at the date of receipt, if received as a gift.

E. Inventories

Inventories are valued at the lower of cost (generally determined on the first-in, first-out method) or market.

F. Accrued Compensated Absences

The University records a liability for all earned vacation, compensatory, and sick leave not taken as well as related fringe benefits. The sick leave accrual is limited to \$5,000 per classified employee. Sick leave is payable upon employment termination and is limited to 25 percent of the value accumulated or \$5,000, whichever is less, under the Commonwealth of Virginia's sick leave pay-out policy for employees with 5 or more years of service. Vacation and compensatory leave are payable in full upon termination.

G. Due From/Due To Other Funds

For investment purposes, the University pools cash balances not held by the Treasurer of Virginia. All investments and the activity related to the invested balances, including the risk of loss and realization of gain, are recognized in Current Unrestricted Funds. Both the "Due To Other Funds" in Current Unrestricted Funds and the "Due From Other Funds" in Current Restricted Funds have been reduced by \$1,590,000 which represents an advance of cash held by the Treasurer of Virginia to Current Restricted Funds pending the receipt of moneys from grants and contracts.

H. Plant Funds

Plant assets are stated at cost or, if donated, at fair market value on the date of acquisition. No provision for depreciation is made. Expenditures for construction in progress are capitalized as incurred and reflected in net investment in plant. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. Current funds used to finance plant assets are accounted for as expenditures for the normal replacement of movable equipment and library books; mandatory transfers for required provisions for debt service; and transfers of a nonmandatory nature for all other cases. Plant assets at the time of disposal revert to the Commonwealth of Virginia for disposition. Proceeds, if any, are returned to the University.

I. Hospital Services

The University provides facilities, graduate medical education, clinical support, administrative support and medical care of indigent patients to hospitals. The revenues and expenditures necessary to provide the services are classified as hospital services. The comparative amounts shown for the year ended June 30, 1997 include the operations of the Medical College of Virginia Hospitals, which were transferred to the Medical College of Virginia Hospitals Authority on June 30, 1997.

2. CASH AND INVESTMENTS

Cash

All cash of the University is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.1-359 et seq. of the Code of Virginia or covered by federal depository insurance.

Investments

The University's non-state funds, other than Endowment and Quasi-Endowment funds, are managed by professional investment managers. The University's investment objective is to ensure the preservation of capital with sufficient liquidity to meet operating expenditure requirements. The investment policy of the University is established by the Board of Visitors and is monitored by the Finance and Investment Committee of the Board. Investment managers may invest in the following types of investments: direct obligations of the United States, obligations unconditionally guaranteed by the United States, obligations of any agency or instrumentality of the United States, collateralized mortgage obligations, certificates of deposit and time deposits of Virginia banks and savings and loans, repurchase

agreements, banker's acceptances, commercial paper, money market funds, corporate notes and fully hedged debt obligations of sovereign governments and companies. The allocation of assets at June 30, 1998, is 26 percent high-quality cash equivalents with maturities of less than one year and 74 percent high quality fixed income securities.

The University's investments at June 30, 1998 that are represented by specific identifiable investment securities are classified as to the level of risk assumed at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the University or its agents in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held in the broker's or dealer's trust department or safekeeping agent in the University's name. None of the University's investments meets this classification requirement. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent but not in the University's name.

For management purposes, Endowment and Quasi-Endowment funds are held in the investment pools of the VCU Foundation, the VCU Real Estate Foundation, or the MCV Foundation. These funds remain the property of the University. The investment pools consist of cash equivalents, bonds, preferred and common stocks, and real estate. The University's equity in the investment pools is based on units or shares in the investment pools. Consequently, funds held by the foundations are not categorized as to the level of risk.

Due to the cyclical nature of tuition and fee collections, the University's investment in overnight repurchase agreements for which the underlying securities were held by the dealer fluctuates significantly during the year. As a result, the amounts that were in category 3 at those times were substantially higher than at year end.

Categorization of investments for assets held at June 30, 1998:

	Category		Cost	Market Value
	1	3		
Investments:				
U.S. Government and U.S. Government Agency Securities	\$ 17,702,134	\$ -	\$ 17,702,134	\$ 17,886,226
Corporate bonds	9,197,060	-	9,197,060	9,202,669
Commercial paper	1,391,935	-	1,391,935	1,391,935
Foreign bonds	1,047,691	-	1,047,691	999,248
Repurchase agreements	-	7,291,000	7,291,000	7,291,000
Subtotal	<u>\$ 29,338,820</u>	<u>\$ 7,291,000</u>	36,629,820	36,771,078
Mutual and Money Market Funds			7,841,725	7,841,725
Investments held by the Treasurer of Virginia:				
Securities Loans			689,923	689,923
Investments held by the VCU Intellectual Property Foundation			432,261	1,068,216
Investment Pools (Note 7):				
Investments held by VCU Foundation			20,544,307	25,000,385
Investments held by VCU Real Estate Foundation			1,000,000	1,000,000
Investments Held by the MCV Foundation			2,361,143	4,400,817
Total Investments			<u>\$ 69,499,179</u>	<u>\$ 76,772,144</u>

Categorization of investments for assets held at June 30, 1997:

	Category		Cost	Market Value
	1	3		
Investments:				
U.S. Government and U.S. Government Agency Securities	\$ 20,590,607		\$ 20,590,607	\$ 20,547,448
			-	
Corporate bonds	11,799,647		11,799,647	11,760,849
Commercial paper	4,345,319		4,345,319	4,345,319
Repurchase agreements	-	4,518,415	4,518,415	4,518,414
Subtotal	<u>\$ 36,735,573</u>	<u>\$ 4,518,415</u>	41,253,988	41,172,030
Mutual and Money Market Funds			39,067,502	39,067,502
Investments held by the Treasurer of Virginia:				
Securities Loans			2,184,607	2,184,607
Investments held by the VCU Intellectual Property Foundation			-	912,500
Investment Pools (Note 7):				
Investments held by the VCU Foundation			18,460,780	22,323,892
Investment held by the VCU Real Estate Foundation			1,000,000	1,000,000
Investments held by the MCV Foundation			2,361,143	3,631,499
Total Investments			<u>\$ 104,328,020</u>	<u>\$ 110,292,030</u>

3. BALANCE SHEET DETAIL

	1998	1997
Accounts receivable:		
Unrestricted current funds:		
Student and other receivables, less allowance of \$1,775,343 in 1998 and \$1,097,676 in 1997	\$ 9,555,378	\$ 10,714,161
Commonwealth of Virginia	3,758,623	-
Medical College of Virginia Hospitals Authority	4,553,565	4,814,398
Total unrestricted current funds	17,867,566	15,528,559
Restricted current funds:		
Grants and contracts, less allowance of \$945,000 in 1998 and \$945,000 in 1997	8,531,777	7,857,723
Loan funds:		
Student notes receivables, less allowance of \$2,756,621 in 1998 and \$2,560,009 in 1997	22,268,651	21,438,731
Agency funds	60,912	54,951
Total receivables	<u>\$ 48,728,906</u>	<u>\$ 44,879,964</u>

Investment in Plant:		
Land	\$ 16,945,366	\$ 13,668,931
Land improvements	5,991,374	5,991,374
Buildings	185,194,192	185,099,861
Equipment	114,868,378	108,712,150
Library books	56,974,542	51,474,612
Fine arts collections	1,249,699	1,239,699
Construction in progress	98,022,528	57,664,968
Leasehold Interests:		
Steam plant	18,383,757	18,303,762
School of Engineering building	25,102,619	9,216,166
Biotechnology Research Park	6,548,068	6,226,069
Equity in equipment trust fund	164,804	71,507
	<hr/>	<hr/>
Total investment in plant	\$ 529,445,327	\$ 457,669,099

4. RESTATEMENT OF BALANCES AT JUNE 30, 1997

Investments and Fund Balances in Current Unrestricted and Endowment and Similar Funds originally reported in the University's financial statements as of June 30, 1997 have been restated. Governmental Accounting Standards Board Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, requires that certain investments be recorded at market value. The adjustment to Investments valued at cost on June 30, 1997 recognizes the unrealized loss or gain when compared to market value. The impact on the related fund balances is also presented. The comparative totals for June 30, 1997 have been adjusted as follows:

	Original Balance	Adjustment	Adjusted Balance
	<hr/>		<hr/>
Balance Sheet:			
Investments	\$ 104,328,017	\$ 5,964,013	\$ 110,292,030
Fund balances:			
Unrestricted current funds	30,931,258	830,542	31,761,800
Endowment funds	1,861,877	417,896	2,279,773
Quasi-endowment funds	19,960,046	4,715,575	24,675,621
Statement of current funds revenues, expenditures, and other changes:			
Revenues:			
Other sources	17,074,738	830,542	17,905,280

5. LONG TERM DEBT

Long-term debt of the University consists of the following at June 30:

	1 9 9 8	1 9 9 7
Bonds Payable:		
4.25% to 5.75% General Revenue Pledge Bonds, Series 1995 and 1996, payable through 2021	\$ 55,925,000	\$ 56,305,000
3% to 8% Commonwealth of Virginia Revenue Bonds payable through 2017	41,463,383	43,522,357
Total bonds payable	97,388,383	99,827,357
Capital Leases:		
Virginia College Building Authority with imputed interest rates of 7.26% to 8.39%	10,559,707	8,381,446
Virginia Public Building Authority with imputed interest rates of 2.5% to 5.85%	16,362,528	16,986,430
Virginia Biotechnology Research Park Authority with imputed interest financing of 9.5%	6,356,467	6,156,920
Total capital lease obligations	33,278,702	31,533,796
Installment Purchases:		
Obligations under installment purchase contracts with interest rates of 4.25% to 7%	1,209,668	2,291,187
Total long-term debt	\$ 131,876,753	\$ 133,652,340

Long-term debt matures as follows:

Fiscal Year	Revenue Bonds	Capital Leases	Installment Purchases	Total
1999	\$ 4,186,652	\$ 3,299,685	\$1,121,428	\$ 8,607,765
2000	5,039,817	3,165,934	63,994	8,269,745
2001	5,238,960	3,469,151	17,828	8,770,939
2002	5,020,253	3,172,611	5,102	8,197,966
2003	4,752,675	1,980,002	1,316	6,733,993
Later Years	73,105,026	18,191,319	-	91,296,345
Total	\$97,388,383	\$33,278,702	\$1,209,668	\$131,876,753

Commonwealth Revenue Bonds

The Commonwealth of Virginia issues bonds for agencies and institutions of the Commonwealth. The University has received a portion of the proceeds to fund capital construction. The University recognizes a liability associated with its share of the bonds and remits principal and interest payments related to this liability to the Treasurer of Virginia. Of the total Commonwealth of Virginia Revenue Bonds, outstanding bonds payable in the amount of \$4,553,565, which will be repaid by the Authority as described in Note 7, are classified as a liability in Current Unrestricted Funds.

Virginia College Building Authority

The University participates in the Higher Education Equipment Trust Fund of the Virginia College Building Authority (VCBA), an agency of the Commonwealth of Virginia. The Higher Education Equipment Trust Fund provides funds to public colleges and universities for equipment acquisition. For accounting purposes, the financing arrangement is considered to represent a capital lease.

Virginia Public Building Authority

The University participates in a financing arrangement with the Virginia Public Building Authority for the construction of a steam plant adjacent to the MCV campus. The University considers this financing arrangement to be a capital lease.

Defeasance of Debt

In prior fiscal years, a portion of the Commonwealth of Virginia Revenue Bonds, of which the University has a share, has been defeased. Details relating to the prior years' defeasances are reported in the Comprehensive Annual Financial Report of the Commonwealth.

6. RETIREMENT, PENSION PLANS, AND POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

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

In the prior fiscal years, payroll activity related to the Medical College of Virginia Hospitals has been included. On June 30, 1997, the Medical College of Virginia Hospitals was transferred to the Medical College of Virginia Hospitals Authority. For comparative purposes, prior year totals have been restated to reflect University activity only.

Information regarding types of employees covered, benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions as well as employer and employee obligations to contribute is established and discussed in the Comprehensive Annual Financial Report of the Commonwealth of Virginia.

The University's payroll costs, excluding accrued payroll, for employees covered by the VRS for the years ended June 30, 1998 and 1997, respectively, were \$112,229,309 and \$95,037,701. The

University's total payroll costs for the years then ended were \$226,183,048 and \$187,461,826.

The University's total VRS contributions were \$11,009,695 and \$13,395,715 for the years ended June 30, 1998 and 1997, respectively, which included the 5 percent employee contribution assumed by the employer. These contributions represent 9.8 percent of covered payroll.

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. The Comprehensive Annual Financial Report of the Commonwealth of Virginia provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 1998. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

Full-time faculty and certain administrative staff are eligible to participate in other retirement plans. These are fixed-contribution programs where the retirement benefits received are based upon the employer, 5.4 percent, and employee, 5 percent, contributions (all of which are paid by the University) plus interest and dividends.

Individual contracts issued under the plans provide for full and immediate vesting of both the University's and the employee contributions. Total pension costs under these plans were \$7,719,750 and \$5,594,869 in fiscal years 1998 and 1997, respectively. Contributions to other retirement plans were calculated using the base salary \$74,228,365 in fiscal year 1998, and \$53,796,817 in fiscal year 1997.

The state participates in the VRS administered statewide group life insurance program which provides post employment life insurance benefits to eligible retired and terminated employees. The state also provides health care credits against the monthly health insurance premiums of its retirees who have at least 15 years of state service and participate in the state health plan. Information related to these plans is available at the statewide level in the Comprehensive Annual Financial Report of the Commonwealth.

7. RELATED PARTIES

The financial statements do not include the assets, liabilities, or fund balances of affiliated organizations. All of these organizations are separately incorporated entities managed by their own Boards and audited by other independent certified public accounting firms. Each organization is described below.

Medical College of Virginia Foundation

The foundation is organized to aid, strengthen, and extend the work, services, and objectives of the Medical College of Virginia Hospitals Authority and the Health Sciences Campus of Virginia Commonwealth University. This is achieved through the receipt of contributions, investment and management of funds and the disbursement of current funds and a portion of the total return on endowment. Foundation transfers to the University and expenditures to support University programs totaled \$9,741,000 in 1998 and \$9,846,000 in 1997.

VCU Foundation

The foundation functions solely to assist and support the University. In that capacity, the foundation holds and manages endowment funds for the University. The University received \$3,753,397 in 1998 and \$2,760,548 in 1997 from the foundation.

VCU Real Estate Foundation

The foundation functions solely to assist and support the University. The sole purpose of the foundation is to hold and manage real estate for the University. The University received \$185,500 in 1998 and \$132,800 in 1997 from the foundation and has an operating lease liability of \$3,224,827.

Virginia Commonwealth University School of Engineering Foundation

The foundation is organized exclusively for educational, scientific, and charitable purposes and to provide financial and other support to the University's School of Engineering. The University has issued \$26,895,000 of General Revenue Pledge Bonds for the purpose of constructing a School of Engineering Foundation building. The proceeds will be advanced to the School of Engineering Foundation who, as owner of the property, will construct the building. The School of Engineering Foundation will solicit contributions and remit funds to the University sufficient to retire the indebtedness including interest. The funds received from the School of Engineering Foundation will be recorded as contributions received. For accounting purposes, the University records a leasehold interest in Net Investment in Plant equal to the funds advanced. The University received \$497,452 in 1998 and \$625,726 in 1997.

The following summarizes selected financial data of the fund raising foundations which support the University, the Medical College of Virginia Foundation, the VCU Foundation, the VCU Real Estate Foundation and its controlled affiliate, and the Virginia Commonwealth University School of Engineering Foundation at June 30, 1998 and 1997.

	<u>1 9 9 8</u>	<u>1 9 9 7</u>
Assets:		
Cash and investments	\$ 239,886,322	\$ 196,368,818
Other assets	37,686,664	22,304,297
Total assets	<u>\$ 277,572,986</u>	<u>\$ 218,673,115</u>
Liabilities and funds balances:		
Accounts and loans payable	\$ 9,068,965	\$ 9,084,247
Due to the University	55,206,734	34,487,769
Fund balances	213,297,287	175,101,099
Total liabilities and fund balance	<u>\$ 277,572,986</u>	<u>\$ 218,673,115</u>
Revenues and other fund additions	<u>\$ 54,023,012</u>	<u>\$ 44,804,880</u>
Expenditures and other fund deductions	<u>\$ 15,870,824</u>	<u>\$ 15,120,129</u>

MCV Physicians

The primary purpose of MCV Physicians is to attract highly qualified physicians to serve on the faculty of the University and to encourage their practice at MCV Hospitals. The total earnings of faculty members are limited to an amount approved by the University. A portion of the clinical earnings is contributed to the University. MCV Physicians also provides funding to the University for other support expenses. Clinical earnings contributed and other support received were \$2,934,665 and \$9,936,677 in 1998 and \$6,112,493 and \$9,021,094 in 1997.

Medical College of Virginia Alumni Association of VCU

The purpose of the Medical College of Virginia Alumni Association of VCU is to organize alumni activities for Virginia Commonwealth University. The University provided funding of \$184,023 in 1998 and \$175,033 in 1997, as the principal source of funding for the Association's operation.

Virginia Commonwealth University Alumni Association

The Association was formed for educational purposes to further the best interests of the University, its alumni, and students. The University provided funding of \$115,368 in 1998 and \$115,368 in 1997, as the principal source of funding for the Association's operation.

Virginia Biotechnology Research Park Authority

The primary purpose of the Virginia Biotechnology Research Park Authority is to expand knowledge pertaining to scientific and technological research and development among public and private entities and promote the economic and industrial development of the City of Richmond and the Commonwealth of Virginia. The University currently occupies 40,114 square feet of Biotech One under a capital lease as shown in Note 5. In addition, the University is committed to a twenty year Master Lease with the Authority, which guarantees monthly rent equal to the principal and interest necessary to amortize the outstanding debt associated with the construction of the facilities and any additional rent required. The maximum amount payable under this Lease for space not occupied by the University is \$543,235 annually during the first ten years of the Lease and \$1,278,200 annually for the remainder of the lease term.

Medical College of Virginia Hospitals Authority

The University provides graduate medical education, clinical support, administrative support, and medical care of indigent patients to the Medical College of Virginia Hospitals Authority (Authority). The University also rents hospital facilities to the Authority on a long-term lease for \$1 per year and certain space in other facilities. The University received \$39,558,333 from the Authority including \$522,640 attributable to the account receivable and \$3,096,400 for facility rental. The University paid the Authority \$4,557,552 for maintenance services provided to University facilities, resident services, and rent. The balance of the receivable recorded by the University for the retirement of a portion of the Commonwealth of Virginia Revenue Bonds attributable to the patient and visitors parking deck is \$4,553,565 at June 30, 1998.

M.C.V./V.C.U. Dental Faculty Practice Association

The Association was established to support the education, research, service, and patient care mission of the School of Dentistry (School) of Virginia Commonwealth University. The Association promotes and coordinates the delivery of superior patient care at the School.

8. FUNDS HELD IN TRUST BY OTHERS

Under the provisions of the wills of certain benefactors, the University's portion of principal sums with market values of \$18,384,807 and \$20,346,479 at June 30, 1998 and 1997, respectively, was held in trust by others. These assets are not included in the University's balance sheet.

9. COMMITMENTS

The University is party to various construction commitments. At June 30, 1998 and 1997, the remaining commitments total \$15,753,308 and \$34,969,714, respectively.

The University also is committed under various operating leases (for buildings, computer equipment, business equipment, etc.). The University has renewal options on the leased assets for another similar term. In most cases, the University expects that, in the normal course of business, these leases will be replaced by similar leases. Rental expense for the fiscal years ended June 30, 1998 and 1997, was \$2,505,865 and \$2,306,089, respectively. In addition, the University reimburses the Commonwealth of Virginia \$89,602 annually for the use of space in a facility owned by the Commonwealth.

The University has, as of June 30, 1998, the following total future minimum rental payments due under the above leases.

<u>Fiscal Year</u>	<u>Operating Lease Agreements</u>
1999	\$ 2,002,915
2000	1,177,296
2001	1,113,466
2002	796,840
2003	736,575
Later Years	<u>630,504</u>
Total future minimum rental payments	<u>\$ 6,430,596</u>

10. LITIGATION

The University has been named as a defendant in a number of lawsuits. The final outcome of any of these lawsuits cannot be determined at this time. However, management is of the opinion that any ultimate liability to which the University may be exposed will not have a material effect upon the University's financial position.

11. YEAR 2000

The University's highest Year 2000 priorities are the critical administrative systems and central computing and networking resources that connect them to the University community. The projects to renovate or replace that mission critical technology are proceeding on-schedule, with expected completions during calendar year 1998. All other systems should be compliant by September 1999, when all comprehensive Year 2000 testing is scheduled for completion. At June 30, 1998, the University is committed to contracts totaling approximately \$500,000.

The mission critical systems at VCU are the Financial Records System, the Human Resource

System, the Notis Library System, and the Student Information System. The University is subjecting its four mission critical systems to the following stages of work to address Year 2000 issues:

- Assessment stage – Identifying the systems and components for which Year 2000 compliance work is needed.
- Renovation stage – Making changes to systems and equipment.
- Testing\validation stage – Validating and testing the changes that were made during the renovation stage.
- Implementation stage – implementing the changes into the mission critical system.

As of June 30, 1998, the University has completed the assessment phase, and has performed work in the renovation and the testing\validation phases for all four mission critical systems. Work is being performed in the implementation phase for the Notis Library and Student Information Systems.

12. SUBSEQUENT EVENT

On October 28, 1998, the Virginia College Building Authority (VCBA) closed on its Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 1998A (the “Pooled Bond Program”). The University participates in this program and received bond proceeds in the amount of \$12,900,000. The Series 1998A Bonds will be used to finance the fine arts center project, residence hall renovation and the parking deck D project. The bonds bear interest rates ranging from 3.15 percent to 5 percent payable in the years 2000 through 2019.

The debt matures as follows:

<u>Fiscal Year</u>	<u>VCBA Pool Issue</u>
1999	\$ -
2000	435,000
2001	450,000
2002	465,000
2003	480,000
Later Years	<u>11,070,000</u>
Total future minimum rental payments	<u>\$12,900,000</u>

13. STATE APPROPRIATIONS – UNRESTRICTED FUNDS

The University receives state appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of the biennium. For years ending at the middle of the biennium, unexpended appropriations that have not been approved for re-appropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the University for disbursements.

The following is a summary of state appropriations received by the University for the year ended June 30, 1998.

Academic Division:	
Original legislative appropriation (Chapter 924)	\$ 131,488,918
Education and general appropriation transfer in	<u>510,310</u>
Total adjusted Academic Division	<u>\$ 131,999,228</u>

14. SURETY BOND

The employees of the University were covered by a Faithful Performance Duty Bond administered by the Commonwealth of Virginia's Department of General Services, Division of Risk Management with liability limits of \$500,000 for each occurrence. Information relating to the Commonwealth's self-insurance plan is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

VIRGINIA COMMONWEALTH UNIVERSITY

Richmond, Virginia

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