

**VIRGINIA MILITARY INSTITUTE
LEXINGTON, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2000**



AUDIT SUMMARY

Our audit of Virginia Military Institute for the year ended June 30, 2000, found:

- the financial statements are presented fairly, in all material respects;
- internal control matters that we consider to be reportable conditions; however, we do not consider any of these to be material weaknesses;
- no instances of noncompliance required to be reported; and
- adequate corrective action of prior audit findings, except for:
 - Complete Information Security Program
 - Improve Management of Surplus Property.

- T A B L E O F C O N T E N T S -

AUDIT SUMMARY

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March 23, 2001

The Honorable James S. Gilmore III
Governor of Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission

The Board of Visitors
Virginia Military Institute

We have audited the accounts and records of **Virginia Military Institute** as of and for the year ended June 30, 2000, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the balance sheet of Virginia Military Institute as of June 30, 2000, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended. These financial statements are the responsibility of the Institute'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Virginia Military Institute as of June 30, 2000, and the changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended, in conformity with generally accepted accounting principles.

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 and Expenditures" 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 Military Institute as of and for the year ended June 30, 2000, 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 Institute'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 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 Institute'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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Institute's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the section entitled, "Internal Control Findings and Recommendations."

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Status of Prior Findings

The Institute has not taken adequate corrective action with respect to the previously reported findings "Complete Information Security Program" and "Improve Management of Surplus Property." Accordingly, we included these findings in the section entitled "Internal Control Findings and Recommendations." The

Institute has taken corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

The “Independent Auditor’s Report on Compliance and on Internal Control Over Financial Reporting” is intended solely for the information and use of the Governor and General Assembly of Virginia, the Board of Visitors and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management on April 4, 2001.

AUDITOR OF PUBLIC ACCOUNTS

JEG:whb
whb:71

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Complete Information Security Plan

Due to key employee turnover, the Institute has not completed the local area network portion of its information security plan. The Institute should provide the resources to complete the local area network portion of the plan. In addition, operating departments should complete their development of contingency management and disaster recovery plans to address how they would continue to provide essential services in the event of the loss of computing support.

Improve Management of Surplus Property

The Institute continues to store unneeded, obsolete, or broken items for extended periods of time before turning the items over to the Department of General Services. Although, the Institute submitted several surplus equipment items to General Services in the current fiscal year, there are several items in the storage site that remain on the fixed asset records awaiting disposal. In addition, the Institute does not keep a complete detailed listing of items in storage.

The Institute should promptly submit surplus property to the Department of General Services and keep a complete and accurate listing of items in storage to improve the tracking and recording process.

FINANCIAL STATEMENTS

VIRGINIA MILITARY INSTITUTE
BALANCE SHEET
As of June 30, 2000
(With Comparative Figures for 1999)

A S S E T S	2000	1999
Current Funds:		
Unrestricted:		
Cash and cash equivalents (Note 3)	\$ 4,104,725	\$ 3,359,311
Investments (Note 3)	-	67,016
Investments, securities lending (Note 5)	228,254	83,479
Accounts receivable (Net of allowance for doubtful accounts of \$55,122 in 2000 and \$30,940 in 1999)	306,156	262,672
Notes receivable	210,000	210,000
Accrued interest receivable	11,484	7,824
Inventories	1,987,644	2,159,563
Prepaid expenditures	801,105	394,016
Due from the Commonwealth of Virginia	15,033	59,873
Total unrestricted	7,664,401	6,603,754
Restricted:		
Cash and cash equivalents (Note 3)	673,997	681,652
Accounts receivable	6,601	13,082
Accrued interest receivable	62,958	54,911
Notes receivable	50,000	50,000
Due from other funds	2,070	-
Total restricted	795,626	799,645
Total current funds	\$ 8,460,027	\$ 7,403,399
Loan funds:		
Cash and cash equivalents (Note 3)	\$ 110,885	\$ 76,103
Investments (Note 3)	210,941	206,020
Loans receivable (Net of allowance for doubtful loans of \$182,271 in 2000 and \$193,631 in 1999)	1,118,518	1,052,592
Accrued interest receivable	803	701
Due from other funds	1,250	-
Total loan funds	\$ 1,442,397	\$ 1,335,416
Endowment funds:		
Cash Equivalents (Note 3)	20,000	-
Investments (Note 3)	21,586,385	18,309,908
Total endowment funds	\$ 21,606,385	\$ 18,309,908
Plant funds:		
Renewals and replacements:		
Cash and cash equivalents (Note 3)	(13,515)	9,146,338
Investments with the Treasurer of Virginia (Note 3)	441,010	494,748
Appropriations available	4,804,583	28,214
Account receivable	-	145
Total renewals and replacements	5,232,078	9,669,445

LIABILITIES AND FUND BALANCES		2000	1999
Current Funds:			
Unrestricted:			
Accounts payable and accrued liabilities (Note 6)	\$	2,916,597	\$ 2,662,296
Deferred revenue		568,219	703,146
Compensated absences		1,106,883	1,036,421
Obligations under securities lending transactions (Note 5)		228,254	83,479
Due to other funds		8,070	-
Fund balance		<u>2,836,378</u>	<u>2,118,412</u>
Total unrestricted		<u>7,664,401</u>	<u>6,603,754</u>
Restricted:			
Accounts payable and accrued liabilities		82,849	60,962
Fund balance		<u>712,777</u>	<u>738,683</u>
Total restricted		<u>795,626</u>	<u>799,645</u>
Total current funds		<u>\$ 8,460,027</u>	<u>\$ 7,403,399</u>
Loan funds:			
Fund balances:			
U.S. Government grants refundable	\$	1,118,179	\$ 1,051,018
Institutional funds:			
Restricted		321,807	308,048
Matching		<u>2,411</u>	<u>(23,650)</u>
Total loan funds		<u>\$ 1,442,397</u>	<u>\$ 1,335,416</u>
Endowment funds:			
Fund balances:			
Endowment		4,447,612	1,263,307
Quasi-endowment - unrestricted		1,877,869	2,001,797
Quasi-endowment - restricted		<u>15,280,904</u>	<u>15,044,804</u>
Total endowment funds		<u>\$ 21,606,385</u>	<u>\$ 18,309,908</u>
Plant funds:			
Renewals and replacements:			
Accounts payable		564,652	53,862
Notes payable (Note 6)		457,928	492,081
Retainage payable (Note 10)		237,207	10,574
Accrued liabilities		12,277	18,091
Compensated absences		34,809	32,406
Fund balance - restricted		<u>3,925,205</u>	<u>9,062,431</u>
Total renewals and replacements		<u>5,232,078</u>	<u>9,669,445</u>

VIRGINIA MILITARY INSTITUTE
BALANCE SHEET
As of June 30, 2000
(With Comparative Figures for 1999)

A S S E T S	2000	1999
Retirement of indebtedness:		
Accounts receivable	14,729	21,233
Total retirement of indebtedness	14,729	21,233
Investment in plant:		
Land	1,227,806	1,227,806
Land improvements	2,130,971	2,039,189
Buildings	72,975,832	72,314,361
Equipment	8,470,418	8,240,925
Library books	8,908,285	8,699,638
Construction in progress	9,328,116	3,502,678
Total investment in plant	103,041,428	96,024,597
Total plant funds	\$ 108,288,235	\$ 105,715,275
Agency funds:		
Cash and cash equivalents (Note 3)	\$ (103,337)	\$ 29,341
Accounts receivable	220,193	2,859
Due from other funds	4,750	-
Total agency funds	\$ 121,606	\$ 32,200

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

LIABILITIES AND FUND BALANCES	2000	1999
Retirement of indebtedness:		
Accrued interest	14,729	21,233
Total retirement of indebtedness	14,729	21,233
Investment in plant:		
Bonds payable (Note 6)	802,175	1,171,878
Notes payable (Note 6)	1,767,072	1,937,919
Installment purchase obligation (Note 6)	27,669	39,881
Capital leases payable (Note 7)	565,766	824,304
Net investment in plant - unrestricted	99,878,746	92,050,615
Total investment in plant	103,041,428	96,024,597
Total plant funds	\$ 108,288,235	\$ 105,715,275
Agency funds:		
Accounts payable and accrued liabilities	4,262	2,522
Deposits held in custody for others	117,344	29,678
Total agency funds	\$ 121,606	\$ 32,200

VIRGINIA MILITARY INSTITUTE
STATEMENT OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 2000

	Current Funds		Loan	Endowment and
	Unrestricted	Restricted	Funds	Similar Funds
Revenues and other additions:				
Unrestricted current fund revenues	\$ 36,585,804	\$ -	\$ -	\$ -
State appropriations-restricted	-	569,118	-	-
Federal grants and contracts-restricted	-	3,179,480	-	-
State grants and contracts-restricted	-	37,632	-	-
Private gifts, grants, and contracts-restricted	-	5,617,951	-	3,206,427
Sales and services of educational departments - restricted	-	11,468	-	-
Investment income-restricted	-	70,749	-	-
Endowment income-restricted	-	309,430	3,455	-
Interest on loans receivable	-	-	24,257	-
Realized gains on investment - restricted	-	-	12,811	1,120,159
U.S. government advances	-	-	43,294	-
Expended for plant facilities (including \$901,481 charged to current fund expenditures)	-	-	-	-
Retirement of indebtedness	-	-	-	-
Recovery of write-offs	-	-	10,699	-
Other sources	-	16,337	269	-
Total revenues and other additions	36,585,804	9,812,165	94,785	4,326,586
Expenditures and other deductions:				
Educational and general	22,391,663	10,101,956	-	-
Auxiliary enterprises	10,081,688	6,356	-	-
Unique military activities	3,382,683	-	-	-
Indirect cost recovered	-	17,837	-	-
Administrative and collection costs	-	-	948	-
Expended for plant facilities (including noncapitalized expenditures of \$391,666)	-	-	-	-
Retirement of indebtedness	-	-	-	-
Interest on indebtedness	-	-	-	-
Disposal of plant facilities	-	-	-	-
Realized loss on investment	752	-	-	-
Reversion to the Commonwealth	686,268	2,262	-	-
Total expenditures and other deductions	36,543,054	10,128,411	948	-
Transfers among funds-additions (deductions):				
Mandatory:				
Debt service	(22,690)	-	-	-
Loan fund matching grant	(14,431)	-	14,431	-
Nonmandatory transfers	712,337	290,340	(1,287)	(1,030,109)
Total transfers among funds	675,216	290,340	13,144	(1,030,109)
Net increase (decrease) for the year	717,966	(25,906)	106,981	3,296,477
Fund balances at beginning of year	2,118,412	738,683	1,335,416	18,309,908
Fund balances at end of year	\$ 2,836,378	\$ 712,777	\$ 1,442,397	\$ 21,606,385

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

Plant Funds		
Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
\$ -	\$ -	\$ -
1,797,409	260,103	-
-	-	-
-	-	-
-	679,031	-
-	-	-
-	45,148	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	7,459,017
-	-	845,453
-	-	-
25,562	-	-
1,822,971	984,282	8,304,470
-	-	-
-	-	-
-	-	-
-	-	-
6,949,202	-	-
-	845,453	-
-	235,386	-
-	-	442,186
-	-	-
-	-	-
6,949,202	1,080,839	442,186
-	22,690	-
-	-	-
(10,995)	73,867	(34,153)
(10,995)	96,557	(34,153)
(5,137,226)	-	7,828,131
9,062,431	-	92,050,615
\$ 3,925,205	\$ -	\$ 99,878,746

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VIRGINIA MILITARY INSTITUTE
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES
For the Year Ended June 30, 2000
(With Comparative Figures for 1999)

	2000			1999
	Unrestricted	Restricted	Total	Total
Revenues:				
Student tuition and fees	\$ 9,804,749	\$ -	\$ 9,804,749	\$ 9,469,620
State appropriations: (Note 9)				
Educational and general	10,228,083	569,118	10,797,201	10,440,042
Unique military activities	2,811,553	-	2,811,553	2,816,342
Federal grants and contracts	-	3,166,160	3,166,160	3,150,107
State grants and contracts	-	27,630	27,630	21,626
Private gifts, grants, and contracts	2,136,946	5,809,300	7,946,246	7,735,264
Investment income	58,562	1,620	60,182	57,229
Endowment income	94,370	515,225	609,595	536,168
Sales and services of educational departments	19,513	19,259	38,772	29,666
Sales and services of auxiliary enterprises	9,755,601	-	9,755,601	9,332,949
Sales and services of unique military activities	990,576	-	990,576	845,071
Other sources:				
Concessions, rents and commissions	219,559	-	219,559	242,572
Museum programs sales and services	342,330	-	342,330	325,413
Miscellaneous	123,962	-	123,962	190,385
Total current revenues	36,585,804	10,108,312	46,694,116	45,192,454
Expenditures and mandatory transfers:				
Educational and general:				
Instruction	9,677,718	836,079	10,513,797	9,819,513
Research	49,901	48,118	98,019	117,836
Public service	990,740	80,208	1,070,948	1,044,242
Academic support	3,317,581	382,810	3,700,391	2,957,995
Student services	1,644,103	495,451	2,139,554	1,814,326
Institutional support	3,561,297	79,567	3,640,864	3,414,259
Operation and maintenance of plant	2,708,685	29,677	2,738,362	2,097,383
Scholarships, fellowships, and grants	441,638	8,150,046	8,591,684	8,235,734
Educational and general expenditures	22,391,663	10,101,956	32,493,619	29,501,288
Mandatory transfers for:				
Debt service	22,690	-	22,690	22,690
Loan fund matching grant	14,431	-	14,431	19,697
Total educational and general	22,428,784	10,101,956	32,530,740	29,543,675
Auxiliary enterprises:				
Expenditures	10,081,688	6,356	10,088,044	10,395,048
Unique military activities:				
Expenditures	3,382,683	-	3,382,683	3,703,643
Total expenditures and mandatory transfers	35,893,155	10,108,312	46,001,467	43,642,366
Other transfers and additions (deductions):				
Nonmandatory transfers	712,337	290,340	1,002,677	882,593
Reversion to the Commonwealth	(686,268)	(2,262)	(688,530)	(28,026)
Realized loss on investment	(752)	-	(752)	-
Excess (deficiency) of restricted receipts over transfers to revenue	-	(313,984)	(313,984)	499,285
Net increase (decrease) in fund balance	\$ 717,966	\$ (25,906)	\$ 692,060	\$ 2,903,940

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

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NOTES TO FINANCIAL STATEMENTS

VIRGINIA MILITARY INSTITUTE
NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Virginia Military Institute have been prepared in accordance with generally accepted accounting principles for colleges and universities. The significant accounting policies followed by the Institute are as follows:

A. Reporting Entity

The mission of Virginia Military Institute is to educate young men and women for a wide variety of careers and to prepare them to serve as officers in the armed forces.

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 Institute is a component unit of the Commonwealth of Virginia and is included in the general purpose financial statements of the Commonwealth.

B. Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting under which revenues are recorded when earned and expenses are recorded at the time liabilities are incurred through the receipt of goods and services.

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 activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded by fund group.

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

Unrestricted revenue is accounted for in the Current Unrestricted 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.

A summary of fund group definitions is as follows:

Current Funds - Current fund balances are separated into those, which are restricted by donors and those, which are unrestricted. Restricted funds may only be expended for the purpose indicated by the donor or grantor; whereas, unrestricted funds are available for current operations at the discretion of the Institute.

Loan Funds - Loan funds represent funds, which are limited by the terms of their donors or by action of the Board of Visitors for the purpose of making loans to students.

Endowment and Similar Funds - Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. While quasi-endowment funds have been established by the Board of Visitors for the same purposes as endowment funds, any portion of quasi-endowment funds may be expended.

Plant Funds - Plant funds are divided into three groups: renewals and replacements, retirement of indebtedness, and net investment in plant. Renewals and replacements plant funds represent funds that are specified by external sources or designated by the Board of Visitors for the renovation and replacement of physical properties. The retirement of indebtedness fund includes resources held for the retirement of both principal and interest on debt sinking funds established under bond indentures. Net investment in plant represents the capitalized value of physical property owned by the Institute less any associated long-term debt.

Agency Funds - Agency funds reflect funds held by the Institute as custodian or fiscal agent for others.

D. Investments

Investments are recorded at fair value in accordance with GASB 31 of the Governmental Accounting Standards Board (GASB). Gains and losses arising from the sale, collection, or other disposition of investments and other non-cash assets are accounted for in the fund that owned such assets. Income derived from investments is accounted for in the fund owning such assets, except for income derived from investments of endowment funds, which income is accounted for in the fund to which it is restricted or, if unrestricted, as revenue in unrestricted current funds.

E. Inventory

Inventories are valued at cost using the first-in, first-out method.

F. Compensated Absences

Non-faculty salaried employees' attendance and leave regulations make provision for the granting of a specified number of days of leave with pay each year. Faculty employees do not earn leave. The amount of leave earned but not taken as of June 30, 2000 and 1999 is recorded on the balance sheet. The liability reflects all earned vacation, compensatory, and overtime leave not taken as well as the amount payable under the Commonwealth of Virginia's sick leave pay-out policy upon termination, which is the lesser of 25 percent of sick leave not taken or \$5,000 per employee with five or more years of service. Also included is an estimation of sick leave for those employees who, while not currently vested, will probably attain the five years of service required to vest. The last element reflected in this liability is Social Security and Medicaid taxes to be paid by the Institute on all accrued compensated absences.

G. Investment in Plant

Buildings and equipment are stated at appraised value or actual cost where determinable. Land is stated at cost. Construction is capitalized as expended and reflected in net investment in plant. Current fund expenditures of \$10,000 or greater for renewals and replacements are capitalized only to the extent that such expenditures represent long-term improvements to properties. Current fund expenditures for equipment are capitalized when the unit acquisition cost is \$5,000 or greater and the estimated useful life is two years or more. Library acquisitions are capitalized using published average prices for library acquisitions. The accompanying financial statements include no provision for depreciation of plant assets.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment and library books, (2) mandatory transfers, in the case of required provisions for debt amortization and interest, and equipment renewal and replacement, and (3) transfers of a non-mandatory nature for all other cases. Plant assets, at the time of disposal, revert to the Commonwealth of Virginia for disposition. Proceeds, if any, may be returned to the Institute.

H. Deferred Revenue

Deferred revenue represents revenues collected, but not earned, as of June 30, 2000 and 1999. This is primarily composed of revenue for student tuition and fees accrued in advance of the next semester or term.

2. AFFILIATED ORGANIZATION

The financial statements do not include the assets, liabilities, and fund balance of the Virginia Military Institute Research Laboratories, Incorporated (Research Laboratory). The Research Laboratory, a private, non-profit Virginia corporation, was established to encourage and promote scientific investigations and other types of research by the faculty, staff and students. The Research Laboratory was audited by other auditors whose report was furnished to the Institute. Amounts summarized below are based solely upon the report of the other auditor.

Following is a condensed summary of the financial position of the Research Laboratory, as of June 30:

	<u>2000</u>	<u>1999</u>
Assets	<u>\$ 306,886</u>	<u>\$ 261,839</u>
Liabilities and fund balance:		
Liabilities	138,732	112,156
Fund balance	<u>168,154</u>	<u>149,683</u>
Total liabilities and fund balance	<u>\$ 306,886</u>	<u>\$ 261,839</u>

The cash receipts and disbursements of the Research Laboratory were \$543,303 and \$524,832 respectively, for the year ended June 30, 2000, and \$413,917 and \$400,618 respectively, for the year ended June 30, 1999.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

All state funds of the Institute are held by the Treasurer of Virginia pursuant to Section 2.1-177, et seq., Code of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Cash and cash equivalents represents cash with the Treasurer, cash in banks, and cash deposits and short-term investments with original maturities of three months or less. Cash deposits held by the Institute are maintained in accounts that are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.1-359 of the Code of Virginia.

The Institute invested bond proceeds in the State Non-Arbitrage Program (SNAP) held by the Treasurer of Virginia. These proceeds are invested in money market funds and shown below as non-categorized in accordance with GASB 3. At June 30, 2000, the State Treasurer held \$441,010 in the SNAP program for the Institute.

The VMI Investment Committee is responsible for the management of the endowment and similar funds, loan funds of the Institute, and investments of certain other entities affiliated with the Institute. The Institute's investments, including cash equivalents, are categorized to give an indication of the level of credit risk assumed by the Institute. Credit risk is the risk that that the Institute may not be able to obtain possession of it's investment or collateral at maturity. Investments, including cash equivalents are categorized as described below to give an indication of the level of credit risk assumed by the Institute at June 30, 2000 and 1999:

- Category 1 – Insured or registered securities or securities held by the Institute or its agent in the Institute's name.
- Category 2 – Uninsured or unregistered, with securities held by the counter party's trust department or agent in the Institute's name.

- Category 3 – Uninsured or unregistered with securities held by the counter party, or by its trust department or agent, but not in the Institute's name.
- Non-categorized – Money market or equity in pooled investments.

	June 30, 2000	June 30, 1999
	Fair Value	Fair Value
Cash and cash equivalents:		
Cash on hand	\$ 8,115	\$ 6,180
Cash in banks	(954,875)	607,689
Cash with the Treasurer of Virginia	3,951,431	12,435,875
Repurchase agreement (Category 3)	<u>1,788,084</u>	<u>243,001</u>
Total cash and cash equivalents	<u>\$ 4,792,755</u>	<u>\$ 13,292,745</u>
Investments:		
Common stock (Category 2)	\$ 14,817,179	\$ 14,214,787
US Treasury and Agency securities (Category 2)	1,756,321	1,830,483
Corporate notes (Category 2)	1,623,227	1,144,177
Non-categorized	<u>4,041,609</u>	<u>1,888,245</u>
Total investments	<u>\$ 22,238,336</u>	<u>\$ 19,077,692</u>

	June 30, 2000		June 30, 1999	
	Cash and cash Equivalents	Investments	Cash and cash Equivalents	Investments
Current funds:				
Unrestricted	\$ 4,104,725	\$ -	\$ 3,359,311	\$ 67,016
Restricted	673,997	-	681,652	-
Loan funds	110,885	210,941	76,103	206,020
Endowment funds	20,000	21,586,385	-	18,309,908
Plant funds:				
Unexpended	-	-	-	-
Renewals and replacements	(13,515)	441,010	9,146,338	494,748
Agency funds	<u>(103,337)</u>	<u>-</u>	<u>29,341</u>	<u>-</u>
Total	<u>\$ 4,792,755</u>	<u>\$ 22,238,336</u>	<u>\$ 13,292,745</u>	<u>\$ 19,077,692</u>

4. FUNDS HELD IN TRUST BY OTHERS

Assets of funds held by trustees for the benefit of the Institute are not reflected in the accompanying balance sheet. The Institute has irrevocable rights to all or a portion of the income of these funds. However, assets of the funds are not under the management discretion of the Institute according to the trust agreements. Income from funds held by trustees for the benefit of the Institute totaled \$78,482 and \$164,580 for the years ended June 30, 2000 and 1999, respectively, and is included in restricted endowment income.

5. SECURITIES LENDING TRANSACTIONS

The investments under securities lending represent the Institute's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

6. LONG-TERM INDEBTEDNESS

Bonds Payable

2000

1999

Higher Education Institutional Refunding Bonds, 1992 Series R, issued \$3,119,262, balance payable in annual installments, varying from \$44,957 to \$409,489 with interest at 5 percent to 5.6 percent payable semi-annually, the final installment of \$409,489 due in 2002. The principal and interest is to be repaid by the VMI Development Board and the VMI Foundation on a year-to-year basis as a gift to the Institute. Should the gift be discontinued, repayment will be made by charging an additional comprehensive cadet fee.

\$ 802,175

\$ 1,171,878

Notes Payable

Loan agreement with the Virginia College Building Authority to finance the installation of a computer network in the barracks that represents the Institute's share of revenue bonds issued by the Authority under its pooled bond program. The note is payable in annual installments, varying from \$205,000 to \$285,000, with final payment on December 1, 2008 with interest payable semi-annually at 3.7 percent to 4.1 percent. The principal and interest will be paid by the VMI Foundation, Inc. on a year-to-year basis as a gift to the Institute. Should the gift be discontinued, repayment will be made by charging cadets a debt service fee.

\$ 2,225,000

\$ 2,430,000

Maturities of long-term debt for each of the five years succeeding June 30, 2000, are as follows:

<u>Year</u>	<u>Bonds Payable</u>	<u>Notes Payable</u>
2001	\$ 392,686	\$ 215,000
2002	409,489	220,000
2003	-	230,000
2004	-	235,000
2005	-	245,000
Subsequent years	<u>-</u>	<u>1,080,000</u>
Total	<u>\$ 802,175</u>	<u>\$ 2,225,000</u>

Other Long-term Debt

The \$2,916,597 in Current Unrestricted Funds accounts payable and accrued liabilities includes \$93,935 for a contractual obligation to be paid in two annual installments with the final installment due in 2002. Maturities for each of the two years succeeding June 30, 2000, are as follows:

<u>Year</u>	<u>Amount</u>
2001	\$ 56,361
2002	<u>37,574</u>
Total	<u>\$ 93,935</u>

Installment Purchase Obligations

The Institute has future obligations under installment purchase agreements with the final installment due in 2003. The book value of the assets capitalized under these installment purchase agreements is \$61,763, with interest ranging from 5.67 percent to 8.5 percent. A summary of future obligations under these agreements as of June 30, 2000, follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2001	\$ 13,014	\$ 1,458	\$ 14,472
2002	12,110	606	12,716
2003	<u>2,545</u>	<u>81</u>	<u>2,626</u>
Total	<u>\$ 27,669</u>	<u>\$ 2,145</u>	<u>\$ 29,814</u>

7. CAPITAL LEASES PAYABLE

The Institute is the lessee of equipment under capital leases expiring in various years through 2003. The assets under capital leases are recorded as property, plant, and equipment at the lower of the net present value of the minimum lease payments during the lease term, or the fair market value of the asset.

The Institute receives allocations made by the Virginia College Building Authority from the Higher Education Equipment Trust Fund for the purpose of acquiring equipment under leasing agreements with the Authority. Fixed assets acquired under these lease agreements and the associated liability are recorded in the Net Investment in Plant Fund.

For all capital leases, the minimum lease payments together with the present value of the net minimum lease payments as of June 30, 2000, are as follows:

<u>Year Ending June 30</u>	<u>Equipment Trust Fund</u>	<u>Other Capital Leases</u>	<u>Total</u>
2001	\$ 293,238	\$ 12,448	\$ 305,686
2002	221,208	110	221,318
2003	<u>82,063</u>	<u>-</u>	<u>82,063</u>
Total minimum lease payments	596,509	12,558	609,067
Less: Executory costs	-	3,296	3,296
Interest	<u>39,321</u>	<u>684</u>	<u>40,005</u>
Present value of net minimum lease payments	<u>\$ 557,188</u>	<u>\$ 8,578</u>	<u>\$ 565,766</u>

Interest rates on capitalized leases vary from 4.6 percent to 8.5 percent.

8. COMMITMENTS

Operating Leases

The Institute is committed under various operating leases for equipment. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected in the Institute's fund groups. In general, the leases are for a three-year term and the Institute has renewal options. In most cases, the Institute expects these leases will be replaced by similar leases in the normal course of business. Rental expense was approximately \$132,295 and \$142,345 for the years ended June 30, 2000 and 1999, respectively.

<u>Year Ending June 30</u>	<u>Amount</u>
2001	\$ 65,571
2002	9,944
2003	<u>1,310</u>
Total	<u>\$ 76,825</u>

9. STATE APPROPRIATIONS – CURRENT UNRESTRICTED FUNDS

The Institute 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 a biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the Institute for disbursements.

The following is a summary of state appropriations received by the Institute during the year ended June 30, 2000, including all supplemental appropriations.

	<u>Educational and General</u>	<u>Unique Military Activities</u>
Original appropriation	<u>\$ 10,184,049</u>	<u>\$ 4,063,453</u>
Adjustments:		
Classified and job class re-grades	315,033	-
Fringe benefit adjustment	2,433	-
Automotive liability premium savings	(5,741)	-
Virginia Power electrical rate savings	(34,135)	-
Appropriation transfers:		
Virginia Tech	-	(1,206,300)
Mary Baldwin	-	(45,600)
Equipment Trust Fund lease payment	<u>(233,556)</u>	<u>-</u>
Total adjustments	<u>44,034</u>	<u>(1,251,900)</u>
Adjusted appropriations	<u>\$ 10,228,083</u>	<u>\$ 2,811,553</u>

Adjusted appropriations for the year ended June 30, 1999, were \$9,917,612 and \$2,816,342 for Educational and General and Unique Military Activities, respectively.

10. RETAINAGE PAYABLE

The Institute held \$237,207 and \$10,574 at June 30, 2000 and 1999, respectively, as retainage on various contracts for work that had been performed. The retainage will be remitted to the various contractors upon satisfactory completion of the projects.

11. PENSION PLAN AND OTHER POST RETIREMENT BENEFITS

Virginia Retirement System

Employees of the Institute are employees of the Commonwealth of Virginia. The employees participate in a defined benefit retirement plan administered by the Virginia Retirement System (VRS). The VRS also administers life insurance and health related plans for retired employees. Information related to these plans is available at the statewide level only in the Commonwealth's Comprehensive Annual Financial Report (CAFR). The Commonwealth of Virginia, not the Institute, has the overall responsibility for contributions to these plans.

Optional Retirement Plan

Full-time faculty, certain administrative staff, who hold academic rank, and athletic coaches are eligible to participate in a defined contribution plan administered by five different providers rather than VRS. The five different providers are TIAA/CREF Insurance Companies, Fidelity Investments, T. Rowe Price, VALIC, and Met Life. This plan is a fixed contribution plan where the retirement benefits are based upon the employer's (10.4 percent) contributions, plus interest and dividends for the years ended June 30, 2000 and 1999.

Individual contracts issued under the plan provide for full and immediate vesting of both the Institute's and the employees' contributions. Total pension costs under this plan were approximately \$453,523 and \$415,697 for the years ended June 30, 2000 and 1999, respectively. Contributions to the optional retirement plan were calculated using the base salary amount of \$4,360,793 and \$3,997,099 for the years ended June 30, 2000 and 1999, respectively.

12. RISK MANAGEMENT

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

13. CONTINGENCIES

The Institute 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 Institute.

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

14. LITIGATION

In January 1990, the United States Department of Justice filed suit against the Commonwealth of Virginia, the Institute and others in the United States District Court for the Western District of Virginia to challenge the Institute's, then existing, males only admission policy. On June 26, 1996, the United States Supreme Court held that the Institute's policy violates the "equal protection clause" of the United States Constitution, Fourteenth Amendment. The suit was subsequently remanded to the District Court, where it remains open in its "remediation" phase. Additional appropriations to the Institute by the General Assembly in the sum of \$5.1 million have been applied to meet the obligation to assimilate qualified women at the Institute. While the additional appropriated sums filled the then immediate remediation needs, there remains the possibility of need for further additional sums specifically to meet the remedial obligation.

SUPPLEMENTARY INFORMATION

VIRGINIA MILITARY INSTITUTE
SCHEDULE OF AUXILIARY ENTERPRISES REVENUES AND EXPENDITURES
For the Year Ended June 30, 2000

	Food Services	Residential Facilities	Laundry	Student Health
Revenues:				
Unrestricted:				
Student fees	\$4,006,297	\$1,749,113	\$ 263,559	\$ 182,868
Sales and services	111,388	295,389	4,807	-
Interest	-	-	-	-
Private gifts	-	-	-	-
Other	-	-	-	-
Income from securities lending transactions	-	-	-	-
Total unrestricted revenues	4,117,685	2,044,502	268,366	182,868
Restricted:				
Federal funds - College workstudy	-	-	-	439
Total gross revenue	4,117,685	2,044,502	268,366	183,307
Less: Cost of sales	-	-	-	-
Net revenues	4,117,685	2,044,502	268,366	183,307
Expenses of operation:				
Personal services	-	306,421	130,000	122,169
Supplies and materials	16,081	146,788	9,128	3,031
Equipment	16,203	120,998	2,724	-
Contractual services	2,905,427	300,563	-	-
Continuous charges	498,902	1,104,010	62,712	41,926
Miscellaneous	-	-	-	-
Expenses for securities lending transactions	-	-	-	-
Total expenses of operation	3,436,613	1,978,780	204,564	167,126
Excess (deficiency) of revenues over (under) expenses of operation before transfers	681,072	65,722	63,802	16,181
Transfers:				
Nonmandatory transfers	-	-	-	-
Net increase (decrease) for the year	\$ 681,072	\$ 65,722	\$ 63,802	\$ 16,181
Fund balance at beginning of year				
Fund balance at end of year				

(1) Other column represents amounts not specifically identifiable to a particular auxiliary.

Stores and Shops	Student Union	Parking	Cameron Hall	Athletics	Other (1)	Total
\$ 107,471	\$ 780,463	\$ -	\$ 222,618	\$1,424,643	\$ -	\$ 8,737,032
37,695	-	3,670	6,466	451,456	-	910,871
-	-	-	-	-	76,902	76,902
-	-	-	-	25,594	-	25,594
-	-	-	-	-	1,233	1,233
-	-	-	-	-	3,969	3,969
145,166	780,463	3,670	229,084	1,901,693	82,104	9,755,601
439	3,945	-	-	1,534	-	6,357
145,605	784,408	3,670	229,084	1,903,227	82,104	9,761,958
76,739	-	-	-	-	-	76,739
68,866	784,408	3,670	229,084	1,903,227	82,104	9,685,219
12,077	166,005	-	64,665	1,938,332	-	2,739,669
318	89,116	-	17,494	31,831	-	313,787
-	48,752	-	388	135,409	-	324,474
77,012	154,724	-	24,355	550,961	-	4,013,042
30,489	252,534	-	105,095	512,885	7,397	2,615,950
-	-	-	-	623	-	623
-	-	-	-	-	3,761	3,761
119,896	711,131	-	211,997	3,170,041	11,158	10,011,306
(51,030)	73,277	3,670	17,087	(1,266,814)	70,946	(326,087)
715,145	113,549	-	-	1,052,408	(11,041)	1,870,061
<u>\$ 664,115</u>	<u>\$ 186,826</u>	<u>\$ 3,670</u>	<u>\$ 17,087</u>	<u>\$ (214,406)</u>	<u>\$ 59,905</u>	<u>1,543,974</u>
						<u>239,843</u>
						<u>\$ 1,783,817</u>

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VIRGINIA MILITARY INSTITUTE
Lexington, Virginia

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