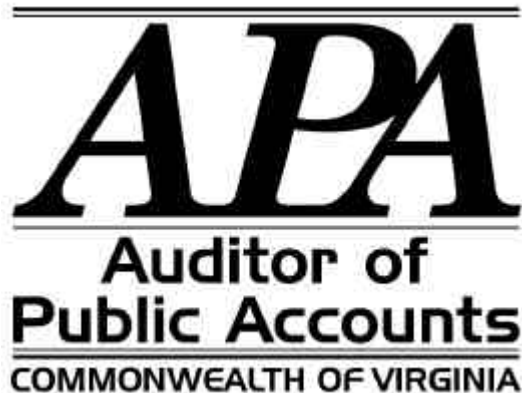


**VIRGINIA STATE UNIVERSITY
PETERSBURG, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2001**



AUDIT SUMMARY

Our audit of Virginia State University for the year ended June 30, 2001, found:

- the accompanying financial statements present fairly, in all material respects, the University's financial position as of June 30, 2001, and the changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended, in conformity with general accepted accounting principles;
- an internal control matter that we consider to be a reportable condition; however, we do not consider it to be a material weaknesses;
- an instance of noncompliance that is required to be reported; and
- the University has not completed corrective action of the prior audit finding entitled, "Improve Reconciliation Process and System Efficiency." Adequate corrective action has been taken with respect to audit findings reported in the prior year that are not repeated in this report.

In the section entitled, "Internal Control and Compliance Finding and Recommendation," we report that the University was unable to meet the deadlines for promptly reconciling its Financial Records System to the state's central accounting system; therefore, we recommend that the University continue to improve its reconciliation process.

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UNIVERSITY OFFICIALS

May 17, 2002

The Honorable Mark R. Warner
Governor of Virginia

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

The Board of Visitors
Virginia State University

We have audited the accounts and records of **Virginia State University** as of and for the year ended June 30, 2001, 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 State University, a component unit of the Commonwealth of Virginia, as of June 30, 2001, and the related statements of changes in fund balances and current fund revenues, expenditures, and other changes for the year 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of Virginia State University as of June 30, 2001, and the changes in fund balances and current fund revenues, expenditures, and other changes for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying "Schedule of Auxiliary Enterprises Revenues, Expenditures, and Changes in Fund Balances" is presented for the purpose of additional analysis and is not a required part of the financial statements. 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 State University as of and for the year ended June 30, 2001, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards.

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 an instance of noncompliance that is required to be under Government Auditing Standards, which is described in the section entitled, "Internal Control and Compliance Finding and Recommendation."

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. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 University's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the section titled, "Internal Control and Compliance Finding and Recommendation."

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 promptly by employees in the normal course of performing their duties. 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 the reportable condition described is not a material weakness.

Status of Prior Findings

The University has not completed adequate corrective action with respect to the previously reported finding, "Improve Reconciliation Process and System Efficiency." Accordingly, we included this finding in the section entitled, "Internal Control and Compliance Finding and Recommendation." The University 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, 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 at an exit conference held on June 25, 2002.

AUDITOR OF PUBLIC ACCOUNTS

JHS/kva
kva: 154

INTERNAL CONTROL AND COMPLIANCE FINDING AND RECOMMENDATION

Improve Reconciliation Process and System Efficiency

The University did not reconcile its Financial Reporting System (FRS) to the Commonwealth Accounting and Reporting System (CARS) and submit the results to the Department of Accounts on a timely basis during fiscal year 2001. The Department of Accounts requires that each agency reconcile its internal accounting records (FRS) to the Commonwealth's official accounting records (CARS) monthly and submit the results of the reconciliation through an Exception Schedule within 30 days of the close of the month.

The University could not complete its monthly reconciliations in a timely manner due to the inefficiency of the reconciliation process. As we reported in previous audits, the inefficiency is a result of the high quantity of reconciling items caused by an outdated CARS interface, timing, and other differences that the system cannot easily identify. However, we understand that the University implemented a new CARS/FRS interface in February 2002 that will aid staff in completing the reconciliations promptly.

We recommend that the University's Office of Information Technology, along with general accounting personnel, continue monitoring the implementation of the new automated reconciliation process and implement procedures that promptly identify and resolve all timing and other differences. Complete implementation of new reconciling procedures will improve the reconciliation process and decrease the time spent on this process.

VIRGINIA STATE UNIVERSITY
BALANCE SHEET
As of June 30, 2001

As of June 30, 2001

	Current Funds		Loan Funds
	Unrestricted	Restricted	
Assets			
Cash and cash equivalents (Note 3)	\$ 7,032,366	\$ 1,800,927	\$ 384,039
Investments held with the Treasurer of Virginia (Note 3)	782,985	-	-
Cash and investments with Trustees (Note 3)	2,019,754	414,111	-
Appropriations available	-	373,262	-
Interest receivable	21,592	6,292	-
Accounts and loans receivable (Net of allowance for doubtful accounts of \$2,072,583) (Note 4)	471,491	2,024,858	762,849
Due from other funds (Note 5)	542,498	-	-
Inventories	314,286	14,806	-
Prepaid expenses	118,754	-	-
Investment in plant (Note 4)	-	-	-
Other assets	-	-	-
Total assets	\$ 11,303,726	\$ 4,634,256	\$ 1,146,888
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 5,448,084	\$ 723,464	\$ 5,164
Retainage payable (Note 6)	-	-	-
Deposits pending distribution	33,187	273	-
Advance from the Treasurer of Virginia	10,436	-	-
Due to other funds (Note 5)	105,881	529,576	190
Deferred revenue	893,993	2,039,954	-
Interest payable	-	-	-
Bonds payable (Note 7)	-	-	-
Notes payable (Note 7)	-	-	-
Capital lease obligation (Note 7)	-	-	-
Installment purchases (Note 7)	-	-	-
Accrued compensated absences	2,192,966	500,294	-
Obligations under securities lending program (Note 3)	782,985	-	-
Other liabilities	-	-	-
Total liabilities	9,467,532	3,793,561	5,354
Fund balances:			
Unrestricted current funds (Note 8)	1,836,194	-	-
Restricted current funds	-	840,695	-
Loan funds, U.S. Government grant refundable	-	-	768,125
Loan funds, University - Restricted	-	-	373,409
Endowment - Restricted	-	-	-
Quasi-Endowment - Unrestricted	-	-	-
Quasi-Endowment - Restricted	-	-	-
Unexpended plant funds	-	-	-
Renewals and replacements	-	-	-
Retirement of indebtedness	-	-	-
Net investment in plant	-	-	-
Total fund balances	1,836,194	840,695	1,141,534
Total liabilities and fund balances	\$ 11,303,726	\$ 4,634,256	\$ 1,146,888

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

Endowment and Similar Funds	Plant Funds				Agency Funds	Total
	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant		
\$ -	\$ 23,942	\$ 1,627,030	\$ 33,026	\$ -	\$ 492,073	\$ 11,393,403
	-	986,984	-	-	-	1,769,969
5,339,862	-	-	-	-	-	7,773,727
-	2,250	1,266,941	-	-	-	1,642,453
4,854	-	-	-	-	-	32,738
-	-	-	-	-	3,765	3,262,963
47,259	-	-	62,581	-	41	652,379
-	-	-	-	-	-	329,092
-	-	-	15,778	-	-	134,532
-	-	-	-	144,686,156	-	144,686,156
-	-	-	54,653	-	-	54,653
\$ 5,391,975	\$ 26,192	\$ 3,880,955	\$ 166,038	\$ 144,686,156	\$ 495,879	\$ 171,732,065
\$ -	\$ -	\$ 124,379	\$ -	\$ -	\$ -	\$ 6,301,091
-	-	97,933	-	-	-	97,933
-	-	-	-	-	-	33,460
-	-	-	-	-	-	10,436
7,854	647	-	-	-	8,231	652,379
-	-	-	-	-	-	2,933,947
-	-	-	62,581	-	-	62,581
-	-	62,375	35,269	8,192,625	-	8,290,269
-	-	-	-	2,725,300	-	2,725,300
-	-	-	-	747,810	-	747,810
-	-	-	-	207,234	-	207,234
-	-	-	-	-	-	2,693,260
-	-	-	-	-	-	782,985
-	888	1,119	-	-	487,648	489,655
7,854	1,535	285,806	97,850	11,872,969	495,879	26,028,340
-	-	-	-	-	-	1,836,194
-	-	-	-	-	-	840,695
-	-	-	-	-	-	768,125
-	-	-	-	-	-	373,409
3,076,430	-	-	-	-	-	3,076,430
418,869	-	-	-	-	-	418,869
1,888,822	-	-	-	-	-	1,888,822
-	24,657	-	-	-	-	24,657
-	-	3,595,149	-	-	-	3,595,149
-	-	-	68,188	-	-	68,188
-	-	-	-	132,813,187	-	132,813,187
5,384,121	24,657	3,595,149	68,188	132,813,187	-	145,703,725
\$ 5,391,975	\$ 26,192	\$ 3,880,955	\$ 166,038	\$ 144,686,156	\$ 495,879	\$ 171,732,065

VIRGINIA STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 2001

	Current Funds		
	Unrestricted	Restricted	Loan Funds
Revenues and other additions:			
Unrestricted current fund revenues	\$ 61,677,651	\$ -	\$ -
State appropriations revenue (Note 9)	-	2,884,897	-
Federal grants and contracts - Restricted (Note 10)	-	28,817,272	-
State grants and contracts - Restricted	-	1,300,179	-
Local grants and contracts - Restricted	-	42,537	-
Private gifts, grants and contracts - Restricted	-	988,512	-
Investment income	-	2,582	13,641
Endowment income	-	25,255	-
Interest on loans receivable	-	-	50,732
Expended for plant facilities (including \$2,905,378 charged to current funds)	-	-	-
Retirement of indebtedness	-	-	-
Other sources	-	-	217,971
Total revenues and other additions	61,677,651	34,061,234	282,344
Expenditures and other deductions:			
Educational and general	46,495,173	32,921,478	-
Auxiliary enterprises	16,357,239	258,793	-
Indirect costs recovered	-	244,932	-
Loan cancellations and write-offs	-	-	6,438
Administrative and collection costs	-	-	32,174
Expended for plant facilities (including non-capitalized expenditures of \$692,587)	-	-	-
Unrealized losses	-	9,189	-
Refunded to grantors	-	4,259	-
Retirement of plant facilities	-	-	-
Retirement of indebtedness	-	-	-
Interest on indebtedness	-	-	-
Reversions to the General Fund of the Commonwealth	16,451	-	-
Other	-	-	3,576
Total expenditures and other deductions	62,868,863	33,438,651	42,188
Transfers among funds - additions (deductions):			
Mandatory	(1,447,611)	(673,102)	-
Non-mandatory	(631,742)	(153,810)	-
Total transfers	(2,079,353)	(826,912)	-
Net increase (decrease) for the year	(3,270,565)	(204,329)	240,156
Fund balances, July 1, 2000	5,106,759	1,045,024	901,378
Fund balances, June 30, 2001	\$ 1,836,194	\$ 840,695	\$ 1,141,534

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

Endowment and Similar Funds		Plant Funds				Total				
		Unexpended	Renewals and Replacements	Retirement of Debt	Investment in Plant					
\$	-	\$	-	\$	-	\$	-	\$	61,677,651	
	-		-		4,391,456		602,972		-	7,879,325
	-		-		324,523		-		-	29,141,795
	-		-		-		-		-	1,300,179
	-		-		50,000		-		-	92,537
	78,318		-		39,000		-		-	1,105,830
	-		-		52,870		-		-	69,093
	28,542		-		-		-		-	53,797
	-		-		-		-		-	50,732
	-		-		-		-		5,616,833	5,616,833
	-		-		-		-		1,517,979	1,517,979
	-		-		609,749		-		-	827,720
	106,860		-		5,467,598		602,972		7,134,812	109,333,471
	-		-		-		-		-	79,416,651
	-		-		-		-		-	16,616,032
	-		-		-		-		-	244,932
	-		-		-		-		-	6,438
	-		-		-		-		-	32,174
	-	10,910			3,393,132		-		-	3,404,042
	813,451	-			-		-		-	822,640
	7,854	-			-		-		-	12,113
	-	-			-		-		208,733	208,733
	-	-			-		1,517,979		-	1,517,979
	-	-			-		582,353		-	582,353
	-	-			18,302,813		-		-	18,319,264
	22,525	-			-		-		-	26,101
	843,830		10,910		21,695,945		2,100,332		208,733	121,209,452
	673,102		-		-		1,447,611		-	-
	785,607		(55)		(129,544)		77,052		52,492	-
	1,458,709		(55)		(129,544)		1,524,663		52,492	-
	721,739		(10,965)		(16,357,891)		27,303		6,978,571	(11,875,981)
	4,662,382		35,622		19,953,040		40,885		125,834,616	157,579,706
\$	5,384,121	\$	24,657	\$	3,595,149	\$	68,188	\$	132,813,187	\$ 145,703,725

VIRGINIA STATE UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
For the Year Ended June 30, 2001

	Unrestricted	Restricted	Total
Revenues:			
Student tuition and fees	\$ 13,931,457	\$ -	\$ 13,931,457
State appropriations (Note 9)	28,353,002	2,884,897	31,237,899
Federal grants and contracts	244,932	28,609,411	28,854,343
State grants and contracts	-	1,300,179	1,300,179
Local grants and contracts	-	42,537	42,537
Private gifts, grants, and contracts	350,305	988,512	1,338,817
Sales and services of auxiliary enterprises	18,170,682	-	18,170,682
Sales and services of educational departments	2,214	-	2,214
Endowment income	58,045	25,255	83,300
Investment income	30,660	2,582	33,242
Other sources	536,354	-	536,354
Total current revenues	61,677,651	33,853,373	95,531,024
Expenditures and mandatory transfers:			
Educational and general:			
Instruction	20,127,888	522,520	20,650,408
Research	455,599	2,917,740	3,373,339
Public service	2,087,362	2,806,342	4,893,704
Academic support	3,499,873	772,985	4,272,858
Student services	3,062,470	693,564	3,756,034
Institutional support	7,758,947	255,178	8,014,125
Operations and maintenance of plant	9,185,425	251,295	9,436,720
Scholarships and fellowships	317,609	24,701,854	25,019,463
Educational and general expenditures	46,495,173	32,921,478	79,416,651
Mandatory transfer to endowments	159,965	673,102	833,067
Total educational and general	46,655,138	33,594,580	80,249,718
Auxiliary enterprises:			
Operating expenditures	16,357,239	258,793	16,616,032
Mandatory transfers for debt service	1,287,646	-	1,287,646
Total auxiliary enterprises	17,644,885	258,793	17,903,678
Total expenditures and mandatory transfers	64,300,023	33,853,373	98,153,396
Other transfers and deductions:			
Deficit of restricted receipts over transfers to revenue	-	(46,260)	(46,260)
Refunds to grantors	-	(4,259)	(4,259)
Reversions to the General Fund of the Commonwealth	(16,451)	-	(16,451)
Non-mandatory transfers	(631,742)	(153,810)	(785,552)
Total deductions	(648,193)	(204,329)	(852,522)
Net decrease in fund balances	\$ (3,270,565)	\$ (204,329)	\$ (3,474,894)

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

VIRGINIA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Virginia State University, founded in 1882, is one of two land grant universities in the state, having been so designated in 1920. As a land grant institution, the University engages in natural resources-related research projects and agricultural extension services. The institution attained university status in 1979. The University offers programs at the graduate and undergraduate levels in science, education, humanities, social science, and business. The University's stated mission is to prepare students to advance intellectually, socially, economically, and politically, so they and the University will make significant contributions to the enhancement of society.

Virginia State University is a component unit of the Commonwealth of Virginia and is included in the Comprehensive Annual Financial Report of the Commonwealth. These general purpose financial statements are prepared for the Commonwealth of Virginia and include all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority.

B. 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 fund 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.

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. Revenues from current restricted funds are recognized when expenditures are incurred for current operating purposes.

Endowment and similar funds record the usage of income from moneys subject to the restrictions of gift instruments requiring, in perpetuity, that the principal be invested and income

only be utilized. Certain funds within this classification differ from regular endowments in that any portion of the funds may be expended at the discretion of the Board of Visitors.

C. Basis Of Accounting

The financial statements of the University have been prepared on the accrual basis, except for depreciation expenses relating to capitalized fixed assets, which are 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.

D. Investments

Investments are recorded at fair market value at June 30, 2001.

E. Plant Funds

Plant assets consisting of land, building, improvements, equipment, and construction in progress are stated at appraised historical cost or actual cost where determinable. Library books are valued at replacement cost as determined by the State Council of Higher Education. Equipment expenditures are capitalized when the acquisition cost is \$5,000 or greater and the estimated useful life is one year or more. Expenditures for construction in progress are capitalized as incurred and reflected in net investment in plant. No provision is made in the accounts for depreciation of plant assets. 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 non-mandatory nature for all other cases.

F. Inventory

Inventory is valued at the lower of cost or market. The inventory held by the University consists of supplies held for consumption.

G. Deferred Revenue

Deferred revenue represents moneys received, but not earned as of June 30, 2001. In the Current Unrestricted Fund, deferred revenue represents student tuition and fees received in advance of the academic term. In the Current Restricted Fund, deferred revenue represents federal funds received, but not spent.

H. Accrued Compensated Absences

The amount of leave earned, but not taken by University employees is recorded as a liability on the balance sheet. The amount reflects, as of June 30, 2001, all unused vacation leave, compensatory leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave pay out policy. The applicable share of employer-related taxes payable on the eventual termination payments is also included.

2. AFFILIATED ORGANIZATION

The Virginia State University Foundation (Foundation) is separately incorporated and managed by its own board. Assets and liabilities of the Foundation are not included in these statements. The Foundation was organized for fund-raising activities, which support the University.

The following is a condensed summary of the financial position of the Foundation as of June 30, 2001. This information is not audited.

ASSETS

Cash	\$ 426,924
Other receivables	4,733
Investment in securities	<u>3,943,965</u>
Total assets	<u>\$4,375,622</u>

LIABILITIES AND FUND BALANCES

Total liabilities	\$ 18,266
Total fund balances	<u>4,357,356</u>
Total liabilities and fund balances	<u>\$4,375,622</u>

The University and the Foundation have been pursuing jointly the development of an off-campus housing project for the purpose of housing Virginia State University students. To enable this project, the University obtained Appropriation Act language to authorize it to purchase a tract of land, ground lease the land to a related foundation, provide pre-closing funding of some predevelopment costs of the Foundation, and obtain a Treasury loan to be used for reimbursing the predevelopment costs and providing construction financing. Concurrently, the Foundation has created a separate legal entity, the Virginia State University Real Estate Foundation (Real Estate Foundation). The Real Estate Foundation will serve as borrower for the permanent financing, ground lease the land from the University, and own and manage the improvements to be developed on the land for the period of the ground lease, after which it will revert to University ownership. Permanent financing will be provided by the sale of tax-exempt bonds issued through the Chesterfield County Industrial Development Authority. Authorization for the University's role in this project appears as Item C-82 in the 2002-2004 Appropriation Act. The University, the Foundation, and the Real Estate Foundation expect to have permanent financing approved by July 31, 2002.

3. CASH AND INVESTMENTS

All state funds of the University 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. Each fund's equity in pooled state funds is reported as "Cash and Cash Equivalents" on the balance sheet and is not categorized as to credit risk. Cash deposits held by the University are maintained in accounts covered by federal depository insurance or collateralized in

accordance with the Virginia Security for Public Deposits Act. At June 30, 2001, the carrying amount of cash was \$8,955,553.

Statutes authorize the investment of funds held by the University in obligations of the Commonwealth, federal government, other states or political subdivisions thereof, Virginia political subdivisions, the International Bank for Reconstruction and Development, the Asian Development Bank, and the African Development Bank. In addition, the University may invest in prime quality commercial paper rated prime 1 by Moody's Investment Service or A-1 by Standard and Poor's Incorporated. The University may also invest in overnight term or open repurchase agreements and money market funds.

The University's investments are categorized below to give an indication of the level of credit risk assumed by the University at June 30, 2001. Credit risk is the risk that the University may not be able to obtain possession of its investment instrument or collateral at maturity. Risk category 1 includes investments which are insured or registered or for which the University, or its safekeeping agent in the University's name holds the securities. Risk category 2 includes uninsured or unregistered investments for which the broker or dealer, or its trust department or safekeeping agent in the University's name holds the securities. Risk category 3 includes uninsured or 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. The University held no assets in either risk category 2 or 3 at June 30, 2001.

The composition and categorization of investments held by the University at June 30, 2001, is as follows:

<u>Description</u>	<u>Category 1</u>	<u>Market Value</u>	<u>Cost</u>
Investments:			
U.S. government securities	\$1,353,025	\$1,353,023	\$1,350,652
Corporate stock	5,084,768	5,084,765	2,665,214
Corporate bonds	<u>601,300</u>	<u>601,298</u>	<u>602,346</u>
	<u>\$7,039,093</u>	7,039,086	4,618,212
Money market funds		734,641	734,641
State non-arbitrage program		<u>986,984</u>	<u>986,984</u>
Total investments		<u>\$8,760,711</u>	<u>\$6,339,837</u>
Money market funds -			
Cash equivalents		<u>\$2,437,850</u>	<u>\$2,437,850</u>

Investments held by the Treasurer of Virginia include the University's allocated share of securities totaling \$782,985 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.

4. BALANCE SHEET DETAILS

Accounts Receivable

Unrestricted current funds:	
Student and other receivables	
(less allowance of \$1,120,889)	\$ 471,491
Restricted current funds:	
Grants and contracts and other receivable	2,024,858
Loan funds:	
Notes receivable (less allowance of \$951,694)	762,849
Agency funds:	
Accounts receivable	<u>3,765</u>
 Total receivables	 <u>\$ 3,262,963</u>

Investment in Plant

Land	\$ 267,084
Improvements	10,739,068
Buildings	87,114,476
Equipment	21,917,475
Library books	13,205,712
Construction in progress	<u>11,442,341</u>
 Total investment in plant	 <u>\$144,686,156</u>

5. DUE TO/FROM OTHER FUNDS

Due to Other Funds are amounts owed by one fund to another fund for goods purchased or services obtained. Due from Other Funds are amounts to be received from one fund by another fund for goods sold or services rendered.

	Receivable Funds		Payable Funds				
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Loan</u>	<u>Plant</u>	<u>Endowment</u>	<u>Agency</u>	<u>Totals</u>
Unrestricted	\$ -	\$525,576	\$190	\$647	\$7,854	\$8,231	\$542,498
Agency	41	-	-	-	-	-	41
Plant	62,581	-	-	-	-	-	62,581
Endowment	<u>43,259</u>	<u>4,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,259</u>
 Total	 <u>\$105,881</u>	 <u>\$529,576</u>	 <u>\$190</u>	 <u>\$647</u>	 <u>\$7,854</u>	 <u>\$8,231</u>	 <u>\$652,379</u>

6. RETAINAGE PAYABLE

At June 30, 2001, \$97,933 was held by Virginia State University 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.

7. LONG-TERM INDEBTEDNESS

Long-term indebtedness at June 30, 2001, consists of the following:

	<u>Interest Rates</u>	<u>Maturity</u>	<u>Total</u>
General obligation revenue bonds:			
Langston Hall Project, Series 1995	4.60%-5.10%	2010	\$1,780,000
Foster Hall Project, Series 1995	4.60%-5.10%	2010	1,595,000
Dorm Renovation Project, Series 1995	4.60%-5.10%	2010	1,855,000
Jones Dining Hall Project, Series 1996	5.375%	2016	2,095,000
Jones Dining Hall Project, Series 1998	4.67%	2018	<u>930,000</u>
Total bond payables			<u>\$8,255,000</u>

A summary of future principal requirements of long-term debt as of June 30, 2001, follows:

<u>Year Ending</u>	<u>Total</u>
2002	\$ 610,000
2003	645,000
2004	670,000
2005	705,000
2006	735,000
Later years	<u>4,890,000</u>
Total principal payments	8,255,000
Add: Unamortized premium	<u>35,269</u>
Total	<u>\$ 8,290,269</u>

Loan From Department of Housing and Urban Development (HUD)

The University entered into a loan agreement with HUD in 1989 and closed the agreement in 1992 to borrow funds to repair seven dormitories. The loan is to be repaid over 30 years at three percent interest and is secured by a lien on the net revenues from the ownership, operation, and use of the seven dormitories under repair. At June 30, 2001, the outstanding balance of the loan was \$2,725,300.

A summary of future principal and interest requirements as of June 30, 2001, follows:

<u>Maturity</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 95,828	\$ 81,046	\$ 176,874
2003	98,373	78,149	176,522
2004	101,708	76,165	177,873
2005	84,702	72,291	156,993
2006	107,749	68,924	176,673
After 2006	<u>2,236,940</u>	<u>583,585</u>	<u>2,820,525</u>
Total	<u>\$2,725,300</u>	<u>\$960,160</u>	<u>\$3,685,460?</u>

Higher Education Equipment Trust Fund Capital Lease Obligation

The University is committed under capital lease agreements with the Virginia College Building Authority (VCBA) in the combined principal amount of \$747,810. The agreements, entered in 1996 and 1997 will mature in fiscal years 2002 and 2003, respectively, with interest rates ranging from 3.50 percent to 5.35 percent. Under the terms of the leases, the University is authorized to purchase equipment from an approved list of equipment in an amount not to exceed the principal amount of each lease. Payment of such purchases are to be reimbursed to the University or directly paid by the VCBA from the VCBA Equipment Trust Fund, which is financed from the proceeds of bonds issued by the VCBA for such purposes. The General Assembly has appropriated from the General Fund of the Commonwealth amounts sufficient to repay principal and interest requirements under the lease agreements.

A summary of future principal and interest requirements as of June 30, 2001, follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Capital Lease Obligations</u>
2002	\$544,940
2003	<u>248,507</u>
Total principal and interest	793,447
Less: Interest cost	<u>45,637</u>
Total	<u>\$747,810</u>

Installment Purchases

The University has entered into installment purchase contracts to finance the acquisition of copiers and a mainframe computer. The length of the purchase agreements is for three years and the interest rate ranges from 4.0 to 5.1 percent. In addition, in July 2000, the University entered into a five-year Master Lease Agreement with IBM Corporation to provide financing of lighting equipment for Rogers Stadium Athletic Complex at Virginia State University. The interest rate for this financing is 5.75 percent. Principal and interest payments of these commitments for fiscal years subsequent to June 30, 2001, are as follows:

Year Ending <u>June 30,</u>	Installment Purchase <u>Obligations</u>
2002	\$ 94,826
2003	43,996
2004	43,996
2005	<u>43,996</u>
Total principal and interest	226,814
Less: Interest cost	<u>19,580</u>
Total	<u>\$207,234</u>

8. FUND BALANCES - CURRENT FUNDS - UNRESTRICTED

As of June 30, 2001, unrestricted fund balances totaling \$4,205,522 have been designated by the Board of Visitors for plant replacement, expansion, and improvement. In addition, \$353,001 is a required reserve to the Housing and Urban Development loan.

9. STATE APPROPRIATIONS - CURRENT FUNDS - UNRESTRICTED

The University receives state appropriations from the General Fund of the Commonwealth. The Appropriations Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of a biennium.

The following is a summary of state appropriations received by the University for the year ended June 30, 2001.

	<u>Current Unrestricted</u>
Original appropriation	\$28,001,888
Adjustments:	
Central account distribution	351,141
Reversion to the General Fund of the Commonwealth	<u>(27)</u>
Adjusted Appropriations	<u>\$28,353,002</u>

10. DIRECT STUDENT LOAN PROGRAM

On July 1, 1995, the University entered the Federal Direct Student Loan Program. This program replaces the Federal Stafford and PLUS Loan Programs, which involve a private lender/bank or a guarantee agency. Under the Federal Direct Student Loan Program, students borrow directly from the federal government with the University acting as the processing and delivery point of the funds. At June 30, 2001, federal grants and contract revenue and expenditures for scholarships and fellowships included \$14,622,058 related to this program.

11. OPERATING LEASES

The University is committed under operating leases for equipment and building space. In most cases, the University expects that in the normal course of business, similar leases will replace these leases. Rental expense for the fiscal year ended June 30, 2001, was \$502,919. The University has, as of June 30, 2001, the following total future minimum rental payments:

<u>Year</u>	<u>Amount</u>
2002	\$839,941
2003	<u>518</u>
Total	<u>\$840,459</u>

12. PENSION PLAN AND OTHER POST RETIREMENT BENEFITS

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

Full-time faculty and certain administrative staff participate in retirement annuity programs through TIAA/CREF, VALIC and Fidelity Investment Insurance Companies, and T. Rowe Price rather than VRS. These are fixed-contribution programs where the retirement benefits received are based upon the employer's 5.4 percent and employee's five 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's contributions. Contributions to the programs were calculated using base salary amounts of \$5,496,231. Total pension costs under these plans were approximately \$571,608 for the year ended June 30, 2001.

13. STATE STUDENT LOANS

The University makes loans to qualified students from its Commonwealth of Virginia Student Loan Fund. At June 30, 2001, the balance of the State Student Loan Fund was \$57,931.

14. CONTINGENT LIABILITIES

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

In addition, the University is required to comply with various regulations issued by the Office of Management and Budget. Failure to comply with these regulations may result in questions

concerning the allowability of related direct and indirect charges pursuant to such agreements. As of June 30, 2001, the University estimates that no material liabilities will result from such audits or questions.

The University has been a defendant in several legal actions. While the final outcome cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material effect on the University's financial position.

15. RISK MANAGEMENT

The University 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 University participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and workers' compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The University pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

16. PENDING GASB STATEMENT

Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis- for Public College and Universities*, issued November 1999, will be effective for Virginia State University for the fiscal year ending June 30, 2002. This Statement imposes new standards for financial reporting. The titles and formats of the financial statements will change significantly as a result of this Statement. In addition, management will be required to provide a management's discussion and analysis that gives readers an analysis of the University's overall financial position and results of operations including a comparison of current years results with the prior year. Virginia State University has completed its assessment of the changes required by this Statement and is preparing for implementation.

VIRGINIA STATE UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
For the year ended June 30, 2001

	Food Services	Bookstore	Residential Facilities	Parking and Transportation
Operating revenues:				
Student fees	\$4,685,177	\$ -	\$6,377,368	\$ -
Sales and services	49,328	250,134	127,436	275,803
Interest revenue	-	-	-	-
Rental fees	-	-	21,952	-
Total revenues	4,734,505	250,134	6,526,756	275,803
Operating expenditures:				
Personal services	-	-	692,286	46,177
Employee benefits	-	-	160,927	22,441
Contractual services	2,903,601	4,283	1,511,977	81,138
Current charges and obligations	3,540	-	353,630	120
Supplies and materials	15,446	76,637	127,716	361
Equipment	53,330	-	651,711	36,600
Scholarships	(4,294)	-	528,297	-
Indirect cost	693,826	1,003	925,898	54,904
Miscellaneous	-	-	3,268	42,545
Total operating expenditures	3,665,449	81,923	4,955,710	284,286
Excess (deficiency) of revenues over (under) operating expenditures before transfers	1,069,056	168,211	1,571,046	(8,483)
Transfers to other funds:				
Mandatory transfers - Debt service	(18,000)	-	-	(26,254)
Nonmandatory transfers	(1,241,630)	(347,303)	(2,866,349)	(201,389)
Total transfers	(1,259,630)	(347,303)	(2,866,349)	(227,643)
Net increase (decrease) for the year	(190,574)	(179,092)	(1,295,303)	(236,126)
Fund balances (deficits) at beginning of year	299,323	192,109	1,099,151	385,802
Fund balances (deficits) at end of year	\$ 108,749	\$ 13,017	\$ (196,152)	\$ 149,676

Tele-Communications	Student Health Services	Student Unions and Recreational Facilities	Other Auxiliary Functions	Intercollegiate Athletics	Reserves	Total
\$ -	\$444,162	\$1,026,009	\$836,315	\$1,671,696	\$914,624	\$ 15,955,351
153,609	18,979	13,576	632,929	259,275	-	1,781,069
-	-	-	403,545	-	-	403,545
-	-	8,515	-	250	-	30,717
153,609	463,141	1,048,100	1,872,789	1,931,221	914,624	18,170,682
75,029	237,729	523,914	813,263	671,214	-	3,059,612
20,776	72,122	110,832	209,699	111,818	-	708,615
(62,781)	83,615	241,315	566,391	375,429	-	5,704,968
460	2,431	12,830	93,199	63,692	-	529,902
18,923	31,485	150,626	134,013	169,450	-	724,657
32,933	12,911	198,863	123,873	52,245	-	1,162,466
-	239	75,940	355,270	471,505	-	1,426,957
10,731	101,539	307,157	414,258	442,495	-	2,951,811
568	-	(144)	28,922	13,092	-	88,251
96,639	542,071	1,621,333	2,738,888	2,370,940	-	16,357,239
56,970	(78,930)	(573,233)	(866,099)	(439,719)	914,624	1,813,443
-	-	-	(45,569)	-	(1,197,823)	(1,287,646)
-	(185,447)	1,017,059	613,643	739,756	1,258,818	(1,212,842)
-	(185,447)	1,017,059	568,074	739,756	60,995	(2,500,488)
56,970	(264,377)	443,826	(298,025)	300,037	975,619	(687,045)
(146,299)	227,615	(554,364)	333,563	(318,460)	3,582,905	5,101,345
\$ (89,329)	\$ (36,762)	\$ (110,538)	\$ 35,538	\$ (18,423)	\$ 4,558,524	\$ 4,414,300

VIRGINIA STATE UNIVERSITY
BOARD OF VISITORS

As of June 30, 2001

Ronald C. Johnson, Rector

Elwood L. Bland, Vice Rector

Garland L. Bigley, Secretary

B. Keith Fulton	Daun S. Hester
Kodwo Ghartey-Tagoe	Adele Johnson
Jorman D. Granger	Gary Lee
Harold T. Green, Jr.	Freeman McCullers

T.W. Taylor

ADMINISTRATIVE OFFICERS

Eddie N. Moore, Jr., President

Earl G. Yarbrough, Sr., Provost and Vice President for Academic Affairs

Edward J. Mazur, Vice President for Administration and Finance

Claud Flythe, Chief of Staff and Vice President for Student Affairs