Virginia Tech

transformation

FINANCIAL REPORT

2003/2004

TRANSFORMATION


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Special Notes About the Table of Contents Within This PDF Version: This version of the university's financial statements contains two Table of Contents pages. These two pages were not printed in the printed copy and are only included in the on-line version. The Table of Contents for Notes to Financial Statements is included in both the on-line version and the printed copy. Both Table of Contents pages have imbedded links within them that allow the reader to click on a content item and go to that page. Clicking on a page will return the reader to the Table of Contents page. In the Notes to Financial Statements, click on the page number to return to the main Table of Contents, otherwise the reader is returned to the Table of Contents for Notes to Financial Statements.

Document Responsibility: This 2003-04 Financial Report was produced by the Office of the University Controller. Kenneth E. Miller, CPA, is the University Controller. David E. McGarry, CPA, is the Director of Financial Reporting & Cost Accounting, Stacy A. King, CPA, is the Manager of Financial Reporting. Questions about this document or requests for copies of the printed version should be referred to Mrs. King either via e-mail: kings@vt.edu or phone: (540) 231-8624. This PDF version of this Financial Report is available on the University Controller's website: http://www.controller.vt.edu under the Financial Reporting section.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING AND INTERNAL CONTROLS

The information in this *Annual Financial Report*, including the accompanying basic financial statements, notes, Management's Discussion and Analysis, and other information is the responsibility of management. Responsibility for the accuracy of the financial information and fairness of its presentation, including all disclosures, rests with the management of the university. Management believes the information is accurate in all material respects and fairly presents the university's financial position as well as revenues, expenses, and changes in net assets. This report was prepared in accordance with generally accepted accounting principles for public colleges and universities in the United States of America as prescribed by the Governmental Accounting Standards Board. Management is responsible for the objectivity and integrity of all representations herein. The *Annual Financial Report* includes all disclosures necessary for the reader of this report to gain a broad understanding of the university's operations for the year ended June 30, 2004.

The administration is responsible for establishing and maintaining the university's system of internal controls. Key elements of the university's system of internal controls include: careful selection and training of administrative personnel; organizational structure that provides appropriate division of duties; thorough and continuous monitoring, control, and reporting of operating budgets versus actual operating results; well communicated written policies and procedures; annual self-assessments led by the Office of the University Controller; a growing management services segment, and an extensive internal audit function. Although there are inherent limitations to the effectiveness of any system of accounting controls, management believes that the university's system provides reasonable, but not absolute, assurances that assets are safeguarded from unauthorized use or disposition, and that the accounting records are sufficiently reliable to permit the preparation of financial statements and the appropriate accountability of assets and liabilities.

The Finance and Audit Committee of the board of visitors reviews and monitors the university's financial reporting and accounting practices. The committee meets with the external independent auditors annually to review the *Annual Financial Report* and the results of audit examinations. The committee also meets with internal auditors and university financial officers at least quarterly. These meetings include a review of the scope, quality, and results of the internal audit program, and a review of issues related to internal controls and the quality of financial reporting.

The Auditor of Public Accounts (APA), the Commonwealth of Virginia's auditors, have examined our annual financial statements and their report thereon appears on the facing page. Their examination includes a study and evaluation of the university's system of internal controls, financial systems, and policies and procedures, resulting in the issuance of a management letter describing various issues they consider worthy of management's attention. The university has implemented policies and procedures for the adequate and timely resolution of such issues. No material weaknesses were found on internal control matters by the APA for the fiscal year ended June 30, 2004.

Minnis E. Ridenour
Executive Vice President and Chief Operating Officer

REPORT OF THE INDEPENDENT AUDITOR

October 22, 2004

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit and Review Commission

The Board of Visitors
Virginia Polytechnic Institute and State University

We have audited the accompanying basic financial statements of Virginia Polytechnic Institute and State University, a component unit of the Commonwealth of Virginia, and its aggregate discretely presented component units as of and for the year then ended June 30, 2004, as shown on pages 14 through 38. These financial statements are the responsibility of the university's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the university, which are discussed in Note 1 of the Notes to the Financial Statements. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the university, is based on the reports of the other auditors.

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. The financial statements of the component units of the university that were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with *Government Auditing Standards*. 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 and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Virginia Polytechnic Institute and State University and of its aggregate discretely presented component units as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in the Notes to the Financial Statements, the university has implemented the provisions of Governmental Accounting Standards Board Statement Number 39, which addresses the conditions under which institutions should include associated foundations as component units and how such component units should be displayed in the financial statements.

The management's discussion and analysis on pages 4 through 13 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of the university. The schedule of auxiliary enterprises, affiliated corporations financial highlights, and the consolidating schedules are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The schedule of auxiliary enterprises on page 39 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. The affiliated corporations financial highlights on pages 40 and 41 and the consolidating schedules on pages 42 and 43 have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2004, on our consideration of the Virginia Polytechnic Institute and State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Walter J. Kucharski
Auditor of Public Accounts

MANAGEMENT'S DISCUSSION AND ANALYSIS

Virginia Polytechnic Institute and State University, popularly known as Virginia Tech, is a comprehensive, land-grant university located in Blacksburg, Virginia. The university offers 201 graduate, undergraduate, and professional degree programs through its eight academic colleges (Agriculture and Life Sciences, Architecture and Urban Studies, Pamplin College of Business, Engineering, Science, Liberal Arts and Human Sciences, Natural Resources, and the Virginia-Maryland Regional College of Veterinary Medicine). The university serves 27,755 students and employs 1,910 full-time teaching and research faculty members.

Virginia Tech has evolved into a position of increasing national prominence since its founding in 1872, consistently ranking among the nation's top universities for undergraduate and graduate programs. The university also ranks among the top 52 institutions in the United States in annual research expenditures as reported by the National Science Foundation.

The university is an agency of the Commonwealth of Virginia. Therefore it is included as a component unit in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*. The 14 members of the Virginia Tech Board of Visitors govern university operations. Members of the board are appointed by the governor of the Commonwealth of Virginia.

OVERVIEW

This unaudited Management's Discussion and Analysis (MD&A) is required supplemental information under the Governmental Accounting Standards Board's (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective, easily readable analysis of the university's financial activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the university's financial condition and results of operations for the fiscal year ended June 30, 2004. Comparative numbers are provided for the fiscal year ended June 30, 2003. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying basic financial statements (including notes), and other supplementary information. The university's management is responsible for all of the financial information presented, including this discussion and analysis.

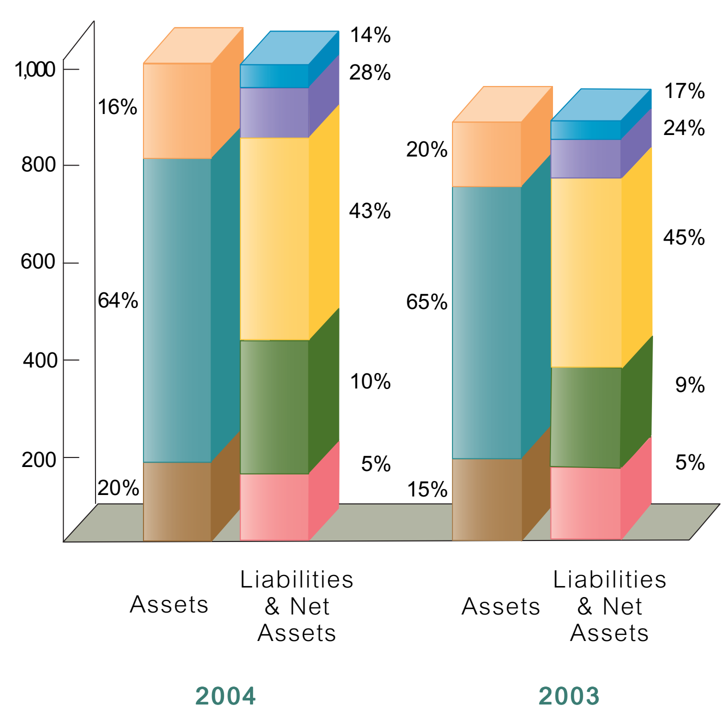
The university's financial statements have been prepared in accordance with GASB Statement Number 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities,* as amended by GASB Statement Numbers 37, 38, and 39. The three required financial statements are the Statement of Net Assets (balance sheet), the Statement of Revenues, Expenses, and Changes in Net Assets (operating statement), and the Statement of Cash Flows. These statements are summarized and analyzed in the following paragraphs. Combining schedules are included in the supplementary information. These schedules indicate how major fund groups were aggregated to arrive at the single column totals for the university.

Beginning in fiscal year 2004 the university adopted GASB Statement Number 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement Number 14. Using criteria provided in GASB Statement Number 39, management evaluated the university's six affiliated corporations to determine, based on their nature and the significance of their relationship to the university, which organizations should be included. Virginia Tech Foundation, Inc. and Virginia Tech Services, Inc. were determined to be component units and are presented in a separate column on the university's financial statements. However, intercompany transactions between the university and these component units have not been eliminated in this new model.

STATEMENT OF NET ASSETS

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

The components of Assets, Liabilities, and Net Assets are shown below for the past two fiscal years
(all dollars in millions)



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

The university's net assets are classified as follows:

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

➢ Restricted net assets, expendable—Expendable restricted net assets include resources the university is legally or contractually obligated to expend in accordance with restrictions imposed by external third parties. These assets partially consist of quasi-endowments totaling $39.1 million. The quasi-endowments are managed by the Virginia Tech Foundation.

➢ Restricted net assets, nonexpendable—Nonexpendable restricted net assets consist of endowment and similar type funds where donors or other outside sources have stipulated, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, to be expended or added to principal. Virginia Tech Foundation, Inc. is a component unit that receives gifts to support university programs as described in Note 1 of the Notes to Financial Statements and in the supplementary information. The foundation's nonexpendable restricted net assets for endowments had a market value exceeding $213.1 million at June 30, 2004. The university's nonexpendable endowments of $0.4 million are included in its column on the Statement of Net Assets.

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

SUMMARY OF ASSETS, LIABILITIES, AND NET ASSETS

For the years ended June 30, 2004 and 2003
(all dollars in millions)

	2004	2003 (as restated)	Increase (Decrease) Amount	Increase (Decrease) Percent
ASSETS				
Current assets	$ 163.2	$ 170.0	$ (6.8)	(4.0)%
Capital assets, net of accumulated depreciation	622.6	559.6	65.0	11.6 %
Other assets	196.8	133.4	61.4	46.0 %
Total assets	982.6	863.0	119.6	13.9 %
LIABILITIES				
Current liabilities	140.1	148.7	(8.6)	(5.8)%
Non-current liabilities	273.8	206.8	67.0	32.4 %
Total liabilities	413.9	355.5	58.4	16.4 %
Total assets less liabilities	$ 568.7	$ 507.5	$ 61.2	12.1%
NET ASSETS				
Invested in capital assets, net of related debt	$ 418.7	$ 388.1	$ 30.6	7.9 %
Restricted	100.6	80.2	20.4	25.4 %
Unrestricted	49.4	39.2	10.2	26.0 %
Total net assets	$ 568.7	$ 507.5	$ 61.2	12.1 %

Total university assets increased by $119.6 million or 13.9% during fiscal year 2004, bringing the total to $982.6 million at year-end. The growth was directly related to a net increase of $65 million in capital assets and a $61.4 million increase in other non-current assets. The rise in other non-current assets is most evident in the cash and cash equivalents category. Non-current cash and cash equivalents grew by over $58 million due to an increase in capital appropriations available from the commonwealth and the issuance of $52.7 million in bonds payable for the Lane Stadium West Sideline Expansion project. Current assets fell by $6.8 million over last year due to a $13.6 million reduction in current cash and cash equivalents related to the severance expense liability outstanding at June 30, 2003, and paid during the current fiscal year.

Total university liabilities increased by $58.4 million or 16.4% during fiscal year 2004. Much of this increase in total liabilities can be attributed to a net increase of $67 million in the non-current category. This change is discussed in the Capital Asset and Debt Administration section. Current liabilities had a net decrease of $8.6 million over the previous year primarily because of a decline in accounts payable and accrued liabilities totaling $10.1 million. Accrued severance expense payable fell from $14 million in 2003 to $0.7 million in 2004. This severance liability was the result of university employees laid off on or before the end of fiscal year 2003 to meet the reductions in state general fund appropriations from the commonwealth. Not all of these layoffs were involuntary. Under certain conditions, employees could elect to be laid off in place of employees originally targeted. Laid off employees could convert their severance pay to retirement contributions under the provisions of the Alternative Severance Options. Severance payments converted to retirement contributions were to be paid to the Virginia Retirement System within 12 months of the retirement date. The remaining liability is a result of employees with retirement dates during fiscal year 2004 with the liability to be paid over the next 12 months. Growth in retainage payable ($1.1 million) and accrued salaries and wages payable ($1.7 million), partially offset the reduction in severance liability, resulting in a net decline in accounts payable and accrued liabilities. Other current liability categories that declined included bond anticipation notes payable ($1.3 million) and the current portion of long-term debt payable ($2.7 million). Categories experiencing modest growth included obligations under securities lending ($1.2 million), accrued compensated absences ($2.9 million), and deferred revenue ($1.1 million).

Total assets grew by a greater margin than total liabilities with the university's net assets increasing correspondingly by $61.2 million. Invested in capital assets, net of related debt, accounted for $30.6 million of the increase in the current fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

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

Note 7 of the Notes to Financial Statements describes the university's significant investment in depreciable capital assets with gross additions of over $96.4 million during fiscal year 2004. The capitalization of $44.1 million for the Chemistry/Physics Phase II and the Bioinformatics Phase I buildings was the primary component of building additions. Ongoing investments in instructional, research, and computer equipment totaled $27.3 million. Depreciation expense was $45.5 million with net retirements of $2 million resulting in a net increase in depreciable capital assets of $48.8 million. The Bioinformatics Phase II, Lane Stadium West Sideline Expansion, and the Virginia Tech Alumni and Conference Center Complex projects were the major contributors to the increase in the non-depreciable assets category Construction in Progress (CIP). The largest decrease in CIP was from the completion of the Chemistry/Physics Phase II and the Bioinformatics Phase I projects.

Non-current liabilities had a net increase of $67 million. In November 2003, the university issued $21.6 million (net of a bond premium of $0.5 million) of 9 (d) notes to the Virginia College Building Authority who issued bonds on behalf of the university through its Pooled Bond Program to finance the Virginia Tech Alumni and Conference Center Complex. In May 2004, the university issued $52.7 million (net of a bond premium of $1.2 million) of 9 (d) revenue bonds to finance the Lane Stadium West Sideline Expansion project. At that time, the university also issued $45 million of 9 (d) revenue bonds to refund $43 million of section 9 (d) bonds, resulting in an accounting loss of $2.1 million that will be amortized over the life of the new debt. These increases were partially offset by the normal reclassification of $11.4 million from the non-current to the current category for the amount being retired in the next fiscal year (see Note 12 of the Notes to the Financial Statements).

Commitments to construction contractors, architects, and engineers for capital projects totaled $78.4 million at June 30, 2004. Three projects constituted most of this total: the Lane Stadium West Sideline Expansion ($38.8 million), the Agriculture and Natural Resources Research Laboratory ($15.6 million), and the Virginia Tech Alumni and Conference Center Complex ($14.3 million). These commitments represent only a portion of the university's capital projects authorized by the Commonwealth of Virginia. The table below summarizes authorized capital projects, both current and future, and the major sources of funding for each group.

The education and general portion of the university's capital outlay program represents 12 projects currently in various stages of completion. Some of the larger projects in progress include Bioinformatics Phase II and the Agriculture and Natural Resources Research Laboratory. In addition to the capital projects underway, there are nine approved new construction and renovation projects for instructional and research facilities. Larger projects approved include the Biology/Vivarium Building, the fine arts center, and the Institute for Critical Technologies and Applied Science Phase I. The Commonwealth of Virginia will provide the major funding for these projects from the voter-approved Virginia Higher Education Bond Referendum. This referendum provides $900 million in debt-financed capital projects to provide quality educational facilities for the commonwealth's universities and colleges. These bonds are the obligation of the Commonwealth of Virginia. During fiscal year 2004, the university received $26.1 million of the $95.3 million approved Virginia Higher Education Bond Referendum for building construction and renovation projects in support of instructional programs and research initiatives at Virginia Tech. The university plans to provide additional funding for these projects by issuing $65.8 million in debt.

The university's auxiliary enterprises have approval for eight capital projects that are also in various stages of completion. Some of the larger projects currently in progress include the Lane Stadium West Sideline Expansion, the Virginia Tech Alumni and Conference Center Complex, and various parking auxiliary projects. Three future capital projects are also approved for auxiliary enterprises including the dining and student union facility. Since auxiliaries are required to be self-supporting, no state general fund capital appropriations are provided for these projects. The projects have been or will be funded from a combination of private gifts, student fees, other customer revenues, and debt financing.

Virginia Tech had authorization for $492.1 million in capital building projects as of June 30, 2004, requiring approximately $118 million in additional debt financing.

The university's bond ratings remained unchanged from the previous year. The bond rating of Aa3 and AA from Moody's and Standard & Poor's, respectively, reflect the university's strong student demand, balanced operating performance, flexibility to weather tightened state funding, and healthy cushion for debt and operations.

FUNDING FOR AUTHORIZED CURRENT AND FUTURE CAPITAL PROJECTS

As of June 30, 2004

(all dollars in millions)

	State Funds (1)	Other University Funds (2)	University Debt Issued Before June 30, 2004	University Debt To Be Issued After June 30, 2004	Total Funding	Cash Basis Project-To-Date Expenses
Current education and general	$ 92.0	$ 19.6	$ 26.5	$ -	$ 138.1	$ 88.8
Current auxiliary enterprise	-	54.6	104.5	45.9	205.0	71.8
Total current	92.0	74.2	131.0	45.9	343.1	160.6
Future education and general	66.6	8.0	-	65.8	140.4	2.1
Future auxiliary enterprise	-	2.3	-	6.3	8.6	0.3
Total future	66.6	10.3	-	72.1	149.0	2.4
Total authorized	$ 158.6	$ 84.5	$ 131.0	$ 118.0	$ 492.1	$ 163.0

(1) Includes the general fund, capital appropriations and the general obligation bonds of the Commonwealth of Virginia.
(2) Includes private gifts, auxiliary surpluses, student fees, and other customer revenues.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

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

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

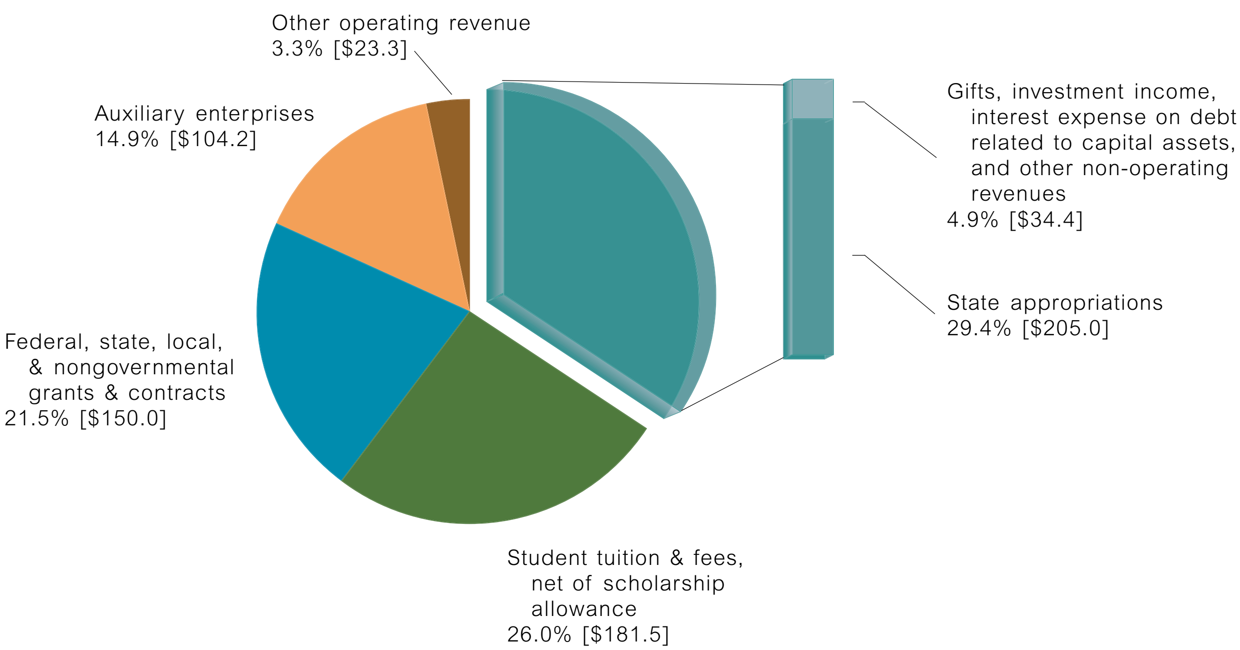
SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the years ended June 30, 2004 and 2003
(all dollars in millions)

	2004	2003 (as restated)	Increase (Decrease)
Operating revenues	$ 459.0	$ 442.1	$ 16.9
Operating expenses	697.5	685.2	12.3
Operating loss	(238.5)	(243.1)	4.6
Non-operating revenues and expenses	239.4	243.5	(4.1)
Income before other revenues, expenses, gains or losses	0.9	0.4	0.5
Other revenues, expenses, gains or losses	60.3	56.8	3.5
Increase in net assets	61.2	57.2	4.0
Net assets—beginning of year	507.5	450.3	57.2
Net assets—end of year	$ 568.7	$ 507.5	$ 61.2

REVENUES BY SOURCE

The following is a graphic illustration of revenues by source (both operating and non-operating) used to fund the university's operating activities for the year ended June 30, 2004. Significant recurring sources of the university's revenues are considered non-operating, as defined by GASB Statement Number 35. These sources are presented in the breakout on the graph below (all dollars in millions).



INCREASE (DECREASE) IN REVENUES

For the years ended June 30, 2004 and 2003
(all dollars in millions)

	2004	2003 (as restated)	Increase (Decrease) Amount	Increase (Decrease) Percent
OPERATING REVENUES				
Student tuition and fees, net of scholarship allowance	$ 181.5	$ 159.4	$ 22.1	13.9 %
Federal, state, local, and nongovernmental grants and contracts	150.0	157.6	(7.6)	(4.8)%
Auxiliary enterprises	104.2	99.2	5.0	5.0 %
Other operating revenue	23.3	25.9	(2.6)	(10.0)%
Total operating revenues	459.0	442.1	16.9	3.8 %
NON-OPERATING ACTIVITY				
State appropriations	205.0	214.5	(9.5)	(4.4)%
Gifts, investment income, interest expense on debt related to capital asset, and other non-operating revenues	34.4	29.0	5.4	18.6 %
Total non-operating revenues	239.4	243.5	(4.1)	(1.7)%
CAPITAL REVENUES, GAINS (LOSSES)				
Capital appropriations	49.5	28.3	21.2	74.9 %
Capital appropriations reverted to the Commonwealth of Virginia	-	(3.7)	3.7	100.0 %
Capital grants and gifts	12.4	33.0	(20.6)	(62.4)%
Loss on disposal of capital assets	(1.6)	(0.8)	(0.8)	(100.0)%
Total capital revenues, gains	60.3	56.8	3.5	6.2 %
Total revenues	$ 758.7	$ 742.4	$ 16.3	2.2 %

OPERATING REVENUES

Total operating revenues increased by $16.9 million or 3.8% from the prior fiscal year. The growth in student tuition and fee revenue was $22.1 million. This increase was expected given the rise in both in-state and out-of-state tuition rates effective for the Fall 2003 semester. The tuition assessment allowed the university to partially offset additional state appropriation reductions. Without these fee increases additional layoffs and more extensive program cuts would have been necessary. Auxiliary enterprise revenue also grew by almost $5 million. This growth was spread among various auxiliaries. The largest decreases in operating revenue occurred in the federal appropriations and nongovernmental grants and contracts revenue categories. Federal appropriation revenue fell by $3.7 million from the prior year's total. A fiscal year end timing difference is the primary reason for the decline. The federal fiscal year ends on September 30th, and the university has until that time to spend the appropriated amounts. Nongovernmental grants and contracts also declined by $5.5 million. The fall in nongovernmental grant and contract revenue was almost entirely due to a decrease in Tobacco Indemnification Commission funding. During fiscal years 2004 and 2003, the university recognized revenue from the commission totaling $0.8 million and $5.3 million, respectively. Overall, the university's operating revenue increased to $459 million in fiscal year 2004, compared with $442.1 million in fiscal year 2003.

NON-OPERATING AND OTHER REVENUES

Non-operating revenue decreased by over $4 million from the previous year's total. Economic challenges encountered by the commonwealth reduced the university's state appropriations by $9.5 million to $205 million in fiscal year 2004. This drop was in addition to the $37.9 million decrease the university experienced in fiscal year 2003. The decline in state appropriations revenue was partially offset by increases in gift and investment income totaling $2.9 million and $3 million, respectively, resulting in net non-operating revenues of $239.4 million.

Total capital revenues increased by $3.5 million as a result of increases in capital appropriations revenue and decreases in capital grants and gifts. Capital appropriations revenue grew by $21.2 million. The rise in appropriations resulted from funding received from the commonwealth through its 21st Century College Program and the voter-approved Virginia Higher Education Bond Referendum. These programs allow the commonwealth to issue debt and distribute the proceeds to institutions of higher education to finance specified capital projects. This financing is the debt of the commonwealth, not the university, and the proceeds are allocated to Virginia Tech as non-general fund capital appropriations. Also, no capital appropriations were reverted to the Commonwealth of Virginia in fiscal year 2004. The growth in capital appropriations was offset by a $20.6 million decrease in capital grants and gifts. The fall in capital grants and gifts was primarily due to the donation of the Fort Pickett property from the federal government recognized last fiscal year. This donation, last year, increased capital grants and gifts by over $14 million.

Total revenues increased at a rate greater than total expenses, resulting in an increase to net assets of $61.2 in fiscal year 2004, up from $57.2 million in fiscal year 2003. The majority of the growth in net assets occurred in the invested in capital assets, net of related debt, category which increased by $30.6 million as noted in the preceding Statement of Net Assets analysis.

TOTAL EXPENSES

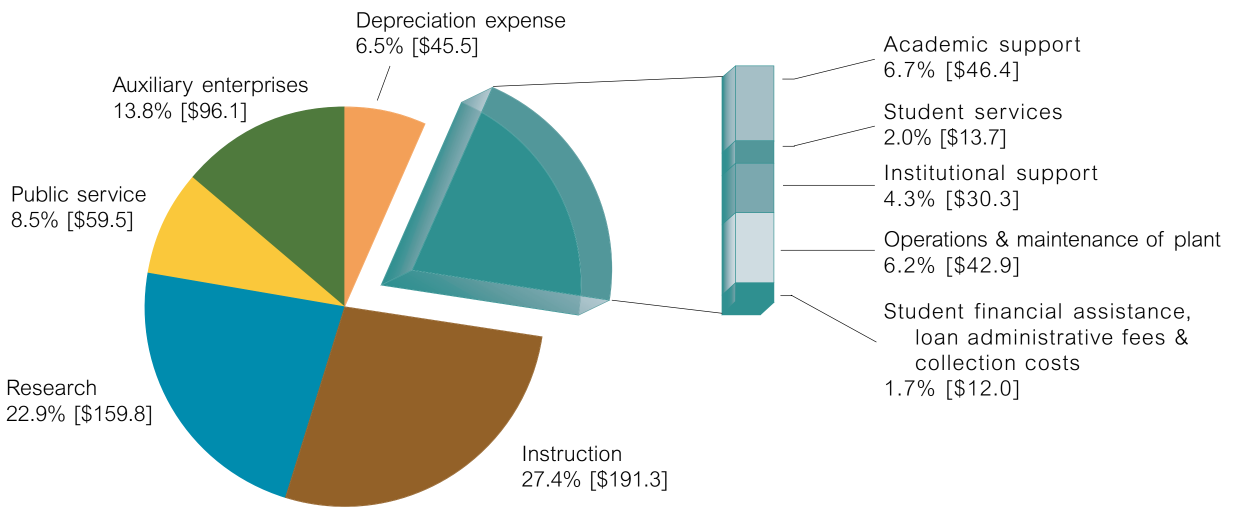
The university is committed to recruiting and retaining outstanding faculty and staff. The personnel compensation package is one way to successfully compete with peer institutions and nonacademic employers. The natural expense category, compensation and benefits, comprises $450.5 million or 64.6% of the university's total operating expenses. The commonwealth provides merit based or across-the-board salary increases on a periodic basis. During fiscal year 2004, a 2.25% increase was provided.

Operating expenses for fiscal year 2004 totaled $697.5 million, up $12.3 million from fiscal year 2003. The net increase was the result of several offsetting variances. The largest growth in operating expenses occurred in the auxiliary category which grew by $8.3 million. Athletics experienced the most significant expansion with expenses rising by over $4 million. Amounts paid and accrued for costs related to exiting the Big East Conference ($2.3 million) were the primary reason for the increase. Growth in dormitory, dining hall, and university services expenses also contributed to the rise in auxiliary expenses. Research expenses increased by $6.5 million over the prior fiscal year. The continued expansion of the Virginia Bioinformatics Institute (research expenses grew by almost $3.7 million) was the primary reason for the growth. Operation and maintenance of plant and academic support expenses also increased by $6.1 million and $2.7 million, respectively. The significant growth in operation and maintenance of plant expenses was due to costs on capital projects that were expensed and not capitalized totaling almost $4 million. These expenses were related to the following projects: Chemistry/Physics Phase II, Bioinformatics Phase I, Williams Hall, and the installation of fire alarms in various buildings. Most of the uncapitalized costs were related to the purchase of furniture and low value equipment acquired just prior to building occupation. Uncapitalized expenses related to maintenance reserve also increased. The largest operating expense decreases occurred in the instruction and public service areas, which fell by $6.8 million and $3.9 million, respectively. Like last year, these decreases were the direct result of the cost containment measures implemented to meet the state appropriation reductions previously noted.

The university's operating revenues increased while operating expenses dropped resulting in the operating loss decreasing by $4.6 million over the previous fiscal year. The primary reasons for the drop in the operating loss were the growth in tuition and fee revenue coupled with the operating expense reductions.

EXPENSES BY FUNCTION

The following graphic illustration presents operating expenses by function for the year ended June 30, 2004 (all dollars in millions).



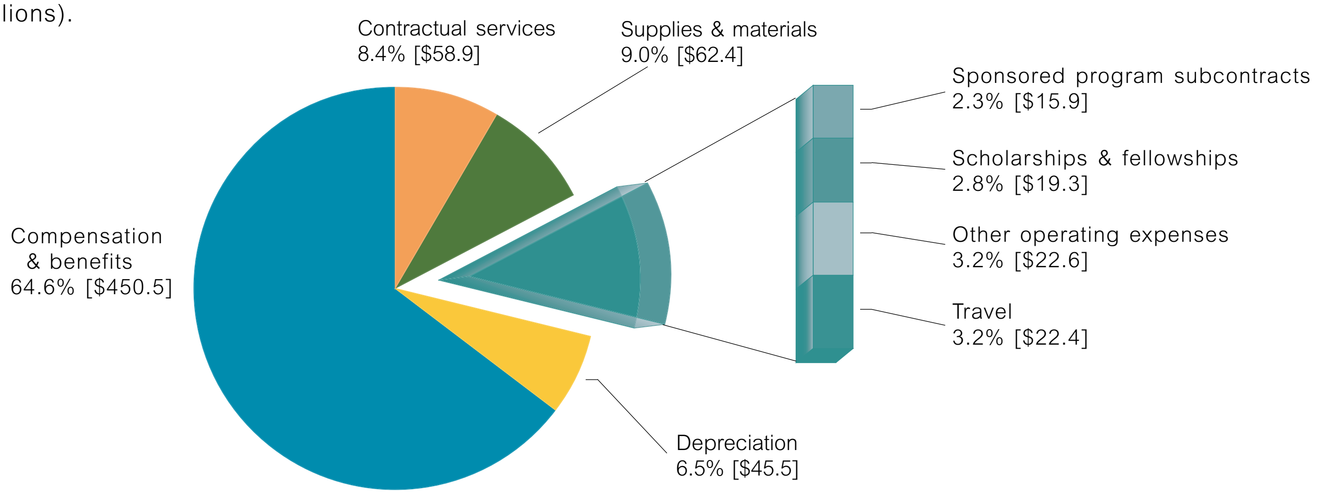
INCREASE (DECREASE) IN OPERATING EXPENSES BY FUNCTION

For the years ended June 30, 2004 and 2003

(all dollars in millions)	2004	2003 (as restated)	Increase (Decrease) Amount	Increase (Decrease) Percent
Instruction	$ 191.3	$ 198.1	$ (6.8)	(3.4)%
Research	159.8	153.3	6.5	4.2 %
Public service	59.5	63.4	(3.9)	(6.2)%
Auxiliary enterprises	96.1	87.8	8.3	9.5 %
Depreciation expense	45.5	44.1	1.4	3.2 %
Subtotal	552.2	546.7	5.5	1.0 %
Support, maintenance, and other expenses				
Academic support	46.4	43.7	2.7	6.2 %
Student services	13.7	14.3	(0.6)	(4.2)%
Institutional support	30.3	31.5	(1.2)	(3.8)%
Operations and maintenance of plant	42.9	36.8	6.1	16.6 %
Student financial assistance, loan administrative fees and collection costs	12.0	12.2	(0.2)	1.6 %
Total support, maintenance, and other expenses	145.3	138.5	6.8	4.9 %
Total expenses	$ 697.5	$ 685.2	$ 12.3	1.8 %

EXPENSES BY NATURAL CLASSIFICATION

The following graphic illustration presents operating expenses by natural classification for the year ended June 30, 2004 (all dollars in millions).



INCREASE (DECREASE) IN OPERATING EXPENSES BY NATURAL CLASSIFICATION

For the years ended June 30, 2004 and 2003

(all dollars in millions)	2004	2003 (as restated)	Increase (Decrease) Amount	Increase (Decrease) Percent
Compensation and benefits	$ 450.5	$ 455.4	$ (4.9)	(1.0)%
Contractual services	58.9	55.5	3.4	6.1 %
Supplies and materials	62.4	54.7	7.7	14.1 %
Travel	22.4	21.2	1.2	5.7 %
Other operating expenses	22.6	21.5	1.1	5.1 %
Scholarships and fellowships*	19.3	17.6	1.7	9.7 %
Sponsored program subcontracts	15.9	15.2	0.7	4.6 %
Depreciation	45.5	44.1	1.4	3.2 %
Total operating expenses by natural classification	$ 697.5	$ 685.2	$ 12.3	1.8 %

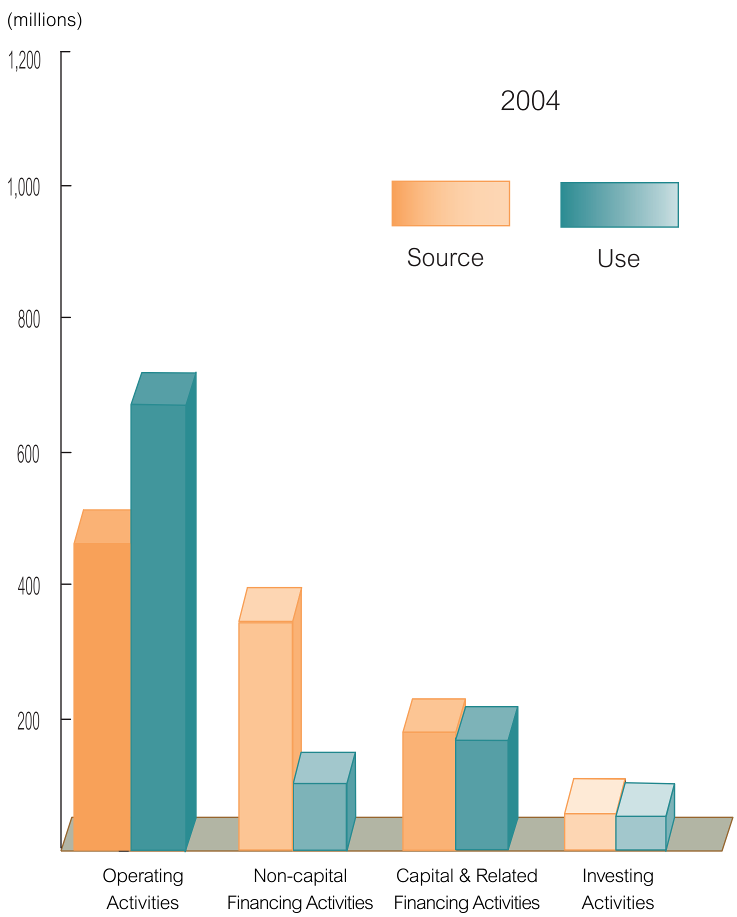
* *Includes research grant and contract fellowships, see Note 25 in Notes to Financial Statements.*

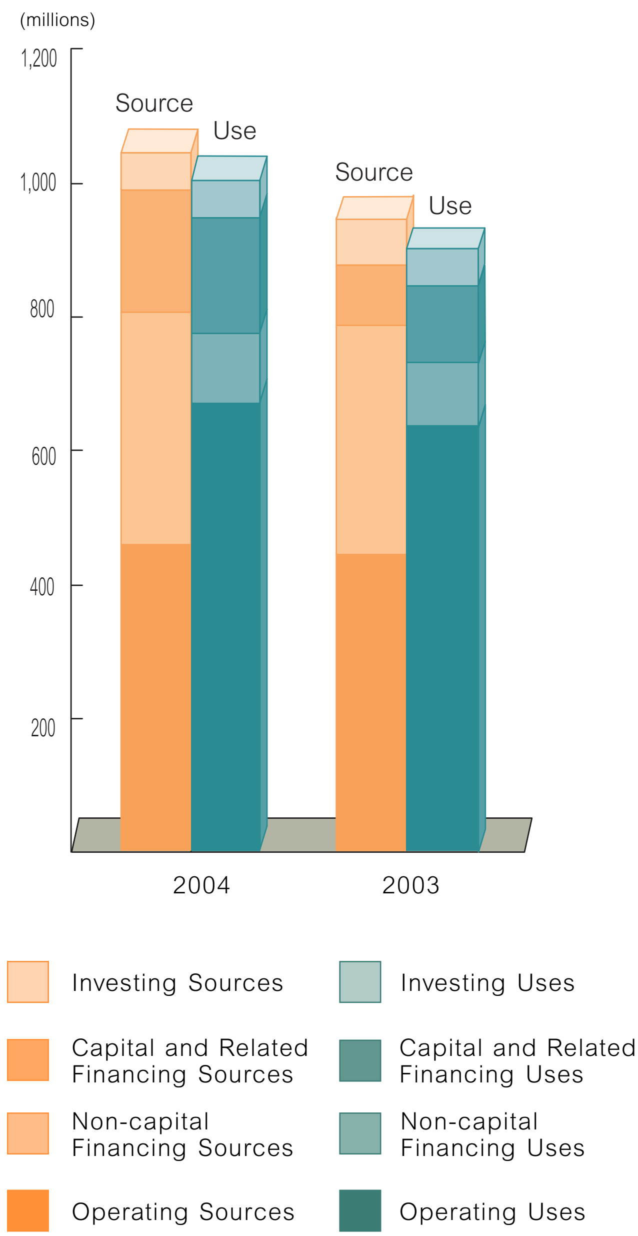
SUMMARY OF CASH FLOWS

For the year ended June 30, 2004 and 2003
(all dollars in millions)

	2004	2003 (as restated)	Increase (Decrease) Amount	Increase (Decrease) Percent
Net cash used by operating activities	$(207.3)	$(193.7)	$(13.6)	(7.0)%
Net cash provided by non-capital financing activities	241.5	249.2	(7.7)	(3.1)%
Net cash provided (used) by capital and related financing activities	8.4	(23.7)	32.1	135.4%
Net cash provided by investing activities	2.2	12.6	(10.4)	(82.5)%
Net increase in cash and cash equivalents	44.8	44.4	0.4	0.9%
Cash and cash equivalents—beginning of year	162.5	118.1	44.4	37.6%
Cash and cash equivalents—end of year	$ 207.3	$ 162.5	$ 44.8	27.6%

SOURCES AND USES OF CASH COMPARISONS





The graphs above demonstrate the relationships between sources and uses of cash. Cash inflows from non-capital financing activities are used to balance the cash outflows from operating activities. The graph on the left shows fiscal year 2004 activity grouped by related sources and uses. The graph on the right compares that same activity across fiscal years 2004 and 2003 in a stacked format.

STATEMENT OF CASH FLOWS

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

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

Major operating activity cash sources for the university included student tuition and fees ($181.5 million), grants and contracts ($147.1 million), and auxiliary enterprise revenues ($105.3 million). Major operating activity uses included compensation and benefits ($460.2 million) and other operating expenses ($192.3 million). Operating activity uses significantly exceed operating activity sources due to the classification of state appropriations ($205 million) and gifts ($34.2 million) as non-capital financing activities.

ECONOMIC OUTLOOK

The university is closely tied to the Commonwealth of Virginia. The commonwealth currently supports 28% of the university's budget through general fund appropriations. This fiscal year Virginia emerged from a succession of challenging fiscal periods. Stronger revenues enabled the commonwealth to end the year with a significant surplus. Future tax increases enacted by the General Assembly will generate additional capacity to reinvest in critical state programs including higher education. Also, the return of authority to institutions to determine the appropriate cost of education allows tuition pricing decisions to reside with the university's board of visitors. Fiscal year 2005 promises to be the first year in many with increases in unrestricted investments in higher education. This trend is expected to continue in 2006.

Executive management believes the university will continue to maintain its solid financial foundation and is well positioned to continue its excellence in teaching, research, and public service. The university looks forward to a period of continued growth and expansion. The financial position of the university is strong as evidenced by its diversified portfolio of research funding, Aa3 rating from Moody's, and AA rating from Standard and Poor's. These ratings allow the university to obtain funding for capital projects with the most advantageous terms.

Virginia Tech is currently in the silent phase of the university's largest private capital campaign and anticipates that private support will continue to grow. The university is grounded by an impressive community of students, faculty, and staff. These assets will sustain Virginia Tech's bright future as the commonwealth's largest university offering more career options than any other Virginia university.

Virginia Tech, the University of Virginia, and the College of William and Mary have entered into discussions with the Commonwealth of Virginia to seek additional decentralized authority to expand the evolution of higher education in Virginia. These institutions have sought and received significant decentralized authority from the commonwealth over the last decade. The current vision for change is through a charter agreement to continue the trend and forge a new relationship with the commonwealth. The charter offers the possibility of additional flexibility and authority in exchange for a slight reduction in incremental general fund support. The three institutions have studied and confirmed that revenue capacity exists for continued advancement under such a charter agreement.

The university's overall financial position remains strong. Management will continue to maintain a close watch over resources to ensure the ability to react to unknown internal and external issues and sustain its current high quality financial position.

STATEMENT OF NET ASSETS

As of June 30, 2004, with comparative financial information as of June 30, 2003
(all dollars in thousands)

	2004		2003	
	Virginia Tech	Component Units	Virginia Tech (as restated)	Component Units
ASSETS				
Current assets				
Cash and cash equivalents (Note 4)	$ 99,947	$ (4,369)	$ 113,557	$ (6,527)
Short-term investments (Notes 4, 26)	1,156	20,617	1,003	11,443
Investments, securities lending (Note 5)	2,080	-	859	-
Accounts and contributions receivable, net (Notes 1, 6, 26)	33,720	16,344	31,121	17,699
Notes receivable, net (Note 1)	1,584	384	1,718	1,367
Due from Commonwealth of Virginia (Note 8)	5,129	-	3,272	-
Inventories	9,235	5,756	8,456	6,418
Prepaid expenses	10,387	399	10,022	193
Other assets	-	595	-	664
Total current assets	163,238	39,726	170,008	31,257
Non-current assets				
Cash and cash equivalents (Note 4)	107,293	26,677	48,954	31,543
Short-term investments (Note 4)	10,907	-	6,218	-
Accounts and contributions receivable, net (Notes 1, 6, 26)	445	19,658	500	18,442
Notes receivable, net (Note 1)	13,389	16,728	13,035	18,632
Net investments in direct financing leases	-	8,596	-	8,931
Irrevocable trusts held by others, net	-	8,465	-	7,095
Long-term investments (Notes 4, 26)	61,912	453,611	63,822	401,819
Depreciable capital assets, net (Notes 7, 26)	505,832	82,204	457,039	90,641
Non-depreciable capital assets (Notes 7, 26)	116,749	18,404	102,509	5,592
Intangible assets, net	2,000	3,294	-	8,049
Other assets	902	2,750	922	2,393
Total non-current assets	819,429	640,387	692,999	593,137
Total assets	982,667	680,113	863,007	624,394
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities (Note 9)	80,264	9,499	90,348	8,648
Obligations under securities lending (Note 5)	2,080	-	859	-
Accrued compensated absences (Notes 1, 15)	14,834	398	11,909	315
Deferred revenue (Notes 1, 10)	26,555	1,257	25,496	579
Funds held in custody for others	4,986	-	4,654	-
Bond anticipation notes payable (Note 11)	-	-	1,303	-
Long-term debt payable (Notes 12, 26)	11,371	6,878	14,110	6,662
Other liabilities	25	1,173	25	1,455
Total current liabilities	140,115	19,205	148,704	17,659
Non-current liabilities				
Accounts payable and accrued liabilities (Note 9)	3,300	-	-	-
Accrued compensated absences (Notes 1, 15)	14,910	36	16,639	66
Federal student loan program contributions refundable (Note 15)	13,184	-	13,128	-
Long-term debt payable (Notes 12, 13, 26)	240,232	75,038	175,331	79,043
Liabilities under trust agreements	-	33,374	-	28,337
Agency deposits held in trust (Note 26)	-	54,139	-	45,152
Other liabilities	2,193	4,544	1,738	9,641
Total non-current liabilities	273,819	167,131	206,836	162,239
Total liabilities	413,934	186,336	355,540	179,898
NET ASSETS				
Invested in capital assets, net of related debt	418,708	26,609	388,086	26,278
Restricted, nonexpendable	368	213,106	381	199,494
Restricted, expendable				
Scholarships, research, instruction, and other	50,769	189,837	50,165	159,289
Capital projects	20,837	31,734	9,844	27,333
Debt service	28,634	-	19,849	-
Unrestricted	49,417	32,491	39,142	32,102
Total net assets	$ 568,733	$ 493,777	$ 507,467	$ 444,496

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the year ended June 30, 2004, with comparative financial information for the year ended June 30, 2003
(all dollars in thousands)

	2004		2003	
	Virginia Tech	Component Units	Virginia Tech (as restated)	Component Units
OPERATING REVENUES				
Student tuition and fees, net (Note 1)	$ 181,545	$ -	$ 159,419	$ -
Gifts and contributions	-	46,290	-	39,695
Federal appropriations	10,653	-	14,382	-
Federal grants and contracts	106,866	-	107,400	-
State grants and contracts	13,372	-	14,256	-
Local grants and contracts (Note 3)	11,576	-	12,389	-
Nongovernmental grants and contracts	18,112	-	23,599	-
Sales and services of educational activities	10,224	-	9,223	-
Auxiliary enterprise revenue, net (Note 1)	104,164	37,056	99,182	35,924
Other operating revenues	2,459	22,293	2,230	19,208
Total operating revenues	458,971	105,639	442,080	94,827
OPERATING EXPENSES				
Instruction	191,272	2,777	198,136	2,212
Research	159,751	5,526	153,355	4,422
Public service	59,485	3,817	63,369	5,515
Academic support	46,378	9,573	43,731	11,500
Student services	13,771	-	14,298	-
Institutional support	30,270	17,788	31,470	19,715
Operation and maintenance of plant	42,906	4,315	36,811	3,964
Student financial assistance	11,982	12,811	11,996	11,446
Auxiliary enterprises	96,058	33,010	87,761	32,901
Loan administrative fees and collection costs	58	-	204	-
Depreciation expense (Note 7)	45,532	4,612	44,086	5,554
Other operating expenses	-	7,281	-	7,424
Total operating expenses	697,463	101,510	685,217	104,653
OPERATING INCOME (LOSS)	(238,492)	4,129	(243,137)	(9,826)
NON-OPERATING REVENUES (EXPENSES)				
State appropriations (Note 20)	205,013	-	214,478	-
Gifts	34,307	-	31,360	-
Non-operating grants and contracts	2,000	-	2,516	-
Investment income, net	6,257	9,281	3,223	8,547
Net gain on investments	-	32,190	-	1,865
Impairment loss on intangibles	-	(4,130)	-	(9,148)
Interest expense on debt related to capital assets	(8,227)	(1,835)	(8,245)	(1,551)
Other additions	53	-	125	-
Net non-operating revenues (expenses)	239,403	35,506	243,457	(287)
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	911	39,635	320	(10,113)
Capital appropriations (Note 21)	49,495	-	28,315	-
Capital appropriations reverted to the Commonwealth of Virginia	-	-	(3,717)	-
Change in valuation of split interest agreements	-	3,439	-	767
Capital grants and gifts	12,452	7,616	33,044	7,610
Loss on disposal of capital assets	(1,592)	(460)	(789)	(332)
Other expenses	-	(949)	-	(1,028)
Total other revenues, expenses, gains, and losses	60,355	9,646	56,853	7,017
Increase (decrease) in net assets	61,266	49,281	57,173	(3,096)
Net assets—beginning of year (Note 1)	507,467	444,496	450,294	447,592
Net assets—end of year	$ 568,733	$ 493,777	$ 507,467	$ 444,496

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

STATEMENT OF CASH FLOWS

For the year ended June 30, 2004, with comparative financial information for the year ended June 30, 2003
(all dollars in thousands)

	2004	2003 (as restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 181,514	$ 162,419
Federal appropriations	10,653	14,382
Grants and contracts	147,106	151,812
Sales and services of educational activities	10,224	9,223
Auxiliary enterprises	105,303	98,044
Other operating receipts	2,433	2,185
Payments for compensation and fringe benefits	(460,157)	(451,966)
Payments for operating expenses	(192,301)	(167,504)
Payments for scholarships and fellowships	(11,875)	(11,866)
Loans issued to students	(4,447)	(4,626)
Collection of loans from students	4,251	4,238
Net cash used by operating activities	(207,296)	(193,659)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations	205,013	214,478
Gifts received for other than capital purposes	34,156	31,778
Non-operating grants and contracts	2,000	2,516
Federal Direct Lending Program—receipts	75,500	70,239
Federal Direct Lending Program—disbursements	(75,500)	(70,240)
Funds held in custody for others—receipts	30,725	23,744
Funds held in custody for others—disbursements	(30,393)	(23,303)
Net cash provided by non-capital financing activities	241,501	249,212
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	49,495	24,598
Capital grants and gifts	9,560	16,809
Proceeds from capital debt	121,083	49,655
Acquisition and construction of capital assets	(103,598)	(74,865)
Principal paid on capital debt and leases	(60,451)	(32,081)
Interest paid on capital debt and leases	(7,730)	(7,809)
Net cash provided (used) by capital and related financing activities	8,359	(23,693)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	50,579	65,936
Interest on investments	6,318	3,393
Purchase of investments and related fees	(54,732)	(56,774)
Net cash provided by investing activities	2,165	12,555
Net increase in cash and cash equivalents	44,729	44,415
Cash and cash equivalents—beginning of year	162,511	118,096
Cash and cash equivalents—end of year	$ 207,240	$ 162,511

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

STATEMENT OF CASH FLOWS (continued)

For the year ended June 30, 2004, with comparative financial information for the year ended June 30, 2003
(all dollars in thousands)

	2004	2003 (as restated)
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (238,492)	$ (243,137)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	45,532	44,086
Changes in assets and liabilities		
Receivables, net of allowance for doubtful accounts	(2,771)	1,492
Inventories	(779)	(702)
Prepaid items	(407)	426
Notes receivable, net of allowance for doubtful accounts	(220)	(646)
Accounts payable and accrued liabilities	(1,579)	6,397
Accrued payroll	1,692	(1,974)
Annuity payable	455	-
Accrued severance liability	(13,039)	6,823
Compensated absences	1,197	(1,379)
Deferred revenue	1,059	(5,462)
Federal loan program contributions refundable	56	417
Total adjustments	31,196	49,478
Net cash used by operating activities	$ (207,296)	$ (193,659)
NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Principal on capital lease debt paid by the Virginia Department of Treasury on behalf of the university	$ -	$ 1,414
Change in accounts receivable related to non-operating income	$ 227	$ 313
Capital assets acquired through in-kind donations as a component of capital gifts and grants income	$ 1,413	$ 17,644
Change in fair value of investments recognized as a component of interest income	$ 3,924	$ 3
Change in fair value of interest payable affecting interest paid	$ 497	$ 436
Capital assets acquired through installment purchase agreements	$ 225	$ 9,736
Change in interest receivable affecting interest received	$ 61	$ 170

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

TABLE OF CONTENTS: NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Virginia Polytechnic Institute and State University is a public land-grant university serving the Commonwealth of Virginia, the nation, and the world community. The discovery and dissemination of new knowledge are central to its mission. Through its focus on teaching and learning, research, and outreach, the university creates, conveys, and applies knowledge to expand personal growth and opportunity, advance social and community development, foster economic competitiveness, and improve the quality of life.

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

In fiscal year 2004, the university implemented Governmental Accounting Standards Board (GASB) Statement Number 39, *Determining Whether Certain Organizations are Component Units,* an amendment of GASB Statement Number 14, *The Financial Reporting Entity.* The statement addresses the conditions under which institutions should include associated fund-raising or research foundations as component units in their basic financial statements and how such component units should be displayed in the financial statements. The statement is effective for the fiscal year ending June 30, 2004.

Prior to fiscal year 2004, the university had no component units as defined by GASB Statement Number 14. However, under GASB Statement Number 39 standards, Virginia Tech Foundation, Inc. and Virginia Tech Services, Inc. are now included as component units of the university.

A separate report is prepared for the Commonwealth of Virginia that includes all agencies, boards, commissions, and authorities over which the commonwealth exercises or has the ability to exercise oversight authority. The university is a component unit of the Commonwealth of Virginia and is included in the basic financial statements of the commonwealth.

Virginia Tech Foundation, Inc.

The foundation is a legally separate, tax-exempt organization established in 1948 to receive, manage, and disburse private gifts in support of Virginia Polytechnic Institute and State University programs. The foundation is governed by a 35 member board of directors. The bylaws of the foundation provide that the rector of the board of visitors, the president of the alumni association, the president of the athletic fund, and the president of the university shall be members of the foundation board. The remainder of the board is composed of alumni and friends of the university who are active in providing private support for university programs. Directors are elected by a vote of the membership of the foundation. Membership is obtained by making gifts at or above a specified level to the foundation.

The foundation serves the university by generating significant funding from private sources and aggressively managing its assets to provide funding which supplements state appropriations. It provides additional operating support to colleges and departments, assists in the funding of major building projects, and provides seed capital for new university initiatives. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or incomes thereon, which the foundation holds and invests, are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by or for the benefit of the university, the foundation is considered a component unit of the university and is discretely presented in the financial statements. The administrative offices of Virginia Tech Foundation, Inc. are located at 2000 Kraft Drive, Suite 2100, Blacksburg, Virginia 24061.

During the year ended June 30, 2004, the foundation distributed $40,654,000 to the university for both restricted and unrestricted purposes.

Virginia Tech Services, Inc.

Virginia Tech Services, Inc. (VTS) was formed as a separate nonprofit corporation to own and operate bookstores and provide other services for the use and benefit of the students, faculty, staff, and alumni of Virginia Polytechnic Institute and State University and to transfer, as the board of directors may determine, any surplus funds to the university or the foundation for allocation and use by the university as the president of the university and board of visitors deem appropriate. Although the university does not control the timing or amount of receipts from VTS, the majority of resources or income thereon that VTS holds is for the benefit of the university. Because these resources are for the benefit of the university, VTS is considered a component unit of the university and is discretely presented in the financial statements. The administrative offices of Virginia Tech Services, Inc. are located at University Bookstore, Blacksburg, Virginia 24061.

During the year ended June 30, 2004, VTS paid $775,000 to the university, primarily for the rental of facilities.

Financial Statement Presentation

GASB Statement Number 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities,* issued November 1999, establishes accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of GASB Statement Number 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.* The standards are designed to provide financial information that responds to the needs of three groups of primary users of general-purpose external financial reports: the citizenry, legislative and oversight bodies, and investors and creditors. The university is required under this guidance to include Management's Discussion and Analysis, and basic financial statements, including notes, in its financial statement presentation.

Basis of Accounting

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

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

Cash Equivalents

For purposes of the statements of net assets and cash flows, the university considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

Investments

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

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from federal, state and local governments, and nongovernmental sources, in connection with reimbursement of allowable expenses made pursuant to the university's grants and contracts. Accounts receivable are recorded net of allowance for doubtful accounts. At June 30, 2004, the allowance for doubtful accounts for current and non-current accounts receivable totaled $929,000 and $759,000, respectively.

Notes Receivable

Notes receivable consists of amounts due from the Federal Perkins Loan Program, the Health Professional Student Loan Program, and from other student loans administered by the university. Notes receivable are recorded net of allowance for doubtful accounts. At June 30, 2004, the allowance for doubtful accounts for current and non-current notes receivable totaled $87,000 and $221,000, respectively.

Inventories

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

Non-current Cash and Investments

Non-current cash and investments are externally restricted to make debt service payments or purchase other non-current assets.

Capital Assets

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

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

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

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

Interest Capitalization

Interest expense incurred during the construction of capital assets is capitalized, if material, net of interest income earned on resources set aside for this purpose. The university incurred and capitalized net interest expense related to the construction of capital assets totaling $2,424,000 for the fiscal year ended June 30, 2004.

Accrued Compensated Absences

Certain salaried employees' attendance and leave regulations make provisions for the granting of a specified number of days of leave with pay each year. The amount reflects, as of June 30, all unused vacation leave, sabbatical leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave pay out policy. The applicable share of employer related taxes payable on the eventual termination payments is also included. The university's liability and expense for the amount of leave earned by employees but not taken, at June 30, 2004, is recorded in the Statement of Net Assets, and is included in the various functional categories of operating expenses in the Statement of Revenues, Expenses, and Changes in Net Assets.

Deferred Revenues

Deferred revenue represents revenue collected but not earned as of June 30, 2004. This amount is primarily composed of revenue for grants and contracts, prepaid athletic ticket sales, and prepaid student tuition and fees. See Note 10 for a detailed list of deferred revenue amounts.

Non-current Liabilities

Non-current liabilities include (1) the principal amounts of revenue bonds payable, notes payable, and capital lease obligations with maturities greater than one year and (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year.

Net Assets

The university's net assets are classified as follows:

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

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

- Restricted net assets, nonexpendable—Nonexpendable restricted net assets consist of endowment and similar type funds where donors or other outside sources have stipulated, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, to be expended or added to principal.

- Unrestricted net assets—Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, recoveries of facilities and administrative (indirect) cost, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational departments and the general operations of the university, and may be used at the discretion of the university's board of visitors to meet current expenses for any lawful purpose.

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

Income Taxes

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

Classifications of Revenues

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

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

- Non-operating revenues—Non-operating revenues are revenues received for which goods and services are not provided. State appropriations, gifts, and other revenue sources that are defined as non-operating revenues by

GASB Statement Number 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting,* and GASB Statement Number 34, *Basic Financial Statements and Management's Discussion and Analysis—for State and Local Governments* are included in this category.

Scholarship Allowance

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowance in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship allowance is the difference between the stated charge for goods and services provided by the university and the amount paid by students and/or third parties making payments on the students' behalf. For the fiscal year ended June 30, 2004, the scholarship allowance for student tuition and fee revenue and auxiliary enterprise revenue totaled $27,687,000 and $9,451,000, respectively. Financial aid to students is reported using the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). The alternative method is an algorithm that computes scholarship allowance on a university-wide basis.

Restatement of Prior Year Amounts

The following adjustments were made to the July 1, 2003, net asset balance to reflect the capitalization of capital assets that were acquired in prior fiscal years (all dollars in thousands):

Net Assets, June 30, 2003	$ 505,694
Capitalization of assets acquired in prior fiscal years	2,406
Accumulated depreciation—capital assets	(633)
Net assets, July 1, 2003	$ 507,467

2. RELATED PARTIES

In addition to the component units discussed in Note 1, the university also has related parties that were not considered significant. These financial statements do not include the assets, liabilities, and net assets of the related parties that support university programs. The related parties of the university are: Virginia Tech Alumni Association; Virginia Tech Athletic Fund, Inc.; Virginia Tech Intellectual Properties, Inc.; Virginia Tech Corps of Cadets Alumni, Inc.; and any of the subsidiaries of these corporations.

The organizations are related to the university by affiliation agreements. These agreements, approved by the board of visitors, require an annual audit to be performed by independent auditors. Affiliated organizations that hold no financial assets and certify all financial activities or transactions through the Virginia Tech Foundation, Inc. may be exempt from the independent audit requirement. Virginia Tech Alumni Association; Virginia Tech Athletic Fund, Inc.; and Virginia Tech Corp of Cadets Alumni, Inc.; meet exemption requirements and are not required to have an annual audit. Virginia Tech Intellectual Properties, Inc. is required to have an annual audit. Such auditors have examined the financial records of the organization and a copy of their audit report has been provided to the university.

3. LOCAL GOVERNMENT SUPPORT

The university, through the operation of its Cooperative Extension Service, maintains offices in numerous cities and counties throughout the Commonwealth of Virginia. Personnel assigned to these locations receive a portion of their compensation from local governments. Also included in the expenses of these extension offices are unit support services, which include such items as rent, telephone, supplies, equipment, and extension program expenses. The amount contributed by the various local governments totaled $10,292,000 in 2004, and has been included in revenues and expenses of the accompanying financial statements. The university received other local government support of $1,284,000 in 2004.

4. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The following information is provided with respect to the credit risk associated with the university's cash, cash equivalents, and investments at June 30, 2004.

Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., *Code of Virginia,* all state funds of the university are maintained by the Treasurer of Virginia who is responsible for the collection, disbursement, custody, and investment of state funds. Cash deposits held by the university are maintained in accounts that are collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., *Code of Virginia.* Cash and cash equivalents represent cash with the treasurer, cash on hand, and cash deposits including certificates of deposit and temporary investments with original maturities of 90 days or less in accordance with GASB Statement Number 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting,.*

Investments

The investment policy of the university is established by the board of visitors and monitored by the Finance and Audit Committee of the board. Investments fall into two groups: short and long-term. Short-term investments have an original maturity of over 90 days but less than or equal to one year. Long-term investments have an original maturity greater than one year. Credit risk is the risk the university may not be able to obtain possession of its investment instrument or collateral at maturity. The university's investments, including cash equivalents, are categorized as follows to give an indication of the level of credit risk assumed by the university at June 30, 2004:

- Category 1—Insured or registered securities or securities held by the university or its agent in the university's name.
- Category 2—Uninsured or unregistered, with securities held by the counter party's trust department or agent in the university's name. The university has no category 2 investments for 2004.
- Category 3—Uninsured or unregistered, with securities held by the counter party, or by its trust department or agent but not in the university's name. The university has no category 3 investments for 2004.
- Non-categorized investments—Primarily money market and mutual funds, common fund, and pooled investments maintained by Virginia Tech Foundation, Inc.

The categorization of investment risk for assets held on June 30, 2004, follows (all dollars in thousands):

	Category 1	Non-categorized	Fair Value
Cash equivalents			
U.S. government securities and U.S. government agency securities	$ 10,144	$ -	$ 10,144
Money market funds	-	87,412	87,412
Total cash equivalents	10,144	87,412	97,556
Investments: short and long-term			
Current			
U.S. government securities and U.S. government agency securities	605	-	605
Corporate bonds	551	-	551
Total current investments	1,156	-	1,156
Non-current			
U.S. government securities and U.S. government agency securities	33,605	-	33,605
Corporate bonds	101	-	101
Other—maintained by Virginia Tech Foundation, Inc.	-	39,113	39,113
Total non-current investments	33,706	39,113	72,819
Total investments	34,862	39,113	73,975
Total cash equivalents and investments	$ 45,006	$ 126,525	$ 171,531

5. SECURITIES LENDING TRANSACTIONS

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

The investments under securities lending and the securities lending transactions reported on the financial statements represent the university's allocated share of securities received for securities lending transactions held in the general account of the Commonwealth of Virginia. The securities lending investment totaled $2,080,000 for the fiscal year ended June 30, 2004. The corresponding securities lending obligation is shown on the Statement of Net Assets. For the year ended June 30, 2004, securities lending transactions totaled $10,000 of securities lending income and $8,000 of securities lending cost. These totals have been included as investment income on the Statement of Revenues, Expenses, and Changes in Net Assets. Information related to the credit risk of these investments and securities lending transactions held in the general account is available in the Commonwealth of Virginia's *Comprehensive Annual Financial Report.*

6. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at June 30, 2004 (all dollars in thousands):

Current receivables	
Grants and contracts	$ 28,549
Student tuition and fees	1,571
Auxiliary enterprises and other operating activities	4,529
Total current receivables before allowance	34,649
Less allowance for doubtful accounts	929
Net current accounts receivable	33,720
Non-current receivables	
Grants and contracts	627
Capital gifts and grants	78
Auxiliary enterprises and other operating activities	499
Total non-current receivables before allowance	1,204
Less allowance for doubtful accounts	759
Net non-current accounts receivable	445
Total receivables	$ 34,165

7. CAPITAL ASSETS

A summary of changes in capital assets for the year ending June 30, 2004 is presented as follows (all dollars in thousands):

	Beginning Balance (as restated)	Additions	Retirements	Adjustments	Ending Balance
Depreciable capital assets					
Buildings	$ 499,339	$ 61,492	$ 12	$ -	$ 560,819
Moveable equipment	282,407	27,274	19,285	(108)	290,288
Fixed equipment	39,323	2,299	115	-	41,507
Infrastructure	83,334	3,069	-	-	86,403
Library books	57,639	2,272	104	-	59,807
Total depreciable capital assets, at cost	962,042	96,406	19,516	(108)	1,038,824
Less accumulated depreciation					
Buildings	177,770	13,231	12	-	190,989
Moveable equipment	199,100	24,275	17,334	-	206,041
Fixed equipment	26,372	1,866	93	-	28,145
Infrastructure	60,415	3,158	-	-	63,573
Library books	41,346	3,002	104	-	44,244
Total accumulated depreciation	505,003	45,532	17,543	-	532,992
Total depreciable capital assets, net of accumulated depreciation	457,039	50,874	1,973	(108)	505,832
Non-depreciable capital assets					
Land	42,771	-	-	-	42,771
Livestock	779	172	-	-	951
Construction in progress	58,014	69,896	58,411	-	69,499
Equipment in process	945	3,227	644	-	3,528
Total non-depreciable capital assets	102,509	73,295	59,055	-	116,749
Total capital assets, net of accumulated depreciation	$ 559,548	$ 124,169	$ 61,028	$ (108)	$ 622,581

8. HIGHER EDUCATION EQUIPMENT TRUST FUND

The Equipment Trust Fund (ETF) Program was established to provide state-supported institutions of higher education bond proceeds for financing the acquisition and replacement of instructional and research equipment. The program is managed by the Virginia College Building Authority (VCBA). The VCBA issues bonds and uses the proceeds to reimburse the university and other institutions of higher education for equipment purchased. The Statement of Revenues, Expenses, and Changes in Net Assets includes $5,572,000 for the year ended June 30, 2004, in capital grants and gifts as reimbursement for equipment purchased using the ETF allocation. The line item, Due from the Commonwealth of Virginia, on the Statement of Net Assets totaling $5,129,000 for the year ended June 30, 2004, represents equipment purchased by the university not yet reimbursed by VCBA.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2004, consist of the following (all dollars in thousands):

Current accounts payable and accrued liabilities	
Accounts payable	$ 36,395
Accrued salaries and wages payable	39,377
Accrued severance expense payable	926
Retainage payable	3,566
Total current accounts payable and accrued liabilities	80,264
Non-current accounts payable and accrued liabilities	
Accounts payable	3,300
Total accounts payable and accrued liabilities	$ 83,564

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

10. DEFERRED REVENUE

Deferred revenue consists of the following at June 30, 2004 (all dollars in thousands):

Grants and contracts	$ 8,765
Prepaid athletic tickets	12,178
Prepaid tuition and fees	4,284
Other auxiliary enterprises	1,328
Total deferred revenue	$26,555

11. BOND ANTICIPATION NOTES

The university entered into a bond anticipation note obligation with Wachovia Bank National Association during fiscal year 2002. The amount available under the note was $30,000,000, as a line of credit, secured by general revenues of the university. The note served as temporary financing for the following capital projects: Virginia Tech Alumni and Conference Center Complex, Bioinformatics Phase II, electric service facility, and career services facility.

The university issued $21,585,000 in 9 (d) notes through the Virginia College Building Authority's Pooled Bond Program on November 5, 2003 as permanent financing for the Virginia Tech Alumni and Conference Center Complex noted above. The university used proceeds from these notes to repay the bond anticipation note obligation of $1,303,000 that was outstanding at June 30, 2003, related to this project.

There were no bond anticipation notes outstanding at June 30, 2004, and permanent financing has been secured for all of the capital projects listed in the agreement.

12. SUMMARY OF LONG-TERM INDEBTEDNESS

Bonds Payable

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

Section 9 (d) bonds are revenue bonds which are limited obligations of the university payable exclusively from pledged general revenues and are not a debt of the Commonwealth of Virginia, legally, morally, or otherwise. Pledged general revenues include general fund appropriations, student tuition and fees, facilities and administrative (indirect) cost recoveries, auxiliary enterprise revenues, and other revenues not required by law to be used for another purpose. The university has issued section 9 (d) bonds directly through underwriters and also participates in the Public Higher Education Financing Program (Pooled Bond Program) created by the Virginia General Assembly in 1996. Through the Pooled Bond Program, the Virginia College Building Authority issues section 9 (d) bonds and uses the proceeds to purchase debt obligations (notes) of the university and various other institutions of higher education. The notes are secured by the pledged general revenues of the university (see Notes Payable below and Note 13, Detail of Long-term Debt Payable, Notes Payable).

Section 9 (c) bonds are general obligation revenue bonds issued by the Commonwealth of Virginia on behalf of the university and secured by the net revenues of the completed project and the full faith, credit, and taxing power of the Commonwealth of Virginia.

Bond covenants related to some of these bonds, both 9 (c) and 9 (d), established or continued groups of accounts called systems. The Treasurer of Virginia holds these systems in trust for managing the net revenues and debt service of certain university auxiliaries. The revenue bonds issued by the Dorm and Dining Hall System, the University Services System (comprised of the Student Centers, Recreational Sports, and Student Health auxiliaries), the Utility System (the Electric Service auxiliary), and the Athletic System are secured by a pledge of each system's net revenues generated from student or customer fees, and are further secured by the pledged general revenues of the university.

Notes Payable

Notes payable are debt obligations between the Virginia College Building Authority (VCBA) and the university. The VCBA issues bonds through the Pooled Bond Program and uses the proceeds to purchase debt obligations (notes) of the university. The notes are secured by the pledged general revenues of the university.

Capital Leases

Capital leases represent the university's obligation to Virginia Tech Foundation, Inc. for lease agreements related to the Student Services and Southgate Center Addition buildings. The assets under capital leases are recorded at the net present value of the minimum lease payments during the lease term.

Installment Purchase Obligations

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

A summary of changes in long-term debt payable activity for the year ending June 30, 2004, is presented as follows (all dollars in thousands):

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
Bonds payable					
Section 9 (c) general obligation revenue bonds	$ 41,489	$ -	$ 5,120	$ 36,369	$ 3,450
Section 9 (d) revenue bonds	58,350	98,946	50,515	106,781	3,775
Notes payable	79,963	22,137	3,136	98,964	3,695
Capital lease obligations	9,531	-	288	9,243	355
Installment purchase obligations	108	225	87	246	96
Total long-term debt payable	$189,441	$121,308	$59,146	$251,603	$11,371

A summary of future principal commitments for fiscal years subsequent to June 30, 2004, is presented as follows (all dollars in thousands):

Year's ending June 30:	Section 9 (c) Bonds	Section 9 (d) Bonds	Notes Payable	Capital Lease Obligations	Installment Purchase Obligations	Total Long-term Debt Payable
2005	$ 3,450	$ 3,775	$ 3,695	$ 355	$ 96	$ 11,371
2006	3,636	4,920	3,765	375	91	12,787
2007	3,815	8,080	4,320	395	59	16,669
2008	3,993	8,255	3,000	415	-	15,663
2009	2,918	8,390	3,145	440	-	14,893
2010 – 2014	12,215	27,950	18,120	2,555	-	60,840
2015 – 2019	5,725	20,505	23,190	3,305	-	52,725
2020 – 2024	-	11,780	19,490	1,403	-	32,673
2025 – 2029	-	14,015	15,685	-	-	29,700
2030 – 2034	-	-	2,775	-	-	2,775
Unamortized premium	-	1,196	1,779	-	-	2,975
Deferral on debt defeasance	617	(2,085)	-	-	-	(1,468)
Total future principal requirements	$ 36,369	$106,781	$ 98,964	$ 9,243	$ 246	$ 251,603

A summary of future interest commitments for fiscal years subsequent to June 30, 2004, is presented as follows (all dollars in thousands):

Year's ending June 30:	Section 9 (c) Bonds	Section 9 (d) Bonds	Notes Payable	Capital Lease Obligations	Installment Purchase Obligations	Total Interest
2005	$ 1,755	$ 5,253	$ 4,622	$ 329	$ 4	$ 11,963
2006	1,579	4,693	4,485	317	2	11,076
2007	1,403	4,450	4,327	304	-	10,484
2008	1,212	4,192	4,170	290	-	9,864
2009	1,016	3,841	4,029	275	-	9,161
2010 – 2014	3,021	15,225	17,654	1,131	-	37,031
2015 – 2019	635	8,657	12,465	634	-	22,391
2020 – 2024	-	5,054	6,792	83	-	11,929
2025 – 2029	-	2,059	2,289	-	-	4,348
2030 – 2034	-	-	133	-	-	133
Total future interest requirements	$10,621	$53,424	$60,966	$ 3,363	$ 6	$ 128,380

13. DETAIL OF LONG-TERM DEBT PAYABLE

Bonds Payable

Bonds payable at June 30, 2004, consists of the following (all dollars in thousands):

	Interest rates	Maturity	2004
Revenue Bonds:			
Dormitory and dining hall system:			
Series 1996B, issued $5,475 **	3.80% - 5.35%	2009	$ 2,505
Series 1996B, issued $1,730 – partial refunding *	3.80% - 5.70%	2006	165
Series 2004B, issued $1,265 – refunding series 1996B *	2.00% - 4.00%	2016	1,265
University services systems:			
Student Health and Fitness Center:			
Series 1996C, issued $21,175 – partial refunding *	3.80% - 5.50%	2006	2,035

	Interest rates	Maturity	2004
Series 2004C, issued $15,105 – refunding series 1996C*	2.00% - 5.00%	2016	$ 15,105
Utility system, series 1996D, issued $2,570 **	3.80% - 5.35%	2009	1,175
Athletic system:			
Athletic facility – improvements:			
Series 1996A, issued $6,250 – partial refunding *	3.80% - 5.75%	2006	585
Series 2004D, issued $4,155 – refunding series 1996A *	2.00% - 5.00%	2016	4,155
Lane Stadium West Sideline Expansion:			
Series 2004D, issued $52,715	3.00% - 5.13%	2029	52,715
Veterinary medicine, series 1996A, issued $1,040 **	3.80% - 5.75%	2008	430
Northern Virginia Graduate Center:			
Series 1996A, issued $10,080 - partial refunding *	3.80% - 5.75%	2006	685
Series 2004A, issued $7,860 – refunding series 1996A *	2.00% - 5.00%	2020	7,860
Architectural/engineering:			
Series 1996A, issued $6,805 – partial refunding *	3.80% - 5.50%	2006	655
Series 2004A, issued $4,685 – refunding series 1996A *	2.00% - 5.00%	2016	4,685
Coal fired facility:			
Series 1996A, issued $11,035 – partial refunding *	3.80% - 5.50%	2006	1,070
Series 2004A, issued $6,005 – refunding series 1996A *	2.00% - 5.00%	2016	6,005
Series 2004A, issued $1,585 – refunding series 1996A *	2.00% - 5.00%	2016	1,585
Donaldson Brown Hotel and Conference Center:			
Series 1996A, issued $3,945 – partial refunding*	3.80% - 5.50%	2006	380
Series 1996A, issued $2,495 – partial refunding*	3.80% - 5.50%	2006	235
Series 2004A, issued $2,710 – refunding series 1996A *	2.00% - 5.00%	2016	2,710
Series 2004A, issued $1,665 – refunding series 1996A *	2.00% - 5.00%	2016	1,665
Unamortized premium			1,196
Deferral on debt defeasance			(2,085)
Total revenue bonds			106,781
General Obligation Revenue Bonds:			
Dormitory and dining hall system:			
Series 1997, issued $15,895	3.79% - 5.40%	2017	12,355
Series 1998, issued $3,158 – refinanced 1992C **	3.50% - 4.70%	2013	3,005
Series 1998, issued $1,380 – refinanced 1992D **	3.50% - 4.70%	2013	1,322
Series 1998, issued $1,440 – refinanced 1992D **	3.50% - 4.70%	2013	1,379
Series 2000, issued $3,255	4.00% - 5.50%	2018	2,545
Series 2000A, issued $1,800	4.75% - 5.25%	2019	1,545
Series 2002, issued $538 – refunding series 1992D **	2.50% - 4.00%	2006	286
Series 2002, issued $558 – refunding series 1992D **	2.50% - 4.00%	2006	296
Series 2003A, issued $2,694 – refunding series 1993B **	2.50% - 4.00%	2011	2,398
University services system – student center:			
Series 2003A, issued $5,457 – refunding series 1993A **	2.50% - 5.50%	2008	4,407
Series 2003A, issued $684 – refunding series 1993B **	2.50% - 5.50%	2010	596
Series 2003A, issued $1,755 – refunding series 1993B **	2.50% - 5.50%	2011	1,562
Parking facilities:			
Series 1997, issued $1,550	5.00%	2017	1,170
Series 2002, issued $975	5.00%	2017	865
Series 2003A, issued $2,268 – refunding series 1993B **	2.50% - 5.50%	2011	2,021
Deferral on debt defeasance			617
Total general obligation revenue bonds			36,369
Total bonds payable			$ 143,150

* See Bond defeasance – current year

* * See Bond defeasance – previous years

Notes Payable

Notes payable to VCBA under the pooled 9 (d) bond program at June 30, 2004 (all dollars in thousands):

	Average coupon rate	Maturity	2004
Dormitory and dining hall system:			
Series 1999, issued $10,145	4.53%	2019	$ 8,325
Series 1999A, issued $10,905	5.73%	2020	9,805
University services system – career services:			
Series 2002A, issued $4,405	5.19%	2023	4,290
Utility system:			
Series 2000A, issued $2,925	5.25%	2021	2,670
Series 2002A, issued $2,875	5.19%	2023	2,800
Athletic system:			
Stadium expansion, Series 2001A, issued $26,285	4.60%	2027	24,285
Infectious waste facility, Series 2000A, issued $1,640	5.25%	2021	1,495
Biomedical facility, Series 2002A, issued $21,930	5.11%	2028	21,930
Alumni and Conference Center Complex, Series 2003A, issued $21,585	4.63%	2031	21,585
Unamortized premium			1,779
Total notes payable			$98,964

Other Long-term Debt

Other long-term debt at June 30, 2004, consists of:	
Capital leases payable for agreements related to the Student Services and Southgate Center Addition buildings.	$ 9,243
Installment purchase obligations for equipment purchases through June 2004 with various interest rates and maturing through 2007. The book value of capitalized equipment is $3,313 for 2004.	246
Total other long-term debt	$ 9,489

14. BOND DEFEASANCE

Current Year

The university issued $45,035,000 of section 9 (d) revenue bonds to refund $42,950,000 of section 9 (d) debt in fiscal year 2004. The resulting net loss of $2,085,000 will be amortized over the life of the new debt. For financial reporting purposes, these bonds are considered an in-substance defeasance and have therefore been removed from the long-term debt payable line item of the Statement of Net Assets. The assets in escrow have similarly been excluded. The details of each bond issue refunded are presented below (all dollars in thousands):

	True Interest Cost	Bonds Refunded	Refunding Bonds Issued	Accounting Gain (Loss)	Reduction in Debt Service	Gain Discounted at TIC	Defeased Debt
Series 1996A, issued $6,805	3.83%	$ 4,550	$ 4,685	$ (135)	$ 58	$ 55	$ 4,550
Series 1996A, issued $11,035	3.83%	7,375	7,590	(215)	127	123	7,375
Series 1996A, issued $3,945	3.83%	2,640	2,710	(70)	47	45	2,640
Series 1996A, issued $2,495	3.83%	1,620	1,665	(45)	26	25	1,620
Series 1996A, issued $10,080	4.21%	7,490	7,860	(370)	146	140	7,490
Series 1996A, issued $6,250	3.83%	4,040	4,155	(115)	71	68	4,040
Series 1996B, issued $1,730	3.80%	1,150	1,265	(115)	25	24	1,150
Series 1996C, issued $21,175	3.81%	14,085	15,105	(1,020)	272	262	14,085
Total		$ 42,950	$ 45,035	$(2,085)	$ 772	$ 742	$ 42,950

Previous Years

In previous fiscal years in accordance with Governmental Accounting Standards Board Statement Number 7, *Advance Refundings Resulting in the Defeasance of Debt,* we have excluded from our financial statements the assets in escrow and the section 9 (c) or 9 (d) bonds payable that were defeased in-substance. For the year ended June 30, 2004, bonds payable considered defeased in previous years totaled $41,683,000.

15. CHANGE IN OTHER LIABILITIES

A summary of changes in other liabilities for the year ended June 30, 2004, follows (all dollars in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Accrued compensated absences	$ 28,548	$ 20,322	$ 19,126	$ 29,744	$ 14,834
Federal loan program contribution refundable	13,128	379	323	13,184	-
Total other liabilities	$ 41,676	$ 20,701	$ 19,449	$ 42,928	$ 14,834

16. LEASE COMMITMENTS

The university is committed under various operating leases for equipment and space. In general, the leases are for a three to five-year term and the university has renewal options. During the normal course of business the university expects similar leases will replace these leases. Rental expense was approximately $16,278,000 for the year ended June 30, 2004.

A summary of future minimum lease payments under operating leases as of June 30, 2004, follows (all dollars in thousands):

Year's ending June 30:

2005	$ 6,411
2006	5,123
2007	4,090
2008	1,771
2009	1,270
2010 – 2014	3,043
2015 – 2019	3,019
Total	$ 24,727

17. CAPITAL IMPROVEMENT COMMITMENTS

The amounts listed below represent the value of obligations remaining on capital improvement project contracts. These obligations are for future effort and as such have not been accrued as expenses or liabilities on the university's financial statements. Outstanding contractual commitments for capital improvement projects at June 30, 2004, included:

Capital Commitments by Project

(all dollars in thousands)

Lane Stadium West Sideline Expansion	$ 38,833
Agriculture & Natural Resources Research Laboratory	15,564
Virginia Tech Alumni and Conference Center Complex	14,285
Bioinformatics Phase II	3,396
Biology/Vivarium building	2,159
Institute of Critical Technologies & Applied Sciences	1,683
Dietrick Hall Servery project/HVAC Phase II	1,388
Other projects	1,045
Total	$ 78,353

Capital Commitments by Source of Funding

(all dollars in thousands)

General obligation bond proceeds	$ 42,507
Capital appropriations	21,167
Auxiliary enterprise	7,891
Private	5,660
State general appropriations	928
Facilities and administrative (indirect) cost recoveries and university education and general	179
Federal	21
Total	$ 78,353

18. CONTRIBUTIONS TO PENSION PLANS

Virginia Retirement System

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

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Information related to this plan is available at the statewide level only and can be found in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*. The commonwealth, not the university, has the overall responsibility for contributions to this plan.

The university's expenses include the amount assessed by the commonwealth for contributions to VRS, which totaled approximately $14,690,000 for the year ended June 30, 2004.

Optional Retirement Plan

Full-time faculty and certain administrative staff participate in a defined contribution plan administered by six different providers other than the VRS. The six different providers are TIAA/CREF Insurance Companies; Fidelity Investments Tax-Exempt Services Co.; Met Life Securities, Inc.; Great-West Life Assurance Co.; T. Rowe Price Associates; and

VALIC. This plan is a defined contribution program where the retirement benefits received are based upon the employer's (5.4%) and employees' (5%) contributions, plus interest and dividends.

Individual contracts issued under the plan provide for full and immediate vesting of both the university's and the employees' contributions. Total pension costs under this plan were approximately $12,276,000 for the year ended June 30, 2004. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $118,111,000 for the fiscal year 2004.

Deferred Compensation Plan

Employees of the university are employees of the Commonwealth of Virginia. State employees may participate in the commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the commonwealth matching up to $20 per pay period. The dollar amount match can change depending on the funding available in the commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under section 401(a) of the *Internal Revenue Code.* The university expense for contributions under the Deferred Compensation Plan, which is an amount assessed by the commonwealth, was approximately $1,502,000 for the fiscal year 2004.

Federal Pension Plans

Certain Cooperative Extension Service (CES) professional employees are participants in either the Federal Employee Retirement System (FERS) or the Federal Civil Service Retirement System (CSRS). FERS and CSRS are defined benefit plans in which benefits are based upon the highest base pay over any three consecutive years and the years of creditable service. Pension costs under these plans were approximately $401,000 for the year ended 2004. Contributions to FERS and CSRS were calculated using the base salary amount of approximately $5,098,000 for the fiscal year 2004.

In addition, the university contributed $46,000 for the year ended June 30, 2004, in employer contributions to the Thrift Savings Plan. The Thrift Savings Plan is a defined contribution plan in which the university matches employee contributions within certain limitations.

19. POST-EMPLOYMENT BENEFITS

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

20. APPROPRIATIONS

The Appropriation Act specifies that unexpended general fund appropriations that remain on the last day of the current year, ending on June 30, 2004, shall be reappropriated for expenditure in the first month of the next year, beginning on July 1, 2004, except as may be specifically provided otherwise by the General Assembly. The governor may, at his discretion, un-allot funds from the reappropriated balances that relate to unexpended appropriations for payments to individuals, aid-to-localities, or any pass-through grants.

During the year ended June 30, 2004, the following adjustments were made to the university's original appropriation (all dollars in thousands):

Original legislative appropriation per Chapter 1042 as amended:

Education and general programs	$ 184,628
Student financial assistance	11,520
Commonwealth Technology Research Fund	2,265
Unique military activities	1,173
Uncapitalized maintenance reserve	1,115
Eminent scholar program	602
Engineering research center fund	300
Total appropriation as amended	201,603
Adjustments:	
Health insurance premium	4,063
Salary increases for higher education faculty	1,402
Group life rate suspension	(1,799)
Virginia Retirement System rate reduction savings	(938)
Salary increases for higher education non-faculty	734
Retiree health care credit savings	(466)
Virginia Sickness and Disability Program rate increase	425
Virginia Sickness and Disability Program rate decrease	(345)
Transfer from student financial assistance program for undergraduate internships and graduate assistantships	227
Agricultural education program	75
Other	32
Total adjustments	3,410
Adjusted appropriation	$ 205,013

21. CAPITAL APPROPRIATIONS

Following are the capital appropriations received by the university from the commonwealth for the year ended June 30, 2004 (all dollars in thousands):

21st Century appropriations	$ 22,894
General obligation bonds	26,102
Capital project appropriations	499
Total capital appropriations	$ 49,495

22. GRANTS AND CONTRACTS CONTINGENCIES

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

In addition, the university is required to comply with various federal regulations issued by the Office of Management and Budget. Failure to comply with certain system requirements of these regulations may result in questions concerning the allowance of related direct and indirect charges pursuant to such agreements. As of June 30, 2004, the university estimates that no material liabilities will result from such audits or questions.

23. FEDERAL DIRECT LENDING PROGRAM

The university participates in the Federal Direct Lending Program. Under this program, the university receives funds from the U.S. Department of Education for Stafford and Plus Parent Loan Programs and disburses these funds to eligible students. The funds can be applied to outstanding student tuition and fee charges or refunded directly to the student.

These loan programs are treated as student payments with the university acting as a fiduciary agent for the student. Therefore, the receipt of the funds from the federal government is not reflected in the federal government grants and contracts total on the Statement of Revenues, Expenses, and Changes in Net Assets. The activity is included in the non-capital financing section of the Statement of Cash Flows. For the fiscal year ended June 30, 2004, cash provided by the program totaled $75,500,000 and cash used by the program totaled $75,500,000.

24. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

The university is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; nonperformance of duty; injuries to employees; and natural disasters. The university participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The university pays premiums to each of these departments for its insurance coverage. Information relating to the commonwealth's insurance plans is available in the Commonwealth of Virginia's *Comprehensive Annual Financial Report.*

25. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The university's operating expenses by functional classification were as follows for the year ended June 30, 2004 (all dollars in thousands):

	Compensation & Benefits	Contractual Services	Supplies & Materials	Travel	Other Operating Expenses	Scholarships & Fellowships	Sponsored Program Subcontracts	Total
Instruction	$ 171,182	$ 9,452	$ 4,865	$ 3,635	$ 1,238	$ 578	$ 322	$ 191,272
Research	108,336	8,730	13,288	6,262	2,740	6,247	14,148	159,751
Public service	36,178	13,451	2,462	4,494	1,343	108	1,449	59,485
Academic support	31,211	4,393	8,315	792	1,592	75	-	46,378
Student services	9,536	2,529	1,037	437	203	29	-	13,771
Institutional support	27,264	913	445	1,118	349	181	-	30,270
Operation and maintenance of plant	19,316	355	14,072	180	8,975	8	-	42,906
Student financial assistance	107	16	93	33	33	11,700	-	11,982
Auxiliary enterprises	47,333	19,084	17,824	5,492	5,995	330	-	96,058
Total before fees, costs & depreciation	$ 450,463	$ 58,923	$ 62,401	$ 22,443	$ 22,468	$ 19,256	$ 15,919	651,873
Loan administrative fees and collection costs								58
Depreciation expense								45,532
Total operating expenses								$ 697,463

26. COMPONENT UNITS

The following component units' statements and footnotes follow the General Accounting Standards Board (GASB) presentation format. Both Virginia Tech Foundation, Inc. and Virginia Tech Services, Inc. follow the Financial Accounting Standards Board (FASB) presentation format in their audited financial statements. Consequently, reclassifications have been made to convert their statements to the GASB format.

CONSOLIDATING STATEMENT OF NET ASSETS

The financial position for the university's component units as of June 30, 2004 (all dollars in thousands):

	Virginia Tech Foundation, Inc.	Virginia Tech Services, Inc.	Total Component Units
ASSETS			
Current assets			
Cash and cash equivalents	$ (4,970)	$ 601	$ (4,369)
Short-term investments	19,154	1,463	20,617
Accounts and contributions receivable, net	15,929	415	16,344
Notes receivable, net	384	-	384
Inventories	424	5,332	5,756
Prepaid expenses	340	59	399
Other assets	595	-	595
Total current assets	31,856	7,870	39,726
Non-current assets			
Cash and cash equivalents	26,677	-	26,677
Accounts and contributions receivable, net	19,658	-	19,658
Notes and deeds of trust receivable, net	16,728	-	16,728
Net investments in direct financing leases	8,596	-	8,596
Irrevocable trusts held by others, net	8,465	-	8,465
Long-term investments	453,611	-	453,611
Depreciable capital assets, net	80,316	1,888	82,204
Non-depreciable capital assets	18,404	-	18,404
Intangible assets, net	3,294	-	3,294
Other assets	2,748	2	2,750
Total non-current assets	638,497	1,890	640,387
Total assets	670,353	9,760	680,113
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	6,665	2,834	9,499
Accrued compensated absences	148	250	398
Deferred revenue	1,222	35	1,257
Long-term debt payable	6,673	205	6,878
Other liabilities	94	1,079	1,173
Total current liabilities	14,802	4,403	19,205
Non-current liabilities			
Accrued compensated absences	36	-	36
Long-term debt payable	74,039	999	75,038
Liabilities under trust agreements	33,374	-	33,374
Agency deposits held in trust	54,139	-	54,139
Other liabilities	4,544	-	4,544
Total non-current liabilities	166,132	999	167,131
Total liabilities	180,934	5,402	186,336
NET ASSETS			
Invested in capital assets, net of related debt	25,562	1,047	26,609
Restricted, nonexpendable	213,106	-	213,106
Restricted, expendable			
Scholarships, research, instruction, and other	189,837	-	189,837
Capital projects	31,734	-	31,734
Unrestricted	29,180	3,311	32,491
Total net assets	$ 489,419	$ 4,358	$ 493,777

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

The university's component unit activity for the year ended June 30, 2004 (all dollars in thousands):

	Virginia Tech Foundation, Inc.	Virginia Tech Services, Inc.	Total Component Units
OPERATING REVENUES			
Gifts and contributions	$ 46,290	$ -	$ 46,290
Auxiliary enterprise revenue:			
Hotel Roanoke	15,799	-	15,799
River Course	793	-	793
Bookstore	-	20,464	20,464
Other revenues:			
Rental income	8,987	-	8,987
Other	13,306	-	13,306
Total operating revenues	85,175	20,464	105,639
OPERATING EXPENSES			
Instruction	2,777	-	2,777
Research	5,526	-	5,526
Public service	3,817	-	3,817
Academic support	9,573	-	9,573
Institutional support:			
Other university programs	10,453	-	10,453
Fund-raising	6,012	-	6,012
Management and general	1,323	-	1,323
Operation and maintenance of plant:			
Operation and maintenance of plant	2,694	-	2,694
Research center costs	1,621	-	1,621
Student financial assistance	12,811	-	12,811
Auxiliary enterprises:			
Hotel Roanoke	11,287	-	11,287
River Course	815	-	815
Bookstore	-	20,908	20,908
Depreciation expense	4,612	-	4,612
Other expenses	7,281	-	7,281
Total operating expenses	80,602	20,908	101,510
OPERATING INCOME (LOSS)	4,573	(444)	4,129
NON-OPERATING REVENUES (EXPENSES)			
Investment income, net	9,281	-	9,281
Net gains on investments	32,190	-	32,190
Impairment loss on intangibles	(4,130)	-	(4,130)
Interest expense on debt related to capital assets	(1,835)	-	(1,835)
Net non-operating revenues	35,506	-	35,506
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	40,079	(444)	39,635
Change in valuation of split interest agreements	3,439	-	3,439
Capital grants and gifts	7,616	-	7,616
Loss on disposal of capital assets	(460)	-	(460)
Other revenues	(949)	-	(949)
Increase (decrease) in net assets	49,725	(444)	49,281
Net assets—beginning of year	439,694	4,802	444,496
Net assets—end of year	$ 489,419	$ 4,358	$ 493,777

COMPONENT UNITS FOOTNOTES

A) Contributions Receivable—Virginia Tech Foundation, Inc.

The following summarizes unconditional promises to give at June 30, 2004 (all dollars in thousands):

Current receivables	
Receivable in less than one year, net of discount ($54 in 2004)	$ 14,316
Less allowance for doubtful accounts	137
Net current accounts receivable	14,179
Non-current receivables	
Receivable in one to five years, net of discount ($954 in 2004)	16,393
Receivable in more than five years, net of discount ($938 in 2004)	3,304
Total non-current contributions receivable before allowance	19,697
Less allowance for uncollectible contributions	1,307
Net non-current contributions receivable	18,390
Total contributions receivable	$ 32,569

The discount rates ranged from 1.09% to 5.38% in 2004. The weighted average discount rate was 2.33% in 2004. As of June 30, 2004, there were no conditional promises to give.

B) Investments—Virginia Tech Foundation, Inc.

Investments by type of security at June 30, 2004 (all dollars in thousands):

	Fair Value	Cost
Short-term:		
U.S. government treasuries	$ 9,972	$ 10,008
U.S. government agencies	8,628	8,634
Corporate debt securities	554	548
Total short-term	19,154	19,190
Long-term:		
Cash and cash equivalents	6,631	6,631
U.S. government treasuries	24,613	24,967
U.S. government agencies	19,966	20,336
State, country and municipal securities	9,702	10,206
Corporate debt securities	40,739	40,854
Common and preferred stock	195,642	183,486
Partnerships and other joint ventures	64,626	54,862
Foreign securities	48,413	46,068
Real estate	40,375	38,923
Other	2,904	2,904
Total long-term	453,611	429,237
Total investments	$ 472,765	$ 448,427

As of June 30, 2004, long-term investments include investment assets held in internally-managed trust funds with a carrying value totaling $54,539,000.

During 2004, the foundation invested $1,000,000 to become a member of a communications network infrastructure, which is included in other investments as of June 30, 2004. Additionally, the foundation entered into an agreement to make additional investments in the communications network infrastructure over a four-year period. The foundation contributed $800,000 under the agreement, which is also included in other investments as of June 30, 2004. As of June 30, 2004, the foundation's remaining commitment was $3,200,000.

The following tabulation summarizes changes in relationships between fair value and cost of investments (all dollars in thousands):

	Fair Value	Cost	Net gains (losses)
June 30, 2004	$ 472,765	$ 448,427	$ 24,338
June 30, 2003	411,630	429,670	(18,040)
Unrealized net gains for the year, including net gain on agency deposits held in trust of $5,139			42,378
Realized net losses for the year, including net gains on agency deposits held in trust of $506			(5,004)
Total net gains for the year, including net gains on agency deposits held in trust of $5,645			$ 37,374

Investment management fees incurred in 2004 totaled $1,723,000.

C) Land, Buildings, and Equipment—Virginia Tech Foundation, Inc.

A summary of land, buildings, and equipment at cost, less accumulated depreciation for the year ending June 30, 2004 is presented as follows (all dollars in thousands):

Depreciable capital assets	
Buildings	$ 99,770
Equipment and other	17,096
Land improvements	1,335
Total depreciable capital assets, at cost	118,201
Less accumulated depreciation	37,885
Total depreciable capital assets, net of accumulated depreciation	80,316
Non-depreciable capital assets	
Land	8,358
Vintage and other collection items	3,756
Livestock	2,182
Construction in process	4,108
Total non-depreciable capital assets	18,404
Total capital assets, net of accumulated depreciation	$ 98,720

During 2004, the foundation entered into a contract for the construction of a building totaling $5,882,000. As of June 30, 2004 outstanding contractual commitment for this construction contract approximated $4,000,000.

In August 2002, the foundation agreed to fund approximately $3,800,000 for construction of a 45,450 square foot building to house a small business incubator to launch high-tech companies at Virginia Tech Corporate Research Center. The project will be partially funded by a $2,000,000 grant from the U.S. Economic Development Administration (EDA). As of June 30, 2004, the foundation has incurred $1,918,000 of costs related to the construction of the building and has not received any grant funds from the EDA.

D) Long-term Debt Payable—Virginia Tech Foundation, Inc.

Notes Payable

The following is a summary of outstanding notes payable at June 30, 2004 (all dollars in thousands):

Unsecured variable rate commercial note payable due June 30, 2006 with automatic yearly renewal, plus interest at the 30-day London Interbank Offered Rate (LIBOR) plus 35 basis points (1.72% at June 30, 2004), principal balance not to exceed $13.8 million	$ 13,253
Unsecured variable rate promissory note payable due June 1, 2023, plus interest determined weekly by the remarketing agent based on current market conditions (1.373% at June 30, 2004), principal balance not to exceed $35 million	18,800
Unsecured variable rate commercial note payable due January 31, 2005, plus interest at the 30-day LIBOR plus 25 basis points (1.62% at June 30, 2004), principal balance not to exceed $4 million	2,658
Secured variable rate promissory note payable upon sale of collateral, or receipt of any insurance payment due to destruction of collateral, plus interest at the LIBOR plus 125 basis points (2.62% at June 30, 2004), collateralized by interest in an airplane	696

Other notes payable	$ 206
Total Virginia Tech Foundation, Inc. notes payable	35,613
Unsecured note payable due November 15, 2004, plus interest at the prime rate (4.00% at June 30, 2004)	1,000
Unsecured notes payable to Doubletree as cash becomes available from hotel net operating income, as defined, plus interest at the prime rate less 1.5%, not to exceed 6.00% (2.50% at June 30, 2004), due June 30, 2010 with two 5-year renewal options	1,300
Unsecured note payable to the City of Roanoke Redevelopment and Housing Authority as cash becomes available from hotel net operating income, as defined; plus interest at 4.5%, guaranteed by the U.S. Department of Housing and Urban Development, due June 30, 2014	5,023
Total Hotel Roanoke Foundation, Inc. notes payable	7,323
Total notes payable	$ 42,936

On November 1, 2003, the note payable to the City of Roanoke Redevelopment and Housing Authority was amended and the annual interest rate was reduced from 6.789% to 4.048% effective July 1, 2003.

On June 30, 2003, the foundation used proceeds from borrowings on notes payable totaling $13.8 million to loan to an unrelated party through a promissory note receivable for that unrelated party to use to purchase the University Mall building located in Blacksburg, Virginia. The promissory note receivable earns interest at a fixed rate of 6.18% through June 30, 2013 and 6.96% thereafter through June 30, 2023, the maturity date. The promissory note receivable is secured by a first deed of trust in the real property of the university at a fixed rate of 6.18% through June 30, 2013 and 6.96% thereafter through June 30, 2023, the maturity date. The promissory note receivable is secured by a first deed of trust in the real property of the University Mall building, as well as the assignment of leases and rents, security agreements and fixture filing statements.

To comply with the terms of the $35 million unsecured variable rate note agreement, the foundation maintains a backup line of credit with a lender in the amount of $35 million at an annual fee of 0.16% of the total commitment. The total commitment as of June 30, 2004, was $24.5 million. As of June 30, 2004, no funds were outstanding under this commitment.

The aggregate annual maturities of notes payable for each of the five years and thereafter subsequent to June 30, 2004, are as follows (all dollars in thousands):

2005	$ 4,642
2006	14,451
2007	1,176
2008	1,193
2009	4,467
Later years or as cash becomes available from hotel net operating income	17,007
Total notes payable	$ 42,936

Bonds Payable

The Hotel Roanoke Foundation, Inc. is obligated under City of Roanoke Redevelopment and Housing Authority Taxable Redevelopment Revenue Term Bonds (Series 1998). Bond proceeds were used to prepay the first mortgage notes payable to a lender group and provide long-term financing for the renovation of the Hotel Roanoke. The first term rate of 6.70% extended through May 31, 2003. On June 2, 2003, the bonds were remarketed to Virginia Tech Real Estate Foundation, Inc. and the new term rate of 4.10% will extend through May 31, 2008. The term bonds are subject to mandatory annual sinking fund redemption through 2018 in varying amounts ranging from $195,000 to $490,000 and are guaranteed by Hotel Roanoke, LLC. As a result of the remarketing transaction on June 2, 2003, the term bonds are eliminated for consolidation purposes as of June 30, 2004.

The foundation is obligated under Industrial Development Authority of Craig County, Virginia Variable Rate Demand Revenue Refunding Bonds (Series 2000). Bond proceeds are being used to finance the construction of office facilities and laboratory space to be leased to the university. The Series 2000 bonds, which mature on November 1, 2020, bear a fixed interest rate of 5.23%.

The foundation is obligated under Industrial Development Authority of Montgomery County, Virginia Variable Rate Revenue Bonds dated June 28, 2001 (Series 2001A). Bond proceeds were used to refinance the Series 1987 and Series 1990 bonds and refinance $3.2 million of the $35 million unsecured variable rate promissory note. The remainder was used to finance a land acquisition and the construction of several facilities to be used in support of the university. The bonds, which mature on June 1, 2031, bear a variable interest rate, which including remarketing and credit enhancement fees, was 1.365% at June 30, 2004.

The foundation is obligated under Industrial Development Authority of Montgomery County, Virginia Variable Rate

Revenue Refunding bonds dated June 28, 2001 (Series 2001B). Bond proceeds were used to refinance the Series 1986 bonds. The bonds, which mature on December 1, 2007, bear a variable interest rate, which including remarketing and credit enhancement fees, was 1.465% at June 30, 2004.

The foundation is obligated under Industrial Development Authority of Montgomery County, Virginia Variable Rate Revenue Refunding bonds dated April 25, 2002 (Series 2002A). Bond proceeds were used to finance a building acquisition, the expansion and enhancement of existing facilities used in support of the university, and to provide funds to cover debt related expenditures during construction. The bonds, which mature on June 1, 2022, bear a variable interest rate, which including remarketing and credit enhancement fees, was 1.365% at June 30, 2004.

Principal amounts outstanding for these bonds as of June 30, 2004, are as follows (all dollars in thousands):

Bond Series:	
Series 2000	$ 3,431
Series 2001A	28,550
Series 2001B	1,310
Series 2002A	4,485
Total bonds payable	$ 37,776

The aggregate annual maturities of bonds payable for each of the five years and thereafter subsequent to June 30, 2004, are as follows (all dollars in thousands):

2005	$ 2,031
2006	2,118
2007	2,090
2008	2,184
2009	1,912
Later years	27,441
Total	$ 37,776

To comply with the terms of the Series 2001A and 2001B bond agreements, the foundation maintains a letter of credit with a lender in the amount of $30,302 at annual fees equal to 0.22% of the total commitment. At June 30, 2004, no funds were outstanding under this commitment.

To comply with the terms of the Series 2002A bond agreement, the foundation maintains a letter of credit with a lender in the amount of $4,551,000 at annual fees equal to 0.22% of the total commitment. At June 30, 2004, no funds were outstanding under this commitment.

Effective September 23, 1998, the foundation entered into two separate interest rate swap agreements with a lending institution. These agreements were based on the principal balances (notional amounts) for the Series 1986 and 1987 bond issues, and the Series 1990 bond issue, which were refinanced by the Series 2001A and Series 2001B bonds. The foundation participates as a fixed rate payer, with a fixed interest rate of 3.94% for seven-year and ten-year periods ending October 1, 2005 and 2008, respectively. The lending institution participates as a floating rate payer, with a variable interest rate which is calculated based on the Bond Market Association (BMA) Municipal Swap Index, and was 1.06% at June 30, 2004. Net interest expense associated with these transactions was $93,000 for fiscal year 2004. The estimated fair value of the interest rate swap agreements as of June 30, 2004 approximated $78,000, in favor of the lending institution.

Effective April 1, 2003, the foundation entered into three separate interest rate swap agreements with a lending institution. Two of these agreements were based on the principal balances (notional amounts) for the Series 2001A and 2002 bond issues. The foundation participates as a fixed rate payer, with a fixed interest rate of 3.134% and 3.43% for a seven-year and ten-year period ending June 1, 2010 and 2013, respectively. The lending institution participates as a floating rate payer, with a variable interest rate which is calculated based on the BMA Municipal Swap Index, and was 1.06% at June 30, 2004. The third agreement was based on the principal balance (notional amount) for a promissory note payable. The foundation participates as a fixed rate payer, with a fixed interest rate of 3.715% for a seven-year term ending February 1, 2010. The lending institution participates as a floating rate payer, with a variable interest rate which is calculated based on LIBOR and was 1.21% at June 30, 2004. Net interest expense associated with these transactions was $664,000 for fiscal year 2004. The estimated fair value of the interest rate swap agreements approximated $165,000 as of June 30, 2004, in favor of the foundation.

Total interest expense incurred on notes payable and bonds payable in 2004 totaled $2,191,000.

E) Agency Deposits Held in Trust—Virginia Tech Foundation, Inc.

Under an agreement between the university and the foundation, the foundation serves as agent in connection with the investment, management, and administration of the Pratt Estate Funds and Donaldson Brown Endowment Funds. In addition, the foundation serves as agent and maintains investments for the Virginia Tech Alumni Association, Inc.; Virginia Tech Services, Inc.; and certain other associations.

A summary of agency deposits held in trust for the year ending June 30, 2004 is presented as follows (all dollars in thousands):

University—Pratt Estate	$ 38,788
University—Donaldson Brown Endowment	723
University—Other	2,415
Virginia Tech Alumni Association, Inc.	4,026
Virginia Tech Services, Inc.	1,464
Other	6,723
Total agency deposits held in trust	$ 54,139

27. JOINT VENTURES

The Hotel Roanoke Conference Center Commission was created by a joint resolution of the university and the City of Roanoke. The purpose of the commission is to establish and operate a publicly owned conference center in the City of Roanoke adjacent to the renovated Hotel Roanoke. The powers of the commission are vested in commissioners. Each participating, governing body appoints three commissioners for a total of six commissioners. The commission has the authority to issue debt, and such debt is the responsibility of the commission. The intention of the commission is to be self-supporting through its user fees. The university and the City of Roanoke equally share in any operating deficit or additional funding needed for capital expenditures. The university made contributions of $100,000 to the commission for the fiscal year ended June 30, 2004.

28. JOINTLY GOVERNED ORGANIZATIONS

Blacksburg-Christiansburg & VPI Water Authority

Created by a concurrent resolution of the university and the towns of Blacksburg and Christiansburg, the authority operates and maintains the water supply system for the university and the other participating governing bodies. A five-member board governs the authority with one member appointed by each governing body and two at-large members appointed by the joint resolution of each of the governing bodies. The authority's indebtedness is not an obligation of the university and is payable solely from the revenues of the authority. The university paid $600,000 to the authority for the purchase of water for the fiscal year ended June 30, 2004.

Blacksburg-VPI Sanitation Authority

Created by a concurrent resolution of the university and the town of Blacksburg, the authority operates and maintains the wastewater treatment system for the participating governing bodies. Each participating governing body appoints one member of the five-member board of directors. Three at-large members are appointed by the joint resolution of each of the governing bodies. The authority's indebtedness is not an obligation of the university and is payable solely from the revenues of the authority. The university paid $638,000 to the authority for the purchase of sewer services for the fiscal year ended June 30, 2004.

Montgomery Regional Solid Waste Authority

Created by a joint resolution of the university, the towns of Blacksburg and Christiansburg, and the county of Montgomery, the authority represents its members in solid waste and recycling issues as well as operating a substantial recycling reprocessing facility. The authority is governed by its board with each participating governing body appointing one board member, and jointly all governing bodies appointing a fifth member. Each governing body provides collection of solid waste and recyclables from within its jurisdiction and delivers the collected materials to the authority for disposal of the waste, and the processing and marketing of the recyclables. All indebtedness is the obligation of the authority and payable from its revenues. The university paid $230,000 to the authority for tipping fees for the fiscal year ended June 30, 2004.

Virginia Tech/Montgomery Regional Airport Authority

Created by a joint resolution of the university, the towns of Blacksburg and Christiansburg, and the county of Montgomery, this authority serves to develop a regional airport based on the mission of servicing corporate executive markets and other general aviation markets; obtaining grants, loans and other funding for airport improvements and other activities; and in promoting and assisting in regional economic development. The authority is governed by its board, which consists of five members. Each participating governing body appoints one member of the board, and jointly all governing bodies appoint a fifth member. All indebtedness is the obligation of the authority and payable from its revenues. The university's funding commitment for fiscal year 2004 was $50,000, of which Virginia Tech paid $27,000 and performed the balance as in-kind service for the authority.

29. SUBSEQUENT EVENTS

On August 4, 2004, the Virginia Department of the Treasury, on behalf of the university, issued Series 2004A 9 (c) bonds totaling $4,800,000. Proceeds from the bonds will fund the Dietrick Hall Servery project. These bonds are an obligation of the university and are secured by the net revenues of the completed project and the full faith, credit, and taxing power of the Commonwealth of Virginia.

On October 7, 2004, the Virginia College Building Authority (VCBA), on behalf of the university, issued $9,890,000 in Educational Facilities Revenue Refunding Bonds, Series 2004B. Proceeds from the bonds will be used to partially refund principal and interest payments related to Series 1999, Series 1999A, and Series 2000A bonds. Refunded principal totaled $9,545,000. The note obligations between the university and the VCBA related to these debt issues will be adjusted accordingly.

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

For the year ended June 30, 2004
(all dollars in thousands)

	Dormitory and Dining Hall System (1)	Utility System (1)	University Services System (1)	Athletic Department (1)	Information Systems & Services	All Other (2)	Total (3)
REVENUES:							
Student fees	$ 39,497	$ -	$ 14,279	$ 5,782	$ 2,716	$ 3,008	$ 65,282
Sales and services	7,000	15,062	2,049	23,042	11,718	10,483	69,354
Total fees and sales	46,497	15,062	16,328	28,824	14,434	13,491	134,636
Contributions	114	-	17	5,217	-	262	5,610
Interest and dividends	-	-	3	201	96	135	435
Total revenues	46,611	15,062	16,348	34,242	14,530	13,888	140,681
EXPENSE OF OPERATIONS:							
Personal services	16,583	1,706	8,734	10,261	5,300	4,308	46,892
Contractual services	4,355	477	2,027	11,453	3,036	3,285	24,633
Supplies and materials	12,115	1,071	1,073	1,685	444	1,595	17,983
Continuous charges	4,851	10,669	1,383	3,785	2,654	916	24,258
Equipment	138	126	108	104	632	416	1,524
Total expenses of operation	38,042	14,049	13,325	27,288	12,066	10,520	115,290
EXCESS OF REVENUES OVER EXPENSES OF OPERATIONS BEFORE TRANSFERS:	8,569	1,013	3,023	6,954	2,464	3,368	25,391
TRANSFERS AMONG FUNDS—ADDITIONS (DEDUCTIONS):							
Mandatory transfers:							
Debt service—current year	(5,564)	(726)	(3,769)	(3,616)	(753)	(1,146)	(15,574)
Debt service—future years	974	146	1,646	(11,455)	-	-	(8,689)
Nonmandatory transfers:							
Capital transfers	(2,168)	(350)	(97)	(356)	(8)	(220)	(3,199)
Allocation of funds	(1,811)	(83)	(803)	115	(419)	(3,162)	(6,163)
Total transfers	(8,569)	(1,013)	(3,023)	(15,312)	(1,180)	(4,528)	(33,625)
Net increase (decrease) for year	-	-	-	(8,358)	1,284	(1,160)	(8,234)
Fund balances—beginning of year	-	-	-	8,358	6,519	9,552	24,429
Fund balances—end of year	$ -	$ -	$ -	$ -	$ 7,803	$ 8,392	$ 16,195

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

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

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

AFFILIATED CORPORATIONS FINANCIAL HIGHLIGHTS

For the years ended June 30, 2004-2000
(all dollars in thousands)

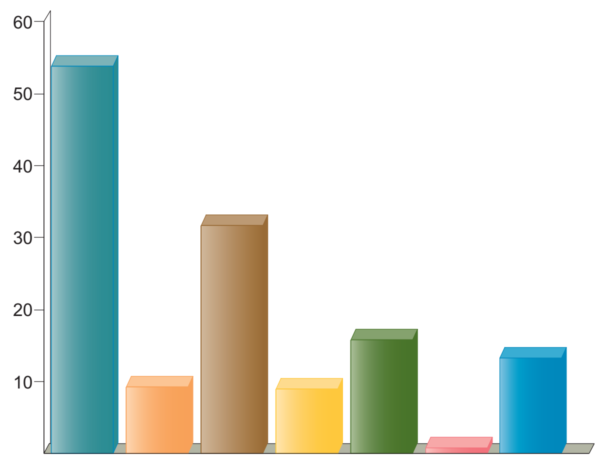
	2004	2003	2002	2001	2000
ASSETS					
Virginia Tech Foundation, Inc.	$ 670,353	$ 613,456	$ 601,277	$ 624,529	$ 574,358
Virginia Tech Services, Inc.	9,760	10,938	11,072	9,803	11,560
Virginia Tech Intellectual Properties, Inc.	2,312	1,685	2,188	1,061	1,174
WPI, Inc.	-	5,444	6,761	6,960	7,043
Total assets	$ 682,425	$ 631,523	$ 621,298	$ 642,353	$ 594,135
REVENUES					
Virginia Tech Foundation, Inc.	$ 133,802	$ 92,611	$ 65,978	$ 96,687	$ 104,537
Virginia Tech Services, Inc.	20,396	19,831	20,142	21,866	22,056
Virginia Tech Intellectual Properties, Inc.	1,248	1,004	1,220	892	749
WPI, Inc.	3,271	6,101	10,392	12,751	14,275
Total revenues	$ 158,717	$ 119,547	$ 97,732	$ 132,196	$ 141,617
EXPENSES					
Virginia Tech Foundation, Inc.	$ 84,077	$ 94,381	$ 89,122	$ 78,040	$ 73,589
Virginia Tech Services, Inc.	20,840	20,128	20,652	21,866	22,049
Virginia Tech Intellectual Properties, Inc.	1,119	979	984	1,057	1,046
WPI, Inc.	3,650	7,360	10,653	12,726	14,262
Total expenses	$ 109,686	$ 122,848	$ 121,411	$ 113,689	$ 110,946

The organizations included above are related to the university by affiliation agreements. These agreements, approved by the board of visitors, require an annual audit to be performed by independent auditors. Such auditors have examined the financial records of the organizations presented in the table above and copies of their audit reports have been provided to the university. Values presented in this table are based solely upon these audit reports and do not include any consolidation entries to alter these amounts. Affiliated organizations that hold no financial assets and certify all financial activities or transactions through the Virginia Tech Foundation, Inc. may be exempt from the independent audit requirement. The Virginia Tech Athletic Fund, Inc.; the Virginia Tech Corp of Cadets Alumni, Inc.; and the Virginia Tech Alumni Association meet exemption requirements and are not presented separately in this table. Effective April 1, 2004, WPI, Inc. is no longer an affiliated corporation of the university. Totals presented for WPI, Inc. are through March 31, 2004.

VIRGINIA TECH FOUNDATION, INC.

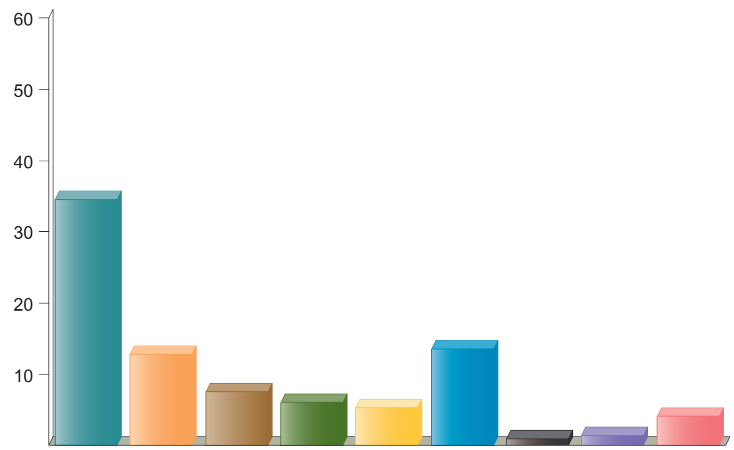
The purpose of Virginia Tech Foundation, Inc. is to receive, invest, and manage private funds given for the support of programs at Virginia Tech and to foster and promote the growth, progress, and general welfare of the university. During the current fiscal year, the foundation recognized $53.9 million in contributions for support of the university. Investment income of $9.3 million, along with net gains on investments of $31.7 million, resulted in a $41 million gain on investments. Property rental, hotel operating, and golf course income totaled $25.6 million. Other income accounted for $13.3 million. Total income of $133.8 million was offset by $82.4 million in expenses that supported the university and its programs. Direct support to various university programs aggregated $55 million, which included $12.8 million in scholarship support to students and faculty and $7.6 million towards university capital projects. Additional expenses such as fund raising and management and general, as well as research center, hotel operating, golf course, and other costs totaled $24.9 million. A $4.1 million impairment loss in intangibles related to a patent given in fiscal year 2001 resulted in total expenses and losses of $84 million. Total net assets increased by $49.7 million over the previous year.

The graphs below are categorized as presented in the audited financial statements for the foundation which follows the Financial Accounting Standards Board (FASB) presentation requirements.



2004 REVENUES, GAINS & OTHER SUPPORT

- Contributions
- Investment income
- Net gain on investments
- Rental income
- Hotel Roanoke
- River Course
- Other income



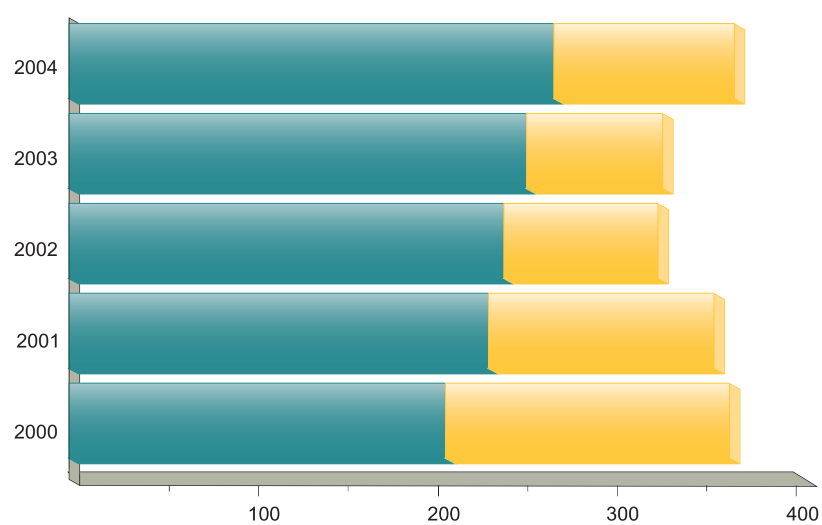
2004 EXPENSES

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

ENDOWMENT MARKET VALUE 2000-2004

* Market value of Endowment Funds includes agency deposits held in trust of $54.1 million (Source: Virginia Tech Investment Managers, unaudited)

- Contributions
- Appreciation



CONSOLIDATING SCHEDULE OF NET ASSETS

As of June 30, 2004
(all dollars in thousands)

ASSETS	Current Funds Unrestricted	Current Funds Restricted	Loan Funds	Endowment & Similar funds	Plant Funds	Agency Funds	Total
Current assets							
Cash and cash equivalents	$ 76,685	$ 17,388	$ 1,115	$ -	$ -	$ 4,759	$ 99,947
Short-term investments	1,156	-	-	-	-	-	1,156
Investments, securities lending	2,080	-	-	-	-	-	2,080
Accounts receivable, net	5,371	28,349	-	-	-	-	33,720
Notes receivable	-	-	1,584	-	-	-	1,584
Due from Commonwealth of Virginia	5,129	-	-	-	-	-	5,129
Inventories	9,235	-	-	-	-	-	9,235
Prepaid expenses	10,033	354	-	-	-	-	10,387
Due to (from) other funds	12,321	(11,858)	(70)	1,178	(1,571)	-	-
Total current assets	122,010	34,233	2,629	1,178	(1,571)	4,759	163,238
Non-current assets							
Cash and cash equivalents	-	-	-	-	107,293	-	107,293
Short-term investments	-	-	-	-	10,907	-	10,907
Accounts receivable, net	367	-	-	-	78	-	445
Notes receivable	-	-	13,389	-	-	-	13,389
Long-term investments	12,962	-	-	39,560	9,290	100	61,912
Depreciable capital assets, net	-	-	-	-	505,832	-	505,832
Non-depreciable capital assets	-	-	-	209	116,540	-	116,749
Intangible assets, net	-	-	-	-	2,000	-	2,000
Other assets	778	-	-	-	124	-	902
Total non-current assets	14,107	-	13,389	39,769	752,064	100	819,429
Total assets	136,117	34,233	16,018	40,947	750,493	4,859	982,667
LIABILITIES							
Current liabilities							
Accounts payable and accrued expenditures	51,422	12,207	-	-	16,635	-	80,264
Obligations under securities lending	2,080	-	-	-	-	-	2,080
Accrued compensated absences	12,047	2,787	-	-	-	-	14,834
Deferred revenue	17,509	9,046	-	-	-	-	26,555
Funds held in custody for others	127	-	-	-	-	4,859	4,986
Long-term debt payable	-	-	-	-	11,371	-	11,371
Other liabilities	10	-	-	15	-	-	25
Total current liabilities	83,195	24,040	-	15	28,006	4,859	140,115
Non-current liabilities							
Accounts payable and accrued expenditures	3,300	-	-	-	-	-	3,300
Accrued compensated absences	12,132	2,778	-	-	-	-	14,910
Federal student loan program contributions refundable	-	-	13,184	-	-	-	13,184
Long-term debt payable	-	-	-	-	240,232	-	240,232
Other liabilities	2,149	-	-	44	-	-	2,193
Total non-current liabilities	17,581	2,778	13,184	44	240,232	-	273,819
Total liabilities	100,776	26,818	13,184	59	268,238	4,859	413,934
NET ASSETS							
Invested in capital assets, net of related debt	-	-	-	-	418,708	-	418,708
Restricted, nonexpendable	-	-	-	368	-	-	368
Restricted, expendable							
Scholarships, research, & instruction	-	7,415	2,834	40,520	-	-	50,769
Capital projects	-	-	-	-	20,837	-	20,837
Debt service	-	-	-	-	28,634	-	28,634
Unrestricted	35,341	-	-	-	14,076	-	49,417
Total net assets	$ 35,341	$ 7,415	$ 2,834	$ 40,888	$ 482,255	$ -	$ 568,733

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

For the year ended, June 30, 2004
(all dollars in thousands)

	Current Funds Unrestricted	Current Funds Restricted	Loan Funds	Endowment & Similar Funds	Plant Funds	Total
OPERATING REVENUES						
Student tuition and fees	$181,545	$ -	$ -	$ -	$ -	$ 181,545
Federal appropriations	-	10,653	-	-	-	10,653
Federal grants and contracts	18,681	88,185	-	-	-	106,866
State grants and contracts	670	12,702	-	-	-	13,372
Local grants and contracts	151	11,425	-	-	-	11,576
Nongovernmental grants and contracts	3,731	14,381	-	-	-	18,112
Sales & services of educational departments	10,224	-	-	-	-	10,224
Auxiliary enterprise revenue	104,164	-	-	-	-	104,164
Other operating revenues	1,888	545	26	-	-	2,459
Total operating revenues	321,054	137,891	26	-	-	458,971
OPERATING EXPENSES						
Instruction	185,846	5,426	-	-	-	191,272
Research	46,379	113,372	-	-	-	159,751
Public service	32,674	26,811	-	-	-	59,485
Academic support	44,919	1,459	-	-	-	46,378
Student services	13,266	505	-	-	-	13,771
Institutional support	25,459	4,811	-	-	-	30,270
Operation and maintenance of plant	33,026	-	-	-	9,880	42,906
Student financial assistance	-	11,982	-	-	-	11,982
Auxiliary enterprises	96,058	-	-	-	-	96,058
Loan administrative fees & collection costs	-	-	58	-	-	58
Depreciation expense	-	-	-	-	45,532	45,532
Total operating expenses	477,627	164,366	58	-	55,412	697,463
OPERATING LOSS	(156,573)	(26,475)	(32)	-	(55,412)	(238,492)
NON-OPERATING REVENUES (EXPENSES)						
State appropriations	188,037	15,861	-	-	1,115	205,013
Gifts	8,098	26,201	8	-	-	34,307
Non-operating grants and contracts	-	2,000	-	-	-	2,000
Investment income, net of investment expense	473	373	-	4,824	587	6,257
Interest expense debt related to capital assets	-	-	-	-	(8,227)	(8,227)
Other additions	-	-	3	-	50	53
Net non-operating revenues	196,608	44,435	11	4,824	(6,475)	239,403
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, AND LOSSES	40,035	17,960	(21)	4,824	(61,887)	911
Capital appropriations	-	-	-	-	49,495	49,495
Capital grants and gifts	-	1,533	-	-	10,919	12,452
Loss on disposal of plant assets	-	-	-	-	(1,592)	(1,592)
Total other revenues, expenses, gains and losses	-	1,533	-	-	58,822	60,355
INCREASE (DECREASE) IN NET ASSETS BEFORE TRANSFERS	40,035	19,493	(21)	4,824	(3,065)	61,266
Mandatory transfers	(27,171)	(998)	-	-	28,169	-
Nonmandatory transfers	(11,786)	7,996	60	(1,721)	5,451	-
Equipment and library book transfers	(19,681)	(7,554)	-	-	27,235	-
Scholarship allowance transfer	21,488	(21,488)	-	-	-	-
Total transfers	(37,150)	(22,044)	60	(1,721)	60,855	-
Increase (decrease) in net assets after transfers	2,885	(2,551)	39	3,103	57,790	61,266
Net assets—beginning of year	32,456	9,966	2,795	37,785	424,465	507,467
Net assets—end of year	$ 35,341	$ 7,415	$ 2,834	$40,888	$ 482,255	$ 568,733

BUSINESS AND FINANCIAL PERSONNEL

Minnis E. Ridenour
Executive Vice President and Chief Operating Officer

Raymond D. Smoot Jr.
University Treasurer

M. Dwight Shelton Jr.
Vice President for Budget and Financial Management

Kurt J. Krause
Vice President for Business Affairs

William M. Elvey
Assistant Vice President for Facilities

Kenneth E. Miller
University Controller

John C. Rudd
Director of Internal Audit

John J. Cusimano
Associate Treasurer

This 2003-04 Financial Report was produced by the Office of the University Controller. Kenneth E. Miller, CPA, is the University Controller. David E. McGarry, CPA, is the Director of Financial Reporting & Cost Accounting, Stacy A. King, CPA, is the Manager of Financial Reporting. Questions about this document or requests for copies of the printed version should be referred to Mrs. King either via e-mail: kings@vt.edu or phone: (540) 231-8624. A PDF version of this Financial Report is available on the University Controller's website: http://www.controller.vt.edu under the Financial Reporting section.