

11. The institution has a sound financial base and demonstrated financial stability, and adequate physical resources to support the mission of the institution and the scope of its programs and services. The institution provides the following financial statements: (a) an institutional audit (as distinct from a system-wide or statewide audit) and management letter for the most recent fiscal year prepared by an independent certified public accountant or an appropriate auditing agency employing the appropriate audit guide; (b) an annual budget that is preceded by sound planning, is subject to sound fiscal procedures, and is approved by the governing board; and (c) a schedule of changes in unrestricted net assets, excluding plant and plant related-debt (short and long-term debt attached to physical assets).

- Compliance
- Partial Compliance
- Non-compliance

Narrative:

The University's budgetary process defines the major directions for the institution on an annual basis. The University's Vice Presidents as a group are responsible for overseeing development of the budget plan. Additional input may be sought as appropriate from members of the [President's Council](#), [University Council](#), and the [Executive Budget Committee](#). The Executive Budget Committee provides a mechanism for faculty, administrators, staff, and students to participate in the budgetary process. To the extent possible, and more so during stable economic times, program priorities emanating from the University's mission and goals, planning documents and the Strategic Plan are used as a basis for resource allocation.

During the budget development process, the Vice Presidents engage in budget planning with the respective academic deans to set priorities, identify funding needs and commitments, and bring forth other issues affecting the budget. In some years, depending largely on the potential availability of funding, this process involves issuing a "budget call" from the Provost and Vice Presidents to the deans and directors for the purpose of identifying budget needs. Requests are reviewed and prioritized by the respective Vice Presidents, and then a University-wide budget priority list is developed for review and prioritization. This process continues over the course of several months as budget estimates are refined and funding requests are added or deleted.

The University's budget plan is prepared on a two-year basis. The budget plan is updated near the end of the first year and into the second year for the second year. In early spring of each year, the University Board of Visitors meets to approve tuition and fee rates for the upcoming academic year and to review a

preliminary budget plan. A subsequent meeting of the Board is held and the President then submits a final version of the budget plan to the Board for approval. The culmination of this process is the University budget plan, which describes the revenue and expenditure assumptions used for budget implementation purposes.

Following September 11, 2001, and as a result of a continuing national economic downturn, the Commonwealth of Virginia has experienced a dramatic decline in general fund tax revenue. As a result, in the spring of 2002, the Virginia General Assembly and the Governor approved a state budget that reduced VCU's general fund support by approximately \$43.8 million for the 2002-04 biennium. To partially offset reduction in state support, VCU's 2002-03 budget plan included a tuition increase of 9% for resident undergraduate students and 8 % for all other student groups for each year.

In October 2002, due to a continuation of the economic slowdown and a declining state tax revenue picture, the Governor announced additional general fund reductions for state agencies and institutions of higher education. For VCU, the additional cuts totaled \$33.4 million over the 2002-04 biennium, bringing the total general fund reduction for 2002-04 to \$77.2 million.

To offset part of the impact of the additional budget cuts, in November 2002 VCU's Board of Visitors approved an additional 2002-03 tuition increase for all full-time students effective with the spring 2003 semester. As part of financial planning and analysis for 2003-04, the University is exploring tuition options within the current state tuition policy framework.

In view of the uncertainties surrounding state funding and state policy constraints on setting tuition, VCU's President continues to stress his operating philosophy for achieving an increasing level of University financial self-sufficiency and financial stability. The guiding principles behind that philosophy are:

- Focus on out-of-state student recruitment
- Increase funding from sponsored research
- Attain higher levels of private giving
- Pursue entrepreneurial initiatives
- Achieve operational efficiencies and enhance the environment for students, faculty, and staff
- Ensure the future of the Virginia Commonwealth University Health System.

The University's current and prospective financial health and stability were recently reviewed by two national credit-rating organizations in preparation for issuing approximately \$19.1 million in University-backed revenue pledge bonds for construction of new student housing. Each rater reaffirmed its previous

primary rating on the University's existing debt: Moody's Investors Service – A1 and Standard and Poor's – AA-. Reasons for the ratings cited by the rating groups include:

- Strong enrollment outlook expected to continue
- Balanced financial operating performance
- Ability to increase tuition revenue within a tightening state revenue environment
- Financial reserves provide a satisfactory cushion for debt and operations.

As a result of the budget situation, the College and several schools are considering administrative reorganization. In addition, the Board of Visitors approved a "Faculty Alternative Severance Option," which will result in some ability for educational units to restructure, including hiring faculty in needed areas because funds are made available through the retirement of currently tenured faculty in other areas.

Annual University audits are conducted by the Virginia State Auditor of Public Accounts. The most recently completed [audit and accompanying management letter](#) for Virginia Commonwealth University is for fiscal year 2001-2002 (year ending June 30, 2002). As soon as the audit for fiscal year 2002-03 is completed, VCU will send to SACS sufficient copies for review. VCU expects that audit will be available in January 2004.

Below is a schedule of change in Unrestricted Fund Balance, as summarized from audited University financial statements for fiscal years ended June 30, 1998, 1999, 2000, and 2001. Financial statements for these years were based on the AICPA Audit Guide reporting model, as required by the Commonwealth of Virginia.

Virginia Commonwealth University
Summary Schedule of Change in Unrestricted Fund Balance

Year Ended June 30	Revenues	Expenditures and Mandatory Transfers	Nonmandatory Transfers	Increase (Decrease)	Unrestricted Fund Balance
1998	\$337,690,632	\$343,823,872	\$3,752,222	\$(2,381,018)	\$29,380,782
1999	\$371,510,639	\$368,701,887	\$163,613	\$2,972,365	\$32,353,147
2000	\$373,012,295	\$378,977,200	\$2,424,625	\$(3,540,280)	\$28,812,867
2001	\$396,946,256	\$395,149,680	\$(2,277,436)	\$(480,860)	\$28,332,007

Comparable information for the fiscal year ended June 30, 2002, is not available, as the University adopted the Governmental Accounting Standards Board (GASB) Statement 34/35 reporting model in fiscal year 2001-02, as required by the Commonwealth of Virginia. Under the GASB 34/35 model, a separate statement of unrestricted activity is not prepared. The GASB 34/35 model

includes unrestricted net assets for all fund groups and includes financial activity from what previously were considered restricted accounts under the AICPA model.

During the 1998-2001 period, revenue changes primarily were related to increases in state appropriations and increased revenue in auxiliary enterprises. State appropriations increased from \$132.0 million in 1998 to \$180.4 million in 2001. A substantial portion of this increase is attributable to additional state funding to offset a state-mandated 20% reduction in resident undergraduate tuition in 1999-2000. Under the GASB 34/35 model, state appropriation for operating purposes decreased from \$194.7 million in 2001 to \$188.1 million in 2002 as the state reduced funding to state agencies and institutions of higher education due to shortfalls in state revenue collections. Over the period the University has continued to see increases in enrollment and, therefore, growth in tuition and fee revenue. Revenue growth also is due to growth in University-sponsored programs activity during this period.

The University's primary sources of funding are state educational and general fund activities (principally state appropriations and tuition) and sponsored program (research) activities. Neither of these sources provides for accumulation of resources or net assets. Unexpended educational and general resources are subject to reversion to the Commonwealth, and sponsored programs revenue is principally reimbursement of expenses. Thus, expenses will generally follow increases and decreases in revenue. In years of full consumption of resources, the University may have a small decrease in fund balance or net assets due to the accrual of compensated employee absences. These compensated absence obligations, to be paid in future years from state appropriations, tuition, and sponsored program revenue, are accrued in the year earned.

The University Budget Plan for 2002-03, approved by the Board of Visitors in May, 2002, may be found at:

<http://www.vcu.edu/finance/2002-04 Budget Plan.pdf>.

The University Budget Plan for 2003-04 was approved by the Board of Visitors in May 2003, and may be found at:

<http://www.vcu.edu/finance/pdf/University Budget Plan Update 2003-04 Revised Budget.pdf>.

The associated student tuition and fee plan for 2003-2004 may be found at:

<http://www.vcu.edu/finance/pdf/2003-04 Tuition & Fees.pdf>.