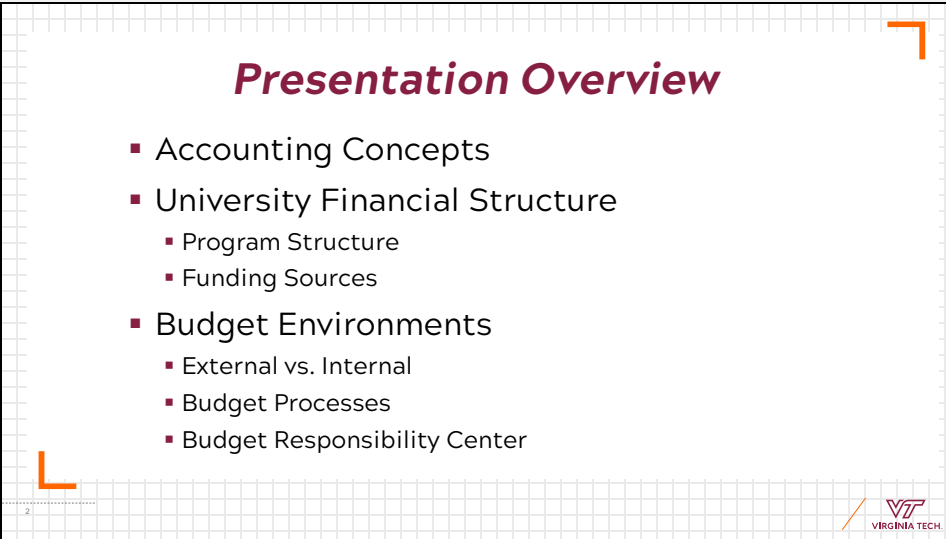


Virginia Tech, as a public, state-supported university, is categorized as a governmental nonprofit public corporation. The corporation is under the control of the General Assembly of the Commonwealth. As a state agency, Virginia Tech generally mirrors the Commonwealth of Virginia's financial structure.

The Governor appoints the University's Board of Visitors who serve as public trustees and have the overall responsibility and authority, subject to constitutional and statutory limitations, for the continuing operation and development of the institution as a state, land-grant university.

The University is governed by numerous laws and regulations. Since Virginia Tech's founding in 1872 as a land-grant university, Virginia statutes created and control the institution. Subsequent federal legislation, including the Hatch Act of 1877 which established the agricultural experiment stations, and the Smith-Lever Act of 1914 which created the Federal Extension Service, further emphasized the multiple purpose of the University. The multiple-mission, multiple-agency, multi-program structure of the University introduces some administrative complexity into the organization. As a state agency, subject to federal laws and regulations, programs and activities of the institution are subject to some degree of external budgetary and administrative control that must be accommodated in the basic


policies and programs of the University. These regulations and their interpretations provide a significant influence over the environment in which the University functions as it seeks to fulfill the purposes for which it exists.



Presentation Overview

- Accounting Concepts
- University Financial Structure
 - Program Structure
 - Funding Sources
- Budget Environments
 - External vs. Internal
 - Budget Processes
 - Budget Responsibility Center

2



This presentation covers:

Fundamental accounting concepts, the University's financial structure in terms of programs and funding sources, and the two different budget environments: internal and external to the University.

Accounting Concepts

- Accounting Basis - cash or accrual
 - Virginia Tech utilizes the cash basis of accounting.
- Fund Accounting
 - Ensures the linkage between funding and purpose. This ensures that funds provided for specific purposes.
- Classification of funds
 - Current, loan, endowment, annuity, agency, and plant.

The Commonwealth of Virginia requires Virginia Tech to report revenue and expenditure activities on a cash basis for day-to-day operations.

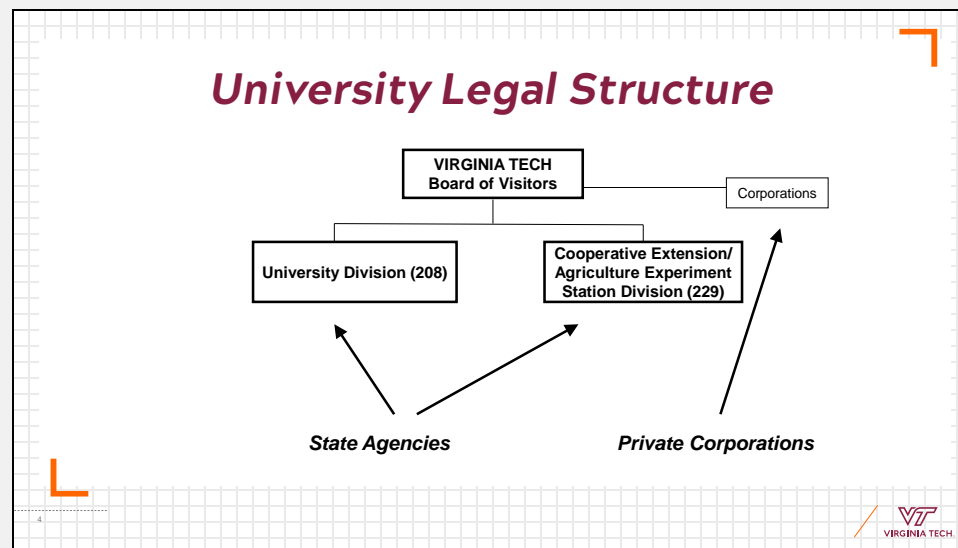
Like all governmental non-profits, Virginia Tech uses the fund-accounting method of financial record keeping.

Fund accounting treats a governmental unit as a combination of several distinctly different fiscal and accounting entities, each having a separate set of accounts and functioning independently of other funds and account groups. Simply put, this means that revenues that are collected for a specific function of the University must be utilized and accounted for in their own fund.

Governmental and non-profit organizations are funded to provide specific services to the clients they serve in order to fulfill their mission, which in some way aims to meet the needs of society. Thus, funds are provided for specific purposes. Virginia Tech focuses on providing instruction, research, and service because they constitute the core of our mission and address the essential needs of the clients (i.e. students, faculty, staff, taxpayers, and society) we serve. Each function is supported by a specific fund source such as tuition, general fund support (tax dollars), and Federal or research funding and the institution is accountable for the resources to achieve the intended purpose.

Virginia Tech also provides services which support the university's clients and mission. These services constitute Virginia Tech's auxiliary enterprise functions, i.e., dining programs, residential programs, parking services. These services are operated in a manner similar to a business operation and are funded by the direct users of the services. Thus fund accounting is critical to track each of these businesses to ensure the self-sufficiency of operations.

While the University's Financial Statement classifies financial activity in current funds, loan funds, endowment funds, annuity funds, agency funds, and plant funds, this presentation focuses on the activities occurring within current funds since this is where the majority of the day-to-day transactions occur.



Virginia Tech's financial structure can be understood by reviewing the university's legal organizational structure.

The university has a public and private side.

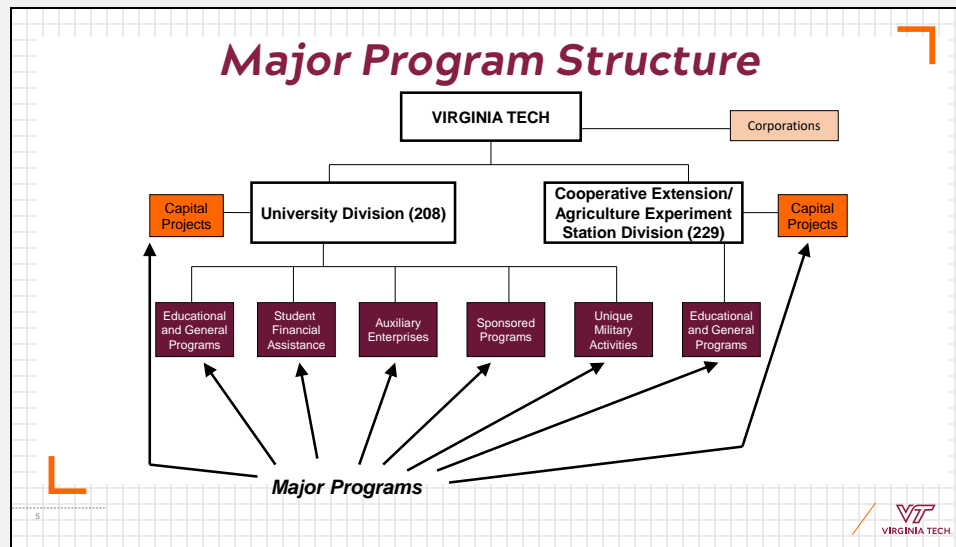
For the purposes of budgeting public funds, it is important to understand that Virginia Tech is comprised of two separate state agencies -- each agency is a separate legal entity, each with its own mission, purpose and funding sources.

- University Division (agency 208) – founded in 1872 (federal Morrill Act of 1862 mandated the land-grant colleges to teach agriculture and the mechanical arts).
- Cooperative Extension/Agriculture Experiment Station Division (agency 229) – Hatch Act of 1877 established agriculture experiment stations and the Smith-Lever Act of 1914 created the Federal Extension Service.

Funds that are generated for each of these agencies must be accounted for in its own individual budget. In other words, funding that is appropriated or collected for the University Division cannot be transferred to the Cooperative Extension/AES Division (or vice versa). Instead, funds allocated to the University Division must be used exclusively for the University Division.

A separate group of related corporations (VA Tech Foundation, VT Services, etc.) manage private funds and activities on behalf of the university. Each has its own board and must have been approved by the VT BOV prior to incorporation.

Corporations are separate entities and are not considered to be part of the university for budgeting of public funds, the Office of Budget and Financial Planning at Virginia Tech budgets for public funds (not the corporations). The Office of Budget and Financial Planning is responsible for coordinating the development, execution, and reporting of the state agency activities. This discussion focuses on the public funds within the state agencies (the University Division and the Cooperative Extension/Agriculture Experiment Station Division).



Budgeting at Virginia Tech

Above, we saw how Virginia Tech’s organizational structure dictates the structure of its budgeting system. Now let’s look at how each of these agencies can be further broken down to represent both the program structure and the fund structure of its accounting system.

The Commonwealth designates the programs within the state’s program structure (education, justice, family services, resource and economic development, transportation, general government, and enterprise). Each of the major programs listed in this chart is defined by separate legal entity.

The University Division of Virginia Tech has 6 major programs:

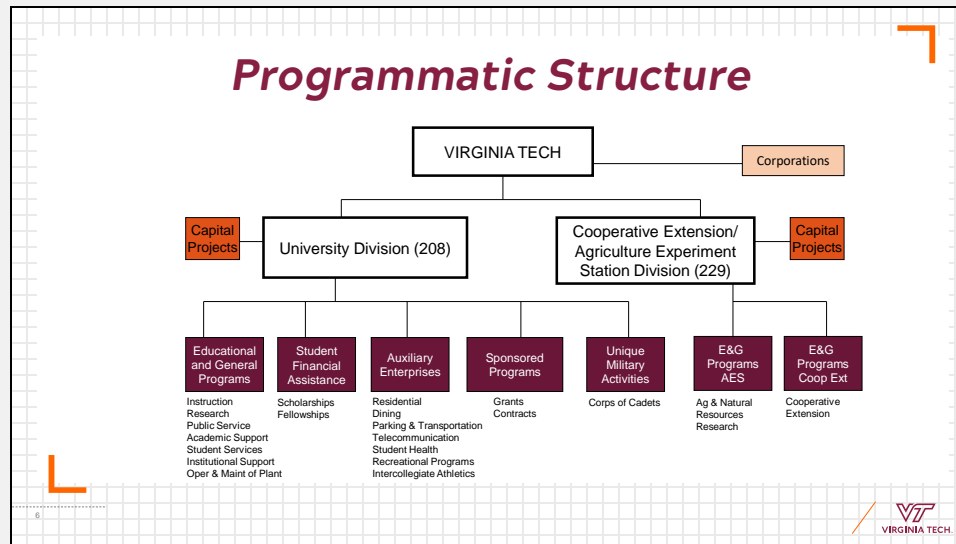
1. Educational and General Programs
2. Student Financial Assistance
3. Auxiliary Enterprises
4. Sponsored Programs

5. Unique Military Activities
6. Capital Projects

The Cooperative Extension/Agriculture Experiment Station Division has 2 major programs:

1. Education and General Programs
2. Capital Projects

Just as with the budget structure, the funds appropriated for a program must be used for that particular program and are not allowed to be transferred to any other program. For example, funding appropriated by the General Assembly for educational and general programs cannot be transferred to an auxiliary enterprise under any circumstance.



The major fund programs we discussed when looking at the program structure of the University each have defined subprograms and purposes by the Commonwealth of Virginia.

UNIVERSITY DIVISION (Agency 208)

Serves the Commonwealth of Virginia, the nation, and the international community by generating and disseminating knowledge through instruction and research and extension.

Educational and General Programs - Involves efforts to coordinate and provide instruction, research, and public service.

- Instruction - Efforts to provide higher education instruction and related departmental research.
- Research - Efforts to provide for research that is separately budgeted or carried on in institutes or research centers.
- Public Service - Efforts to provide services beneficial to individuals and groups external to the institution.
- Academic Support - Efforts to provide higher education support services that directly support the institution's primary function of instruction, research, and public service.
- Student Services – Efforts to provide support services to students.
- Institutional Support - Efforts to provide higher education support services that directly support the institution's primary function of instruction, research, and public service.
- Operating and Maintenance of Plant – Efforts to operate and maintain physical plant facilities at institutions of higher education.

Student Financial Assistance - Involves efforts to provide resources for educational and general services through supplementing other activities within the system.

- Scholarships
- Fellowships

Auxiliary Enterprises - Involves efforts to provide support services for educational programs. These enterprises are financially self-supporting and do not receive tuition revenue of a General Fund appropriation. The auxiliary enterprises are supported by charging for all of the services they provide. Revenue is generated through cash sales and student fees. Each of the components of the Auxiliary Enterprises is 100% self-supporting.

- Dining Programs
- Residential Program
- Parking Services
- Transportation Services
- Telecommunications
- Student Health Services
- Student Engagement and Campus Life

- Recreational Programs
- Electric Service
- Intercollegiate Athletics

Sponsored Programs - Involves both basic and applied research activities, funded through grants, contracts, and cooperative agreements with federal, state, and local agencies, industry, business, and private foundations and associations.

- Grants
- Contracts

Unique Military Activities - Efforts to provide resources to support a continuing military environment at institutions of higher education. At Virginia Tech these are activities related to the Corps of Cadets.

COOPERATIVE EXTENSION/AGRICULTURE EXPERIMENT DIVISION (Agency 229)

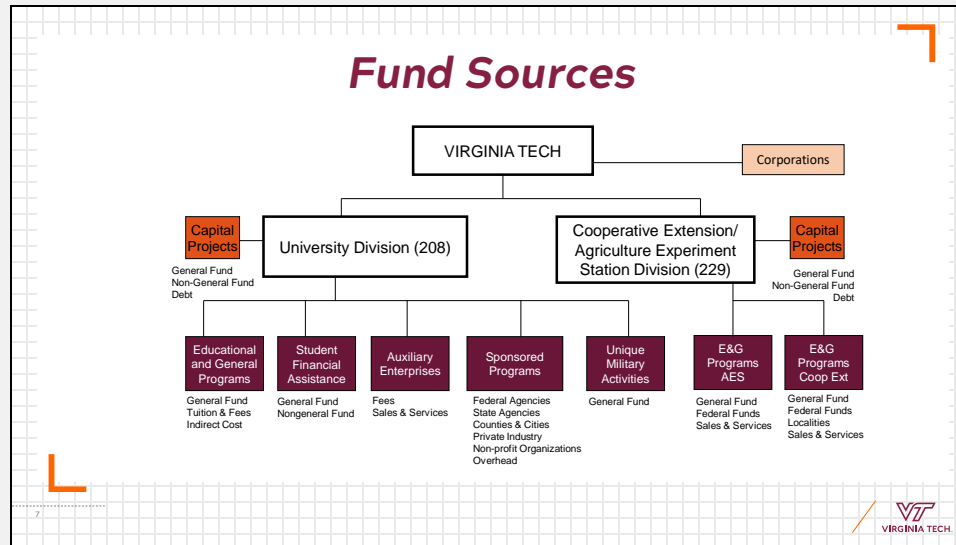
Involves providing the people of the Commonwealth with information and knowledge on subjects related to agriculture through instruction and the dissemination of useful and practical information.

- Agriculture & Forestry Research
- Agriculture & Natural Resource Cooperative Extension

SUMMARY

The financial transactions associated with each of these activities are documented separately.

The proper classification of expenditures by program is critical for various reporting and accountability processes.



WHERE THE FUNDS FOR EACH PROGRAM COME FROM

Educational and General Programs (E&G)

E&G Funding Sources = General Fund (GF) + Non General Fund (NGF)

GF = sales and income taxes and other undesignated revenue in the Commonwealth

NGF = tuition, fees, self-generated revenue, federal revenues

University Division

The main sources of funding for the University Division are General funds and tuition revenue.

Cooperative Extension

The sources of funding for cooperative extension services are a combination of state, local, and federal funds.

Agriculture Experiment Stations

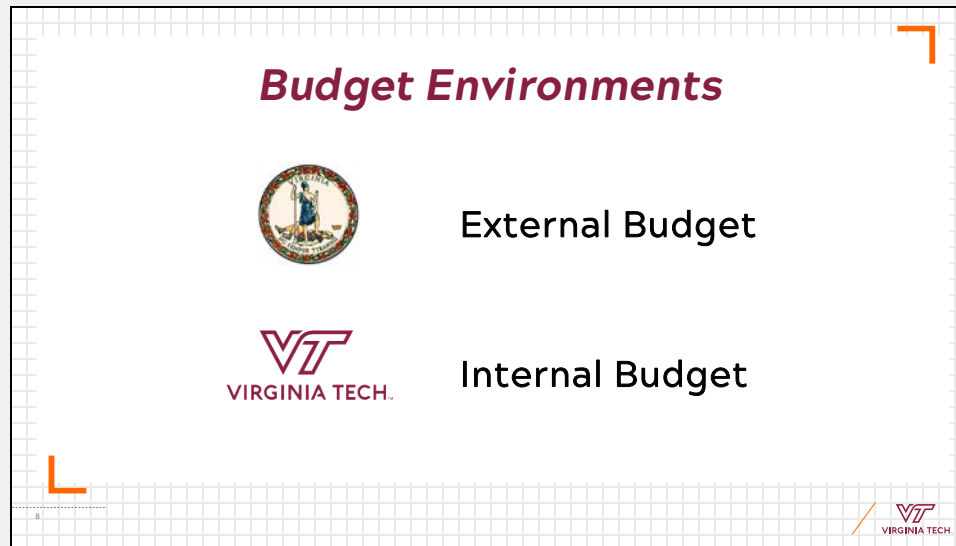
The Agriculture Experiment Stations are funded through a combination of state and federal funds.

Auxiliary Enterprises

Sources of funding for auxiliary enterprises – are all NGF. These enterprises are financially self-supporting and do not receive tuition revenue of a General Fund resources. The auxiliary enterprises are supported by charging for all of the services they provide. Revenue is generated through cash sales and student fees.

Capital Projects

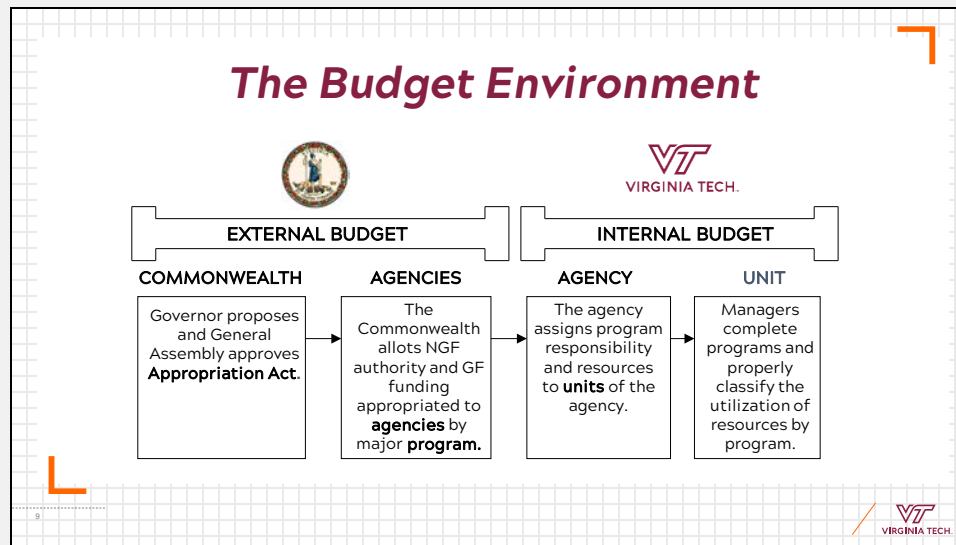
Sources of funding for capital projects – GF, NGF, and debt (i.e. revenue bonds) secured by the Commonwealth or the University’s pledge of revenues.



The University has two different budget environments which are significantly inter-related.

The funding relationship between Virginia Tech and the Commonwealth of Virginia is referred to as the **external budget process** (external to the University).

In the **internal budgeting process**, Virginia Tech assigns program responsibility and resources to units within the University.



The two different budget environments can be contrasted as follows:

The funding relationship between Virginia Tech and the Commonwealth of Virginia is referred to as the **external budget process** (external to the University). In the external budgeting process, Virginia Tech presents its needs to the Governor and the General Assembly who determine what programs they will support and the funding type and amount of support those programs will receive. Furthermore, the General Assembly and the Governor determine when the money can be spent by appropriating money for specific fiscal years.

After the legislative process appropriates resources to Virginia Tech, the **internal budgeting process** begins. In this process, Virginia Tech assigns program responsibility and resources to units within the University. Units authorized to expend the University resources often deal with a number of funding sources and multiple programmatic purposes. As such, resources cannot be commingled and must be separately accounted for.

External Budget Environment

- Code of Virginia
- Constitution: All funds → State Treasury
- State Appropriation Act
- Virginia Procurement Act
- Virginia Personnel Act
- Restructuring Act



The **Code of Virginia** dictates Virginia Tech's legal environment (e.g. establishes Virginia Tech as a state agency).

For example, Article X Section VII of **Virginia's Constitution** requires that all funds be deposited into the State Treasury.



Every other year, the General Assembly approves a biennial **Appropriation Act** that authorizes all expenditures, position allocations, and capital projects by state agencies from the State Treasury. Thus, the state Appropriation Act determines how much money Virginia Tech can legally expend from the State Treasury. It is interesting to note that the Appropriations Acts supersedes the Code of Virginia.

While the Appropriation Act determines the amount, purpose, and timing of Virginia Tech's expenditures, the **Virginia Procurement Act** determines *how* Virginia Tech (and all state agencies) must go about making expenditures. The Virginia Personnel Act defines the state human structure for classified staff.

In 2004 the state passed the Higher Education Restructuring Act to provide expanded authority to Virginia Tech.

External Budget Process

- State Appropriation Act
 - Biennial Budget
 - Odd Year
 - Executive *Budget*
 - Legislative *Amendments*
 - 2 Year Budget Effective July 1
 - Even Year
 - Governors *Amendments*
 - Legislative *Amendments*

BIENNIAL BUDGET PROCESS

ODD-YEAR BUDGET PROCESS

Executive Budget: Agencies submit requests in the fall (of odd numbered years). State Treasury forecasts revenues. Governor develops a budget proposal and presents to the legislature in late December.

Legislative Amendments: Legislature convenes, amends the Governor's budget and approves 2-year appropriation. Budget goes into effect July 1 of even-numbered year.

EVEN-YEAR BUDGET PROCESS

Agencies request amendments in the fall of even numbered years.

Executive Amendments: Governor recommends amendments in December.

Legislative Amendments: Legislature reviews and amends the budget.

Internal Budget Environment

- State and Federal Laws
- University Policies and Procedures
- University Mission
- Budget Responsibility Center Concept



The University's internal budget environment is governed by:

State and federal laws, University policies and procedures, the University Mission, and the Budget Responsibility Center Concept.

State laws are consistent with what was discussed in the external budget section.

Federal laws provide additional guidance on everything from gender equity in sports (Title IX) and accessibility issues (ADA) to cost accounting standards (OBM circular A-21). This has implications on the sports programs, facilities, and costs charged to federal grants and contracts.

University policy and procedures define the University's intentions and practices. For example, the University's policy on Conflict of Interests addresses the management and monitoring of such activities to promote and safeguard the interests and reputation of Virginia Tech and its faculty.

The budget responsibility center concept (will be described in a later slide) the University developed in the 1990's to decentralize decision making and resource allocations within the University.

Internal Budget Process

1. Identification of annual resources or shortfall

Resources - Continuing Expenses - Mandatory Expenses = Available Resources or Shortfall

2. Solicit funding requests
3. Prioritize and fund initiatives
4. Budget Allocations to Colleges

Partnership for Incentive-Based Budgeting (PIBB) Model

5. Communicate
6. Execute budget



- Identification of Resources - Continuing Expenses - Mandatory Expenses = Available Resources/(Shortfall)

Resources – Virginia Tech tracks legislation to determine the level of general fund support it will receive and the amount of tuition it can assess.

Continuing Expenses – Virginia Tech funds raises and fringe benefit increases.

Mandatory Expenses – These include increases in expenses like utilities, insurance, and worker’s compensation which Virginia Tech must pay.

- Solicit funding requests (budget call) – The University coordinates several different internal budget development processes (one for E&G and auxiliary enterprises).
- Prioritize and fund initiatives (for example, confirm program responsibility and resource allocation for initiatives funded by the legislative process).

- Budget allocations to the Colleges are informed by the Partnership for Incentive-Based Budgeting (PIBB) Model. This links the budget to accomplishments of goals and allows resources to more closely follow activity.
- Communicate budget. A copy of the Authorized Budget Document (ABD) is sent to every Fiscal Officer, Dean, Provost, and VP for Finance and Chief Financial Officer. It is also posted on the Office of Budget and Financial Planning website (www.obfp.vt.edu).
- Execute Budget -- The internal budget is executed by loading the authorized budget into the University accounting system. This is normally completed in late June in advance of the July 1 fiscal year start.

Once the budget is executed, Fiscal Officers and managers are able to transfer budgets real-time in the University accounting system although budgets may not be transferred between major programs (for example, from E&G to overhead). The Office of Budget and Financial Planning provides training on the budget transfer forms, in Banner Finance, and a budget transfer manual can be found on-line (www.obfp.vt.edu).

Budget Responsibility Center Concept

- Decentralized environment
 - Delegation of resources and accountability

- What does this mean?

Flexibility and decision making authority within certain limits:

- Expenditure limits
- Position allocations
- Appropriate funding



The budget responsibility center concept was developed in the early 1990's at Virginia Tech. The early 1990's was a period marked by a series of statewide budget reductions. The University responded to these reductions in several ways including the establishment of the budget responsibility center concept. The basic premise is to ensure that flexibility and decision making are at the most effective levels for the organization. This has generally led to the delegation of resources and the associated accountability. This requires units to understand resource allocations (both expenditure and positions), cost accounting, and appropriate funding sources while achieving their programmatic mission.

Questions?

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