

## AUDIT SUMMARY

Our audit of the Virginia Community College System for the year ended June 30, 1998, found:

- the financial statements are presented fairly, in all material respects;
- internal control matters that we consider reportable conditions; however, we do not consider any of these instances to be material weaknesses;
- no instances of noncompliance required to be reported under Government Auditing Standards; and
- adequate corrective action of prior audit findings, except for:
  - Enhance Fixed Asset Procedures,
  - Promptly Remove Computer Access for Terminated Employees, and
  - Exercise Sound Contract Management.

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COMMUNITY COLLEGES AUDITED

SYSTEM OFFICIALS

COMMUNITY COLLEGE PRESIDENTS

May 28, 1999

The Honorable James S. Gilmore, III  
Governor of Virginia  
State Capitol  
Richmond, Virginia

The Honorable Richard J. Holland  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

We have audited the accounts and records of the **Virginia Community College System** as of and for the year ended June 30, 1998, and submit here with our complete reports on financial statements and on compliance and internal control over financial reporting.

#### INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the balance sheet of the Virginia Community College System as of June 30, 1998, and the related statements of changes in fund balances and current fund revenues, expenditures, and other changes for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Community College System as of June 30, 1998, and the changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended, in conformity with generally accepted accounting principles.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING

Audit Objectives and Findings

In planning and performing our audit of the financial statements of the Virginia Community College System as of and for the year ended June 30, 1998, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards. We also determined the status of audit findings contained in our prior year report.

Compliance

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the System's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the section entitled "Internal Control Findings and Recommendations."

We believe none of these reportable conditions is a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be a material weaknesses.

J. Sargeant Reynolds community College has not taken adequate corrective action with respect to the previously reported finding, "Enhance Fixed Asset Procedures." Accordingly, we included this finding in the section entitled "Internal Control Findings and Recommendations."

This report is for the information of the Governor and General Assembly, State Board of Community Colleges, audit committee, management, and the people of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on June 30, 1999.

AUDITOR OF PUBLIC ACCOUNTS

JEG:whb  
whb:218

## INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

### Virginia Community College Utility

The Utility is an organizational entity within the Community College System that serves and administers the information technology needs for 23 Community Colleges and System Office. While the individual Colleges maintain their own internal networks and support their users, the Utility administers shared data, network, and video services and assists college information technology personnel with use and integration of these services into their local network. Our review of Utility operations disclosed the following weaknesses:

#### Review Security Access Privileges

Three Utility users have ACF2 ACCOUNT and SECURITY privileges that they do not need to perform their job duties. ACF2 is the System's security software that uses defined rule sets to control access to computer programs and data. ACCOUNT and SECURITY are powerful privileges that the Utility should limit to as few employees as possible. The Utility should review the rules that grant access to ACCOUNT and SECURITY and remove all unneeded access. The Utility subsequently reviewed the rules and removed access for the three employees.

#### Improve Physical Access to Utility Data Center

The Utility data center located at J. Sargeant Reynolds Community College has multiple doors in the data center that lead into offices and external hallways. There is the risk that someone visiting the offices could gain inappropriate access to the data center. We understand the System is reviewing the feasibility of moving the data center to a location that will enable the Utility to better limit physical access to the data center. For now, the Utility should implement a sign-in book and escort visitors at all times in the data center.

### Individual College Issues

#### Promptly Remove Computer Access for Terminated Employees

Applicable To: J. Sargeant Reynolds Community College  
Rappahannock Community College

These colleges do not properly monitor user access to critical automated systems. We noted the following:

- J. Sargeant Reynolds did not promptly delete access from the Student Information System for sixteen terminated employees.
- Rappahannock did not promptly delete access for five terminated employees.

College management should have established procedures that require the periodic review of each employee's access for necessity and appropriateness.

### Change Router Passwords

Applicable To: J. Sargeant Reynolds Community College  
Northern Virginia Community College

The main CISCO 4700 routers located at J. Sargeant Reynolds and Northern Virginia Community Colleges have unprivileged access passwords that can be easily guessed by someone with knowledge of routers. Gaining unprivileged access would allow someone to learn technical statistics to attempt to log in to the privileged mode. In privileged mode, someone could alter the router configuration and shut down the network. To better strengthen security over their local networks, the College should change the unprivileged access passwords to more secure passwords.

### Store Backup Data Offsite

Applicable To: Patrick Henry Community College

The College does not store backup computer data offsite. Failure to store backup data offsite could lead to a loss of data in the event of a disaster. The College should comply with its policy and store backup data in an offsite location.

### Require Password Changes

Applicable To: Patrick Henry Community College

Patrick Henry does not require periodic password changes for employees using the local area network. Failure to require password changes could lead to inappropriate access. The college should require periodic password changes for employees using the local area network.

### Improve Record Retention

Applicable To: Tidewater Community College

Tidewater could not provide documentation of approval for 5 out of 5 revenue refund vouchers selected for testing. The Commonwealth Accounting Policies and Procedures Manual, Section 21000 requires the retention of records for five years or until audited. The college should retain records as required.

### Enhance Fixed Asset Procedures

Applicable To: J. Sargeant Reynolds Community College  
Rappahannock Community College  
Tidewater Community College

The Fixed Asset Coordinators at these colleges do not properly record all fixed asset changes in the Fixed Asset Inventory System. We found the following:

- Tidewater erroneously removed from fixed assets \$1.3 million of equipment in use by the College and 22 obsolete assets. Obsolete assets should remain in the fixed asset records until disposal. Tidewater also reported three assets in incorrect locations and could not locate one asset.

- J. Sargeant Reynolds did not affix an identification tag to two assets, reported eight assets in incorrect locations, and could not locate one asset.
- Rappahannock could not locate four assets and failed to remove one surplus asset.

The college's Fixed Asset Coordinators should review fixed asset procedures for the proper recording of asset records. College management should ensure that the Coordinators receive adequate training to help them record all fixed asset changes accurately and promptly.

#### Exercise Sound Contract Management

Applicable To: Patrick Henry Community College

Patrick Henry received commission checks late from two contractors. The bookstore contractor remitted commissions late for five months, and the food service contractor remitted commissions late for two months. The college should practice sound contract management and require payment from its contractors according to the contract terms.

## **FINANCIAL STATEMENTS**

VIRGINIA COMMUNITY COLLEGE SYSTEM  
BALANCE SHEET  
As of June 30, 1998

A S S E T S	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds			Agency Funds	Total (Memorandum Only)
	Unrestricted	Restricted			Unexpended	Renewals and Replacements	Investment in Plant		
Cash and cash equivalents (Note 3)	\$ 19,503,496	\$ 2,321,244	\$ 453,650	\$ 63,505	\$ 5,415,538	\$ 134,809	\$ -	\$ 977,693	\$ 28,869,935
Investments (Note 3)	16,928,405	98,037	13,811	316,382	12,360,819	-	-	2,369,528	32,086,982
Appropriations available	-	-	-	-	5,215,511	1,897,239	-	-	7,112,750
Accounts receivable (Note 4)	3,416,463	231,322	-	-	1,484,990	2,454,296	-	3,283	7,590,354
Notes receivable (Note 4)	476	-	3,593,690	-	-	-	-	-	3,594,166
Interest receivable	60,028	-	30	635	72,304	4,366	-	10,275	147,638
Loans receivable	141,439	-	-	-	-	-	-	-	141,439
Prepaid expenses	208,816	-	-	-	-	-	-	-	208,816
Due from other funds	773,891	9,411	-	-	-	-	-	-	783,302
Due from grantors	-	455,489	-	-	-	-	-	-	455,489
Inventories	1,371,326	-	-	-	-	-	-	-	1,371,326
Land	-	-	-	-	-	-	22,102,816	-	22,102,816
Site improvements	-	-	-	-	-	-	41,505,609	-	41,505,609
Buildings	-	-	-	-	-	-	218,718,208	-	218,718,208
Equipment and library books	-	-	-	-	-	-	121,680,588	-	121,680,588
Construction in progress	-	-	-	-	-	-	90,939,339	-	90,939,339
Equity in Equipment Trust Fund	-	-	-	-	-	-	430,560	-	430,560
<b>Total assets</b>	<b>\$ 42,404,340</b>	<b>\$ 3,115,503</b>	<b>\$ 4,061,181</b>	<b>\$ 380,522</b>	<b>\$ 24,549,162</b>	<b>\$ 4,490,710</b>	<b>\$ 495,377,120</b>	<b>\$ 3,360,779</b>	<b>\$ 577,739,317</b>
<b>LIABILITIES AND FUND BALANCES</b>									
<b>Liabilities:</b>									
Accounts payable	\$ 3,891,045	\$ 337,893	\$ 13,888	\$ -	\$ 3,039,900	\$ 1,231,783	\$ -	\$ 14,357	8,528,866
Retainage payable (Note 5)	-	-	-	-	897,178	316,655	-	-	1,213,833
Accrued expenses	10,584,448	752,351	-	-	-	-	-	-	11,336,799
Accrued compensated absences	23,377,976	474,084	-	-	-	-	-	-	23,852,060
Due to Commonwealth of Virginia:									
Petty cash advance	172,350	-	-	-	-	-	-	-	172,350
Deferred revenue	10,187,293	-	-	-	-	-	-	-	10,187,293
Due to other funds	9,411	747,460	26,431	-	-	-	-	-	783,302
Deposits held in custody for others	120,308	154	489	-	-	2,118	-	3,346,422	3,469,491
Loans payable	-	150,000	-	-	-	-	-	-	150,000
Bonds payable (Note 6)	-	-	-	-	13,425	-	3,665,749	-	3,679,174
Capital lease obligations (Note 7)	-	-	-	-	-	-	15,263,161	-	15,263,161
Installment purchase obligations (Note 7)	-	-	-	-	-	-	7,381,809	-	7,381,809
Equipment trust fund obligations (Note 8)	-	-	-	-	-	-	18,539,253	-	18,539,253
<b>Total liabilities</b>	<b>48,342,831</b>	<b>2,461,942</b>	<b>40,808</b>	<b>-</b>	<b>3,950,503</b>	<b>1,550,556</b>	<b>44,849,972</b>	<b>3,360,779</b>	<b>104,557,391</b>
<b>Fund balances (deficit):</b>									
Unrestricted	(5,938,491)	-	-	-	14,497,861	-	-	-	8,559,370
Restricted	-	653,561	-	-	6,100,798	2,940,154	-	-	9,694,513
Loan funds - College	-	-	772,953	-	-	-	-	-	772,953
Loan funds - Federal	-	-	3,247,420	-	-	-	-	-	3,247,420
True endowment funds	-	-	-	14,000	-	-	-	-	14,000
Quasi-endowment funds	-	-	-	366,522	-	-	-	-	366,522
Net investment in plant	-	-	-	-	-	-	450,527,148	-	450,527,148
<b>Total fund balances (deficits)</b>	<b>(5,938,491)</b>	<b>653,561</b>	<b>4,020,373</b>	<b>380,522</b>	<b>20,598,659</b>	<b>2,940,154</b>	<b>450,527,148</b>	<b>-</b>	<b>473,181,926</b>
<b>Total liabilities and fund balances</b>	<b>\$ 42,404,340</b>	<b>\$ 3,115,503</b>	<b>\$ 4,061,181</b>	<b>\$ 380,522</b>	<b>\$ 24,549,162</b>	<b>\$ 4,490,710</b>	<b>\$ 495,377,120</b>	<b>\$ 3,360,779</b>	<b>\$ 577,739,317</b>

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

VIRGINIA COMMUNITY COLLEGE SYSTEM  
STATEMENT OF CHANGES IN FUND BALANCES  
For the Year Ended June 30, 1998

	Plant Funds							
	Current Funds		Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
	Unrestricted	Restricted						
Revenues and other additions:								
Unrestricted current funds revenues	\$ 373,020,423	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State appropriations - Restricted	-	10,619,535	-	-	12,959,892	6,831,341	4,112,377	-
Local appropriations - Restricted	-	47,280	-	-	2,767,663	25,090	-	-
Federal grants and contracts - Restricted	-	66,216,317	-	-	-	-	-	-
State grants and contracts - Restricted	-	2,089,702	-	-	-	-	-	-
Local grants and contracts - Restricted	-	243,941	-	-	79,660	-	-	-
Private gifts, grants and contracts - Restricted	-	3,591,166	1,620	750	834,418	-	-	9,047,852
U.S. Government advances	-	-	298,358	-	-	-	-	-
Investment income	-	3,040	3,013	7,642	1,036,023	6,704	-	-
Endowment income	-	1,392	-	-	-	-	-	-
Interest on loans receivable	-	-	67,804	-	-	-	-	-
Expended for plant facilities (including \$10,140,194 charged to current funds)	-	-	-	-	-	-	-	32,149,674
Recovery of write-offs	-	-	27,015	-	-	-	-	-
Retirement of indebtedness (including \$3,751,764 charged to current funds)	-	-	-	-	-	-	-	7,584,923
Other sources	-	419	19,358	-	11,682	-	-	-
<b>Total revenues and other additions</b>	<b>373,020,423</b>	<b>82,812,792</b>	<b>417,168</b>	<b>8,392</b>	<b>17,689,338</b>	<b>6,863,135</b>	<b>4,112,377</b>	<b>48,782,449</b>
Expenditures and other deductions:								
Educational and general expenditures	358,020,045	81,524,659	-	-	-	-	-	-
Auxiliary enterprise expenditures	8,146,803	-	-	-	-	-	-	-
Indirect cost recovered	-	1,198,490	-	-	-	-	-	-
Refunded to grantors	-	91,231	9,440	-	-	-	-	-
Loan cancellations and write-offs	-	-	82,976	-	-	-	-	-
Administrative and collection costs	-	-	94,250	-	-	-	-	-
Expended for plant facilities (includes noncapitalized expenditures of \$7,452,804)	-	-	-	-	21,627,720	7,834,564	-	-
Retirement of indebtedness	-	-	-	-	-	-	3,833,159	-
Interest on indebtedness	-	-	-	-	-	-	756,032	-
Disposal of plant facilities	-	-	-	-	-	-	-	6,180,047
<b>Total expenditures and other deductions</b>	<b>366,166,848</b>	<b>82,814,380</b>	<b>186,666</b>	<b>-</b>	<b>21,627,720</b>	<b>7,834,564</b>	<b>4,589,191</b>	<b>6,180,047</b>
Transfers among funds - Additions/(Deductions):								
Mandatory:								
(To)/From other funds	(98,342)	-	98,342	-	-	-	-	-
Nonmandatory:								
(To)/From other funds	(3,119,180)	(200)	(21,478)	145,577	2,518,467	-	476,814	-
<b>Total transfers among funds</b>	<b>(3,217,522)</b>	<b>(200)</b>	<b>76,864</b>	<b>145,577</b>	<b>2,518,467</b>	<b>-</b>	<b>476,814</b>	<b>-</b>
Net increase (decrease) for the year	3,636,053	(1,788)	307,366	153,969	(1,419,915)	(971,429)	-	42,602,402
Fund balances (deficit) at July 1, 1997	(9,574,544)	655,349	3,713,007	226,553	22,018,574	3,911,583	-	407,924,746
Fund balances (deficit) at June 30, 1998 (Note 10)	\$ (5,938,491)	\$ 653,561	\$ 4,020,373	\$ 380,522	\$ 20,598,659	\$ 2,940,154	\$ -	\$ 450,527,148

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

VIRGINIA COMMUNITY COLLEGE SYSTEM  
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES  
For the Year Ended June 30, 1998

	Unrestricted	Restricted	Total
<b>Revenues:</b>			
Student tuition and fees	\$ 127,478,361	\$ -	\$ 127,478,361
State appropriations (Note 9)	223,276,904	10,605,356	233,882,260
Local appropriations	4,175,389	64,345	4,239,734
Federal grants and contracts	963,129	65,056,102	66,019,231
State grants and contracts	20,441	2,450,173	2,470,614
Local grants and contracts	-	213,482	213,482
Private gifts, grants, and contracts	394,281	3,133,151	3,527,432
Endowment income	518	2,050	2,568
Sales and services of educational departments	508,182	-	508,182
Sales and services of auxiliary enterprises	11,013,144	-	11,013,144
<b>Other sources:</b>			
Commissions	3,100,124	-	3,100,124
Investment income	681,750	-	681,750
Rents and leases	90,476	-	90,476
Sale of surplus property	38,293	-	38,293
Insurance recoveries	231,241	-	231,241
Miscellaneous	1,048,190	-	1,048,190
<b>Total current revenues</b>	<b>373,020,423</b>	<b>81,524,659</b>	<b>454,545,082</b>
<b>Expenditures and mandatory transfers:</b>			
<b>Educational and general:</b>			
Instructional	180,782,666	20,184,861	200,967,527
Public service	1,932,653	180,578	2,113,231
Academic support	40,653,335	78,720	40,732,055
Student services	28,918,114	2,775,672	31,693,786
Institutional support	75,839,377	1,234,848	77,074,225
Operation and maintenance of plant	28,386,047	1,310	28,387,357
Scholarships and fellowships	1,507,853	57,068,670	58,576,523
<b>Educational and general expenditures</b>	<b>358,020,045</b>	<b>81,524,659</b>	<b>439,544,704</b>
<b>Mandatory transfers for:</b>			
Loan fund matching grant	98,342	-	98,342
<b>Total educational and general</b>	<b>358,118,387</b>	<b>81,524,659</b>	<b>439,643,046</b>
<b>Auxiliary enterprises:</b>			
Expenditures	8,146,803	-	8,146,803
<b>Total expenditures and mandatory transfers</b>	<b>366,265,190</b>	<b>81,524,659</b>	<b>447,789,849</b>
<b>Other transfers and additions/(deductions):</b>			
Excess (deficiency) of restricted receipts over transfers to revenue	-	89,643	89,643
Refunded to grantors	-	(91,231)	(91,231)
<b>Nonmandatory transfers:</b>			
(To)/from current funds	200	(200)	-
(To)/from loan funds	26,273	-	26,273
(To)/from endowment and similar funds	(150,372)	-	(150,372)
(To)/from plant funds	(2,995,281)	-	(2,995,281)
<b>Net increase (decrease) in fund balances</b>	<b>\$ 3,636,053</b>	<b>\$ (1,788)</b>	<b>\$ 3,634,265</b>

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

## **NOTES TO FINANCIAL STATEMENTS**

VIRGINIA COMMUNITY COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The accompanying financial statements include all fund groups of the individual Community Colleges and the System Office under the control of the State Board for Community Colleges. A list of entities included in this audit is found in the schedule entitled "Community Colleges Audited."

The Virginia Community College System was established as an institution of higher education in 1965. The System includes the State Board for Community Colleges, a System Office located in Richmond, and 23 community colleges located on 38 campuses throughout the Commonwealth. The System was founded for the purpose of broadening the base of higher education in Virginia and providing a much wider variety of post-high school education and technical training opportunities than previously available. The System is governed by the State Board for Community Colleges which follows higher education policy guidelines established by the State Council of Higher Education for Virginia. Operating and administrative responsibilities rest with the System Office in Richmond.

Section 2100 of the GASB, Codification of Governmental Accounting and Financial Reporting Standards, describes the criteria for determining which organizations, functions and activities should be part of the Commonwealth for financial reporting purposes. The basic criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Commonwealth to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Commonwealth.

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

The accompanying financial statements include the accounts of all organizational units of the Virginia Community College System. Each individual college and the System Office have educational foundations that are defined as related parties. The assets of related parties, which are separately incorporated and managed by their own boards, are not included in these statements. Related parties are described in Note 2.

B. Fund Accounting

To ensure the observance of limitations and restrictions placed on the use of resources, the accounts are maintained in accordance with the principles of “fund accounting.” Resources are classified for accounting and reporting purposes into funds that may be used for activities or objectives specified. Separate accounts are maintained for each fund, however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

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

Unrestricted revenue is accounted for in the Unrestricted Current Fund. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Restricted Current Funds are reported as revenues and expenditures when expended for current operating purposes.

A summary of fund group definitions is as follows:

1. Current Funds - Current funds balances are separated into those which are restricted by donors and those that are unrestricted. Restricted funds may only be expended for the purposes indicated by the donor or grantor whereas unrestricted funds are available for current operations at the discretion of the System.
2. Loan Funds - Loan funds represent funds that are limited by the terms of their donors or by action of the State Board for the purpose of making loans to students.
3. Endowment and Similar Funds - Endowment and similar funds record the usage of income from moneys subject to restrictions of gift instruments requiring that the principle be invested and only the income be expended. While quasi-endowment funds have been established by the governing board for the same purpose as endowment funds, any portion of quasi-endowment funds may be expended.
4. Plant Funds - Plant funds are divided into four groups: unexpended, renewal and replacement, retirement of indebtedness, and net investment in plant. Unexpended plant funds represent funds that were specified by external sources or designated by the State Board for the acquisition and construction of physical properties. Renewal and replacement

funds represent funds for the renovation and replacement of physical properties. The retirement of indebtedness fund includes resources held for the retirement of both principle and interest on debt. Investment in plant represents the capitalized value of physical property owned by the System, less associated long-term debt.

5. Agency Funds - Agency funds reflect funds held in trust by the System as custodian.

C. Basis of Accounting

The financial statements of the System have been prepared in accordance with generally accepted accounting principles for colleges and universities. The System utilizes the accrual basis of accounting in accordance with the American Institute of Certified Public Accountant's audit guide, Audits of Colleges and Universities. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred through the receipt of goods or services. The Statement of Current Funds Revenues, Expenditures and Other Changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

D. Investments

Interest-bearing temporary investments and investments are stated at fair market value in accordance with GASB 31 reporting.

E. Inventories

Inventories are stated at cost (primarily first-in, first-out method) and consist mainly of goods purchased for resale and expendable supplies.

F. Investment in Plant

Plant assets consisting of land, buildings, improvements, equipment, and construction in progress are stated at appraised historical cost or actual cost where determinable. Current fund expenditures for equipment are capitalized when the unit acquisition cost is \$5,000 or greater and the estimated useful life is two years or more. Library books are valued at average cost per volume (\$29 per book and \$56 per periodical). The accompanying financial statements include no provision for depreciation of plant assets.

G. Deferred Revenue

Deferred revenue consists primarily of student tuition collected for the summer academic term but not earned as of June 30, 1998.

H. Accrued Compensated Absences

Accrued compensated absences reflected in the accompanying financial statements represents the amounts of vacation, sick, and compensatory leave earned by employees of the System but not taken at June 30, 1998, as well as related fringe benefits. The amount reflects all earned vacation, sick, and compensatory leave payable under the Commonwealth of Virginia's leave pay-out policy and the System's faculty and administrator's leave pay-out policy upon employment termination. An additional liability amount has been included for those employees with less than five years of service based on the probability they will eventually become vested. Also included in the liability is the System's share of the FICA taxes on leave balances for which employees will be compensated.

2. RELATED PARTIES

Each College and the System Office have organized educational foundations that provide exclusive benefit to the College and System, except for Eastern Shore Community College. In the Eastern Shore area, the foundation's activity is not restricted solely to the College. The educational foundations are non-profit organizations created to raise funds supporting college programs, students, and related activities.

Limited members of the College Boards, locality appointed advisory boards of the System, represent the College on the Foundation's governing board.

All educational foundations are independently audited. The State Board requires submission of yearly financial statements to the System Office. The following is a condensed summary of the financial condition of the Foundations at June 30, 1998, except for Danville, John Tyler, New River, and Virginia Western Community Colleges which are as of December 31, 1997, and Dabney S. Lancaster which is as of June 30, 1997.

Assets	<u>\$51,371,110</u>
Liabilities	\$ 1,781,805
Fund Balance	<u>49,589,305</u>
Total	<u>\$51,371,110</u>
Revenue	<u>\$18,411,877</u>
Expenditures	<u>\$ 6,336,892</u>

Each College provides varying levels of support to the foundation in exchange for their services. Most Colleges provide use of property and equipment, office supplies, accounting services, clerical staff, and data processing support to the foundation. College employees or committees may be responsible for awarding scholarships, soliciting donations, investing funds, and managing other day to day functions. Some foundations reimburse the College for an agreed portion of expenses. Foundation reimbursements are recorded as an expenditure refund and unreimbursed expenditures are included in

these financial statements as an expenditure of the System. Other material transactions between the System and Foundations are described below.

#### J. Sargeant Reynolds Community College

The Foundation and the College have agreed to deposit funds with First Virginia Bank - Colonial in order to facilitate a loan to the J. Sargeant Reynolds Community College Foundation for the purchase of the Central Administration Building and the construction of a warehouse facility.

The College had loans receivable due from the Foundation at June 30, 1998, of \$244,326. These loans were noninterest bearing and are due on demand.

In June 1990, the Foundation issued \$1,010,000 Revenue Refunding Bonds. The bonds are collateralized solely by a pledge of the Foundation's 20-year capital lease with the College, the rents and profits derived therefrom, and by a first lien deed of trust and security interest in such facility. The College is currently in the thirteenth year of the lease agreement with the Foundation for the Rebcor Building, the land on which it is located and the adjacent warehouse. The ownership of this property will transfer to the College at the end of the lease.

### 3. CASH AND INVESTMENTS

#### A. Cash and Cash Equivalents

All state funds of the System are held by the Treasurer of Virginia pursuant to Section 2.1-177, et seq., Code of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Cash and cash equivalents represent deposits and short-term investments with maturities of less than three months. Each fund's equity in pooled state funds is reported as "Cash and Cash Equivalents" on the balance sheet and is not categorized as to credit risk.

Deposits with banks and savings institutions are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act. Under this Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50 percent of excess deposits to a collateral pool in the name of the State Treasury board. Savings institutions are required to collateralize 100 percent of deposits in excess of FSLIC limits.

#### B. Investments

Certain deposits and investments are held by the System or are represented by specific identifiable investment securities held by the Treasurer of Virginia for the System. Such investments are reported separately from cash and cash equivalents. Investments represent securities with maturities of less than one year and for which management intends to hold the securities to maturity.

Statutes authorize the investment of funds held by the System in obligations of the Commonwealth, federal government, other states or political subdivisions thereof, Virginia political subdivisions, the International Bank for Reconstruction and Development, the Asian Development Bank, and the African Development Bank. In addition, the System may invest in prime quality commercial paper rated prime 1 by Moody's Investment Service or A-1 by

Standard and Poor's Incorporated, overnight term or open repurchase agreements and money market funds comprised of investments which are otherwise legal investments of the System.

The System's investments, including short-term investments, are categorized below to give an indication of the level of credit risk assumed by the System at June 30, 1998. Credit risk is the risk that the System may not be able to obtain possession of its investment instrument or collateral at maturity. Risk Category 1 includes investments which are insured or registered or for which the securities are held by the System or its safekeeping agent in the System's name. Risk Category 2 includes uninsured or unregistered investments for which the securities are held by the broker's or dealer's trust department or safekeeping agent in the System's name. Risk Category 3 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent but not in the System's name. The composition and categorization of investments held by the System at June 30, 1998, is as follows:

Categorization of investments for assets held at June 30, 1998:

<u>Temporary Investments</u>	<u>Fair Value</u>
Category 1:	
Repurchase agreement	\$ 644,207
Category 2:	
Repurchase agreement	491,000
Category 3:	
Repurchase agreement	4,032,273
Noncategorized:	
Mutual Funds	<u>21</u>
Total temporary investments	<u>\$ 5,167,501</u>
 <u>Investments</u>	
Category 1:	
U. S. Government Securities	\$ 4,018,707
Noncategorized:	
Mutual Funds	418,149
State Non-arbitrage Program	89,636
Local Government Investment Pool	<u>27,560,490</u>
Total investments	<u>\$32,086,982</u>

	Temporary Investments	Investments
Current Funds:		
Unrestricted	\$ 2,925,555	\$16,928,405
Restricted	893	98,037
Loan Funds	34,301	13,811
Endowment Funds	-	316,382
Plant Funds:		
Unexpended	2,162,284	12,360,819
Agency Funds	<u>44,468</u>	<u>2,369,528</u>
Total	<u>\$ 5,167,501</u>	<u>\$32,086,982</u>

4. ALLOWANCE FOR DOUBTFUL ACCOUNTS

The following receivables included an allowance for doubtful accounts at June 30, 1998:

Unrestricted Current Funds:	
Accounts receivable - Gross	\$ 3,488,073
Less: Allowance for doubtful accounts	<u>(71,610)</u>
Accounts receivable - Net	<u>\$ 3,416,463</u>
Restricted Current Funds:	
Accounts receivable - Gross	\$ 232,570
Less: Allowance for doubtful accounts	<u>(1,246)</u>
Accounts receivable - Net	<u>\$ 231,322</u>
Loan Funds:	
Notes receivable - Gross	\$ 4,244,860
Less: Allowance for doubtful accounts	<u>(651,170)</u>
Notes receivable - Net	<u>\$ 3,593,690</u>
Agency Funds:	
Notes Receivable – Gross	\$ 3,408
Less: Allowance for doubtful accounts	<u>(125)</u>
Notes receivable – Net	<u>\$ 3,283</u>

5. COMMITMENTS

At June 30, 1998, the System had future commitments for construction contracts totaling approximately \$33,276,735. The System held \$1,213,833 as a retainage payable on the construction contracts for work performed. The retainage payable will be remitted to the various contractors upon satisfactory completion of the construction projects.

6. BONDS PAYABLE

Long-term debt of the System as of June 30, 1998, consists of the following:

<u>Bonds Payable</u>	<u>Balance</u>
Higher Education Bonds, Series 1992A, issued \$3,010,000 to finance Parking Deck Construction for the Alexandria Campus, the balance payable in annual installments from \$115,000 to \$145,000 with average coupon interest of 5.67 percent payable semiannually, the final installment of \$145,000 due June 1, 2003	\$ 655,000
Higher Education Bonds, Series 1994 (9c), issued \$1,685,000 to finance construction of a parking lot on the Portsmouth campus of Tidewater Community College, the balance payable in annual installments from \$150,000 to \$225,000 with an average coupon rate of 6 percent payable semiannually, the final installment of \$225,000 due June 1, 2004	1,170,000
Higher Education Refunding Bonds, Series 1998, issued \$1,868,800 to refund a portion of the Higher Education Bonds, Series 1992A noted above. The balance is payable in annual installments from \$10,000 to \$240,000 with an average coupon rate of 4 percent payable semiannually, the final installment of \$239,167 due June 1, 2012.	<u>1,854,174</u>
Total bonds payable	<u>\$3,679,174</u>

Changes in Bonds Payable

During the year ended June 30, 1998 the following changes occurred in bonds payable:

	<u>Balance</u> <u>July 1, 1997</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 1998</u>
Bonds payable	<u>\$ 3,860,000</u>	<u>\$ -</u>	<u>\$180,826</u>	<u>\$ 3,679,174</u>

### Future Obligations

Annual debt service requirements to maturity for long-term debt is as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999	\$ 295,246	\$ 187,497	\$ 482,743
2000	310,246	171,188	481,434
2001	330,247	153,929	484,176
2002	350,247	135,250	485,497
2003	366,710	115,290	482,000
Later years	<u>2,026,478</u>	<u>443,250</u>	<u>2,469,728</u>
Total debt service requirements	<u>\$3,679,174</u>	<u>\$1,206,403</u>	<u>\$4,885,577</u>

### 7. LEASE COMMITMENTS AND INSTALLMENT PURCHASES

The System is committed under various capital lease, operating lease, and installment purchase agreements. Book value of assets capitalized under capital lease and installment purchase agreements total \$18,305,011 and \$8,680,296, respectively. Rent expense under operating lease agreements amounted to \$4,204,357 for the year. A summary of future obligations under lease agreements as of June 30, 1998, follows:

Year Ending June 30,	Operating Lease <u>Obligations</u>	Capital Lease <u>Obligations</u>	Installment Purchase <u>Obligations</u>
1999	\$1,287,104	\$ 1,499,487	\$2,721,389
2000	942,834	1,500,250	2,647,743
2001	506,188	1,502,429	1,755,859
2002	335,739	1,506,397	839,066
2003	206,722	1,461,831	12,797
Later Years	<u>270,249</u>	<u>16,671,053</u>	<u>-</u>
Total obligation and gross minimum lease payment	<u>\$3,548,836</u>	24,141,447	7,976,854
Less: Amount of interest		<u>8,878,286</u>	<u>595,045</u>
Present value of minimum Lease payments		<u>\$ 15,263,161</u>	<u>\$7,381,809</u>

8. EQUIPMENT TRUST FUND

The System receives an allocation made by the Virginia College Building Authority from the Higher Education Equipment Trust Fund for the purpose of acquiring equipment under leasing agreements with the Authority. The System Office is the lessee of certain equipment under capital leases expiring in various years through 2003. In addition, the System has equity interest in the Equipment Trust Fund at June 30, 1998, of \$430,560. Fixed assets acquired at June 30, 1998, and the associated liability are recorded in the Investment in Plant Fund. A summary of future obligations under lease agreements follows:

Year Ending <u>June 30,</u>	Equipment Trust <u>Fund Obligation</u>
1999	\$ 5,205,398
2000	4,749,062
2001	4,965,491
2002	4,142,355
2003	<u>1,553,225</u>
Gross minimum lease payment	20,615,531
Less: Amount of interest	<u>2,076,278</u>
Present value of minimum lease payment	<u><u>\$ 18,539,253</u></u>

9. STATE APPROPRIATIONS - UNRESTRICTED FUNDS

The System receives state appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that such unexpended appropriations shall revert, except as specifically provided by the General Assembly, at the end of a biennium. For years ending at the middle of a biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the System for disbursement.

During the year ended June 30, 1998, the following changes were made to the System's original appropriation, including supplemental appropriations received in accordance with Section 1-101 of the Appropriation Act of 1998, Chapter 924, Acts of the Assembly:

Original legislative appropriation	\$ 217,905,888
Supplemental appropriations:	
Classified salary adjustment	4,085,936
Management standards carry forward	7,878,480
Health care surcharge	763,837
VIVA library grant	20,999
VRS rate Change	533,639
HEETF lease payment supplement	1,435,365
Less:	
Lag pay savings	(568,219)

Telecommunication savings	(17,685)
Computer savings	(631)
Group life premium holiday	(50,592)
Philpott manufacturing	(367,514)
Revert new space operating funds	(109,783)
IHRIS payment	(133,930)
General Fund reversion	<u>(8,098,886)</u>
Adjusted appropriations	<u>\$ 223,276,904</u>

10. DEFICIT FUND

The \$5,938,491 deficit in current unrestricted funds is the result of the accrual of compensated absences and other payables. During the current year, the deficit was decreased by \$3,636,053. The fund deficit in current unrestricted funds was not the result of violations to the Appropriations Act.

11. RETIREMENT PLANS

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

Most full-time faculty and certain administrative staff participate in one of five optional retirement plans. Each is a fixed contribution program where the retirement benefits received are based on the employer's contributions plus interest and dividends. As with VRS, the employees' contributions are assumed by the employer. Total pension costs under these programs were \$2,732,164 for the year ended June 30, 1998. Contributions to these programs were calculated using base salaries of \$26,547,646 for the year ended June 30, 1998. The contribution percentage amounted to 10.4 percent.

12. YEAR 2000 READINESS

The Virginia Community College System recognizes the significance of the Century Date Change and the impact Year 2000 may have on its information technology and business infrastructure. The System has identified the Student Information and Financial Accounting Systems as mission-critical and is subjecting those systems and equipment to the following stages of work to address the Year 2000 issues:

- Awareness stage – Establishing a budget and project plan for dealing with the Year 2000 issue.
- Assessment stage – Identifying the systems and components for which Year 2000 compliance work is needed.

- Remediation state – Making changes to systems and equipment.
- Validation/Testing stage – Validating and testing the changes that were made during the remediation stage.

As of April 1999, the System has completed the Awareness, Assessment and Remediation stages for all components of their mission-critical systems. They have completed 94 percent of the Validation/Testing stage for these systems. Cost estimates for all the colleges and the system Year 2000 readiness projects are \$4,041,418.

The System has assigned a Year 2000 coordinator who is responsible for ensuring the coordination and completion of all System efforts. In addition to the mission critical systems, those efforts include non-mission critical systems, non-traditional computing systems, systems that depend on embedded microchips, data exchange requirements, and the System's relationships with outside agencies and vendors. Replacement products for non-mission critical systems are currently being reviewed. The non-traditional computing systems were found to be primarily non-date dependant.

The State Comptroller maintains the Commonwealth's Accounting and Reporting System, which the System uses to reconcile their financial accounting system. Information relating to the Year 2000 readiness for the Commonwealth's systems is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

### 13. SURETY BOND

The employees of the System were covered by a Faithful Performance Duty Bond administered by the Commonwealth of Virginia's Department of General Services, Division of Risk Management with liability limits of \$500,000 for each occurrence. Information relating to the Commonwealth's self-insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

VIRGINIA COMMUNITY COLLEGE SYSTEM

COMMUNITY COLLEGES AUDITED

For the Year Ended June 30, 1998

Danville Community College

J. Sargeant Reynolds Community College

Lord Fairfax Community College

Northern Virginia Community College

Patrick Henry Community College

Piedmont Virginia Community College

Rappahannock Community College

Thomas Nelson Community College

Tidewater Community College

Wytheville Community College

VIRGINIA COMMUNITY COLLEGE SYSTEM  
Richmond, Virginia

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J. F. Taylor, Jr.

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Robert B. Thompson

Robert C. Wrenn

ADMINISTRATIVE OFFICER

Dr. Arnold R. Oliver, Chancellor

## COMMUNITY COLLEGE PRESIDENTS

Blue Ridge Community College	Dr. James R. Perkins
Central Virginia Community College	Dr. Belle S. Wheelan
Dabney S. Lancaster Community College	Dr. Richard R. Teaff
Danville Community College	Dr. B. Carlyle Ramsey
Eastern Shore Community College	Dr. Richard E. Jenkins
Germanna Community College	Dr. Francis S. Turnage
J. Sargeant Reynolds Community College	Dr. S. A. Burnette
John Tyler Community College	Dr. Marshall W. Smith
Lord Fairfax Community College	Dr. Marilyn C. Beck
Mountain Empire Community College	Dr. Robert H. Sandel
New River Community College	Dr. Edwin L. Barnes
Northern Virginia Community College	Dr. Richard J. Ernst
Patrick Henry Community College	Dr. Max F. Wingett
Paul D. Camp Community College	Dr. Jerome J. Friga
Piedmont Virginia Community College	Dr. Deborah M. DiCroce
Rappahannock Community College	Dr. Norman H. Scott
Southside Virginia Community College	Dr. John J. Cavan
Southwest Virginia Community College	Dr. Charles R. King
Thomas Nelson Community College	Dr. Shirley R. Pippins
Tidewater Community College	Dr. Timothy H. Kerr
Virginia Highlands Community College	Dr. F. David Wilkin
Virginia Western Community College	Dr. Charles L. Downs
Wytheville Community College	Dr. William F. Snyder