

VIRGINIA COMMUNITY COLLEGE SYSTEM

*AUDITED FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2010*

Prepared by:
Office of Fiscal Services
Virginia Community College System
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VCCS Financial Report 2009-2010

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VCCS Financial Report 2009-2010

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VIRGINIA COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis

The Virginia Community College System (VCCS) 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 twenty-three community colleges located on forty campuses throughout the Commonwealth. The VCCS mission is to provide comprehensive higher education and workforce training programs and services of superior quality that are financially and geographically accessible and that meet individual, business and community needs of the Commonwealth.

The following discussion and analysis provides an overview of the financial position and activities of the Virginia Community College System (VCCS) for the year ended June 30, 2010. This discussion has been prepared by management and should be read in conjunction with the financial statements and footnotes.

The VCCS financial statements have been prepared in accordance with GASB Statement 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements 37, 38 and 39. The three required financial statements are the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows.

The community college foundations are included in the accompanying financial statements as a discrete component unit in a separate column. The following discussion and analysis does not include the financial condition and activities of the foundations.

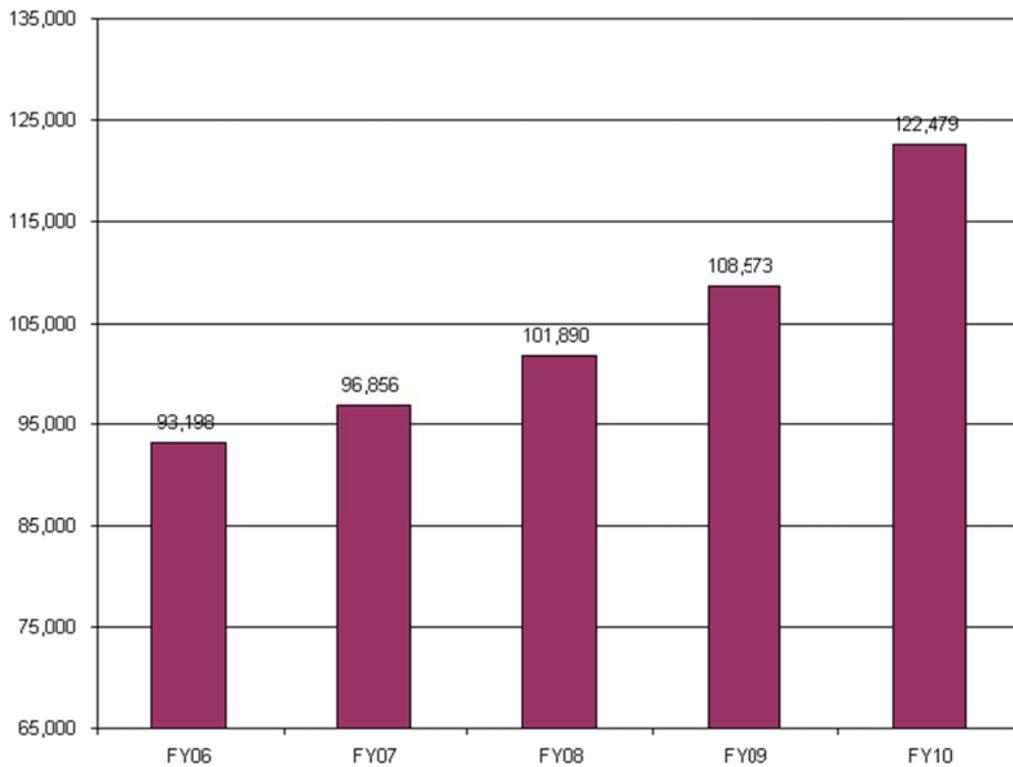
Financial Highlights

The following represents significant financial highlights for the VCCS in fiscal year 2010:

- On an annual basis, adjustments are made to the state budget to account for updated salary costs, fringe benefit rates, and other savings/expenses resulting from statewide operations during the fiscal year. In fiscal year 2010, \$13.9 million was removed from the VCCS budget for these purposes.
- In May 2009, statewide budget reductions resulted in the VCCS losing \$10.9 million in state funding. This budget action was in addition to the \$40 million in state funding that had been permanently deducted from the VCCS beginning in fiscal year 2008. These reductions carried through to fiscal year 2010.
- The VCCS received \$6.8 million federal funding for operating purposes in fiscal year 2010 as part of the American Recovery and Reinvestment Act (ARRA).
- The State Board for Community Colleges approved separate tuition increases of \$5.55 per credit hour for fall 2009 and \$7.30 per credit hour for spring 2010. The technology fee rate was also increased by \$1 per credit hour effective fall 2009. As a result of these increases, tuition and fee revenue increased approximately \$42.9 million in fiscal year 2010.
- From fiscal year 2009 to 2010, student full-time equivalent enrollment (FTEs) increased 12.81% from 108,573 FTEs to 122,479 FTEs resulting in an increase in tuition and fee collections of approximately \$34 million in fiscal year 2010.

Below is a chart depicting full-time equivalent students attending the VCCS over the past five fiscal years.

VCCS Enrollment - Full Time Equivalents



One full time equivalent represents 30 credit hours of classes taken by a student over an academic year. It is calculated on an annual basis by taking the total credit hours taught divided by 30.

Financial Statements

The three financial statements presented are the Statement of Net Assets, the Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows.

Statement of Net Assets

The Statement of Net Assets presents the assets and liabilities of the VCCS at the end of the fiscal year. The Statement also provides the amount of net assets and their availability for expenditure. Net assets are divided into three major categories. The first category, "Invested in capital, net of related debt," consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of any borrowings that are attributable to the acquisition, construction or improvement of those assets. The next category is "Restricted net assets," which are classified as nonexpendable or expendable. Nonexpendable restricted net assets are loan funds and permanent endowments (available for investment purposes only). Expendable restricted net assets are available for expenditure by the VCCS but must be spent for purposes determined by external entities. Unrestricted net assets are not subject to externally imposed restrictions and may be designated for specific purposes by management of the VCCS.

A summarized Statement of Net Assets is as follows:

(In thousands of dollars)

	As of June 30:	
	<u>2010</u>	<u>2009*</u>
Assets		
Current assets	\$ 226,043	\$ 189,804
Capital assets, net	923,380	840,207
Other non-current assets	65,287	48,237
Total Assets	<u>1,214,710</u>	<u>1,078,248</u>
Liabilities		
Current liabilities	161,527	140,055
Non-current liabilities	97,724	76,955
Total Liabilities	<u>259,251</u>	<u>217,010</u>
Net Assets		
Invested in capital assets, net of debt	875,357	798,975
Restricted-nonexpendable		
Restricted-expendable	8,832	13,429
Unrestricted	71,270	48,834
Total Net Assets	<u>\$955,459</u>	<u>\$861,238</u>

*June 30, 2009 balances have been restated (see footnote 1M)

Current assets consist of \$185.8 million in cash and investments, \$22.8 million in accounts, notes, and interest receivable, \$3.3 million in amounts due from the Commonwealth, \$11.8 million in prepaid expenses, and \$2.3 million in inventories. Current assets increased by \$36.2 million primarily due to increases in cash and cash equivalents of \$34.5 million. This was comprised of increases in deferred revenue cash, securities lending cash, and locally held cash and cash equivalents of \$13.3 million, \$3.8 million, and \$15.5 million, respectively. The deferred revenue and local cash increases are attributable to tuition and fee rate increases and higher enrollment. Also contributing to the increases in local cash and cash equivalents was \$5.2 million fewer transfers to the Commonwealth for capital projects in fiscal year 2010 when compared to fiscal year 2009.

Net capital assets increased by \$83.2 million from fiscal year 2009 to fiscal year 2010. This increase can primarily be attributed to the capitalization of design and construction costs of numerous capital outlay projects. The project costs capitalized during 2010 include: TCC Regional Health Professional Center for \$13.3 million, NVCC Phase VI Building-Annandale for \$12.7 million, TCC Norfolk Student Center for \$9.8 million, JTCC Midlothian Phase II for \$2.5 million, LFCC Workforce Development & Workforce Training for \$4.9 million, TCC Portsmouth Campus for \$4.2 million, BRCC Information Technology Building for \$3.4 million, PVCC Science & Technology Building for \$5 million, NVCC Tyler Academic Building for \$1.5 million, JSRCC Renovate Burnette Hall for \$3 million, JSRCC Workforce Training Center for \$2.1 million, GCC Academic Services Building for \$1.2 million, TCC Blackwater Building for \$2.7 million, DCC Student Center for \$1.2 million, PHCC LRC/West Hall renovation for \$2 million, TCC LRC Phase I Virginia Beach for \$1.7 million, NVCC Phase III Loudoun for \$1.9 million, NVCC Phase III Manassas for \$1.2 million, VWCC Science & Technology Building for \$1.3 million, various other TCC projects for \$4.4 million, and various other JSRCC projects for \$.9 million. Lastly, capitalized costs associated with the Monticello Visitor Center at PVCC were \$2.3 million.

Other non-current assets increased by \$17.1 million in fiscal year 2010 from fiscal year 2009. The increase was attributed to cash with trustee of \$21.9 million held for various capital outlay projects and amounts due from the Commonwealth of \$7.3 million resulting from higher Virginia College Building Authority bond fund activity for capital projects at the end of fiscal year 2010. These increases were partially offset by decreases of \$6.7 million in restricted cash resulting from

unreimbursed Virginia College Building Authority bond fund expenditure activity, \$3.2 million in notes receivable becoming current assets and \$2.3 million in appropriation available associated with fewer general fund dollars held by colleges at the end of fiscal year 2010.

Current liabilities consist of accounts and retainage payable of \$29.6 million, accrued payroll and leave compensation of \$54.1 million, deferred revenue of \$47.8 million, securities lending obligations of \$18.1 million, debt obligations of \$6.2 million, amounts due to the Commonwealth of \$0.154 million, and deposits of \$5.7 million. Current liabilities increased \$21.5 million in fiscal year 2010 resulting from increases in deferred revenue of \$12.5 million primarily associated with higher tuition and increased enrollments. Accrued payroll increased \$4 million with \$2.7 million due to the recognition of the fiscal year 2010 fourth quarter employer paid "member portion" of the VRS retirement payments that were delayed until fiscal year 2011.

Net assets increased by \$94.2 million in fiscal year 2010. Invested in capital assets, net of related debt, increased \$76.4 million in fiscal year 2010. This was comprised of net capitalized asset increases in buildings of \$115.8 million, equipment and intangible assets of \$4.4 million, depreciable and non-depreciable land and land improvements of \$6.8 million, infrastructure of \$.67 million and offset by decreases in construction in progress of \$44.7 million and additional capitalized asset debt of \$6.8 million. Increases in unrestricted net assets of \$22.4 million were primarily associated with increases in educational and general cash from summer revenue collections not deferred of \$12.5 million and increases in unrestricted Local Government Investment Pool cash equivalents of \$9.3 million. Decreases in restricted expendable net assets of \$4.6 million resulted from the capital project activity at various community colleges.

Statement of Revenues, Expenses and Changes in Net Assets

The purpose of the Statement of Revenues, Expenses and Changes in Net Assets is to present operating and non-operating revenues received by the institution, operating and non-operating expenses incurred and any other revenues, expenses, gains and losses. Changes in net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Assets.

A summarized statement of revenues, expenses and changes in net assets follows:

	(In thousands of dollars)	
	For the year ended June 30:	
	2010	2009*
Operating revenue	\$ 433,984	\$367,455
Operating expenses	1,029,316	912,516
Operating loss	(595,332)	(545,061)
Non-operating revenues(expenses):		
State appropriations	359,634	408,947
Local appropriations	2,289	1,834
Grants and gifts	217,891	122,388
Investment income	3,062	4,842
Interest expense	(3,332)	(2,279)
Other	(429)	(747)
Net non-operating revenue	579,115	534,985
Loss before other revenues, expenses, gains or losses	(16,217)	(10,076)
Capital appropriations-state	91,387	72,428
Capital appropriations-local	7,339	13,618
Capital gifts and grants	11,712	8,320

Increase in net assets	<u>94,221</u>	<u>84,290</u>
Net assets, beginning of year	<u>861,238</u>	<u>776,948</u>
Net assets, end of year	<u>\$955,459</u>	<u>\$861,238</u>

*June 30, 2009 balances have been restated (see footnote 1M)

Operating Revenues:

Total operating revenues increased \$66.5 million or 18.1% percent over prior year. Student tuition and fee revenues increased \$44.7 million due to the moderate rise in both in-state and out-of-state tuition and fee rates effective for the fall term 2009 and increases in enrollment. In addition, federal grant revenues increased \$22.2 million primarily due to the infusion of American Recovery and Reinvestment Act (ARRA) funding.

Non-operating and Other Revenues:

Total net non-operating revenue increased \$44.1 million or 8.2% over the prior year. The increase is primarily due to the increase in grants and gifts of \$95.5 million primarily associated with increases in federal Pell grant funding. This was offset by \$49.3 million for decreases in state appropriation revenue largely attributable to general fund budget cuts in fiscal year 2010.

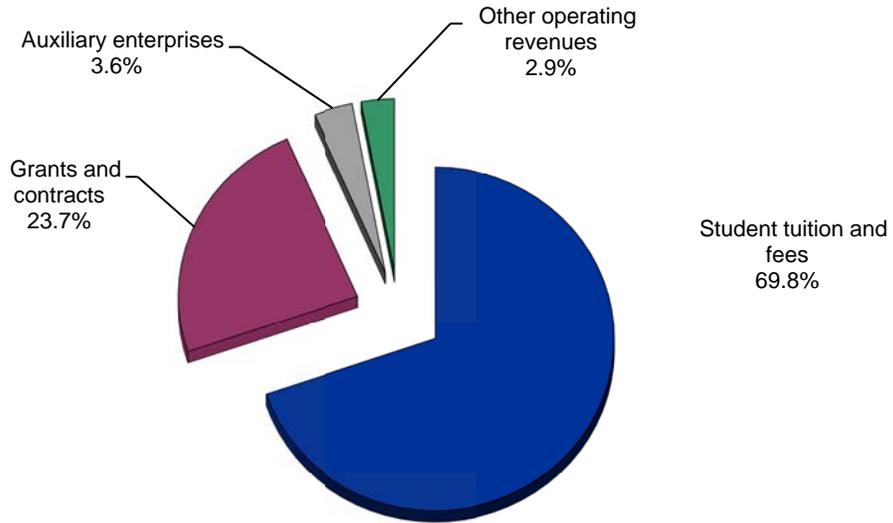
State capital appropriations totaling \$91.4 million increased \$19 million or 26.2% over the prior year. This can be attributed to increased bond funding for capital projects.

Operating Expenses:

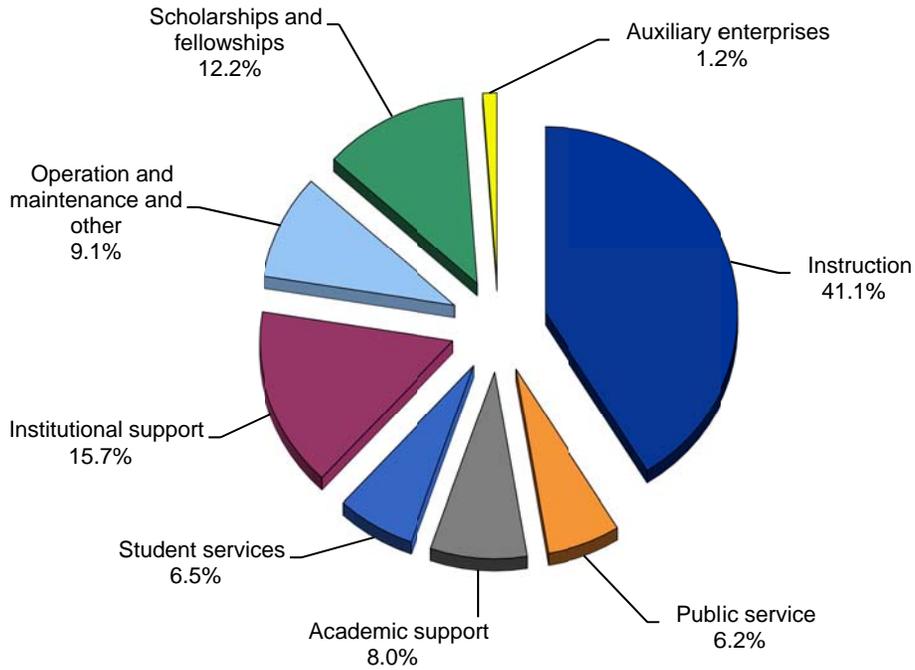
Operating expenses totaled approximately \$1.029 billion for fiscal 2010 which grew by \$116.8 million from the prior year. Revenue increases in Pell grant funding, ARRA funding, and moderate tuition and fee increases directly correspond to the increases in operating expenses.

A graphic presentation of fiscal year 2010 operating revenues and operating expenses by source (per the Statement of Revenues, Expenditures and Changes in Net Assets) is below:

Operating Revenues by Source



Operating Expenses



Statement of Cash Flows

The Statement of Cash Flows provides additional information about the financial results of the VCCS by reporting the major sources and uses of cash. A summary of the cash flows is as follows:

(In thousands of dollars)

	For years ended June 30:	
	2010	2009
Cash received from operations	\$438,682	\$376,133
Cash used in operations	961,334	871,145
Net cash used in operations	(522,652)	(495,012)
Net cash provided by investing activities	(1,864)	7,422
Net cash provided by (used in) capital and related financing activities	(19,372)	(1,513)
Net cash provided by non-capital financing activities	589,808	524,631
Net increase (decrease) in cash and cash equivalents	45,920	35,528
Cash and cash equivalents, beginning of year	149,036	113,508
Cash and cash equivalents, end of year	\$194,956	\$149,036

The primary operating sources of cash for the VCCS included tuition and fees of \$307.6 million, operating grants and contracts of \$102.3 million, and auxiliary revenues of \$15.4 million. The primary uses of operating cash included employee salaries, wages, and fringe benefits of \$587.3 million and operating expenditures (payments to suppliers/others and utilities) of \$243.9 million. Net cash used in operations is significantly greater than the cash received from operations on this statement due to the required presentation of state appropriation and grants/gifts as cash flows from non-capital financing activities. Net cash flows from capital and related financing activities decreased \$17.9 million primarily due to decreases in capital appropriation revenues and proceeds from revenue bonds offset by increases in capital asset purchases. Net cash flows from non-capital financing activities increased \$65.2 million due to increases in Pell grant revenues. The overall increase in cash and cash equivalents was \$45.9 million at the end of fiscal year 2010.

Economic Outlook

The Commonwealth's economy, as well as the national economy, showed little change in fiscal year 2010. In fiscal year 2010, the Commonwealth predicted a 2.3% decline in revenues and this was exceeded as general fund revenue collections fell by only 0.7%. In response to the revenue shortfalls over the last three years, the Commonwealth permanently reduced the VCCS general fund by approximately \$51 million. An additional \$35.4 million is slated to be reduced in fiscal year 2012. In summary, for fiscal year 2012 and future years, the VCCS general funds will have been reduced by 21.80% or \$85,387,672 as a result of state mandated budget reductions. The federal government's ARRA will provide \$21.0 million in fiscal year 2011 and \$24.8 million in fiscal year 2012 to help temporarily offset the significant general fund budget reductions implemented beginning in fiscal year 2008 and anticipated through fiscal year 2012.

One of the objectives of the federal government's ARRA funding is to minimize the need to increase tuition. The State Board for Community Colleges adopted, during its strategic planning process, a concept of maintaining as much stability and predictability in tuition as possible, implementing manageable increases in both good times and bad in order to avoid spikes in tuitions. Further, the

Board has noted its intention to keep VCCS tuition and mandatory fees at less than half the rates of public four year institutions in Virginia. The VCCS's rate in fiscal year 2011 is 37.2% of the average of the four-year institutions for total tuition and mandatory fees.

Effective with the fall 2010 session, the State Board for Community Colleges approved a tuition increase of \$8.50 per credit hour applicable to all in-state students and an increase of \$13 per credit hour applicable to all out-of-state students. The in-state tuition increase will be mitigated by \$2 per credit hour in ARRA funds in fiscal year 2011. It is anticipated that these actions will generate approximately \$21.7 million in tuition revenues (non-ARRA) in fiscal year 2011. The technology fee was increased by \$1 per credit hour, bringing the fee to \$6.50 per credit hour for all students. The technology fee increase will generate additional revenue of \$3.2 million in fiscal year 2011.

Chapter 874, 2010 Virginia Acts of Assembly authorized capital outlay appropriations of \$42,142,000 for fiscal year 2011. \$37,142,000 of the capital appropriations are for new construction and renovations to existing facilities at the various community college campuses. \$5,000,000 of the capital appropriations are for equipment purchases for previously authorized capital projects. The funding breakdown for the capital outlay appropriations are as follows: Higher Education Auxiliary Enterprise Funds (\$18,937,000) and Higher Education Trust and Agency Funds (\$23,205,000).

***FINANCIAL
STATEMENTS***

Virginia Community College System
Consolidated
Statement of Net Assets
As of June 30, 2010

	Component	
	VCCS	Units
	<u>VCCS</u>	<u>Foundations</u>
ASSETS		
Current Assets		
Cash and cash equivalents (Note 2)	171,463,537	13,995,663
Appropriation available	7,894	
Short term investments (Note 2)	14,345,946	6,300,207
Accounts receivable (Note 3)	18,756,205	640,788
Pledges receivable (Note 3)		2,817,701
Due from commonwealth	3,290,440	
Interest receivable	22,293	146,089
Prepaid expenses	11,833,440	27,876
Inventories	2,296,366	150,530
Notes receivable (Note 3)	4,026,658	71,170
Total Current Assets	<u>226,042,779</u>	<u>24,150,024</u>
Noncurrent Assets		
Restricted cash and cash equivalents (Note 2)	(5,312,235)	
Cash with trustees (Note 2)	40,194,919	
Endowment cash and cash equivalents (Note 2)	348,034	4,647,004
Appropriation available	1,386,663	
Endowment investments (Note 2)		65,666,186
Other long-term investments (Note 2)	258,750	36,507,594
Accounts receivable, net	93,155	
Investments in real estate		1,938,009
Pledges receivable (Note 3)		4,023,937
Due from commonwealth	28,056,304	
Notes receivable (Note 3)	261,697	25,362
Non-depreciable capital assets, net (Note 4)	162,730,840	3,684,523
Depreciable capital assets, net (Note 4)	760,648,645	6,244,016
Total Noncurrent Assets	<u>988,666,772</u>	<u>122,736,631</u>
Total Assets	<u>1,214,709,551</u>	<u>146,886,655</u>
Liabilities		
Current Liabilities		
Accounts and retainage payable (Note 5)	29,569,828	1,018,649
Accrued payroll expense	39,408,029	1,147
Deferred revenue	47,752,907	389,408
Long-term liabilities-current portion (Note 7)	20,872,954	61,147
Securities lending obligation	18,064,036	
Due to Commonwealth	153,450	
Deposits	5,705,426	
Total Current Liabilities	<u>161,526,630</u>	<u>1,470,351</u>
Noncurrent Liabilities		
Account payable for noncurrent assets (Note 7)	53,041	
Long-term liabilities (Note 7)	92,715,862	714,199
Due to federal government (Note 7)	4,954,912	
Total Noncurrent Liabilities	<u>97,723,815</u>	<u>714,199</u>
Total Liabilities	<u>259,250,445</u>	<u>2,184,550</u>
Net Assets		
Invested in capital assets, net of related debt	875,357,437	9,928,539
Restricted for:		
Nonexpendable		60,348,730
Expendable	8,831,687	46,607,868
Unrestricted	71,269,982	27,816,968
Total Net Assets	<u>955,459,106</u>	<u>144,702,105</u>

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

**Virginia Community College System
Consolidated**

**Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2010**

	<u>VCCS</u>	<u>Component Units Foundations</u>
Revenues		
Operating Revenue		
Tuition and fees (net of scholarship allowance of \$119,005,900)	302,820,898	
Federal grants and contracts	90,264,724	445,000
State and local grants	3,954,931	520,000
Nongovernmental grants	8,470,233	2,503,773
Sales/services of education department	477,004	
Auxiliary enterprises (net of scholarship allowance of \$5,064,750)	15,632,391	
Gifts and contributions		7,253,938
Endowment income		7,666,620
Other operating revenues	12,363,532	2,131,026
Total Operating Revenue	<u>433,983,713</u>	<u>20,520,357</u>
Expenses		
Operating Expenses		
Instruction	423,649,984	751,124
Public service	63,506,498	1,201,020
Academic support	82,586,361	4,206,256
Student services	66,766,374	13,098
Institutional support	161,363,264	7,782,966
Operation and maintenance	94,126,587	1,237,444
Scholarships and fellowships	125,182,325	3,688,259
Auxiliary enterprises	12,050,950	
Fundraising		1,111,571
Other expenses	84,103	184,858
Total Operating Expenses	<u>1,029,316,446</u>	<u>20,176,596</u>
Operating Income (Loss)	<u>(595,332,733)</u>	<u>343,761</u>
Nonoperating Revenues(Expenses)		
State appropriations (Note 12)	359,633,898	
Local appropriations	2,288,807	
Grants and gifts	217,891,138	
Investment income	3,062,623	5,969,161
Interest on capital asset related debt	(3,332,063)	(19,999)
Other nonoperating revenue (expense)	(428,987)	
Net Nonoperating Revenue	<u>579,115,416</u>	<u>5,949,162</u>
Income before other revenues, expenses gains (losses)	<u>(16,217,317)</u>	<u>6,292,923</u>
Capital appropriations-state (Note 19)	91,387,268	
Capital appropriations-local	7,338,490	
Capital gifts, grants and contracts	11,712,281	662,216
Additions to permanent and term endowments		5,539,468
Increase (Decrease) in Net Assets	<u>94,220,722</u>	<u>12,494,607</u>
Net Assets		
Net Assets beginning of year as restated (Note 1M)	<u>861,238,384</u>	<u>132,207,498</u>
Net Assets end of year	<u>955,459,106</u>	<u>144,702,105</u>

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

**Virginia Community College System
Consolidated
Statement of Cash Flows
For the Year Ended June 30, 2010**

Cash flows from operating activities:

Tuition and fees	307,586,792
Grants and contracts	102,328,547
Payments to suppliers and others	(228,359,144)
Payments for employee wages	(471,783,131)
Payments for employee fringes	(115,565,578)
Payment for scholarships	(128,941,414)
Payments for utilities	(15,543,367)
Sales and services of education department	477,004
Auxiliary	15,394,387
Loans issued to students	(1,141,922)
Loans collected from students	878,444
Other	12,017,040
Net cash used by operating activities	<u>(522,652,342)</u>

Cash flows from non-capital financing activities:

State appropriations	359,633,898
Local appropriations	2,288,807
Grants and gifts	225,957,157
Agency receipts	9,133,858
Agency disbursements	(8,527,475)
PLUS, Stafford and Direct Lending loan receipts	112,561,244
PLUS, Stafford and Direct Lending loan disbursements	(112,384,185)
Borrowings	1,591,000
Loan repayments	(1,108,045)
Other non-operating revenue(expense)	662,386
Net cash provided (used) by non-capital financing activities	<u>589,808,645</u>

Cash flows from capital financing activities:

Capital appropriations-state	84,539,161
Capital appropriations-local	7,338,490
Capital grants and gifts	18,589,513
Purchase capital assets	(119,639,908)
Proceeds from sale of capital assets	387,985
Proceeds from bond issue	1,749,734
Debt interest payments	(3,332,063)
Debt principal payments	(9,005,001)
Net cash provided (used) by capital financing activities	<u>(19,372,089)</u>

Cash flows from investing activities:

Purchases of investments	(12,358,447)
Sale of investments	8,192,039
Investment income	2,302,477
Net cash provided (used) by investing activities	<u>(1,863,931)</u>

Net incr (decr) in net assets

Net increase (decrease) in cash and cash equivalents 45,920,283

Cash and cash equivalents, beginning of year 149,036,138

Cash and cash equivalents, End of Year 194,956,421

**Virginia Community College System
Consolidated
Statement of Cash Flows
For the Year Ended June 30, 2010**

Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating income (loss)	(595,332,733)
Adjustment to reconcile operating income (loss) to net cash used in operating activities:	
Depreciation expense	37,835,245
Changes in assets and liabilities:	
Appropriation available and accounts receivable, net	(8,502,933)
Prepaid expenses and other	(4,108,580)
Accrued compensation and leave	3,574,544
Accounts payable and other	31,311,677
Deferred revenue	12,516,003
Deposits pending distribution	54,435
Net cash used in operating activities	<u><u>(522,652,342)</u></u>
Reconciliation of cash and cash equivalents:	
Cash and cash equivalents per Statement of Net Assets	206,694,255
Less: Securities Lending Cash Equivalents	11,737,834
Cash and cash equivalents end of year	<u><u>194,956,421</u></u>
Noncash transactions	
ETF equipment	10,511,172
Assets acquired through capital leases or installment purchases	53,240
Donated fixed assets	4,696,553
Debt principal and interest payments made by Treasury	2,012,573

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

***NOTES TO THE
FINANCIAL
STATEMENTS***

VIRGINIA COMMUNITY COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

As of June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Community College System (VCCS) 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 twenty-three community colleges located on forty campuses throughout the Commonwealth. The State Board for Community Colleges is the governing body and is charged with the responsibility to establish, control, and administer a statewide system of publicly supported comprehensive community colleges. The System therefore functions as a statewide institution of higher learning.

The accompanying financial statements include all of the individual community colleges and the System Office under the control of the State Board for Community Colleges.

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 that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority.

B. Community College Foundations

The community college foundations are legally separate, tax-exempt organizations formed to promote the achievements and further the aims and purposes of the colleges. The foundations accomplish their purposes through fundraising and funds management efforts that benefit the colleges and their programs. Although the colleges do not control the timing or amount of receipts from the foundations, the majority of resources or income thereon that the foundations hold and invest is restricted to the activities of the colleges by the donors. Because these restricted resources held by the foundations can only be used by, or for the benefit of the colleges, the foundations are considered component units under GASB Statement 39, *Determining Whether Certain Organizations are Component Units*. Accordingly, the community college foundations are presented as discrete component units in the financial statements.

During the year ended June 30, 2010, the foundations distributed \$8,320,601 to the colleges for both restricted and unrestricted purposes. Complete financial statements for the foundations can be obtained by writing the VCCS Office of Fiscal Services, 101 N. 14th St., Richmond, VA 23219.

C. Basis of Accounting

For financial reporting purposes, the VCCS is considered a special purpose government engaged in only business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods and services. Accordingly, the financial statements have been

presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. All material internal transactions have been eliminated.

Revenues and expenses of the summer academic term occur within two fiscal years, because the term extends from May through August and the fiscal year ends on June 30. Expenses and an equal amount of revenue have been reported in the current period for the portion of the summer academic term from May 16 through June 30, 2010.

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

The community college foundations are private, nonprofit organizations that report under FASB standards, including FASB Statement 117, Financial Reporting for Not-for-Profit Organizations. As such, certain revenue recognition criteria and presentation features are different from GASB. No modifications have been made to the financial information of the foundations in the financial statements of the VCCS regarding these criteria and presentation features.

The financial statements for the community college foundations are for the year ending June 30, 2010 except for Dabney S. Lancaster, Eastern Shore, Germanna, John Tyler, Lord Fairfax, Mountain Empire, New River, Piedmont, Tidewater (Educational and Real Estate Foundations), Virginia Western, and Wytheville (Educational and Scholarship Foundations) that are as of December 31, 2009.

D. Prepaid Assets

Prepaid assets for rent, insurance, and similar items are recognized when purchased and expensed when used.

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. Investments

Investments meeting the valuation standards outlined in GASB Statement 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, have been shown at fair market value. The remaining investments have been recorded at cost.

G. Capital Assets

Plant assets consisting of land, buildings, infrastructure, equipment, library books, intangible assets, and construction in progress are stated at appraised historical cost or actual cost where determinable. Improvements to buildings, infrastructure and land that significantly increase the usefulness, efficiency or life of the asset are capitalized. Routine maintenance and repairs are charged to operations when incurred. Interest expense relating to construction is capitalized. Donated assets are recorded at the estimated fair value at the date of donation. The fixed asset values presented in these financial statements are

extracted from the financial data maintained by the System's Administrative Information System (AIS). Current fund expenditures for equipment are capitalized when the unit acquisition cost is \$5,000 or greater and the estimated useful life is one year or more. Occupancy permits are used to determine when to reclassify buildings from construction-in-progress. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 20 to 25 years for infrastructure and land improvements, 3 to 25 years for equipment, 10 years for library books, and 5 to 10 years for intangible assets - computer software.

H. Accrued Compensated Absences

The amount of leave earned but not taken by all classified employees, administrative/professional faculty, teaching faculty, and presidents is recorded as a liability on the balance sheet. The amount reflects, as of June 30, all unused annual leave, compensatory leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave pay out policy. 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.

I. System Office Expenditures

With the exception of the workforce investment grant expenditure activity in the System Office of the VCCS classified as public service, the remaining expenditure activity in the System Office provides a variety of functions ranging from management control to centralized support services. Because most of these activities are management in nature and cover the operation of the entire System, they have been classified as institutional support.

J. Classification of Revenues and Expenses

The VCCS has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues include activities that have the characteristics of exchange transactions, such as tuition and fees, sales and services of auxiliary enterprises, most federal, state and local grants and contracts, and interest on student loans.

Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, state appropriations and investment income.

Nonoperating expenses include interest on debt related to the purchase of capital assets and losses on disposal of capital equipment. All other expenses are classified as operating expenses.

K. Scholarship Discounts and Allowances

Student tuition and fees revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenue, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the VCCS, and the amount that is paid by students and/or third parties making payments on the student's behalf. Certain governmental grants and other federal, state or nongovernmental programs are recorded as either

operating or nonoperating revenues in the financial statements. To the extent that such revenues are used to satisfy tuition and fees and other student charges, the VCCS has recorded a scholarship discount and allowance.

L. Net Assets

Net assets are classified as follows:

Invested in capital, net of related debt: Consists of capital assets, net of accumulated depreciation reduced by outstanding debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets-nonexpendable: Restricted nonexpendable net assets are endowment funds in which donors have stipulated, as a condition of the gifts that the principal is to remain inviolate in perpetuity.

Restricted net assets-expendable: Restricted expendable net assets include resources in which the VCCS is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net assets: Unrestricted net assets represent resources that may be used at the discretion of the governing board for any lawful purpose.

When an expense is incurred that can be paid from either restricted or unrestricted resources, it is the policy of the VCCS to first apply the expense towards restricted resources and then towards unrestricted resources.

M. Restatements

Statement of Changes in Revenues, Expenditures, and Net Assets:

Net assets as of June 30, 2009 - previously reported	\$864,757,255
Correction of liability understatement	<u>(\$3,518,871)</u>
Net assets as of July 1, 2009 - as restated	<u>\$861,238,384</u>

2. CASH AND INVESTMENTS

Cash and Cash Equivalents

Cash equivalents maintained by the VCCS are investments with original maturities of less than three months.

Pursuant to Section 2.2-1800, et seq., *Code of Virginia*, all state funds of the VCCS are maintained by the Treasurer of Virginia who is responsible for the collection, disbursement, custody, and investment of state funds.

Deposits

Local cash deposits with banks and savings institutions not with the Treasurer of Virginia are covered by federal depository insurance or collateralized in accordance with the Virginia Security of Public Deposits Act, Section 2.2-4400 et seq., *Code of Virginia*. Deposits covered by the Virginia Security of Public Deposits Act totaled \$30,165,585 at June 30, 2010.

Investments

Certain deposits and investments are held by the VCCS. Such investments are reported separately from cash and cash equivalents. Investments represent securities with original maturities of more than three months and for which management intends to hold the securities to maturity.

Investments of the member colleges of the VCCS are limited to those allowed under Chapter 45, Investments of Public Funds Act, Sections 2.2-4500 and 2.2-4501 of the *Code of Virginia*. Commonwealth of Virginia law limits investments in stocks, bonds, notes, and other evidences of indebtedness of the Commonwealth and those unconditionally guaranteed as to the payment of principal and interest by the Commonwealth. Investments in United States agencies all carry the explicit guarantee of the United States government. Additionally, Virginia's community colleges may participate in the Local Government Investment Pool as authorized by Chapter 46 of the *Code of Virginia* and managed by the Commonwealth of Virginia Treasury Board. Authorized investments in the Local Government Investment Pool are limited to those set forth for local officials in Chapter 45, Sections 2.2-4500 of the *Code of Virginia*.

GASB Statement No. 40, Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3, issued March 2003, became effective for the fiscal year ending June 30, 2005, and imposed new standards for financial reporting. The VCCS implemented the necessary changes to be in compliance with this Statement. The deposits and investments of state and local governments are exposed to risks that have the potential to result in losses. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, foreign currency risk, and any other risks. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. As an element of credit risk, this Statement requires disclosure of credit quality ratings for investments in debt securities as well as investments in external investment pools, money market mutual funds, bond mutual funds, and other pooled investment of fixed-income securities. As an element of foreign currency risk, this Statement requires certain disclosures of investments that have fair values that could be adversely affected by changes in exchange rates. Deposit and investment policies related to the risks identified in the Statement are also required to be disclosed.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. VCCS has no investments exposed to custodial credit risk for 2010.

Interest Rate Risk

Disclosure of the maturities of investments is required when the fair market value is adversely affected by changes in interest rates. Investments subject to interest rate risk are outlined in the accompanying chart.

Credit Risk

Disclosure of the credit quality rating is required for investments exposed to the risk that an issuer or other counterparty will not fulfill its obligations. Investments subject to credit rate risk are outlined in the accompanying chart.

Concentration of Credit Risk

Disclosure of any one issuer is required when it represents 5 percent or more of total investments. VCCS does not have such concentration of credit risk for 2010.

Foreign Currency Risk

Disclosure is required for investments exposed to changes in exchange rates that will adversely affect the fair value of an investment or a deposit. VCCS has no investments or deposits subject to Foreign Currency Risk for 2010.

<u>Cash Equivalents</u>	<u>Fair Value</u>	<u>Credit Rating</u>
Local Govt. Investment Pool	\$53,409,935	AAA
Certificates of Deposit	9,453,560	Not Rated
Repurchase Agreements	3,831,656	Not Rated
Mutual and Money Market Funds	2,057,754	Not Rated
Securities Lending ⁽¹⁾	11,737,834	
Total	<u>\$80,490,739</u>	

<u>Investment Type</u>	<u>Investment Maturities (In Years)</u>		
	<u>Fair Value</u>	<u>Less 1 yr</u>	<u>1-5 yrs</u>
U.S. Govt. Treasury Bills	\$ 6,093,787	\$6,093,787	
Mutual Funds	709,800	709,800	
Agency Mortgage Backed Securities	1,474,907	1,216,157	258,750
Securities Lending ⁽¹⁾	6,326,202	6,326,202	
Total	<u>\$14,604,696</u>	<u>\$14,345,946</u>	<u>\$258,750</u>

⁽¹⁾ 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 amounts identified above represent the VCCS' allocated share of securities received for securities lending transactions held in the general account of the Commonwealth of Virginia. The Commonwealth's policy is to record unrealized gains and losses in the General Fund in the Commonwealth's basic financial statements. When gains or losses are realized, the actual gains and losses are recorded by the affected agencies. 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*.

Community College Foundations

The Foundations had the following cash, cash equivalents and investments as of June 30, 2010:

Cash and cash equivalents	\$ 18,642,667
Investments:	
Mutual funds and money markets	\$ 49,945,082
Stocks	28,708,953
Corporate bonds	12,984,206
U.S. government securities	4,573,849
UVA investment fund	3,893,656

Certificates of deposits	4,775,256
Investment in real estate	2,516,574
Mortgage-backed securities	1,880,118
Cash surrender value of life insurance	703,502
Assets held for resale	333,273
Split interest agreement	97,527
Total investments	<u>\$110,411,996</u>

Some VCCS foundations had balances in bank and savings institutions that exceeded federally-insured limits. However, the foundations do not believe this poses any significant credit risk.

3. RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

The following receivables included an allowance for doubtful accounts at June 30, 2010:

Gross accounts receivable:	
Tuition and fees	\$ 15,196,086
Auxiliary enterprises	1,072,462
Federal, state, local and nongovernmental grants, gifts, contracts	2,860,157
Other activities	<u>1,832,774</u>
Total gross accounts receivable	\$20,961,479
Less: Allowance for doubtful accounts	<u>(2,112,119)</u>
Net accounts receivable	<u>\$18,849,360</u>
Gross Loans and notes receivable	\$ 5,052,150
Less: Allowance for doubtful accounts	<u>(763,795)</u>
Net loans and notes receivable	<u>\$ 4,288,355</u>

Receivables not expected to be collected within one year are \$354,852 in accounts, notes, and loans receivable.

Community College Foundations

The foundations have the following receivables as of June 30, 2010:

Gross accounts receivable	\$661,041
Less: Allowance for doubtful accounts	<u>(20,253)</u>
Net accounts receivable	<u>\$640,788</u>
Pledges receivable:	
Due in one year	\$2,936,110
Due in 1-5 years	4,454,081
Due in more than 5 years	131,469
Less: Allowance for doubtful accounts	(345,264)
Present value discount	<u>(334,758)</u>
Net pledges receivable	<u>\$6,841,638</u>
Gross loans and notes receivable	\$ 96,532
Less: Allowance for doubtful accounts	<u>-</u>
Net loans and notes receivable	<u>\$ 96,532</u>

Receivables not expected to be collected within one year are \$25,362 in notes and loans receivable and \$4,023,937 in pledges receivable.

4. CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2010 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Nondepreciable capital assets:				
Land	\$34,145,481	2,930,394	(200,100)	\$36,875,775
Land improvements	15,012,044	1,292,221		16,304,265
Inexhaustible works of art	137,174	11,000		148,174
Construction in progress	154,092,057	94,975,302	(139,664,733)	109,402,626
Total capital assets not being depreciated	203,386,756	99,208,917	(139,864,833)	162,730,840
Depreciable capital assets:				
Buildings	701,740,466	134,329,924		836,070,390
Infrastructure	33,014,602	2,280,194		35,294,796
Equipment	161,874,931	19,186,437	(45,222,402)	135,838,966
Land improvements	57,125,889	4,864,566		61,990,455
Library books	42,122,243	2,282,078	(2,515,041)	41,889,280
Intangible	0	34,951,615		34,951,615
Total other capital assets	995,878,131	197,894,814	(47,737,443)	1,146,035,502
Less accumulated depreciation for:				
Buildings	(171,732,228)	(18,500,341)		(190,232,569)
Infrastructure	(14,206,051)	(1,609,590)		(15,815,641)
Equipment	(106,572,558)	(13,522,847)	38,052,856	(82,042,549)
Land improvements	(33,531,972)	(2,114,666)		(35,646,638)
Library books	(33,015,369)	(2,087,813)	2,515,041	(32,588,141)
Intangible	0	(29,061,319)		(29,061,319)
Total accumulated depreciation	(359,058,178)	(66,896,576)	40,567,897	(385,386,857)
Other capital assets, net	636,819,953	130,998,238	(7,169,546)	760,648,645
Total capital assets, net	\$840,206,709	230,207,155	(147,034,379)	\$923,379,485

Community College Foundations

The foundations had the following capital assets as of June 30, 2010:

Non-depreciable capital assets:	
Land	\$ 1,559,596
Works of art	124,927
Construction in Process	2,000,000
Total nondepreciable capital assets	<u>\$ 3,684,523</u>
Depreciable capital assets:	
Buildings	\$6,816,388
Equipment	688,036
Site improvement	57,029
Total depreciable capital assets	<u>\$7,561,453</u>
Less: Accumulated depreciation	<u>(1,317,437)</u>

Depreciable capital assets, net	<u>\$ 6,244,016</u>
Total capital assets, net	<u><u>\$9,928,539</u></u>

5. ACCOUNTS AND RETAINAGE PAYABLE

Accounts and retainage payable consisted of the following as of June 30, 2010:

Vendor payables	\$23,920,251
Retainage payable	5,644,117
Taxes payable	5,460
Total	<u><u>\$29,569,828</u></u>

6. COMMITMENTS

At June 30, 2010, the VCCS had future commitments for construction contracts totaling approximately \$104,226,780. The System held \$5,644,117 as retainage payable on construction and architectural/engineering contracts for work performed. The retainage payable will be remitted to the various contractors upon satisfactory completion of the construction projects.

7. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2010 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Debt:					
Bonds payable	\$ 677,030	\$ 4,800	\$ 223,233	\$ 458,597	\$ 216,475
Other capital leases	17,752,746		2,519,786	15,232,960	1,552,526
Notes payable:					
Installment purchases	11,181,602	652,728	4,782,244	7,052,086	414,998
Pooled bonds	30,940,996	30,163,523	1,617,621	59,486,898	2,410,000
Other notes payable	1,108,045	1,591,000	1,108,045	1,591,000	1,591,000
Total bonds, notes and capital leases	<u>61,660,419</u>	<u>32,412,051</u>	<u>10,250,929</u>	<u>83,821,541</u>	<u>6,184,999</u>
Other liabilities:					
Compensated absences	30,220,535	20,642,079	21,095,339	29,767,275	14,687,955
Federal loan program contributions	4,861,943	243,948	150,979	4,954,912	
Total other liabilities	<u>35,082,478</u>	<u>20,886,027</u>	<u>21,246,318</u>	<u>34,722,187</u>	<u>14,687,955</u>
Total long-term liabilities	<u><u>\$96,742,897</u></u>	<u><u>\$53,298,078</u></u>	<u><u>\$31,497,247</u></u>	<u><u>\$118,543,728</u></u>	<u><u>\$20,872,954</u></u>

8. BONDS PAYABLE

Long-term debt in the form of bonds payable of the System as of June 30, 2010, consists of the following:

Higher Education Refunding Bonds, Series 1999, issued \$1,868,800 to advance refund a portion of the Higher Education Bonds, Series 1992A. The balance is payable in annual installments ranging from approximately \$185,000 to \$240,000 with an average coupon rate of 4.18% payable semiannually. The final installment of \$231,855 is due June 1, 2012. The outstanding balance at June 30, 2010 is \$458,597.

Aggregate annual maturities of bonds payable for fiscal years after 2010:

Year Ending June 30	Principal	Interest	Total
2011	216,475	25,166	241,641
2012	231,855	11,459	243,314
Plus: Bond Premium	19,667		19,667
Less: Bond Defeasance	(9,400)		(9,400)
Total debt service Requirements	<u>\$458,597</u>	<u>\$36,625</u>	<u>\$495,222</u>

9. NOTES PAYABLE

Notes payable represents an agreement with the Virginia College Building Authority (VCBA) to finance the following projects:

Parking and access road improvements for John Tyler Community College - The balance is to be repaid in ten annual installments ranging from \$70,000 to \$130,000 with an average coupon rate of 4.03% payable semiannually. The final installment of \$130,000 is due September 1, 2013. The outstanding balance at June 30, 2010 is \$475,000.

Parking garage for the Medical Education campus of Northern Virginia Community College - The balance is to be repaid in twenty annual installments ranging from \$265,000 to \$555,000 with an average coupon rate of 4.27% payable semiannually. The final installment of \$555,000 is due September 1, 2021. The outstanding balance at June 30, 2010 is \$5,256,038.

Parking deck for the Annandale Campus of Northern Virginia Community College - The balance is to be repaid in twenty annual installments ranging from \$310,000 to \$400,000 with an average coupon rate of 4.35% payable semiannually. The final installment of \$400,000 is due September 1, 2023. The outstanding balance at June 30, 2010 is \$5,600,000.

Parking garage for J. Sargeant Reynolds Community College - The balance is to be repaid in twenty annual installments ranging from \$110,000 to \$330,000 with an average coupon rate of 4.95% payable semiannually. The final installment of \$330,000 is due September 1, 2022. The outstanding balance at June 30, 2010 is \$3,214,861.

Student Center for Tidewater Community College - The balance is to be repaid in twenty annual installments ranging from \$480,000 to \$1,100,000 with an average coupon rate of 4.17% payable semiannually. The final installment of \$1,100,000 is due September 1, 2029. The outstanding balance at June 30, 2010 is \$14,871,547.

Workforce Training and Technology Center for J. Sargeant Reynolds Community College - The balance is to be repaid in nineteen annual installments ranging from \$30,000 to \$75,000 with an average coupon rate of 4.914% payable semiannually. The final installment of \$75,000 is due September 1, 2029. The outstanding balance at June 30, 2010 is new debt of \$920,000 and the unamortized bond premium of \$86,763 for a total of \$1,006,763.

Student Center for Tidewater Community College Virginia Beach Campus. The balance is to be repaid in twenty annual installments ranging from \$420,000 to \$1,035,000 with an average coupon rate of 4.907% payable semiannually. The final installment of \$1,035,000 is due September 1, 2029. The outstanding balance at June 30, 2010 is new debt of \$13,540,000 and the unamortized bond premium of \$1,243,283 for a total of \$14,783,283.

Student Center for Tidewater Community College Chesapeake Campus. The balance is to be repaid in twenty annual installments ranging from \$295,000 to \$725,000 with an average coupon rate of 4.907% payable semiannually. The final installment of \$725,000 is due September 1, 2029. The outstanding balance at June 30, 2010 is new debt of \$9,490,000 and the unamortized bond premium of \$871,469 for a total of \$10,361,469.

Academic Building for Tidewater Community College Chesapeake Campus. The balance is to be repaid in fifteen annual installments ranging from \$165,000 to \$325,000 with an average coupon rate of 4.969% payable semiannually. The final installment of \$325,000 is due September 1, 2024. The outstanding balance at June 30, 2010 is new debt of \$3,535,000 and the unamortized bond premium of \$382,937 for a total of \$3,917,937.

The Virginia Community College System's general revenues, not otherwise obligated, secures these notes.

Other notes payable of \$1,591,000 represents advances received from the Commonwealth of Virginia in anticipation of federal grant funding.

Scheduled maturities of notes payable are as follows:

Year Ending June 30	Principal	Interest	Total Payments
2011	2,410,000	2,598,746	5,008,746
2012	2,515,000	2,505,046	5,020,046
2013	2,605,000	2,390,196	4,995,196
2014	2,720,000	2,264,167	4,984,167
2015	2,695,000	2,140,413	4,835,413
2016-2020	15,110,000	8,714,957	23,824,957
2021-2025	15,725,000	4,875,831	20,600,831
2026-2030	12,450,000	1,472,900	13,922,900
Sub Totals	\$56,230,000	\$26,962,256	\$83,192,256
Plus: Bond Premium	3,357,998		3,357,998
Less: Bond Defeasance	(101,100)		(101,100)

Totals	\$59,486,898	\$26,962,256	\$86,449,154
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10. LEASE COMMITMENTS AND INSTALLMENT PURCHASES

The System is committed under various capital lease, operating lease, and installment purchase agreements. The cost of assets capitalized under capital lease and installment purchase agreements total \$32,021,622 and \$8,009,172, respectively. Rent expense under operating lease agreements amounted to \$12,510,749 for the year. A summary of future obligations under lease agreements as of June 30, 2010, follows:

Year Ending June 30	Capital Lease Obligations	Installment Purchase Obligations	Operating Lease Obligations
2011	\$ 2,202,978	\$ 622,684	\$ 4,396,962
2012	2,387,448	864,873	4,815,290
2013	2,387,249	864,871	4,634,650
2014	2,381,803	923,429	3,013,962
2015	2,385,995	790,635	2,583,792
2016-2020	6,817,401	3,159,542	2,807,403
2021-2025	369,193	1,870,011	
Total obligation and gross minimum lease payments	\$18,932,067	\$9,096,045	\$22,252,059
Less: Interest	(3,699,107)	(2,043,959)	
Present value of minimum lease payments	\$15,232,960	\$7,052,086	\$22,252,059

11. OPERATING EXPENSES BY NATURAL AND FUNCTIONAL CLASSIFICATIONS

VCCS operating expenses for the year ended June 30, 2010 were as follows:

Functional Classification	Natural Classification					Supplies, Services & Other	Total
	Salaries & Benefits	Utilities	Scholarships	Depreciation			
Instruction	\$ 332,977,114	\$ 120,430	\$ 1,844,917	\$ 25,023,619	\$ 63,683,904	\$ 423,649,984	
Public Service	6,231,425	594	8,966		57,265,513	63,506,498	
Acad. Support	59,671,268	63,391	327,604	4,076,123	18,447,975	82,586,361	
Student Services	57,539,835	516	959,255	71,859	8,194,909	66,766,374	
Inst. Support	109,824,705	160,866	871,443	6,864,347	43,641,903	161,363,264	
O & M of Plant	22,424,774	15,286,074		1,751,675	54,664,064	94,126,587	
Schol. & Fellows.	38,056		124,965,166		179,103	125,182,325	
Aux. Enterprises	1,991,332	28,094	5,470	47,622	9,978,432	12,050,950	
Other Expenses					84,103	84,103	
Total Expenses	\$ 590,698,509	\$ 15,659,965	\$128,982,821	\$ 37,835,245	\$ 256,139,906	\$1,029,316,446	

12. STATE APPROPRIATIONS

All Commonwealth unrestricted revenues must be appropriated by the Legislature and are provided on an annual basis. Unspent balances of these appropriations at the close

of the fiscal year revert to the Commonwealth's General Fund. These reverted funds are eligible for re-appropriation in fiscal year 2010-11 provided that the VCCS meets financial and administrative standards outlined in the *Code of Virginia*.

During the year ended June 30, 2010, the Virginia Community College System received the following general fund appropriations in accordance with the Appropriation Act of 2009, Chapter 781, Acts of Assembly.

Appropriated - Chapter 781 - approved April 8, 2009	\$396,407,442
Less:	
Transfer 2010 net central account distributions	(13,941,580)
Other:	
Transfer from SCHEV – VIVA	38,100
Carryover fiscal year 2009 year-end balances	7,598,307
Commonwealth budget reductions	(50,898,741)
Equipment Trust Fund lease payment	(633,657)
Transfer capital fee	(1,753,660)
Philpott manufacturing	(443,462)
Reversion	<u>(7,613,602)</u>
Adjusted Unrestricted Appropriations	<u>\$328,759,147</u>

Other restricted appropriations were \$30,874,751 for a total of \$359,633,898.

13. EQUIPMENT TRUST FUND

The System participates in the Higher Education Equipment Trust Fund of the Virginia College Building Authority (VCBA). The Higher Education Equipment Trust Fund provides funds to public colleges and universities for equipment acquisition. In prior years, funds were provided in the form of a lease. During the year ended June 30, 2010, the VCBA financed the ETF program with state appropriations.

14. DONOR-RESTRICTED ENDOWMENTS

VCCS has two donor-restricted endowments. The net appreciation on investments of donor-restricted endowments that is available for expenditure by the governing board did not change for the year ended June 30, 2010. These amounts are reported as restricted expendable net assets. Total-return policy is followed for authorizing and spending investment income.

15. CONTINGENCIES ON GRANTS

The VCCS receives assistance from non-state grantor agencies in the form of grants. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant agreements. Substantially all grants are subject to financial and compliance audits by the grantors. All disallowances as a result of these audits become a liability of the VCCS. As of June 30, 2010, the VCCS estimates that no material liabilities will result from such audits.

16. PENSION PLAN

All qualified salaried employees of the VCCS must participate in one of two retirement benefit plans - the Virginia Retirement System (VRS) or the Optional Retirement Plan (ORP). Classified employees are eligible to participate in the VRS only, while faculty rank employees are eligible to participate in either the VRS or the ORP.

The 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. This is a fixed benefit plan, with benefits vesting after five years of service. Current benefit provisions are based on a formula using years of service, salary, and age. The VRS does not measure assets and pension benefit obligations separately for individual State institutions. Information relating to this plan is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). The Commonwealth, not the VCCS, has overall responsibility for contributions to this plan.

Participants in the ORP may select from one of five plan administrators for the receipt and investment of contributions. This is a fixed-contribution plan where the retirement benefits received are based on the employer's (10.4%) contributions, plus interest and dividends.

Individual contracts issued under the ORP plan provide for full and immediate vesting of the VCCS contributions. Total pension costs under this plan were \$5,661,513 and \$5,613,906 for years ended June 30, 2010 and 2009, respectively. Contributions to the ORP plan were calculated using the base salary amount of \$54,437,627 and \$53,979,861 for fiscal years 2010 and 2009. The VCCS total payroll for fiscal years 2010 and 2009 was \$473,536,334 and \$460,989,155 respectively.

Employees of the VCCS 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. Employer contributions under the Deferred Compensation Plan were approximately \$1,701,922 for fiscal year 2010.

17. RISK MANAGEMENT

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The System participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plan 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, faithful performance of duty bonds, automobile, and air and watercraft plans. The System pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

A Faithful Performance Duty Bond administered by the Commonwealth of Virginia's Department of Treasury, Division of Risk Management, covers the employees of the

VCCS. The Faithful Performance Duty Bond provides coverage with liability limits of \$500,000 for each occurrence.

18. POST-EMPLOYMENT BENEFITS

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

19. CAPITAL APPROPRIATIONS-STATE

Capital appropriations-state is comprised of the following:

General Fund Reversion	\$ 222,145
Asbestos Claims Trust Fund Reversion Reduction	(2,465)
Virginia College Building Authority appropriation revenue	81,851,322
General Obligation Bond appropriation revenue	7,303,693
Tidewater Community College capital lease agreement	<u>2,012,573</u>
Total	<u>\$91,387,268</u>

20. COMPONENT UNIT FINANCIAL INFORMATION

Below is a summary of the foundations.

VCCS has five major component units—Lord Fairfax Community College Educational Foundation, Northern Virginia Community College Educational Foundation, Mountain Empire Community College Educational Foundation, Patrick Henry Community College Educational Foundation, and Southwest Virginia Community College Educational Foundation. Additionally, the System has twenty-two non-major component units—Blue Ridge Community College Educational Foundation, Central Virginia Community College Educational Foundation, Dabney S. Lancaster Community College Educational Foundation, Danville Community College Educational Foundation, Eastern Shore Community College Educational Foundation, Germanna Community College Educational Foundation, J. Sargeant Reynolds Community College Educational Foundation, J. Sargeant Reynolds Community College Real Estate Foundation, John Tyler Community College Educational Foundation, New River Community College Educational Foundation, Paul D. Camp Community College Educational Foundation, Piedmont Community College Educational Foundation, Rappahannock Community College Educational Foundation, Southside Virginia Community College Educational Foundation, Thomas Nelson Community College Educational Foundation, Tidewater Community College Educational Foundation, Tidewater Community College Real Estate Foundation, Virginia Highlands Community College Educational Foundation, Virginia Western Community College Educational Foundation, Wytheville Community College Educational Foundation, Wytheville Community College Scholarship Foundation, and Community Colleges of Virginia Educational Foundation. These organizations are separately incorporated entities and other auditors examine the related financial statements.

Virginia Community College System Foundations
Statement of Net Assets
As of June 30, 2010

	Southwest Virginia Community College Educational Foundation	Northern Virginia Community College Educational Foundation	Patrick Henry Community College Educational Foundation	Mountain Empire Community College Educational Foundation	Lord Fairfax Community College Educational Foundation	Combined Non- Major Component Units	Total Component Units
ASSETS							
Total current assets	\$ 1,358,216	\$ 6,872,010	\$ 211,455	\$ 267,419	\$ 2,151,573	\$ 13,289,351	\$ 24,150,024
Noncurrent assets:							
Other noncurrent assets	9,154,795	0	10,107,887	8,923,566	5,466,818	79,155,026	112,808,092
Capital assets, net	5,088,477	-	-	-	179,650	4,660,412	9,928,539
Total noncurrent assets	14,243,272	0	10,107,887	8,923,566	5,646,468	83,815,438	122,736,631
Total assets	15,601,488	6,872,010	10,319,342	9,190,985	7,798,041	97,104,789	146,886,655
LIABILITIES							
Total current liabilities	101,934	75,337	97,572	45,418	19,531	1,130,559	1,470,351
Noncurrent liabilities:							
Long-term liabilities	-	-	-	-	-	714,199	714,199
Other noncurrent liabilities	-	-	-	-	-	-	-
Total noncurrent liabilities	-	-	-	-	-	714,199	714,199
Total liabilities	101,934	75,337	97,572	45,418	19,531	1,844,758	2,184,550
NET ASSETS							
Invested in capital assets, net of related debt	5,088,477	-	-	-	179,650	4,660,412	9,928,539
Restricted for:							
Nonexpendable	-	2,768,711	5,662,286	4,303,605	3,973,785	43,640,343	60,348,730
Expendable	5,306,264	3,155,226	4,206,364	2,034,010	3,427,828	28,478,176	46,607,868
Unrestricted	5,104,813	6,653,568	353,120	2,807,952	197,247	12,700,268	27,816,968
Total Net Assets	\$ 15,499,554	\$ 12,577,505	\$ 10,221,770	\$ 9,145,567	\$ 7,778,510	\$ 89,479,199	\$ 144,702,105

Virginia Community College System Foundations
Statement of Revenues, Expenses, and Changes in Net Assets
As of June 30, 2010

	Southwest Virginia Community College Educational Foundation	Northern Virginia Community College Educational Foundation	Patrick Henry Community College Educational Foundation	Mountain Empire Community College Educational Foundation	Lord Fairfax Community College Educational Foundation	Combined Non- Major Component Units	Total Component Units
Total operating revenues	\$ 838,526	\$ 1,672,149	\$ 2,167,082	\$ 485,920	\$ 727,645	\$ 14,629,035	\$ 20,520,357
Total operating expenses	1,108,391	1,571,714	1,347,273	429,200	2,322,064	13,397,954	20,176,596
Operating income (loss)	(269,865)	100,435	819,809	56,720	(1,594,419)	1,231,081	343,761
Nonoperating revenues (expenses):							
Investment Income	1,126,823	1,147,562	320,542	807,614	177,481	2,389,139	5,969,161
Other nonoperating revenues (expenses)	-	-	-	-	-	(19,999)	(19,999)
Net nonoperating revenue	1,126,823	1,147,562	320,542	807,614	177,481	2,369,140	5,949,162
Income before other revenues, expenses gains and losses	856,958	1,247,997	1,140,351	864,334	(1,416,938)	3,600,221	6,292,923
Capital gifts, grants and contracts Additions to permanent and term endowments	34,841	-	-	-	-	627,375	662,216
	-	67,618	69,300	319,756	125,095	4,957,699	5,539,468
Increase (decrease) in net assets	891,799	1,315,615	1,209,651	1,184,090	(1,291,843)	9,185,295	12,494,607
Net assets - beginning of year	14,607,755	11,261,890	9,012,119	7,961,477	9,070,353	80,293,904	132,207,498
Net assets - end of year	\$ 15,499,554	\$ 12,577,505	\$ 10,221,770	\$ 9,145,567	\$ 7,778,510	\$ 89,479,199	\$ 144,702,105

21. PENDING LITIGATION

A few community colleges have been named as defendants in lawsuits. The final outcome of the lawsuits cannot be determined at this time. However, management is of the opinion that any ultimate liability to which the colleges may be exposed will not have a material effect upon the Virginia Community College System's financial position.

22. SUBSEQUENT EVENTS

In November 2010, the Virginia Community College System issued a note to VCBA in the amount of \$8,570,000. The proceeds of the note will be used to finance construction of the Student Center at the Tidewater Community College Virginia Beach Campus. The note bears interest at a rate of 3.11% and is payable in the years 2011 – 2031.

In November 2010, the Virginia Community College System issued a note to VCBA in the amount of \$15,605,000. The proceeds of the note will be used to finance construction of the Student Center at the Tidewater Community College Portsmouth Campus. The note bears interest at a rate of 3.12% and is payable in the years 2011 – 2031.

In November 2010, the Virginia Community College System issued a note to VCBA in the amount of \$6,055,000. The proceeds of the note will be used to finance construction of the Student Center at the Tidewater Community College Chesapeake Campus. The note bears interest at a rate of 3.12% and is payable in the years 2011 – 2031.

In November 2010, the Virginia Community College System issued a note to VCBA in the amount of \$9,335,000. The proceeds of the note will be used to finance construction of the Student Recreation Center at Blue Ridge Community College. The note bears interest at a rate of 3.12% and is payable in the years 2011 – 2031.

In October 2010, the Commonwealth of Virginia refunded VCBA bonds with new bond issuances totaling \$5,575,000 (VCCS portion). The new bonds have coupon rates ranging from 3.00% to 5.00%. The refunding decreased the total debt service payments to be made by \$361,867.



Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 30, 2011

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
and Review Commission

State Board for Community Colleges

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the **Virginia Community College System**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2010, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System'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 System, which are discussed in Note 1. 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 System is based on the reports of the other auditors. The prior year summarized comparative information has been derived from the System's 2009 financial statements, and in our report dated June 25, 2010, we expressed an unqualified opinion on the respective financial statements of the System.

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 System 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 the business-type activities and aggregate discretely presented component units of the System as of June 30, 2010, 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.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. 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.

In accordance with Government Auditing Standards, we have also issued our report dated June 30, 2011 on our consideration of the System'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 considered in assessing the results of our audit.


AUDITOR OF PUBLIC ACCOUNTS