

VIRGINIA COMMUNITY COLLEGE SYSTEM

*AUDITED FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2011*

Prepared by:
Office of Fiscal Services
Virginia Community College System
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VCCS Financial Report 2010-2011

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VCCS Financial Report 2010-2011

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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 give everyone the opportunity to learn and develop the right skills so lives and communities are strengthened.

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, 2011. This discussion has been prepared by management and should be read in conjunction with the financial statements and footnotes.

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 2011:

- Annual 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 2011, approximately \$5.0 million was added to the VCCS budget for these purposes.
- Statewide budget reductions implemented since mid-fiscal year 2008 have resulted in the VCCS general fund revenues declining from \$391.6 million in fiscal year 2008 to \$341.6 million in fiscal year 2011, a decrease of 12.8%.
- The VCCS spent approximately \$40.0 million in federal funding in fiscal year 2011 as part of the American Recovery and Reinvestment Act (ARRA). Of that amount, approximately \$14.6 million was used to reimburse faculty salaries and \$6.4 million was used for financial aid.
- Effective fall 2010, the State Board for Community Colleges approved a tuition increase of \$8.50 per credit hour for in-state students and \$13.00 per credit hour for out-of-state students. Simultaneously, the technology fee rate was increased by \$1 per credit hour. As a result of these increases, tuition and fee revenue increased approximately \$55.4 million in fiscal year 2011.
- From fiscal year 2010 to 2011, student full-time equivalent enrollment (FTEs) increased 4.85% from 122,479 FTEs to 128,416 FTEs resulting in an increase in tuition and fee collections of approximately \$19.8 million in fiscal year 2011. 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:			
	2011	2010	Dollar Change	Percentage Change
Assets				
Current assets	\$257,279	\$226,043	\$31,236	13.82%
Capital assets, net	1,040,861	923,380	117,481	12.72%
Other non-current assets	99,928	65,287	34,641	53.06%
Total Assets	\$1,398,068	\$1,214,710	\$183,358	15.09%
Liabilities				
Current liabilities	\$176,649	\$161,527	\$15,122	9.36%
Non-current liabilities	133,455	97,724	35,731	36.56%
Total Liabilities	\$310,104	\$259,251	\$50,853	19.62%
Net Assets				
Invested in capital assets, net of debt	\$984,915	\$875,357	\$109,558	12.52%
Restricted-nonexpendable	-	-	-	-
Restricted-expendable	18,157	8,832	9,325	105.58%
Unrestricted	84,892	71,270	13,622	19.11%
Total Net Assets	\$1,087,964	\$955,459	\$132,505	13.87%

Current Assets

Current assets consist of \$206 million in cash and investments, \$19.4 million in accounts, notes, and interest receivable, \$5.1 million in amounts due from the commonwealth, \$24.4 million in prepaid expenses, and \$2.4 million in inventories. The \$31.2 million increase in current assets was primarily due to increases of \$28.8 million in cash and cash equivalents, \$12.6 million in prepaid assets, and \$1.8 million in amounts due from commonwealth, partially offset by decreases in short term investments and accounts receivable of \$8.6 million and \$3.9 million, respectively.

The \$28.8 million increase in cash and cash equivalents was primarily attributable to additional deferred revenue related cash and to more cash held locally by the colleges at June 30, 2011. Summer session (deferred) revenue and related cash balances increased due to enrollment and tuition increases and locally held cash increased due to funding for new student centers and additional cash equivalents held by J. Sargeant Reynolds Community College (JSRCC) in fiscal year 2011.

The prepaid asset increase of \$12.6 million was due to additional colleges choosing to prepay fiscal year 2012 related rent, insurance premiums, and maintenance agreements. Amounts due from commonwealth rose by \$1.8 million because of a significant increase in Equipment Trust Fund (ETF) reimbursements due from the State Treasurer; however, this ETF increase was partially offset by a decrease in the interest and rebate amounts due from the commonwealth for fiscal year 2011.

Short term investments decreased by \$8.6 million because JSRCC invested \$5.6 million in cash equivalents that had previously been included in short term investments. In addition, securities lending investments decreased \$2.9 million.

Although the \$3.9 million change in accounts receivable represents a 20.8% decrease, due to increased revenue, most colleges actually had higher receivable balances as of June 30, 2011 as compared to June 30, 2010. However, the cumulative effect of the increases at the majority of colleges was more than offset by a \$6.7 million decrease in accounts receivable at Northern Virginia Community College (NVCC). In fiscal year 2011, NVCC implemented new accounts receivable collection procedures that resulted in significant balance reductions, either through collection or write-off of uncollectible accounts.

Capital Assets, Net of Accumulated Depreciation

The overall increase of \$117.5 million in net capital assets was due to changes across various capital asset categories. The following table compares fiscal year 2011 to fiscal year 2010 capital asset balances by category:

Capital Assets, Net (By Asset Category) (in thousands of dollars)

Capital Asset Category	As of June 30:		Dollar Change	Percentage Change
	2011	2010		
Land	\$40,425	\$36,876	\$3,549	9.62%
CIP	148,924	109,403	39,521	36.12%
Land Improvements	49,140	42,648	6,492	15.22%
Infrastructure	20,623	19,479	1,144	5.87%
Buildings	694,138	645,838	48,300	7.48%

Equipment	59,718	53,945	5,773	10.70%
Intangibles	12,890	5,890	7,000	118.85%
Library books	15,003	9,301	5,702	61.31%
	<hr/>			
Total	\$1,040,861	\$923,380	\$117,481	12.72%
	<hr/>			

Land increased due to donation of land from the City of Chesapeake to Tidewater Community College (TCC), partially offset by donation of land from TCC to the TCC Real Estate Foundation. **CIP** increased due to spending on projects at various campuses (e.g. Manassas Academic, Loudon Phase III, Annandale). **Land Improvements** increased due to the addition of the Regional Health and Norfolk Student Centers at TCC and asphalt sealing and repairs to the parking lots at NVCC. **Infrastructure** increased due to the addition of the Norfolk Student Center. **Buildings** increased primarily due to addition of the Regional Health and Norfolk Student Centers at TCC, the Information Technology Building at Blue Ridge Community College (BRCC), and the Workforce Development Center at Lord Fairfax Community College (LFCC). **Equipment** increased primarily as a result of the start-up of the Regional Health and Norfolk Student Centers at TCC. **Intangibles** increased due to the completion of the PeopleSoft Human Resource Management System (HRMS) implementation. **Library Books** increased because beginning with fiscal year 2011, the decision was made to begin capitalizing non-printed materials for all colleges.

Other Non-Current Assets

The \$34.6 million increase in non-current assets was primarily due to increases of \$7.9 million in restricted cash and cash equivalents, \$23.1 million in cash with trustees, and \$3.9 million in amounts due from commonwealth. The additional \$7.9 in restricted local plant cash was related to the TCC Virginia Beach Joint Use Library. The increase in cash with trustees was attributable to \$23 million in additional State Non-arbitrage Program (SNAP) funds in fiscal year 2011 due to new bond issuances and the \$3.9 million increase in amounts due from commonwealth was the result of higher Virginia College Building Authority (VCBA) bond fund activity for capital projects at the end of fiscal year 2011.

Current Liabilities

Current liabilities consist of accounts and retainage payable of \$32.9 million, accrued payroll and leave compensation of \$58.5 million, deferred revenue of \$57.6 million, securities lending obligations of \$14.6 million, debt obligations of \$7 million, amounts due to the commonwealth of \$0.154 million, and deposits of \$5.9 million. Current liabilities increased \$15.1 million in fiscal year 2011 as a result of increases in deferred revenue of \$9.9 million primarily attributable to higher tuition and fee rates and increased enrollments. In addition, accrued payroll and leave compensation increased by \$4.3 million. Approximately \$3.2 million of this increase was attributable to an increase in the year-end payroll accrual for faculty salaries and benefits. The remaining \$1.1 million variance was due to an increase in the year-end accrual for fiscal year 2011 fourth quarter VRS payments delayed until fiscal year 2012.

Non-Current Liabilities

Non-Current liabilities consist of capital lease liabilities of \$12 million, installment purchases payable of \$6.2 million, pooled bonds of \$94.7 million, accrued leave of \$15.4 million, and federal loan program of \$5.1 million. Non-Current liabilities increased \$35.7 primarily due to issuance of pooled bond notes for new projects at TCC and BRCC and refinancing of previously issued notes for projects at NVCC and JSRCC.

Net Assets

The \$109.6 million increase in invested in capital assets, net of related debt is explained by an increase of \$117.5 in capital assets, net of accumulated depreciation reduced by an increase of \$7.9 million in capital asset related debt. The increase of \$9.3 in restricted expendable net assets was due to invested funds with external restrictions for use on various capital projects. For example, as of June 30, 2011, TCC held \$7.9 million in investments related to the Virginia Beach Joint Use Library and \$1 million related to the Chesapeake Student Services Center. The increase of \$13.7 million in unrestricted net assets was primarily associated with the increase in prepayments for rent, insurance premiums, and maintenance agreements. The balance in net assets represents the difference between total assets and total liabilities and is one measure of the current financial condition of an organization. The increase of 13.87% is an indication that the overall financial condition of the VCCS improved in fiscal year 2011.

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:		Dollar	Percentage
	2011	2010	Change	Change
Operating revenue	\$464,771	\$433,984	\$30,787	7.09%
Operating expenses	1,085,809	1,029,316	56,493	5.49%
Operating loss	(\$621,038)	(\$595,332)	(\$25,706)	4.32%
Non-operating revenues and expenses	\$643,567	\$579,115	\$64,452	11.13%
Income (loss) before other revenues, expenses, gains or losses	\$22,529	(\$16,217)	\$38,746	-238.92%
Other revenues	\$109,976	\$110,438	(\$462)	-0.42%
Increase in net assets	\$132,505	\$94,221	\$38,284	40.63%
Net assets, beginning of year	\$955,459	\$861,238	\$94,221	10.94%
Net assets, end of year	\$1,087,964	\$955,459	\$132,505	13.87%

The following table is a more detailed representation and comparison of amounts included in operating, non-operating, and other (capital) revenues during the periods ended June 30, 2011 and 2010:

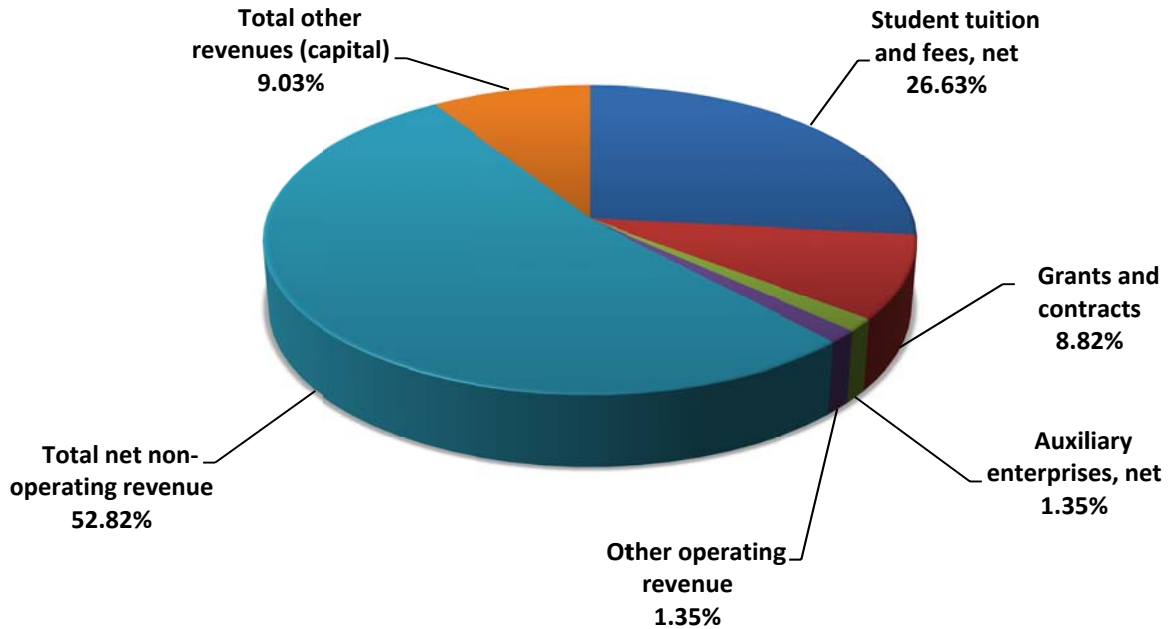
Summary of Revenues
For the years ended June 30, 2011 and 2010
(in thousands of dollars)

	2011	2010	Dollar Change	Percentage Change
Operating revenues				
Student tuition and fees, net	\$324,435	\$302,821	\$21,614	7.14%
Grants and contracts	107,424	102,690	4,734	4.61%
Auxiliary enterprises, net	16,514	15,632	882	5.64%
Other operating revenue**	16,398	12,841	3,557	27.70%
Total Operating Revenues	\$464,771	\$433,984	\$30,787	7.09%
Non-operating activity				
State operating appropriations	\$359,697	\$359,634	\$63	0.02%
Local operating appropriations	2,213	2,289	(76)	-3.32%
Grants and gifts	281,776	217,891	63,885	29.32%
Investment income	2,638	3,062	(424)	-13.85%
Interest expense	(1,888)	(3,332)	1,444	-43.34%
Other	(869)	(429)	(440)	102.56%
Total net non-operating revenue	\$643,567	\$579,115	\$64,452	11.13%
Other revenues (capital)				
Capital appropriations-state	89,655	91,387	(1,732)	-1.90%
Capital appropriations-local	12,484	7,339	5,145	70.10%
Capital gifts and grants	7,837	11,712	(3,875)	-33.09%
Total other revenues (capital)	\$109,976	\$110,438	(\$462)	-0.42%
Total revenues	\$1,218,314	\$1,123,537	\$94,777	8.44%

** Includes sales/services of education department and miscellaneous other revenues

A graphic presentation of fiscal year 2011 revenues by source (per the Statement of Revenues, Expenses and Changes in Net Assets) is below:

Total Revenue - By Source



Operating Revenues

Total operating revenues increased \$30.8 million or 7.09% percent over the prior year. Student tuition and fee revenues rose by \$21.6 million due to increases in tuition rates and number of FTEs, partially offset by a reduction in student accounts receivable at NVCC attributable to improved collection procedures. In addition, federal grant revenues increased \$6 million primarily due to the infusion of American Recovery and Reinvestment Act (ARRA) funding and other operating revenues increased \$3.6 million attributable primarily to increases in vending commission and current year revenues received as reimbursement for prior year costs.

Non-operating and Other Revenues

Total net non-operating revenue increased \$64.5 million or 11.1% over the prior year. The increase is primarily due to the increase in grants and gifts of \$63.9 million associated with increases in federal Pell grant funding and State Fiscal Stabilization Fund (SFSF) amounts received as part of ARRA.

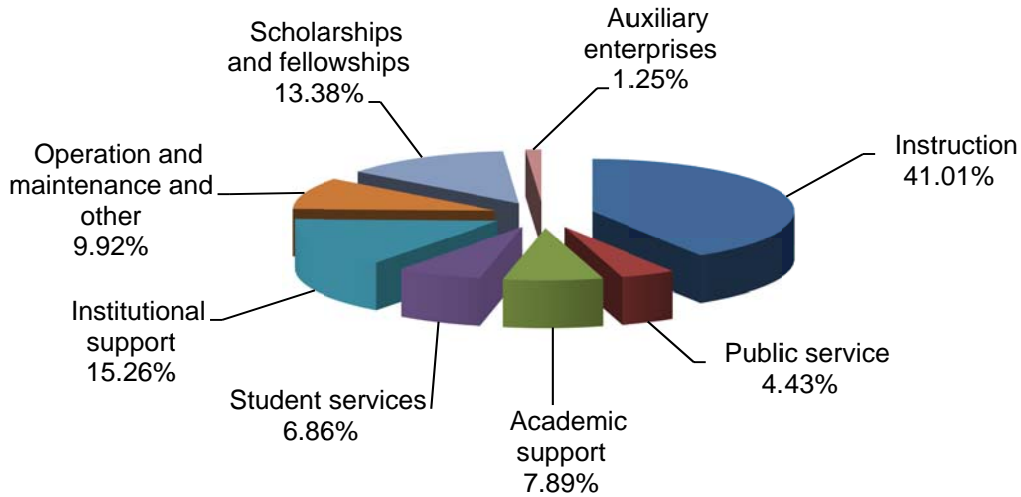
The following table is a detailed breakdown of operating expenses by function and a comparison of changes by category for the periods ended June 30, 2011 and 2010:

Summary of Expenses by Function
For the years ended June 30, 2011 and 2010
(in thousands of dollars)

	2011	2010	Dollar Change	Percentage Change
Operating expenses:				
Instruction	\$445,325	\$423,650	\$21,675	5.12%
Public service	48,091	63,507	(15,416)	-24.27%
Academic support	85,638	82,586	3,052	3.70%
Student services	74,518	66,766	7,752	11.61%
Institutional support	165,641	161,363	4,278	2.65%
Operation and maintenance	107,518	94,127	13,391	14.23%
Scholarships and fellowships	145,235	125,182	20,053	16.02%
Auxiliary enterprises	13,585	12,051	1,534	12.73%
Other expenses	258	84	174	207.14%
Total operating expenses	\$1,085,809	\$1,029,316	\$56,493	5.49%

A graphic presentation of fiscal year 2011 operating expenses by function (per the Statement of Revenues, Expenses and Changes in Net Assets) is below:

Operating Expenses Functional Category



Operating Expenses

Operating expenses totaling approximately \$1.086 billion for fiscal 2011 grew by \$56.5 million from the prior year. Instruction expenses increased 5% for a total of \$21.7 million in correlation with the 4.85% increase in student enrollment. Public Service expenses decreased by \$15.4 million due to a decrease in ARRA Workforce Investment Act (WIA) funding. Scholarships and fellowships increased by \$20.1 million due to an increase in Pell funding.

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 the year ended
June 30:

	2011	2010	Dollar Change	Percentage Change
Cash received from operations	\$480,535	\$438,682	\$41,853	9.54%

Cash used in operations	1,058,358	961,334	97,024	10.09%
Net cash used in operations	(\$577,823)	(\$522,652)	(\$55,171)	10.56%
Net cash provided by non-capital financing activities	\$645,432	\$589,808	\$55,624	9.43%
Net cash used in capital and related financing activities	(15,949)	(19,372)	3,423	-17.67%
Net cash provided by (used in) investing activities	8,636	(1,864)	10,500	-563.30%
Net increase (decrease) in cash and cash equivalents	\$ 60,296	\$45,920	\$14,376	31.31%
Cash and cash equivalents, beginning of year	\$194,956	\$149,036	\$45,920	30.81%
Cash and cash equivalents, end of year	\$255,252	\$194,956	\$60,296	30.93%

The primary operating sources of cash for the VCCS included tuition and fees of \$339 million, operating grants and contracts of \$107.2 million, and auxiliary revenues of \$16.3 million. The primary uses of operating cash included employee salaries, wages, and fringe benefits of \$626.2 million and operating expenditures (payments to suppliers/others and utilities) of \$282.2 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 increased \$3.4 million as a result of higher capital appropriation revenues. Net cash flows from non-capital financing activities increased \$55.6 million largely due to the \$52.4 million increase in Pell grant revenues. The overall increase in cash and cash equivalents was \$60.3 million at the end of fiscal year 2011.

Economic Outlook

The Commonwealth's economy, as well as the national economy, showed a slight improvement in fiscal year 2011. In fiscal year 2011, the Commonwealth predicted a 3.5% increase in general fund revenues and this was exceeded as revenue collections went up by 5.8%. This marked the first year that total revenues had increased since fiscal year 2008; however, total revenues are still below fiscal year 2007 levels. In response to revenue shortfalls, the Commonwealth permanently reduced the VCCS general fund by approximately \$50 million between fiscal year 2008 and fiscal year 2011 and an additional \$25.5 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 19.3% or \$75.5 million as a result of state mandated budget reductions. The federal government's ARRA will provide \$25.9 million in fiscal year 2012 to help offset the significant general fund budget reductions; however, fiscal year 2012 is the final year in which the VCCS expects to receive ARRA funding.

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 2012 will be 37.4% of the average of the four-year institutions for total tuition and mandatory fees.

Effective with the fall 2011 session, the State Board for Community Colleges approved a tuition increase of \$8.50 per credit hour applicable to all students. It is anticipated that this increase will generate approximately \$28.2 million in tuition revenues in fiscal year 2012. The technology fee was increased by \$1 per credit hour, bringing the fee to \$7.50 per credit hour for all students. The technology fee increase is expected to generate additional revenue of \$3.3 million in fiscal year 2012.

Chapter 890, 2011 Virginia Acts of Assembly authorized state capital appropriations of \$14,270,000 for fiscal year 2012. This entire amount is for new construction and renovations to existing facilities at the various community college campuses. The funding breakdown for the state capital appropriations are as follows: Bond Proceeds (\$13,483,000) and Higher Education Trust and Agency Funds (\$787,000).

The VCCS capitalized construction expenditures totaling \$117,911,680 during fiscal year 2011. These costs included some projects that are still in progress and some that were completed in fiscal year 2011. The total construction costs for projects completed during fiscal year 2011 totaled \$78,390,420.

The VCCS entered into contractual commitments for capital projects totaling \$408,184,113 as of June 30, 2011. Total expenditures processed against these projects as of June 30, 2011 was \$273,935,904, leaving an unpaid commitment balance of \$134,248,209.

***FINANCIAL
STATEMENTS***

**Virginia Community College System
Consolidated
Statement of Net Assets
As of June 30, 2011**

	Component Units	
	VCCS	Foundations
ASSETS		
Current Assets		
Cash and cash equivalents (Note 2)	200,269,789	15,365,344
Appropriation available	28,845	
Short term investments (Note 2)	5,720,696	7,206,118
Accounts receivable, net (Note 3)	14,851,160	695,607
Pledges receivable (Note 3)		3,517,482
Due from commonwealth	5,124,747	
Interest receivable	309,711	150,944
Prepaid expenses	24,427,314	22,105
Inventories	2,352,603	24,250
Notes receivable, net (Note 3)	4,193,972	101,041
Total Current Assets	257,278,837	27,082,891
Noncurrent Assets		
Restricted cash and cash equivalents (Note 2)	2,627,713	
Cash with trustees (Note 2)	63,360,208	
Endowment cash and cash equivalents (Note 2)	196,528	2,598,162
Appropriation available	529,222	
Endowment investments (Note 2)		72,307,314
Other long-term investments (Note 2)	403,450	46,959,289
Accounts receivable, net (Note 3)	6,011	
Investments in real estate		2,406,642
Pledges receivable (Note 3)		3,517,332
Due from commonwealth	31,971,322	
Notes receivable, net (Note 3)	833,142	669,688
Non-depreciable capital assets, net (Note 4)	208,419,459	2,362,472
Depreciable capital assets, net (Note 4)	832,441,678	7,932,149
Total Noncurrent Assets	1,140,788,733	138,753,048
Total Assets	1,398,067,570	165,835,939
Liabilities		
Current Liabilities		
Accounts and retainage payable (Note 5)	32,872,701	1,551,472
Accrued payroll expense	43,545,498	921
Deferred revenue	57,626,246	19,265
Long-term liabilities-current portion (Note 7)	21,890,111	61,595
Securities lending obligation	14,637,089	
Due to Commonwealth	153,450	
Deposits	5,923,846	
Total Current Liabilities	176,648,941	1,633,253
Noncurrent Liabilities		
Deferred revenue	77,267	
Long-term liabilities (Note 7)	128,268,182	683,336
Due to federal government (Note 7)	5,109,455	
Total Noncurrent Liabilities	133,454,904	683,336
Total Liabilities	310,103,845	2,316,589
Net Assets		
Invested in capital assets, net of related debt	984,915,032	10,294,621
Restricted for:		
Nonexpendable		61,102,811
Expendable	18,156,720	57,033,649
Unrestricted	84,891,973	35,088,269
Total Net Assets	1,087,963,725	163,519,350

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, 2011**

	VCCS	Component Units Foundations
Revenues		
Operating Revenue		
Tuition and fees (net of scholarship allowance of \$160,747,713)	324,435,003	
Federal grants and contracts	96,217,321	84,800
State and local grants	4,146,760	826,318
Nongovernmental grants	7,059,626	2,630,062
Sales/services of education department	457,836	
Auxiliary enterprises (net of scholarship allowance of \$5,877,359)	16,513,625	
Gifts and contributions		7,983,526
Endowment income		8,954,834
Other operating revenues	15,940,484	5,070,744
Total Operating Revenue	464,770,655	25,550,284
Expenses		
Operating Expenses		
Instruction	445,325,067	1,189,155
Public service	48,091,302	1,530,512
Academic support	85,637,771	4,093,541
Student services	74,518,073	77,619
Institutional support	165,640,519	6,289,806
Operation and maintenance	107,517,966	2,463,665
Scholarships and fellowships	145,235,104	4,112,791
Auxiliary enterprises	13,585,489	
Fundraising		1,018,527
Other expenses	257,997	96,408
Total Operating Expenses	1,085,809,288	20,872,024
Operating Income (Loss)	(621,038,633)	4,678,260
Nonoperating Revenues(Expenses)		
State appropriations (Note 12)	359,696,991	
Local appropriations	2,213,455	
Grants and gifts	281,775,989	
Investment income	2,638,470	7,180,053
Interest on capital asset related debt	(1,888,375)	
Other nonoperating revenue (expense)	(869,479)	
Net Nonoperating Revenue	643,567,051	7,180,053
Income before other revenues, expenses gains (losses)	22,528,418	11,858,313
Capital appropriations-state (Note 19)	89,654,815	
Capital appropriations-local	12,484,129	
Capital gifts, grants and contracts	7,837,257	611,830
Additions to permanent and term endowments		6,347,102
Increase (Decrease) in Net Assets	132,504,619	18,817,245
Net Assets		
Net Assets beginning of year	955,459,106	144,702,105
Net Assets end of year	1,087,963,725	163,519,350

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, 2011**

Cash flows from operating activities:

Tuition and fees	338,979,028
Grants and contracts	107,214,751
Payments to suppliers and others	(265,885,605)
Payments for employee wages	(502,058,879)
Payments for employee fringes	(124,186,758)
Payment for scholarships	(149,095,360)
Payments for utilities	(16,308,041)
Sales and services of education department	457,836
Auxiliary	16,422,903
Loans issued to students	(823,645)
Loans collected from students	575,904
Other	16,884,244
Net cash used by operating activities	<u>(577,823,622)</u>

Cash flows from non-capital financing activities:

State appropriations	359,696,991
Local appropriations	2,213,455
Grants and gifts	283,567,849
Agency receipts	8,886,087
Agency disbursements	(8,813,899)
PLUS, Stafford and Direct Lending loan receipts	138,596,097
PLUS, Stafford and Direct Lending loan disbursements	(138,347,396)
Borrowings	1,375,000
Loan repayments	(1,591,000)
Other non-operating revenue(expense)	(151,535)
Net cash provided (used) by non-capital financing activities	<u>645,431,649</u>

Cash flows from capital financing activities:

Capital appropriations-state	85,442,573
Capital appropriations-local	12,484,129
Capital grants and gifts	7,837,257
Purchase capital assets	(156,422,186)
Proceeds from sale of capital assets	478,389
Proceeds from bond issue	42,719,965
Debt interest payments	(1,888,375)
Debt principal payments	(6,600,340)
Net cash provided (used) by capital financing activities	<u>(15,948,588)</u>

Cash flows from investing activities:

Purchases of investments	(1,765,191)
Sale of investments	7,293,787
Investment income	3,107,703
Net cash provided (used) by investing activities	<u>8,636,299</u>

Net incr (decr) in net assets

Net increase (decrease) in cash and cash equivalents 60,295,738

Cash and cash equivalents, beginning of year 194,956,421

Cash and cash equivalents, End of Year 255,252,159

**Virginia Community College System
Consolidated
Statement of Cash Flows
For the Year Ended June 30, 2011**

Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating income (loss)	(621,038,633)
Adjustment to reconcile operating income (loss) to net cash used in operating activities:	
Depreciation expense	41,530,522
Changes in assets and liabilities:	
Appropriation available and accounts receivable, net	4,301,623
Prepaid expenses and other	(17,810,152)
Accrued compensation and leave	4,632,040
Accounts payable and other	671,382
Deferred revenue	9,897,565
Deposits pending distribution	(7,969)
Net cash used in operating activities	<u><u>(577,823,622)</u></u>
Reconciliation of cash and cash equivalents:	
Cash and cash equivalents per Statement of Net Assets	266,454,238
Less: Securities Lending Cash Equivalents	11,202,079
Cash and cash equivalents end of year	<u><u>255,252,159</u></u>
Noncash transactions	
ETF equipment	3,881,979
Donated fixed assets	6,360,283
Debt principal and interest payments made by Treasury	2,018,381

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, 2011

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, 2011, the foundations distributed \$6,860,684 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, 2011.

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, 2011 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, 2010.

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.

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 \$57,922,604 at June 30, 2011.

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 2011.

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 2011.

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 2011.

<u>Cash Equivalents</u>	<u>Fair Value</u>	<u>Credit Rating</u>
Local Govt. Investment Pool	\$46,642,308	AAA
Certificates of Deposit	8,954,649	Not Rated
Repurchase Agreements	148,399	Not Rated
Mutual and Money Market Funds	2,056,574	Not Rated
U.S. Govt. Treasury Bills	4,999,558	
Securities Lending ⁽¹⁾	11,202,079	
Total	<u>\$74,003,567</u>	

Investment Maturities (In Years)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less 1 yr</u>	<u>1-5 yrs</u>
U.S. Govt. Treasury Bills	\$ 499,659	\$ 499,659	
Mutual Funds	727,527	727,527	
Agency Mortgage Backed Securities	1,461,950	1,058,500	\$403,450
Securities Lending ⁽¹⁾	3,435,010	3,435,010	
Total	<u>\$6,124,146</u>	<u>\$5,720,696</u>	<u>\$403,450</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, 2011:

Cash and cash equivalents	\$ 17,963,506
Investments:	
Mutual funds and money markets	\$ 62,139,090
Stocks	32,660,837
Corporate bonds	17,062,361
UVA investment fund	4,695,405
U. S. government securities	3,997,075
Certificates of deposits	2,600,651
Investment in real estate	2,406,642
Mortgage-backed securities	1,436,359
Municipal bonds	766,478

Cash surrender value of life insurance	740,931
Assets held for resale	346,148
SPDR Gold Shares	26,357
Hedge Fund	1,029
Total investments	<u>\$128,879,363</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, 2011:

Gross accounts receivable:	
Tuition and fees	\$ 9,611,366
Auxiliary enterprises	1,202,673
Federal, state, local and nongovernmental grants, gifts, contracts	2,857,664
Other activities	2,312,660
Total gross accounts receivable	<u>\$15,984,363</u>
Less: Allowance for doubtful accounts	<u>(1,127,192)</u>
Net accounts receivable	<u>\$14,857,171</u>
Gross Loans and notes receivable	\$ 5,290,252
Less: Allowance for doubtful accounts	<u>(263,138)</u>
Net loans and notes receivable	<u>\$ 5,027,114</u>

Receivables not expected to be collected within one year are \$839,153 in accounts, notes, and loans receivable.

Community College Foundations

The foundations have the following receivables as of June 30, 2011:

Gross accounts receivable	\$742,909
Less: Allowance for doubtful accounts	<u>(47,302)</u>
Net accounts receivable	<u>\$695,607</u>
Pledges receivable:	
Due in one year	\$3,598,075
Due in 1-5 years	3,582,183
Due in more than 5 years	359,194
Less: Allowance for doubtful accounts	(207,649)
Present value discount	<u>(296,989)</u>
Net pledges receivable	<u>\$7,034,814</u>
Gross loans and notes receivable	\$ 770,729
Less: Allowance for doubtful accounts	-
Net loans and notes receivable	<u>\$ 770,729</u>

Receivables not expected to be collected within one year are \$669,688 in notes and loans receivable and \$3,517,332 in pledges receivable.

4. CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2011 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Nondepreciable capital assets:				
Land	\$36,875,775	\$4,229,305	(\$680,449)	\$40,424,631
Land improvements	16,304,265	2,618,503		18,922,768
Inexhaustible works of art	148,174			148,174
Construction in progress	109,402,626	117,911,680	(78,390,420)	148,923,886
Total capital assets not being depreciated	\$162,730,840	\$124,759,488	(\$79,070,869)	\$208,419,459
Depreciable capital assets:				
Buildings	\$836,070,390	\$68,065,159		\$904,135,549
Infrastructure	35,294,796	2,812,317		38,107,113
Equipment	135,838,966	20,010,238	(7,328,256)	148,520,948
Land improvements	61,990,455	6,155,220		68,145,675
Library books	41,889,280	8,380,911	(2,197,376)	48,072,815
Intangible	34,951,615	8,415,595	(33,070)	43,334,140
Total other capital assets	\$1,146,035,502	\$113,839,440	(\$9,558,702)	\$1,250,316,240
Less accumulated depreciation for:				
Buildings	(\$190,232,569)	(\$19,764,734)		(\$209,997,303)
Infrastructure	(15,815,641)	(1,668,786)		(17,484,427)
Equipment	(82,042,549)	(13,720,557)	6,812,372	(88,950,734)
Land improvements	(35,646,638)	(2,281,412)		(37,928,050)
Library books	(32,588,141)	(2,679,437)	2,197,376	(33,070,202)
Intangible	(29,061,319)	(1,415,597)	33,070	(30,443,846)
Total accumulated depreciation	(\$385,386,857)	(\$41,530,523)	\$9,042,818	(\$417,874,562)
Other capital assets, net	\$760,648,645	\$72,308,917	(\$515,884)	\$832,441,678
Total capital assets, net	\$923,379,485	\$197,068,405	(\$79,586,753)	\$1,040,861,137

Community College Foundations

The foundations had the following capital assets as of June 30, 2011:

Non-depreciable capital assets:	
Land	\$ 2,237,545
Works of art	124,927
Total nondepreciable capital assets	<u>\$2,362,472</u>
Depreciable capital assets:	
Buildings	\$8,621,789
Equipment	694,085
Site improvement	57,028
Total depreciable capital assets	<u>\$9,372,902</u>
Less: Accumulated depreciation	<u>(1,440,753)</u>

Depreciable capital assets, net	<u>\$ 7,932,149</u>
Total capital assets, net	<u><u>\$10,294,621</u></u>

5. ACCOUNTS AND RETAINAGE PAYABLE

Accounts and retainage payable consisted of the following as of June 30, 2011:

Vendor payables	\$26,753,544
Retainage payable	6,114,357
Taxes payable	4,800
Total	<u><u>\$32,872,701</u></u>

6. COMMITMENTS

At June 30, 2011, the VCCS had future contractual commitments totaling approximately \$134,248,209. The System held \$6,114,357 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, 2011 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Debt:					
Bonds payable	\$ 458,597	\$ 4,700	\$ 226,736	\$ 236,561	\$ 236,561
Other capital leases	15,232,960		1,756,696	13,476,264	1,515,000
Notes payable:					
Installment purchases	7,052,086	1,754,764	2,217,169	6,589,681	358,226
Pooled bonds	59,486,898	41,364,402	2,632,359	98,218,941	3,520,000
Other notes payable	1,591,000	1,375,000	1,591,000	1,375,000	1,375,000
Total bonds, notes and capital leases	<u>\$83,821,541</u>	<u>\$44,498,866</u>	<u>\$8,423,960</u>	<u>\$119,896,447</u>	<u>\$7,004,787</u>
Other liabilities:					
Compensated absences	29,767,275	19,627,726	19,133,155	30,261,846	14,885,324
Federal loan program contributions	4,954,912	154,543		5,109,455	
Total other liabilities	<u>\$34,722,187</u>	<u>\$19,782,269</u>	<u>\$19,133,155</u>	<u>\$35,371,301</u>	<u>\$14,885,324</u>
Total long-term liabilities	<u><u>\$118,543,728</u></u>	<u><u>\$64,281,135</u></u>	<u><u>\$27,557,115</u></u>	<u><u>\$155,267,748</u></u>	<u><u>\$21,890,111</u></u>

8. BONDS PAYABLE

Long-term debt in the form of bonds payable of the System as of June 30, 2011, 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 final installment of \$231,855 is due June 1, 2012. The outstanding balance, net of unamortized premium and loss balances, is \$236,561 as of June 30, 2011.

Aggregate annual maturities of bonds payable for fiscal years after 2011:

Year Ending June 30	Principal	Interest	Total
2012	\$231,855	\$11,459	\$243,314
Plus: Bond Premium	9,406		9,406
Less: Bond Defeasance	(4,700)		(4,700)
Total debt service Requirements	<u>\$236,561</u>	<u>\$11,459</u>	<u>\$248,020</u>

9. NOTES PAYABLE

Notes payable represent agreements 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 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, 2011 is \$365,000.

Parking garage for the Medical Education campus of Northern Virginia Community College - The balance is to be repaid in annual installments ranging from \$340,000 to \$530,000 with coupon rates ranging from 3% to 5% payable semiannually. The final installment of \$530,000 is due September 1, 2021. The outstanding balance at June 30, 2011 is \$4,931,168.

Parking deck for the Annandale Campus of Northern Virginia Community College - The balance is to be repaid in annual installments ranging from \$380,000 to \$400,000 with coupon rates ranging from 3% to 5% payable semiannually. The final installment of \$400,000 is due September 1, 2023. The outstanding balance at June 30, 2011 is \$5,213,278.

Parking garage for J. Sargeant Reynolds Community College - The balance is to be repaid in annual installments ranging from \$200,000 to \$325,000 with coupon rates ranging from 3% to 5% payable semiannually. The final installment of \$325,000 is due September 1, 2022. The outstanding balance at June 30, 2011 is \$3,046,577.

Student Center for Tidewater Community College Norfolk Campus - The balance is to be repaid in annual installments ranging from \$510,000 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, 2028. The outstanding balance at June 30, 2011 is \$14,341,278.

Workforce Training and Technology Center for J. Sargeant Reynolds Community College - The balance is to be repaid in 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, 2011 is \$1,002,236.

Student Center for Tidewater Community College Virginia Beach Campus – The balance is to be repaid in annual installments ranging from \$420,000 to \$1,600,000 with coupon rates ranging from 3% to 5% payable semiannually. The final installment of \$585,000 is due September 1, 2030. The outstanding balance at June 30, 2011 is \$23,236,962.

Student Center for Tidewater Community College Chesapeake Campus - The balance is to be repaid in annual installments ranging from \$500,000 to \$1,125,000 with coupon rates ranging from 3% to 5% payable semiannually. The final installment of \$415,000 is due September 1, 2030. The outstanding balance at June 30, 2011 is \$16,335,950.

Academic Building for Tidewater Community College Chesapeake Campus - The balance is to be repaid in annual installments ranging from \$170,000 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, 2011 is \$3,725,906.

Student Center for Blue Ridge Community College Weyers Cave Campus - The balance is to be repaid in annual installments ranging from \$335,000 to \$660,000 with a coupon rate of 3.12% payable semiannually. The final installment of \$660,000 is due September 1, 2030. The outstanding balance at June 30, 2011 is \$9,745,739.

Student Center for Tidewater Community College Portsmouth Campus - The balance is to be repaid in annual installments ranging from \$520,000 to \$1,065,000 with a coupon rate of 3.12% payable semiannually. The final installment of \$1,065,000 is due September 1, 2030. The outstanding balance at June 30, 2011 is \$16,274,847.

The Virginia Community College System’s general revenues, not otherwise obligated, secure these notes.

Other notes payable of \$1,375,000 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
2012	\$3,520,000	\$4,412,419	\$7,932,419
2013	3,950,000	4,255,444	8,205,444
2014	4,135,000	4,060,536	8,195,536
2015	4,185,000	3,861,210	8,046,210
2016	4,360,000	3,656,904	8,016,904
2017-2021	24,800,000	14,938,131	39,738,131
2022-2026	25,490,000	8,915,789	34,405,789

2027-2031	22,675,000	2,720,525	25,395,525
Sub Totals	<u>\$93,115,000</u>	<u>\$46,820,958</u>	<u>\$139,935,958</u>
Plus: Bond Premium	5,739,541		5,739,541
Less: Bond Defeasance	(635,600)		(635,600)
Totals	<u>\$98,218,941</u>	<u>\$46,820,958</u>	<u>\$145,039,899</u>

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 \$7,133,597, respectively. Rent expense under operating lease agreements amounted to \$9,700,741 for the year. A summary of future obligations under lease agreements as of June 30, 2011, follows:

Year Ending June 30	Capital Lease Obligations	Installment Purchase Obligations	Operating Lease Obligations
2012	\$2,045,255	\$ 609,694	\$ 4,440,102
2013	2,387,259	763,936	5,721,293
2014	2,401,803	763,936	3,916,495
2015	2,385,995	763,938	3,211,959
2016	2,383,355	763,940	1,738,216
2017-2021	4,803,240	3,223,803	1,673,700
2022-2026		1,787,278	
Total obligation and gross minimum lease payments	\$16,406,907	\$8,676,525	\$20,701,765
Less: Interest	(2,930,643)	(2,086,844)	
Present value of minimum lease payments	<u>\$13,476,264</u>	<u>\$6,589,681</u>	<u>\$20,701,765</u>

11. OPERATING EXPENSES BY NATURAL AND FUNCTIONAL CLASSIFICATIONS

VCCS operating expenses for the year ended June 30, 2011 were as follows:

Functional Classification	Natural Classification					Supplies, Services & Other	Total
	Salaries & Benefits	Utilities	Scholarships	Depreciation			
Instruction	\$ 353,076,254	\$ 150,860	\$ 1,924,753	\$ 26,948,529	\$ 63,224,671	\$ 445,325,067	
Public Service	6,256,223	288	28,167		41,806,624	48,091,302	
Acad. Support	64,331,784	109,976	251,084	4,737,662	16,207,265	85,637,771	
Student Services	63,519,513	3,546	803,637	330,736	9,860,641	74,518,073	
Inst. Support	116,684,800	177,609	1,216,591	7,555,499	40,006,020	165,640,519	
O & M of Plant	24,315,918	15,587,823	3,569	1,944,846	65,665,810	107,517,966	
Schol. & Fellows.	70,410		144,752,903		411,791	145,235,104	
Aux. Enterprises	2,432,846	77,830	19,847	13,250	11,041,716	13,585,489	
Other Expenses					257,997	257,997	
Total Expenses	<u>\$ 630,687,748</u>	<u>\$ 16,107,932</u>	<u>\$149,000,551</u>	<u>\$ 41,530,522</u>	<u>\$ 248,482,535</u>	<u>\$1,085,809,288</u>	

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 2011-12 provided that the VCCS meets financial and administrative standards outlined in the *Code of Virginia*.

During the year ended June 30, 2011, the Virginia Community College System received the following general fund appropriations in accordance with the Appropriation Act of 2010, Chapter 874, Acts of Assembly.

Appropriated - Chapter 874 - approved May 17, 2010	\$341,647,732
Additions:	
Net central accounts distribution	5,082,369
Adjustment for change in IT service rate	276
Other:	
Transfer from SCHEV – VIVA	35,940
VITA operational efficiencies	(46,301)
Carryover fiscal year 2010 year-end balances	7,609,167
Equipment Trust Fund lease payment	(633,657)
Transfer capital fee	(2,336,220)
Philpott manufacturing	(443,098)
Reversion	<u>(22,035,136)</u>
Adjusted Unrestricted Appropriations	<u>\$328,881,072</u>

Other restricted appropriations were \$30,815,919 for a total of \$359,696,991.

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, 2011, 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, 2011. 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, 2011, 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 for those employees who became a member prior to July 1, 2010. For those employees who became a member on or after July 1, 2010, the employer's contributions are 8.5% and the employee's contributions are 5%.

Individual contracts issued under the ORP plan provide for full and immediate vesting of the VCCS contributions. Total pension costs under this plan were \$5,698,819 and \$5,661,513 for years ended June 30, 2011 and 2010, respectively. Contributions to the ORP plan were calculated using the base salary amount of \$55,310,639 and \$54,437,627 for fiscal years 2011 and 2010. The VCCS total payroll for fiscal years 2011 and 2010 was \$494,844,576 and \$473,536,334 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 \$10 per pay period, a change from \$20 per pay period in fiscal year 2010. 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 \$964,744 for fiscal year 2011.

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	\$ (896)
Virginia College Building Authority appropriation revenue	86,293,112
General Obligation Bond appropriation revenue	1,344,218
Tidewater Community College capital lease agreement	<u>2,018,381</u>
Total	<u>\$89,654,815</u>

20. COMPONENT UNIT FINANCIAL INFORMATION

Below is a summary of the foundations.

VCCS has five major component units—J. Sargeant Reynolds Community College Educational Foundation, Northern Virginia Community College Educational Foundation, Mountain Empire Community College Foundation, Patrick Henry Community College 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 Foundation, Germanna Community College Educational Foundation, J. Sargeant Reynolds Community College Real Estate Foundation, John Tyler Community College Foundation, Lord Fairfax Community College Educational Foundation, New River Community College Educational Foundation, Paul D. Camp Community College Foundation, Piedmont Community College Educational Foundation, Rappahannock Community College Educational Foundation, Southside Virginia Community College 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, 2011

	Southwest Virginia Community College Educational Foundation	Northern Virginia Community College Educational Foundation	Patrick Henry Community College Educational Foundation	Mountain Empire Community College Educational Foundation	J. Sargeant Reynolds Community College Educational Foundation	Combined Non- Major Component Units	Total Component Units
ASSETS							
Total current assets	\$ 1,600,802	\$ 7,271,570	\$ 883,734	\$ 83,950	\$ 1,762,916	\$ 15,479,919	\$ 27,082,891
Noncurrent assets:							
Other noncurrent assets	10,645,754	7,129,801	11,635,612	10,165,337	6,752,885	82,129,038	128,458,427
Capital assets, net	4,925,979	-	-	-	28,028	5,340,614	10,294,621
Total noncurrent assets	15,571,733	7,129,801	11,635,612	10,165,337	6,780,913	87,469,652	138,753,048
Total assets	17,172,535	14,401,371	12,519,346	10,249,287	8,543,829	102,949,571	165,835,939
LIABILITIES							
Total current liabilities	101,123	36,075	32,404	50,108	23,619	1,389,924	1,633,253
Noncurrent liabilities:							
Long-term liabilities	-	-	-	-	-	683,336	683,336
Other noncurrent liabilities	-	-	-	-	-	-	-
Total noncurrent liabilities	-	-	-	-	-	683,336	683,336
Total liabilities	101,123	36,075	32,404	50,108	23,619	2,073,260	2,316,589
NET ASSETS							
Invested in capital assets, net of related debt	4,925,979	-	-	-	28,028	5,340,614	10,294,621
Restricted for:							
Nonexpendable	-	2,815,053	6,405,021	4,620,011	5,616,132	41,646,594	61,102,811
Expendable	6,213,307	3,838,398	3,761,235	2,577,333	2,668,797	37,974,579	57,033,649
Unrestricted	5,932,126	7,711,845	2,320,686	3,001,835	207,253	15,914,524	35,088,269
Total Net Assets	\$ 17,071,412	\$ 14,365,296	\$ 12,486,942	\$ 10,199,179	\$ 8,520,210	\$ 100,876,311	\$ 163,519,350

Virginia Community College System Foundations
Statement of Revenues, Expenses, and Changes in Net Assets
As of June 30, 2011

	Southwest Virginia Community College Educational Foundation	Northern Virginia Community College Educational Foundation	Patrick Henry Community College Educational Foundation	Mountain Empire Community College Educational Foundation	J. Sargeant Reynolds Community College Educational Foundation	Combined Non- Major Component Units	Total Component Units
Total operating revenues	\$ 1,163,981	\$ 2,109,264	\$ 1,770,169	\$ 583,135	\$ 2,529,022	\$ 17,394,713	\$ 25,550,284
Total operating expenses	1,334,652	1,640,175	1,394,206	497,048	1,119,757	14,886,186	20,872,024
Operating income (loss)	(170,671)	469,089	375,963	86,087	1,409,265	2,508,527	4,678,260
Nonoperating revenues (expenses):							
Investment Income	1,674,391	1,274,851	1,248,251	382,082	723	2,599,755	7,180,053
Other nonoperating revenues (expenses)	-	-	-	-	-	-	-
Net nonoperating revenue	1,674,391	1,274,851	1,248,251	382,082	723	2,599,755	7,180,053
Income before other revenues, expenses gains and losses	1,503,720	1,743,940	1,624,214	468,169	1,409,988	5,108,282	11,858,313
Capital gifts, grants and contracts	68,138	-	-	-	-	543,692	611,830
Additions to permanent and term endowments	-	43,851	640,958	585,443	257,755	4,819,095	6,347,102
Increase (decrease) in net assets	1,571,858	1,787,791	2,265,172	1,053,612	1,667,743	10,471,069	18,817,245
Net assets - beginning of year	15,499,554	12,577,505	10,221,770	9,145,567	6,852,467	90,405,242	144,702,105
Net assets - end of year	\$ 17,071,412	\$ 14,365,296	\$ 12,486,942	\$ 10,199,179	\$ 8,520,210	\$ 100,876,311	\$ 163,519,350

21. PENDING LITIGATION

A few community colleges have been named as defendants in lawsuits, one of which is noted below as a subsequent event. The final outcome of the remaining 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 2011, the Virginia Community College System plans to issue a note to VCBA in the amount of \$6,015,000. The proceeds of the note will be used to finance renovation of the Student Life Center at Virginia Western Community College. The note will be payable in the years 2012-2031.

In November 2011, the Virginia Community College System plans to issue a note to VCBA in the amount of \$5,225,000. The proceeds of the note will be used to finance construction of a parking garage on Germanna Community College's Fredericksburg Campus. The note will be payable in the years 2012-2031.

As of June 2012, a tentative settlement of \$3 million had been reached on a construction claim related to Lord Fairfax Community College's Science Laboratory Building.



Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 18, 2012

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
And Review Commission

State Board for Community Colleges
Virginia Community College System

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, 2011, 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 2010 financial statements, and in our report dated June 30, 2011, 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, 2011, 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 on pages 1 through 11 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.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of the System. The individual college financial statements are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The individual college financial statements have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with Government Auditing Standards, we have also issued our report dated June 18, 2012 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

AWP/clj