

VIRGINIA COMMUNITY COLLEGE SYSTEM

**AUDITED FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2013**

**Prepared by:
Office of Fiscal Services
Virginia Community College System
101 North 14th Street
Richmond, Virginia 23219**

VCCS Financial Report 2012-2013

STATE BOARD MEMBERS

*Hank W. Chao, Chair
Bruce J. Meyer, Vice Chair*

*LaVonne Ellis
Idalia P. Fernandez
Robert R. Fountain
Stephen T. Gannon
Sasha Gong
Dorcas Helfant-Browning
Mirta M. Martin*

*Jeffery K. Mitchell
David Nutter
Robin Sullenberger
William H. Talley, III
Michael E. Thomas
Michael Zajur*

CHANCELLOR

*Glenn DuBois
Secretary, State Board*

OFFICER REPORTING

*David S. Mair
Controller*

VCCS Financial Report 2012-2013

TABLE OF CONTENTS

<i>M, D & A</i>	<u>1</u>
<i>Consolidated Financial Statements</i>	<u>14</u>
<i>Notes to the Financial Statements</i>	<u>19</u>
<i>Independent Auditor's Report</i>	<u>38</u>

VIRGINIA COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis

The Virginia Community College System (VCCS) was established by the Virginia General Assembly 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 VCCS for the year ended June 30, 2013. 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 2013:

- 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 2013, approximately \$12.2 million was added to the VCCS budget for these purposes.
- General fund appropriations increased by approximately \$24.3 million in fiscal year 2013. However, statewide budget reductions implemented from mid-fiscal year 2008 through fiscal year 2012 resulted in a significant decline in VCCS general fund revenues. The net result has been an overall decrease of 13.1% in general fund revenues from mid-fiscal year 2008 through fiscal year 2013.
- The VCCS spent approximately \$5.6 million in federal funding in fiscal year 2013 as part of the American Recovery and Reinvestment Act (ARRA). This represents a significant decline from the \$40.1 million spent in FY12.
- Effective fall 2012, the State Board for Community Colleges approved a tuition increase of \$5.50 per credit hour for all students. In addition, the State Board approved a tuition differential rate increase of \$1.50 per credit hour for Northern Virginia Community College effective fall 2012. As a result of these increases, tuition and fee revenue increased approximately \$23.8 million in fiscal year 2013.
- From fiscal year 2012 to 2013, student full-time equivalent (FTE) enrollment decreased 4.63% from 129,653 FTEs to 123,651 FTEs. This decrease resulted in a net decline in tuition and fee collections of approximately \$22.5 million in fiscal year 2013. One FTE represents 30 credit hours of classes taken by a student over an academic year and 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 Position, the Statement of Revenues, Expenses and Change in Net Position, and the Statement of Cash Flows.

Statement of Net Position

The Statement of Net Position presents the assets, deferred outflows of resources, liabilities, and deferred inflows of resources for the VCCS at the end of the fiscal year. The Statement also provides the net position of the VCCS at the end of the fiscal year. Net position is a residual amount equal to assets plus deferred outflows of resources less liabilities plus deferred inflows of resources. VCCS had no deferred inflows or outflows of resources in fiscal year 2013; therefore, net position is equal to assets less liabilities. Net position is presented in three categories. The first category, "Net investment in capital assets," 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 position" which consists of restricted assets reduced by liabilities related to those assets. Restricted net position balances are further classified as nonexpendable or expendable. Nonexpendable balances consist of loan funds and permanent endowments (available for investment purposes only). Expendable balances are available for expenditure by the VCCS, but must be spent for purposes determined by external entities. Unrestricted net position balances are not subject to externally imposed restrictions and may be designated for specific purposes by management of the VCCS.

A summarized Statement of Net Position is as follows:

	(in thousands of dollars)			
	As of June 30:			
	2013	2012	Dollar Change	Percentage Change
Assets				
Current assets	\$284,001	\$277,722	\$6,279	2.26%
Capital assets, net	1,262,947	1,177,533	85,414	7.25%
Other non-current assets	76,913	84,174	(7,261)	-8.62%
Total Assets	\$1,623,861	\$1,539,429	\$84,432	5.48%
Liabilities				
Current liabilities	\$174,577	\$190,781	(\$16,204)	-8.49%
Non-current liabilities	162,039	138,945	23,094	16.62%
Total Liabilities	\$336,616	\$329,726	\$6,890	2.09%
Net Position				
Net investment in capital assets	\$1,153,018	\$1,101,292	\$51,726	4.70%
Restricted-nonexpendable	-	-	-	-
Restricted-expendable	15,395	11,665	3,730	31.98%
Unrestricted	118,832	96,746	22,086	22.83%
Total Net Position	\$1,287,245	\$1,209,703	\$77,542	6.41%

Current Assets

Current assets consist of \$227.2 million in cash and investments, \$21.5 million in accounts, notes, and interest receivable, \$10.7 million in amounts due from the commonwealth, \$22.1 million in prepaid expenses, and \$2.6 million in inventories. The \$6.3 million increase in current assets was primarily attributable to increases of \$5.9 million in amounts due from commonwealth and \$4.4 million in cash and cash equivalents, partially offset by an overall decrease of \$3.5 million in current accounts and notes receivable.

Amounts due from commonwealth increased because Equipment Trust Fund (ETF) reimbursements payable to VCCS rose by \$7.1 million. Colleges were informed that reimbursement would be delayed until fiscal year 2014, but were allowed to use operating funds to purchase approved equipment related to the fiscal year 2013 ETF allocation. This ETF related increase was partially offset by a total decrease of \$1.2 million in amounts due from the commonwealth for interest on educational and general (E&G) cash balances, and reimbursements due from the Virginia College Building Authority (VCBA) for maintenance reserve expenses.

The \$4.4 million increase in cash and cash equivalents represents a 2% increase as compared to prior year and was attributable to normal fluctuations at most of the colleges as well as an increase in the Local Government Investment Pool (LGIP) balance at J. Sargeant Reynolds Community College (JSRCC).

Accounts receivable decreased by \$2.5 million and notes receivable decreased by \$1.0 million. The decrease in accounts receivable was primarily due a \$1.4 million decrease in expenditure refunds receivable at JSRCC, a \$0.5M reduction in insurance proceeds due to Germanna Community College (GCC) for prior year earthquake damage to an academic building, and a \$0.3 million decrease in the tuition receivable balance at Virginia Western Community College (VWCC). The decrease in notes receivable was primarily attributable to a \$1.1 million decrease in the Perkins current loans receivable balance at Northern Virginia Community College (NVCC), \$0.6 million of which was reclassified to long term in the current fiscal year.

Capital Assets, Net of Accumulated Depreciation

The overall increase of \$85.4 million in net capital assets was due to changes across various capital asset categories. The following table compares fiscal year 2013 to fiscal year 2012 capital asset balances by category:

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

Capital Asset Category	As of June 30:			
	2013	2012	Dollar Change	Percentage Change
Land	\$40,685	\$40,425	\$260	0.64%
CIP	164,590	156,873	7,717	4.92%
Land Improvements	58,803	55,881	2,922	5.23%
Infrastructure	32,323	27,229	5,094	18.71%
Buildings	874,185	802,656	71,529	8.91%
Equipment	66,319	66,495	(176)	-0.26%
Intangibles	11,302	13,358	(2,056)	-15.39%
Library books	14,740	14,615	125	0.86%

Total	\$1,262,947	\$1,177,532	\$85,415	7.25%
--------------	--------------------	--------------------	-----------------	--------------

Land increased due to the purchase of five acres by JSRCC. CIP increased due to ongoing capital projects on various campuses (e.g. Tidewater Community College (TCC) Student Center – Virginia Beach). The increases in land improvements, infrastructure, and buildings were all due to additions of buildings and related assets on JSRCC's Parham Road and Downtown campuses, the Learning Resources Center on TCC's Virginia Beach campus, and the Science and Technology Center at VWCC. Other current year additions to buildings included completed projects at GCC, Mountain Empire Community College (MECC), and Southwest Virginia Community College (SWVCC). Equipment purchases decreased in fiscal year 2013 partially due to a delay in funding of the fiscal year 2013 ETF allocation. Colleges were unable to request reimbursement until fiscal year 2014 and consequently, many chose to defer purchases. The overall decreases in the net balances for both equipment and intangibles were caused by increases in accumulated depreciation in excess of asset additions. Library books decreased due to unit reductions at JSRCC and NVCC.

Other Non-Current Assets

The \$7.3 million decline in other non-current assets was due to decreases of \$26.4 million in amounts due from commonwealth and \$9.4 million in cash equivalents with trustees, partially offset by increases of \$15.3 million in restricted cash and cash equivalents, \$3.7 million in appropriation available, \$8.9 million in other long term investments, and \$0.6 million in net notes receivable.

The balance in amounts due from commonwealth represents the sum of unreimbursed cash and accrual expenses for VCBA financed projects at the end of each fiscal year. The \$26.4 million decrease was due to a significant decrease in VCBA financed projects in fiscal year 2013 (total revenue decreased by \$39 million) and more timely submission of reimbursement requests at the end of fiscal year 2013.

Cash equivalents with trustees mostly consists of balances held in State Non-Arbitrage Program (SNAP) accounts related to pooled bond capital projects. The balance decreased by \$9.4 million in fiscal year 2013 as payments continued on various pooled bond projects.

VCBA cash basis capital project expenditures due for reimbursement at fiscal year-end decreased by \$21 million, thereby increasing restricted cash balances. This increase in restricted cash was partially offset by a decrease of \$6.7 million local plant restricted cash at TCC as additional funds were expended on the Virginia Beach Joint Use Library project.

During fiscal year 2013, the VCCS received \$3.7 million in capital appropriation revenue for planning costs related to projects at seven VCCS colleges. The funds had not been expended as of June 30, 2013 and the balance was classified as appropriation available.

The \$8.9 million increase in other long term investments was due to an additional \$7.9 million in student center fees collected by TCC and invested in long term investment instruments for funding of future student center operations. In addition, SWVCC invested an additional \$1 million in long term corporate bonds.

The \$0.6 million increase in net notes receivable was due to reclassification of NVCC Perkins loan balances that were reported as current in fiscal year 2012.

Current Liabilities

Current liabilities consist of accounts and retainage payable of \$30.4 million, accrued payroll expense of \$47.4 million, deferred revenue of \$53.2 million, securities lending obligations of \$6.6 million, long-term obligations (current portion) totaling \$31.6 million, and amounts due to commonwealth and deposits totaling \$5.4 million.

Current liabilities decreased \$16.2 million in fiscal year 2013 primarily due to decreases of \$10.4 million in accounts and retainage payable and \$10.2 million in securities lending obligations, partially offset by an increase of \$4.7 million in debt obligations. Payable amounts decreased because VCCS had fewer large construction projects in progress at the end fiscal year 2013. Additionally, the \$3 million legal liability for Lord Fairfax Community College (LFCC) recorded in fiscal year 2012 was paid in fiscal year 2013. The securities and lending obligation represents the VCCS' allocated share of securities received for securities lending transactions held in the general account of the Commonwealth of Virginia. A schedule providing the allocated amount for VCCS is provided by the State Comptroller's Office each fiscal year and fluctuations between years are common. Long-term obligations (current portion) rose by \$4.7 million primarily due to a \$2.2 million increase in the current portion of compensated absences, a \$1.4 million increase in notes payable to the commonwealth, and a \$0.9 million increase in the current portion of pooled bond debt. The total obligation for compensated absences stayed relatively constant, but the estimate of amounts due within one year increased in fiscal year 2013. Notes payable to the commonwealth increased as additional funds were borrowed to cover potential cash shortfalls due to timing of cash collections on federal reimbursement based grants, and pooled bond related debt was reclassified to short term on some of the more recent debt issuances as initial payment due dates approached.

Non-Current Liabilities

Non-Current liabilities consist of capital lease liabilities of \$8.3 million, installment purchases payable of \$4.7 million, pooled bonds of \$130.2 million, accrued leave of \$13.9 million, federal loan program amounts due of \$4.8 million, and deferred revenue of \$0.1 million. The increase of \$23.1 million in non-current liabilities was due to issuance of new pooled bond notes, offset by reclassification of principal payments due within one year from long-term to short-term and current year amortization of bond premiums. New pooled bond additions totaled \$33.1 million, while reclassified and amortized amounts totaled \$7.8 million. In addition, the non-current portion of compensated absences decreased by \$1.8 million. While the total compensated absences liability remained fairly constant, more of the liability was classified as current in fiscal year 2013.

Net Position

The \$51.7 million increase in net investment in capital assets is explained by an increase of \$85.4 million in capital assets, net of accumulated depreciation, reduced by an increase of \$33.7 million in capital asset related debt. The increase of \$3.7 million in restricted expendable net position was due to decreased spending on local capital projects from funds with external restrictions. The increase of \$22.1 million in unrestricted net position was primarily due to indirect cost recoveries in excess of redistributions and expenditures, additional student center revenues, and additional local revenues from parking and other sources at many of the colleges. The balance in total net position is a residual amount equal to total assets less total liabilities and is one measure of the current financial condition of an organization. The increase of 6.41% is an indication that the overall financial condition of the VCCS improved in fiscal year 2013.

Statement of Revenues, Expenses and Changes in Net Position

The purpose of the Statement of Revenues, Expenses and Changes in Net Position 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 position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Position.

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

(in thousands of dollars)				
	For the year ended June 30:		Dollar	Percentage
	2013	2012	Change	Change
Operating revenue	\$512,794	\$503,134	\$9,660	1.92%
Operating expenses	1,198,340	1,163,033	35,307	3.04%
Operating loss	(\$685,546)	(\$659,899)	(\$25,647)	3.89%
Non-operating revenues and expenses	\$669,099	\$647,285	\$21,814	3.37%
Income (loss) before other revenues, expenses, gains or losses	(\$16,447)	(\$12,614)	(\$3,833)	30.39%
Other revenues	\$93,989	\$134,353	(\$40,364)	-30.04%
Increase in net position	\$77,542	\$121,739	(\$44,197)	-36.30%
Net position, beginning of year	\$1,209,703	\$1,087,964	\$121,739	11.19%
Net position, end of year	\$1,287,245	\$1,209,703	\$77,542	6.41%

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, 2013 and 2012:

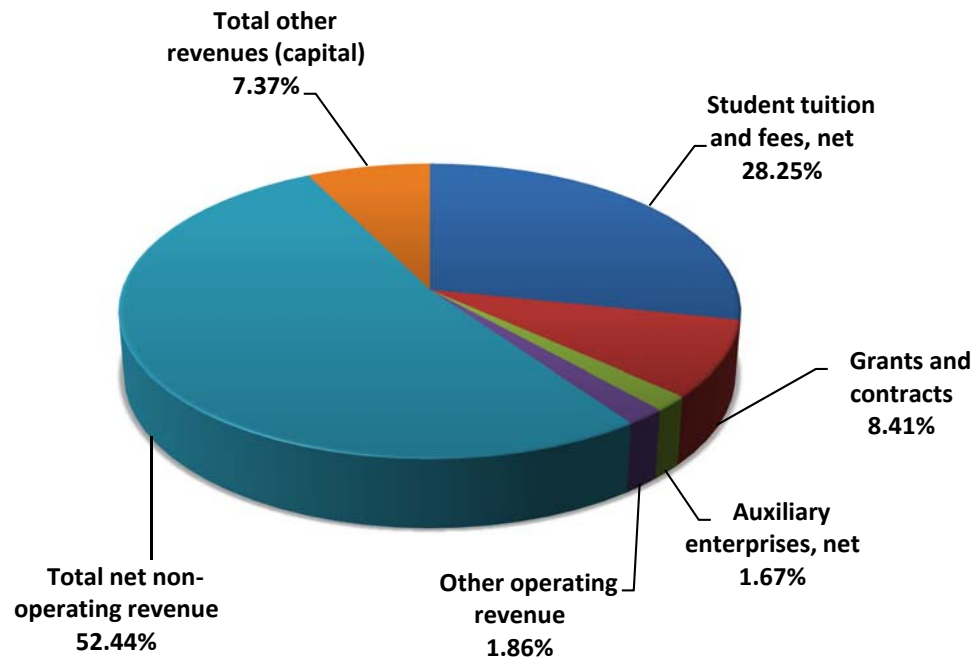
Summary of Revenues				
For the years ended June 30, 2013 and 2012				
(in thousands of dollars)				
	2013	2012	Dollar Change	Percentage Change
Operating revenues				
Student tuition and fees, net	\$360,487	\$359,039	\$1,448	0.40%
Grants and contracts	107,348	107,117	231	0.22%
Auxiliary enterprises, net	21,279	20,003	1,276	6.38%
Other operating revenue**	23,680	16,975	6,705	39.50%

Total Operating Revenues	\$512,794	\$503,134	\$9,660	1.92%
Non-operating activity				
State operating appropriations	\$397,827	\$341,122	\$56,705	16.62%
Local operating appropriations	2,190	2,140	50	2.34%
Grants and gifts	269,020	303,085	(34,065)	-11.24%
Investment income	2,518	3,208	(690)	-21.51%
Interest expense	(1,977)	(2,254)	277	-12.29%
Other	(479)	(16)	(463)	2893.75%
Total net non-operating revenue	\$669,099	\$647,285	\$21,814	3.37%
Other revenues (capital)				
Capital appropriations-state	\$82,432	\$121,317	(\$38,885)	-32.05%
Capital appropriations-local	6,602	6,935	(333)	-4.80%
Capital gifts and grants	4,955	3,992	963	24.12%
Extraordinary gain	-	2,109	(2,109)	-100.00%
Total other revenues (capital)	\$93,989	\$134,353	(\$40,364)	-30.04%
Total revenues	\$1,275,882	\$1,284,772	(\$8,890)	-0.69%

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

A graphic presentation of fiscal year 2013 revenues by source (per the Statement of Revenues, Expenses and Changes in Net Position) is below.

Total Revenue - By Source



Operating Revenues

Total operating revenues remained relatively constant as compared to the prior year with a total percentage increase of only 1.9%. Gross student tuition and fee revenues (before scholarship discounts and allowances) rose by approximately \$2 million, an increase of less than 0.5%. Increased revenue from higher tuition and fee rates was almost entirely offset by decreased revenue due to fewer student FTEs. In addition, scholarship discounts and allowances changed little in the current year with an increase of only 0.3%; therefore, net tuition and fees revenue remained flat in fiscal year 2013 as compared to fiscal year 2012. Auxiliary enterprise revenue did increase in the current year due to additional student center activity and other operating revenue also rose because of an increase in current year refunds of prior year operating disbursements and due to additional vending revenue attributable to NVCC's negotiation of a new book store contract with more favorable terms. However, since total auxiliary and other operating revenues compose less than 10% of total operating revenues, these increases had little impact on the overall percentage change.

Non-operating and Other Revenues

Total net non-operating revenue (non-operating and other) decreased by \$18.6 million or 2.4% as compared to the prior year. A net decrease of \$33.1 million in grants and gifts (non-capital and capital) was primarily attributable to a \$25.9 million decrease in the amount of State Fiscal Stabilization Fund (SFSF) revenue received as part of ARRA and to a \$6.9 million decrease in current year Pell revenue. In addition, VCCS recognized an extraordinary gain of \$2.1 million in fiscal year 2012 related to

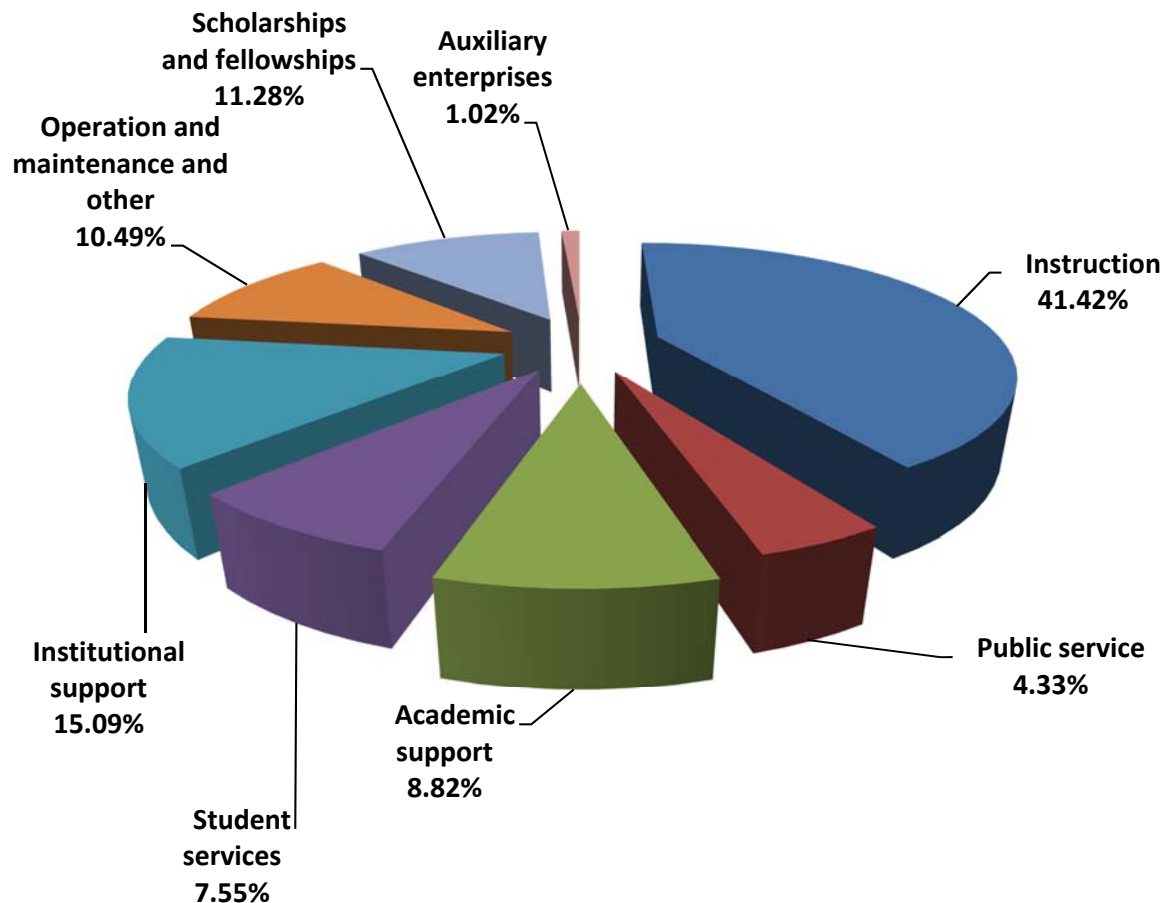
earthquake damage at GCC, while no such gains were recognized in fiscal year 2013. These decreases were partially offset by a current year increase of \$17.5 million in appropriation revenue (net operating and capital appropriations).

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, 2013 and 2012:

Summary of Expenses by Function For the years ended June 30, 2013 and 2012 (in thousands of dollars)				
	2013	2012	Dollar Change	Percentage Change
Operating expenses:				
Instruction	\$496,336	\$483,032	\$13,304	2.75%
Public service	51,829	50,236	1,593	3.17%
Academic support	105,705	110,091	(4,386)	-3.98%
Student services	90,445	83,177	7,268	8.74%
Institutional support	180,832	174,780	6,052	3.46%
Operation and maintenance	125,550	108,334	17,216	15.89%
Scholarships and fellowships	135,232	139,925	(4,693)	-3.35%
Auxiliary enterprises	12,304	13,404	(1,100)	-8.21%
Other expenses	107	54	53	98.15%
Total operating expenses	\$1,198,340	\$1,163,033	\$35,307	3.04%

A graphic presentation of fiscal year 2013 operating expenses by function (per the Statement of Revenues, Expenses and Changes in Net Position) is below.

Operating Expenses Functional Category



Operating Expenses

Operating expenses totaled approximately \$1.198 billion for fiscal 2013 and grew by \$35.3 million. The natural expense category, compensation and benefits, comprised \$705.2 million of total VCCS operating expenses. This category increased by \$34.9 million (5.21%) compared to the prior year, due to the one-time state employee bonus of 3% passed by the General Assembly paid out in December 2012 and increased employee benefit costs. These increases resulted in growth in most of the functional categories. Specifically, expenses for instruction, academic support, student services, institutional support, and operation and maintenance all rose in the current year due to increases in personnel compensation, fringe benefit costs, and reinvestment in programs and initiatives necessary for advancement of the VCCS mission. This was offset by a \$1.2 million reduction in supplies, services and other 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 the year ended
June 30:

	2013	2012	Dollar Change	Percentage Change
Cash received from operations	\$508,055	\$502,586	\$5,469	1.09%
Cash used in operations	1,139,002	1,109,515	29,487	2.66%
Net cash used in operations	(\$630,947)	(\$606,929)	(\$24,018)	3.96%
Net cash provided by non-capital financing activities	\$661,171	\$649,265	\$11,906	1.83%
Net cash used in capital and related financing activities	(4,693)	(46,447)	41,754	-89.90%
Net cash provided by (used in) investing activities	(5,111)	3,194	(8,305)	-260.02%
Net increase (decrease) in cash and cash equivalents	\$20,420	(\$917)	\$21,337	-2,326.83%
Cash and cash equivalents, beginning of year	\$254,335	\$255,252	(\$917)	-0.36%
Cash and cash equivalents, end of year	\$274,755	\$254,335	\$20,420	8.03%

The primary operating sources of cash for the VCCS included tuition and fees of \$358 million, operating grants and contracts of \$107.3 million, and auxiliary revenues of \$21.3 million. The primary uses of operating cash included employee salaries, wages, and fringe benefits of \$701.7 million, operating expenditures (payments to suppliers/others and utilities) of \$296.6 million and scholarships of \$140 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 provided by non-capital financing was higher due to increased state appropriations. Net cash flows from capital and related financing activities increased \$41.8 million largely due to a decrease in capital asset purchases. Net cash flows from investing activities decreased \$8.3 million due to the decrease in securities lending cash equivalents. The overall increase in cash and cash equivalents was \$20.4 million at the end of fiscal year 2013.

Economic Outlook

In fiscal year 2013, the Commonwealth predicted a 3.6% increase in general fund revenues and this prediction was exceeded as revenue collections actually went up by 5.3%. This marks the third consecutive year that revenues have increased. In response to revenue shortfalls in previous years, the Commonwealth permanently reduced the VCCS general fund by approximately \$51.2 million between fiscal years 2008 and 2013; however, \$8.8 million is slated to be added in fiscal year 2014. The net effect for fiscal year 2014 and future years is that VCCS general funds will have been reduced by 10.8% or \$42.4 million as a result of state mandated budget reductions. During the period 2010 through 2012, the federal government's ARRA provided \$53.7 million in funds specifically targeted to help offset general fund budget reductions; however, that funding stream is no longer available to the VCCS.

The federal government's ARRA funding, coupled with the Commonwealth of Virginia's recent authorization for new general funds, were granted as incentives to minimize tuition increases. 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 2014 will be 37.5% of the average of the four-year institutions for total tuition and mandatory fees.

Effective with the fall 2013 session, the State Board for Community Colleges approved a tuition increase of \$5.50 per credit hour applicable to all students. Additionally, five colleges either instituted or increased their existing tuition differential rates. The VCCS estimates that this increase will generate approximately \$23.6 million in tuition and deferred revenues in fiscal year 2014, assuming level enrollments.

Chapter 806, 2013 Virginia Acts of Assembly, authorized the detailed planning of five new projects at various community college campuses. In addition, the Act included authorization to proceed to pre-planning on the project to renovate the Godwin Building on the Annandale Campus of NVCC.

The VCCS capitalized construction expenditures totaling \$114.8 million during fiscal year 2013. These costs included some projects that are still in progress and some that were completed in fiscal year 2013. The total construction costs for projects completed during fiscal year 2013 totaled \$107.1 million.

The VCCS entered into contractual commitments for capital projects totaling \$360.2 million as of June 30, 2013. Expenditures processed against these commitments as of June 30, 2013 totaled \$313 million, leaving an unpaid commitment balance of \$47.2 million.

FINANCIAL STATEMENTS

Virginia Community College System
Consolidated
Statement of Net Position
As of June 30, 2013

Page 14

	<u>VCCS</u>	<u>Component Units Foundations</u>
ASSETS		
Current Assets		
Cash and cash equivalents (Note 2)	225,857,126	19,452,299
Appropriation available	7,313	
Short term investments (Note 2)	1,266,172	21,865,947
Accounts receivable, net (Note 3)	18,364,729	409,302
Pledges receivable (Note 3)		3,919,215
Due from commonwealth	10,690,952	
Interest receivable	394,733	170,710
Prepaid expenses	22,141,285	169,752
Inventories	2,625,498	
Notes receivable, net (Note 3)	2,653,047	76,450
Total Current Assets	<u>284,000,855</u>	<u>46,063,675</u>
Noncurrent Assets		
Restricted cash and cash equivalents (Note 2)	10,385,547	
Cash equivalents with trustees	44,693,904	
Endowment cash and cash equivalents (Note 2)	39,165	4,453,109
Appropriation available	3,674,040	
Endowment investments (Note 2)		100,479,414
Other long-term investments (Note 2)	9,374,666	30,632,819
Accounts receivable, net (Note 3)	23,211	
Investments in real estate		2,096,379
Pledges receivable (Note 3)		5,524,008
Due from commonwealth	6,711,714	
Notes receivable, net (Note 3)	2,011,301	1,175,180
Non-depreciable capital assets, net (Note 4)	230,135,749	4,802,382
Depreciable capital assets, net (Note 4)	1,032,810,850	6,806,763
Total Noncurrent Assets	<u>1,339,860,147</u>	<u>155,970,054</u>
Total Assets	<u>1,623,861,002</u>	<u>202,033,729</u>
Liabilities		
Current Liabilities		
Accounts and retainage payable (Note 5)	30,424,566	1,705,007
Accrued payroll expense	47,388,547	14,009
Deferred revenue	53,231,131	300,000
Long-term liabilities-current portion (Note 7)	31,620,687	1,177,617
Securities lending obligation	6,555,952	
Due to Commonwealth	153,050	
Deposits	5,203,263	8,794,064
Total Current Liabilities	<u>174,577,196</u>	<u>11,990,697</u>
Noncurrent Liabilities		
Deferred revenue	146,306	
Long-term liabilities (Note 7)	157,100,133	981,867
Due to federal government (Note 7)	4,792,728	
Total Noncurrent Liabilities	<u>162,039,167</u>	<u>981,867</u>
Total Liabilities	<u>336,616,363</u>	<u>12,972,564</u>
Net Position		
Net investment in capital assets	1,153,018,058	11,478,232
Restricted for:		
Nonexpendable		64,504,359
Expendable	15,394,890	71,310,673
Unrestricted	118,831,691	41,767,901
Total Net Position	<u>1,287,244,639</u>	<u>189,061,165</u>

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

Consolidated

Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2013

		Component Units
	VCCS	Foundations
Revenues		
Operating Revenue		
Tuition and fees (net of scholarship allowance of \$179,093,419)	360,487,326	
Federal grants and contracts	93,907,457	
State and local grants	6,894,751	570,027
Nongovernmental grants	6,545,917	1,305,915
Sales/services of education department	150,529	
Auxiliary enterprises (net of scholarship allowance of \$5,231,224)	21,279,148	
Gifts and contributions		14,668,451
Endowment income		11,159,524
Other operating revenues	23,528,784	3,878,434
Total Operating Revenue	512,793,912	31,582,351
Expenses		
Operating Expenses		
Instruction	496,335,690	1,234,343
Public service	51,829,051	2,464,273
Academic support	105,705,075	4,353,384
Student services	90,445,160	341,789
Institutional support	180,832,245	5,114,360
Operation and maintenance	125,550,197	1,137,320
Scholarships and fellowships	135,231,729	5,631,018
Auxiliary enterprises	12,304,343	
Fundraising		1,781,593
Other expenses	107,015	148,468
Total Operating Expenses	1,198,340,505	22,206,548
Operating Income (Loss)	(685,546,593)	9,375,803
Nonoperating Revenues(Expenses)		
State appropriations (Note 11)	397,826,919	
Local appropriations	2,190,333	
Grants and gifts	269,020,321	
Investment income	2,517,562	4,393,592
Interest on capital asset related debt	(1,977,613)	
Other nonoperating revenue (expense)	(478,552)	7,942
Net Nonoperating Revenue	669,098,970	4,401,534
Income before other revenues, expenses gains (losses)	(16,447,623)	13,777,337
Capital appropriations-state (Note 18)	82,431,944	
Capital appropriations-local	6,602,681	
Capital gifts, grants and contracts	4,954,750	307,156
Additions to permanent and term endowments		7,337,174
Increase (Decrease) in Net Position	77,541,752	21,421,667
Net Position		
Net Position beginning of year	1,209,702,887	167,639,498
Net Position end of year	1,287,244,639	189,061,165

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, 2013

Page 16

Cash flows from operating activities:

Tuition and fees	358,052,304
Grants and contracts	107,262,653
Payments to suppliers and others	(280,148,825)
Payments for employee wages	(561,744,496)
Payments for employee fringes	(139,941,605)
Payment for scholarships	(140,007,630)
Payments for utilities	(16,498,162)
Sales and services of education department	150,529
Auxiliary	21,286,491
Loans issued to students	(661,091)
Loans collected from students	974,684
Other	20,328,232
Net cash used by operating activities	<u>(630,946,916)</u>

Cash flows from non-capital financing activities:

State appropriations	397,826,919
Local appropriations	2,134,767
Grants and gifts	261,025,031
Agency receipts	10,264,622
Agency disbursements	(10,860,526)
PLUS, Stafford and Direct Lending loan receipts	191,418,562
PLUS, Stafford and Direct Lending loan disbursements	(192,518,973)
Borrowings	6,470,000
Loan repayments	(5,089,500)
Other non-operating revenue(expense)	500,939
Net cash provided (used) by non-capital financing activities	<u>661,171,841</u>

Cash flows from capital financing activities:

Capital appropriations-state	105,925,642
Capital appropriations-local	6,602,681
Capital grants and gifts	4,954,750
Purchase capital assets	(143,466,562)
Proceeds from sale of capital assets	297,118
Proceeds from bond issue	32,700,224
Debt interest payments	(5,290,230)
Debt principal payments	(6,417,369)
Net cash provided (used) by capital financing activities	<u>(4,693,746)</u>

Cash flows from investing activities:

Purchases of investments	(8,377,428)
Sale of investments	418,792
Investment income	2,847,772
Net cash provided (used) by investing activities	<u>(5,110,864)</u>

Net incr (decr) in net position

Net increase (decrease) in cash and cash equivalents 20,420,315

Cash and cash equivalents, beginning of year	254,334,873
Cash and cash equivalents, End of Year	<u><u>274,755,188</u></u>

Virginia Community College System
Consolidated
Statement of Cash Flows
For the Year Ended June 30, 2013

Page 17

Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating income (loss)	(685,546,593)
Adjustment to reconcile operating income (loss) to net cash used in operating activities:	
Depreciation expense	52,745,853
Changes in assets and liabilities:	
Appropriation available and accounts receivable, net	3,215,572
Prepaid expenses and other	(376,233)
Accrued compensation and leave	3,410,566
Accounts payable and other	(2,804,044)
Deferred revenue	(1,715,296)
Deposits pending distribution	123,259
Net cash used in operating activities	<u><u>(630,946,916)</u></u>
Reconciliation of cash and cash equivalents:	
Cash and cash equivalents per Statement of Net Position	280,975,742
Less: Securities Lending Cash Equivalents	<u>6,220,554</u>
Cash and cash equivalents end of year	<u><u>274,755,188</u></u>
Noncash transactions	
ETF equipment	7,543,011
Donated fixed assets	4,938,365
Debt principal and interest payments made by Treasury	2,018,055

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, 2013

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, 2013, the foundations distributed \$5,443,816 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. Financial Statement Descriptions

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

The Statement of Net Position presents the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the VCCS at the end of the fiscal year and also provides the amount of net position and the availability for expenditure. The Statement of Revenues, Expenses and Changes in Net Position presents operating and non-operating revenues received by the institution, operating and non-operating expenses incurred and any other revenues, expenses, gains and losses. The Statement of Cash Flows provides additional information about the financial results of the VCCS by reporting the major sources and uses of cash.

D. 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, 2013.

The community college foundations are private, nonprofit organizations that report under FASB standards. 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, 2013 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, 2012.

E. Prepaid Assets

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

F. Inventories

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

G. 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.

H. 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.

I. 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.

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 Position. 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 Position

Net position balances are classified as follows:

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

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

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

Unrestricted: Unrestricted balances 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 \$49,423,378 at June 30, 2013.

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*.

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 2013.

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 2013.

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 2013.

<u>Cash Equivalents</u>	<u>Fair Value</u>	<u>Credit Rating</u>
Local Govt. Investment Pool	\$33,784,528	AAA
Certificates of Deposit	10,126,021	Not Rated
Repurchase Agreements	33,334,261	Not Rated
Mutual and Money Market Funds	1,243,781	Not Rated
Securities Lending ⁽¹⁾	6,220,554	
Total	<u>\$84,709,145</u>	

Investment Maturities (In Years)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less 1 yr</u>	<u>1-5 yrs</u>
Agency Mortgage Backed Securities	\$271,698	\$76,736	\$194,962
Corporate Notes	730,240	-	730,240
Negotiable Certificates of Deposit	7,884,511	-	7,884,511
Municipal Securities	250,376	-	250,376
Mutual Funds	743,179	743,179	-
U.S. Treasury and Agency Securities	425,436	110,859	314,577
Securities Lending ⁽¹⁾	335,398	335,398	-
Total	<u>\$10,640,838</u>	<u>\$1,266,172</u>	<u>\$9,374,666</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, 2013:

Cash and cash equivalents	\$ 23,905,408
Investments:	
Mutual funds and money markets	\$ 85,065,201
Stocks	43,937,715
Corporate bonds	10,292,516
UVA investment fund	5,588,038
Certificates of deposits	3,682,082
Investment in real estate	2,105,534
U. S. government securities & bonds	1,841,520
Mortgage-backed securities	1,295,240
Cash surrender value of life insurance	676,411
Assets held for resale	330,448
Split interest agreement	116,341
Municipal bonds	107,036
Partnership investment	36,477
Total investments	<u>\$155,074,559</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, 2013:

Gross accounts receivable:	
Tuition and fees	\$ 14,160,878
Auxiliary enterprises	847,576
Federal, state, local and nongovernmental grants, gifts, contracts	4,408,989
Other activities	1,468,355
Total gross accounts receivable	\$20,885,798
Less: Allowance for doubtful accounts	(2,497,858)
Net accounts receivable	<u>\$18,387,940</u>
 Gross Loans and notes receivable	 \$ 5,007,236
Less: Allowance for doubtful accounts	(342,888)
Net loans and notes receivable	<u>\$ 4,664,348</u>

Receivables not expected to be collected within one year are \$2,034,512 in accounts, notes, and loans receivable.

Community College Foundations

The foundations have the following receivables as of June 30, 2013:

Gross accounts receivable	\$426,111
Less: Allowance for doubtful accounts	(16,809)
Net accounts receivable	<u>\$409,302</u>
 Pledges receivable:	
Due in one year	\$4,068,937
Due in 1-5 years	5,635,083
Due in more than 5 years	541,687
Less: Allowance for doubtful accounts	(386,352)
Present value discount	(416,132)
Net pledges receivable	<u>\$9,443,223</u>
 Gross loans and notes receivable	 \$1,251,630
Less: Allowance for doubtful accounts	-
Net loans and notes receivable	<u>\$1,251,630</u>

Receivables not expected to be collected within one year are \$1,175,180 in notes and loans receivable and \$5,524,008 in pledges receivable.

4. CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2013 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Nondepreciable capital assets:				
Land	\$40,424,631	\$260,270	-	\$40,684,901
Land Improvements	22,611,139	2,101,284	-	24,712,423
Inexhaustible Works of Art	148,174	-	-	148,174

Construction in Progress	156,872,935	114,871,185	(107,153,869)	164,590,251
Total capital assets not being depreciated	<u>\$220,056,879</u>	<u>\$117,232,739</u>	<u>(\$107,153,869)</u>	<u>\$230,135,749</u>
Depreciable capital assets:				
Buildings	\$1,034,912,673	\$96,608,498	(\$753,396)	\$1,130,767,775
Infrastructure	46,637,989	7,291,839	-	53,929,828
Equipment	165,831,939	18,426,329	(8,152,866)	176,105,402
Land Improvements	73,822,794	3,662,803	-	77,485,597
Library Books	47,527,515	2,939,426	(2,167,999)	48,298,942
Intangible	45,772,679	287,877	(81,072)	45,979,484
Total other capital assets	<u>\$1,414,505,589</u>	<u>\$129,216,772</u>	<u>(\$11,155,333)</u>	<u>\$1,532,567,028</u>
Less accumulated depreciation for:				
Buildings	(\$232,256,421)	(\$24,679,574)	\$353,255	(\$256,582,740)
Infrastructure	(19,408,948)	(2,198,131)	-	(21,607,079)
Equipment	(99,484,767)	(17,885,141)	7,435,709	(109,934,199)
Land Improvements	(40,552,706)	(2,842,528)	-	(43,395,234)
Library Books	(32,912,687)	(2,814,457)	2,167,999	(33,559,145)
Intangible	(32,414,503)	(2,332,086)	68,808	(34,677,781)
Total accumulated depreciation	<u>(\$457,030,032)</u>	<u>(\$52,751,917)</u>	<u>\$10,025,771</u>	<u>(\$499,756,178)</u>
Other capital assets, net	<u>\$957,475,557</u>	<u>\$76,464,855</u>	<u>(\$1,129,562)</u>	<u>\$1,032,810,850</u>
Total capital assets, net	<u><u>\$1,177,532,436</u></u>	<u><u>\$193,697,594</u></u>	<u><u>(\$108,283,431)</u></u>	<u><u>\$1,262,946,599</u></u>

Community College Foundations

The foundations had the following capital assets as of June 30, 2013:

Non-depreciable capital assets:	
Land	\$ 1,522,022
CIP	3,154,233
Works of art	126,127
Total nondepreciable capital assets	<u>\$4,802,382</u>
Depreciable capital assets:	
Buildings	\$7,803,208
Equipment	702,554
Site improvement	548,832
Total depreciable capital assets	<u>\$9,054,594</u>
Less: Accumulated depreciation	<u>(2,247,831)</u>

Depreciable capital assets, net	<u>\$ 6,806,763</u>
Total capital assets, net	<u><u>\$11,609,145</u></u>

5. ACCOUNTS AND RETAINAGE PAYABLE

Accounts and retainage payable consisted of the following as of June 30, 2013:

Vendors payable	\$21,615,155
Students payable	743,900
Retainage payable	8,062,761
Taxes payable	<u>2,750</u>
Total	<u><u>\$30,424,566</u></u>

6. COMMITMENTS

At June 30, 2013, the VCCS had future contractual commitments totaling approximately \$47,157,470. The System held \$8,062,761 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, 2013 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Debt:					
Capital leases	\$11,854,447		\$1,803,656	\$10,050,791	\$1,767,028
Notes payable:					
Installment purchases	5,157,620	108,104	290,653	4,975,071	277,442
Pooled bonds	107,272,868	33,060,117	4,794,753	135,538,232	5,265,000
Other notes payable	5,089,500	6,470,000	5,089,500	6,470,000	6,470,000
Total bonds, notes and capital leases	<u>\$129,374,435</u>	<u>\$39,638,221</u>	<u>\$11,978,562</u>	<u>\$157,034,094</u>	<u>\$13,779,470</u>
Other liabilities:					
Compensated absences	31,249,329	23,936,223	23,498,826	31,686,726	17,841,217
Federal loan program contributions	5,095,706		302,978	4,792,728	
Total other liabilities	<u>\$36,345,035</u>	<u>\$23,936,223</u>	<u>\$23,801,804</u>	<u>\$36,479,454</u>	<u>\$17,841,217</u>
Total long-term liabilities	<u><u>\$165,719,470</u></u>	<u><u>\$63,574,444</u></u>	<u><u>\$35,780,366</u></u>	<u><u>\$193,513,548</u></u>	<u><u>\$31,620,687</u></u>

8. 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, 2013 is \$130,000.

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, 2013 is \$4,191,576.

Parking deck for the Annandale Campus of Northern Virginia Community College - The balance is to be repaid in annual installments ranging from \$355,000 to \$400,000 with a coupon rate of 5% payable semiannually. The final installment of \$355,000 is due September 1, 2023. The outstanding balance at June 30, 2013 is \$4,389,294.

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, 2013 is \$2,646,757.

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, 2013 is \$13,215,740.

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, 2013 is \$933,182.

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, 2013 is \$21,613,770.

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, 2013 is \$15,192,888.

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, 2013 is \$3,321,844.

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, 2013 is \$9,367,879.

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, 2013 is \$15,149,949.

Student Center for Virginia Western Community College - The balance is to be repaid in annual installments ranging from \$200,000 to \$465,000 with an average coupon rate of 4.23% payable semiannually. The final installment of \$465,000 is due September 1, 2031. The outstanding balance at June 30, 2013 is \$6,651,286.

Parking garage for Germanna Community College - The balance is to be repaid in annual installments ranging from \$175,000 to \$405,000 with an average coupon rate of 4.23% payable semiannually. The final installment of \$405,000 is due September 1, 2031. The outstanding balance at June 30, 2013 is \$5,780,578.

Parking garage for John Tyler Community College Midlothian Campus - The balance is to be repaid in annual installments ranging from \$210,000 to \$440,000 with an average coupon rate of 3.6% payable semiannually. The final installment of \$440,000 is due September 1, 2032. The outstanding balance at June 30, 2013 is \$6,874,938.

Parking garage for Tidewater Community College Chesapeake Campus - The balance is to be repaid in annual installments ranging from \$740,000 to \$1,620,000 with an average coupon rate of 3.6% payable semiannually. The final installment of \$1,620,000 is due September 1, 2032. The outstanding balance at June 30, 2013 is \$26,078,551.

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

Other notes payable of \$6,470,000 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
2014	\$5,265,000	\$5,698,986	\$10,963,986
2015	5,540,000	5,449,835	10,989,835
2016	5,790,000	5,180,804	10,970,804
2017	6,060,000	4,892,604	10,952,604
2018	6,365,000	4,592,391	10,957,391
2019-2023	35,520,000	18,088,896	53,608,896
2024-2028	36,360,000	9,732,986	46,092,986

2029-2033	25,545,000	1,885,719	27,430,719
Sub Totals	<u>\$126,445,000</u>	<u>\$55,522,221</u>	<u>\$181,967,221</u>
Plus: Bond Premium	9,774,932		9,774,932
Less: Bond Defeasance	(681,700)		(681,700)
Totals	<u>\$135,538,232</u>	<u>\$55,522,221</u>	<u>\$191,060,453</u>

9. 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 \$5,618,252, respectively. Rent expense under operating lease agreements amounted to \$11,525,206 for the year. A summary of future obligations under lease agreements as of June 30, 2013, follows:

Year Ending June 30	Capital Lease Obligations	Installment Purchase Obligations	Operating Lease Obligations
2014	\$2,217,206	\$379,037	\$ 2,623,646
2015	2,385,995	537,325	6,362,505
2016	2,383,355	537,328	4,328,958
2017	1,281,281	537,327	3,199,716
2018	1,108,932	537,326	2,957,293
2019-2023	2,585,880	2,600,794	5,435,012
2024-2028		803,374	
Total obligation and gross minimum lease payments	\$11,962,649	\$5,932,511	\$24,907,130
Less: Interest	(1,911,858)	(957,440)	
Present value of minimum lease payments	<u>\$10,050,791</u>	<u>\$4,975,071</u>	<u>\$24,907,130</u>

10. OPERATING EXPENSES BY NATURAL AND FUNCTIONAL CLASSIFICATIONS

VCCS operating expenses for the year ended June 30, 2013 were as follows:

Natural Classification						
Functional Classification	Salaries & Benefits	Utilities	Scholarships	Depreciation	Supplies, Services & Other	Total
Instruction	\$ 386,521,570	\$ 221,215	\$ 3,144,148	\$ 34,339,984	\$ 72,108,773	\$ 496,335,690
Public Service	8,055,255	363	150,841		43,622,592	51,829,051
Acad. Support	76,593,104	105,602	299,031	6,055,907	22,651,431	105,705,075
Student Services	76,334,549	5,530	859,098	618,438	12,627,545	90,445,160
Inst. Support	117,193,114	69,339	161,765	8,667,034	54,740,993	180,832,245
O & M of Plant	37,244,840	16,188,767	530	3,023,697	69,092,363	125,550,197
Schol. & Fellows.	87,973		134,909,323		234,433	135,231,729
Aux. Enterprises	3,189,355	178,576	16,388	40,794	8,879,230	12,304,343
Other Expenses					107,015	107,015
Total Expenses	<u>\$ 705,219,760</u>	<u>\$ 16,769,392</u>	<u>\$139,541,124</u>	<u>\$ 52,745,854</u>	<u>\$ 284,064,375</u>	<u>\$1,198,340,505</u>

11. 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 2013-14 provided that the VCCS meets financial and administrative standards outlined in the *Code of Virginia*.

During the year ended June 30, 2013, the Virginia Community College System received the following general fund appropriations in accordance with Chapter 806, 2013 Virginia Acts of Assembly.

Appropriated – Chapter 806 – approved May 3, 2013	\$340,429,530
Additions:	
Net central accounts distribution	12,234,513
Line of Duty related distribution	4,034
Other:	
Transfer from SCHEV – VIVA	40,681
Carryover fiscal year 2012 year-end balances	35,400,121
Equipment Trust Fund lease payment	(633,657)
Transfer capital fee	(3,406,095)
Central item - eVA savings	(18,926)
Philpott manufacturing	(398,788)
Reversion	(26,035,300)
Adjusted Unrestricted Appropriations	<u>\$357,616,113</u>

Other restricted appropriations were \$40,210,806 for a total of \$397,826,919.

12. EQUIPMENT TRUST FUND

The System participates in the Higher Education Equipment Trust Fund (HEETF) of the Virginia College Building Authority (VCBA). The HEETF provides funds to public colleges and universities for equipment acquisitions using proceeds from revenue bonds issued for this purpose.

13. 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, 2013. These amounts are reported as restricted expendable net position. Total-return policy is followed for authorizing and spending investment income.

14. 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, 2013, the VCCS estimates that no material liabilities will result from such audits.

15. 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 \$6,015,967 and \$5,907,902 for years ended June 30, 2013 and 2012, respectively. Contributions to the ORP plan were calculated using the base salary amount of \$59,511,553 and \$57,792,385 for fiscal years 2013 and 2012. The VCCS total payroll for fiscal years 2013 and 2012 was \$551,122,545 and \$538,297,053 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 \$1,944,745 for fiscal year 2013.

16. 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.

17. 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.

18. CAPITAL APPROPRIATIONS-STATE

Capital appropriations-state is comprised of the following:

General Fund Reversion	\$ (13,536)
Virginia College Building Authority appropriation revenue	79,405,905
General Obligation Bond appropriation revenue	7,715
Central Capital Planning Fund (net pre-planning revenue)	1,013,805
Tidewater Community College capital lease agreement	<u>2,018,055</u>
Total	<u>\$82,431,944</u>

19. COMPONENT UNIT FINANCIAL INFORMATION

Below is a summary of the foundations.

VCCS has five major component units—Northern Virginia Community College Educational Foundation, Mountain Empire Community College Foundation, Patrick Henry Community College Foundation, Southwest Virginia Community College Educational Foundation, and Virginia Western 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 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, Wytheville Community College Educational Foundation, Wytheville Community College Scholarship Foundation, and the Virginia Foundation for Community College Education. These organizations are

separately incorporated entities and other auditors examine the related financial statements.

Virginia Community College System Foundations
Statement of Net Position
As of June 30, 2013

	Southwest Virginia Community College Educational Foundation	Northern Virginia Community College Educational Foundation	Patrick Henry Community College Educational Foundation	Mountain Empire Community College Educational Foundation	Virginia Western Community College Educational Foundation	Combined Non- Major Component Units	Total Component Units
ASSETS							
Total current assets	\$ 13,552,406	\$ 8,797,335	\$ 303,203	\$ 216,543	\$ 1,488,639	\$ 21,705,549	\$ 46,063,675
Noncurrent assets:							
Other noncurrent assets	-	16,352,207	13,711,283	13,079,340	9,798,002	91,420,077	144,360,909
Capital assets, net	4,619,331	-	-	1,041	13,715	6,975,058	11,609,145
Total noncurrent assets	4,619,331	16,352,207	13,711,283	13,080,381	9,811,717	98,395,135	155,970,054
Total assets	18,171,737	25,149,542	14,014,486	13,296,924	11,300,356	120,100,684	202,033,729
LIABILITIES							
Total current liabilities	18,795	8,805,112	22,585	77,836	47,717	3,018,652	11,990,697
Noncurrent liabilities:							
Long-term liabilities	-	-	-	-	-	981,867	981,867
Other noncurrent liabilities	-	-	-	-	-	-	-
Total noncurrent liabilities	-	-	-	-	-	981,867	981,867
Total liabilities	18,795	8,805,112	22,585	77,836	47,717	4,000,519	12,972,564
NET POSITION							
Net investment in capital assets	4,619,331	-	-	1,041	13,715	6,844,145	11,478,232
Restricted for:							
Nonexpendable	-	3,350,025	6,456,207	6,107,002	-	48,591,125	64,504,359
Expendable	7,189,965	4,895,582	4,337,942	3,824,223	10,252,240	40,810,721	71,310,673
Unrestricted	6,343,646	8,098,823	3,197,752	3,286,822	986,684	19,854,174	41,767,901
Total Net Position	\$ 18,152,942	\$ 16,344,430	\$ 13,991,901	\$ 13,219,088	\$ 11,252,639	\$ 116,100,165	\$ 189,061,165

Virginia Community College System Foundations
Statement of Revenues, Expenses, and Changes in Net Position
As of June 30, 2013

	Southwest Virginia Community College Educational Foundation	Northern Virginia Community College Educational Foundation	Patrick Henry Community College Educational Foundation	Mountain Empire Community College Educational Foundation	Virginia Western Community College Educational Foundation	Combined Non- Major Component Units	Total Component Units
Total operating revenues	\$ 747,060	\$ 2,647,677	\$ 2,568,633	\$ 1,754,998	\$ 5,385,802	\$ 18,478,181	\$ 31,582,351
Total operating expenses	1,092,046	1,916,170	1,437,564	735,026	1,036,189	15,989,553	22,206,548
Operating income (loss)	(344,986)	731,507	1,131,069	1,019,972	4,349,613	2,488,628	9,375,803
Nonoperating revenues (expenses):							
Investment Income	1,448,674	697,036	-	-	157,458	2,090,424	4,393,592
Other nonoperating revenues (expenses)	-	-	7,942	-	-	-	7,942
Net nonoperating revenue	1,448,674	697,036	7,942	-	157,458	2,090,424	4,401,534
Income before other revenues, expenses gains and losses	1,103,688	1,428,543	1,139,011	1,019,972	4,507,071	4,579,052	13,777,337
Capital gifts, grants and contracts	64,342	-	-	-	-	242,814	307,156
Additions to permanent and term endowments	-	174,741	299,705	518,828	1,346,973	4,996,927	7,337,174
Increase (decrease) in net position	1,168,030	1,603,284	1,438,716	1,538,800	5,854,044	9,818,793	21,421,667
Net Position - beginning of year	16,984,912	14,741,146	12,553,185	11,680,288	5,398,595	106,281,372	167,639,498
Net Position - end of year	\$ 18,152,942	\$ 16,344,430	\$ 13,991,901	\$ 13,219,088	\$ 11,252,639	\$ 116,100,165	\$ 189,061,165

20. LITIGATION

A few community colleges have been named as defendants in lawsuits. The final outcome of these 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.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 21, 2014

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit
and Review Commission

State Board for Community Colleges
Virginia Community College System

INDEPENDENT AUDITOR'S REPORT

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, 2013, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented 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.

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinions.

Opinion

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, 2013, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial

statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 21, 2014, on our consideration of the Virginia Community College 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 in considering the System's internal control over financial reporting and compliance.

A handwritten signature in dark ink, appearing to read "Nathan S. Mansueti".

AUDITOR OF PUBLIC ACCOUNTS

EMS/clj