VIRGINIA COMMUNITY COLLEGE SYSTEM

AUDITED FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2008

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

VCCS Financial Report 2007-2008

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VCCS Financial Report 2007-2008

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VIRGINIA COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

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, 2008. This discussion has been prepared by management and should be read in conjunction with the financial statements and footnotes.

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

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

Financial Highlights

The following represents significant financial highlights for the VCCS in fiscal year 2008:

- An additional $2.1 million in general funds were provided at the 2007 Special Session of the General Assembly to address enrollment growth and base operating needs of the VCCS in fiscal year 2008. This amount reflects a portion of general fund support needed to provide adequate base support of the VCCS core academic functions. These additional funds will allow the VCCS to serve more students, retain existing students more effectively, increase the number of students receiving a degree or certificate, and enhance the quality and rigor of academic programs.

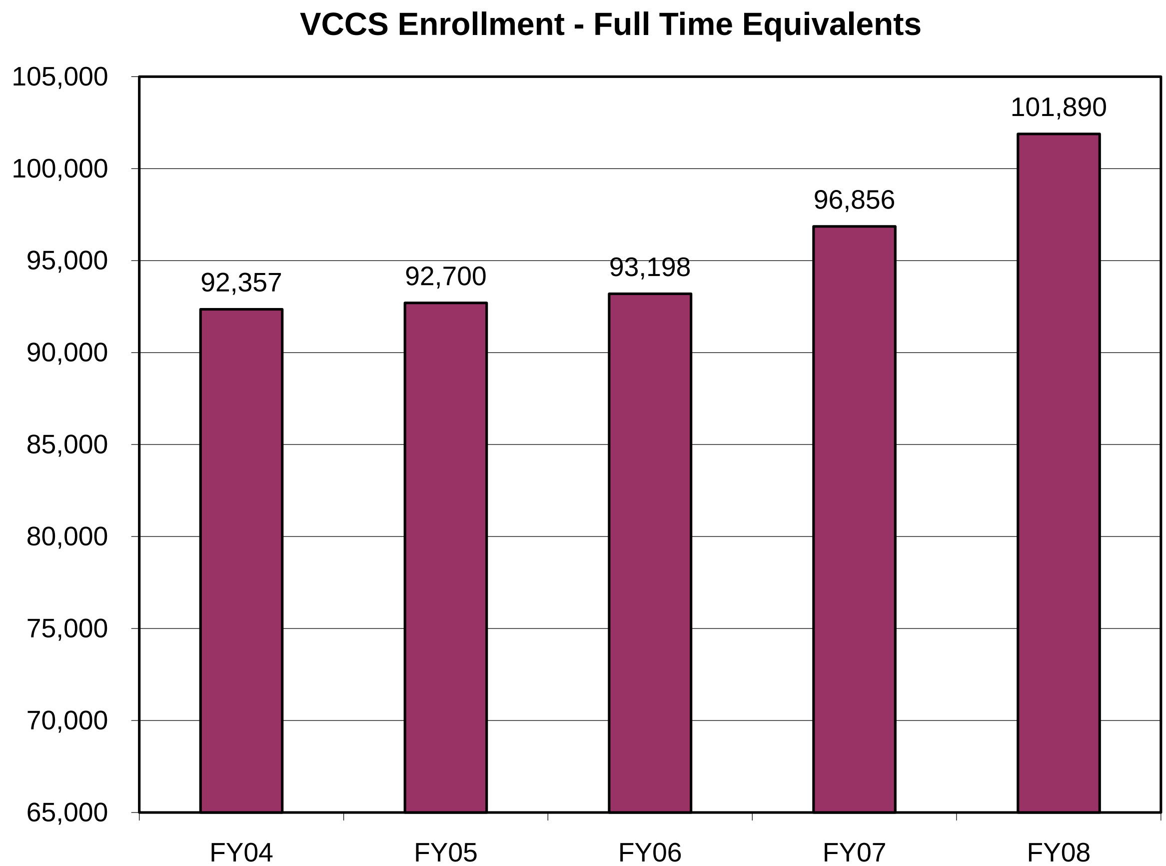
- Additional general funds were provided by the General Assembly to support 4 percent increases for classified employee salaries and 5 percent average increases for full-time and part-time faculty salaries, all effective November 25, 2007.

- An additional $6.9 million in general funds were provided in recognition of the annualizing costs previously only funded for a part of the year (such as salary increases) and increases in some fixed operating costs.

- To increase financial support for Virginia Community College students, an additional $3.5 million in general funds was appropriated. A financial aid program specifically for students taking one or two courses at a time was increased by $200,000, from $1.8 million to $2 million beginning July 1, 2007.

- The State Board for Community Colleges voted to increase tuition and fee rates by $4.15 per credit hour applicable to all students effective summer 2007. Under the tuition differential policy that was approved for Northern Virginia Community College in 2007, the $5.50 per credit hour differential was increased by $0.35 per credit hour to a total of $5.85, taking effect with the summer 2007 session.

Below is a chart depicting full-time equivalent students attending the VCCS over the past 5 fiscal years. The VCCS mission is to provide comprehensive higher education and workforce training programs and services of superior quality that are financially and geographically accessible and that meet individual, business and community needs of the Commonwealth. There was a significant increase (5.2 percent) in enrollment in fiscal year 2008.



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: 2008	2007
Assets		
Current assets	$168,002	$146,901
Capital assets, net	729,863	594,259
Other non-current assets	72,911	135,063
Total Assets	970,776	876,223
Liabilities		
Current liabilities	125,707	98,891
Non-current liabilities	67,130	68,869
Total Liabilities	192,837	167,760
Net Assets		
Invested in capital assets, net of debt	682,327	547,328
Restricted-nonexpendable	(44)	585
Restricted-expendable	60,342	133,708
Unrestricted	35,314	26,842
Total Net Assets	$777,939	$708,463

Current assets consist of $125.8 million in cash and investments, $10.6 in appropriation available, accounts and notes receivable of $14.2 million, prepaid expenses of $9.2 million and inventories of $2.3 million. Current assets increased by $21.1 million due to increases in cash, cash equivalents, and investments held locally of $9.3 million, increases in cash associated with deferred revenue of $3.7 million, increases in state restricted grant and contract cash of $2.7 million, increases in securities lending investments of $7.6 million, and additional prepaid expenditures at year-end of $1.4 million. These increases were partially offset by plant cash decreases of $5.7 million.

Net capital assets increased by $135.6 million from fiscal year 2007 to fiscal year 2008. This increase can be attributed to the capitalization of design and the construction cost of numerous capital outlay projects during the fiscal year 2008. The project costs capitalized during 2008 include: Various projects at BRCC $5.4 million, DCC Health Sciences Building $1.7 million, DSLCC Renovations $1.2 million, ESCC Workforce Development Center $4.4 million, JSRCC Parham Road Campus $3.9 million, JTCC Phase II Midlothian $2.8 million, JTCC Instructional Lab Renovation $1.2 million, LFCC Science Lab Building $3.8 million, MECC TAC improvements $3.6 million, various NRCC projects $1.5 million, NVCC Alexandria Phases I,II, & III $15 million, NVCC Annandale CS Building Renovation $9.9 million, NVCC major mechanical at Annandale $3.8 million, various other NVCC projects $8 million, PHCC LRC/West Hall Renovation $3.4 million, RCC major mechanical improvements $1.2 million, SWVCC LRC Building $3.9 million, TNCC Historic Triangle Campus $13.7, TNCC Hampton III building $4.3 million, TCC Norfolk District Administration $13.1 million, TCC Portsmouth Campus relocation $8.4 million, various other TCC projects $10.9 million, and various WCC projects for $1.4 million. There were also land donations completed in fiscal year 2008 at ESCC, TNCC and TCC totaling $3.5 million.

Other non-current assets decreased by $62.2 million in fiscal year 2008 from fiscal year 2007. This was primarily due to a $59.9 million decrease in general fund cash that was either expended for capital projects appropriated to various community colleges or supplanted with bond funds in fiscal year 2008.

Current liabilities consist primarily of accounts payable of $31.3 million, accrued payroll and leave compensation of $46.8 million, deferred revenue of $28.4 million, debt obligations of $4.6 million, and deposits of $14.4 million. Current liabilities increased $26.8 million, resulting from an increase of $7.8 million in accounts and retainage payable due to the following capital projects: $1.3 million construction phase II buildings at JTCC, $1.2 million phase III renovations at NVCC, $2.4 million historic triangle campus at TNCC, $2.6 million Portsmouth campus at TCC, and various projects within the VCCS for retainage payable totaling $.3 million. Deposits increased by $10.4 million out of which $9.7 was due to higher security lending deposits. Accrued payroll and accrued leave compensation also increased by $2.2 million. Lastly, deferred revenue balances increased $6 million associated with higher tuition and fee rates and increased enrollments.

Net assets increased by $69.5 million in fiscal year 2008 primarily due to capital outlay activity. This included new state projects capitalized totaling $139.7 million, equipment capitalized of $12.3 million, land donations of $3.5 million, and local land improvements, infrastructure, and buildings of $2.8 million. These increases were offset by the fiscal year 2008 increase in depreciation of $22.9 million and the reduction of general fund cash for capital projects of $65.2 million.

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:	
	2008	2007*
Operating revenue	$307,048	$281,932
Operating expenses	845,243	775,965
Operating loss	(538,195)	(494,033)
Non-operating revenues(expenses):		
State appropriations	418,389	387,881
Local appropriations	2,016	2,261
Grants and gifts	99,063	79,890
Investment income	6,807	5,274
Interest expense	(2,427)	(2,261)
Other	(91)	(275)
Net non-operating revenue	523,757	472,770
Loss before other revenues, expenses, gains or losses	(14,438)	(21,263)
Capital appropriations-state	68,396	168,782
Capital appropriations-local	6,547	9,498
Capital gifts and grants	8,971	12,454
Increase in net assets	69,476	169,471
Net assets, beginning of year	708,463	538,992
Net assets, end of year	$777,939	$708,463

*For comparative purposes, 2007 balances have been restated for reporting changes (see footnote 1L).

Operating Revenues:

Total operating revenues increased $25.1 million or 8.9% percent over prior year. The growth in student tuition and fee revenue of $22.6 million or 10.7% over the prior year accounted for most of this increase. This increase was associated with the moderate rise in both in-state and out-of-state tuition rates effective for the summer term 2007 and the increase in enrollments.

Non-operating and Other Revenues:

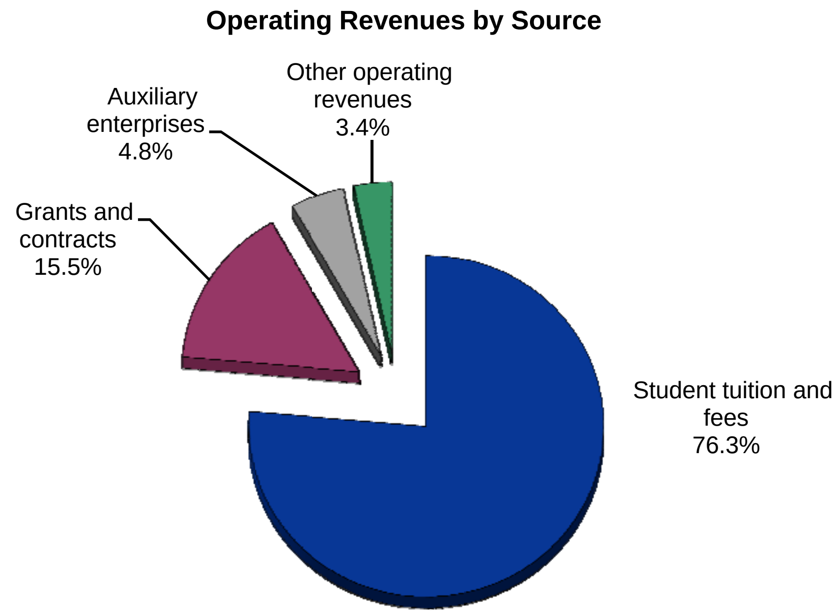
Total non-operating revenue increased $50.9 million or 10.8% over the prior year. The increase is primarily due to additional state appropriations of $30.5 million and the increase in Pell federal grant funding. State appropriation revenue grew primarily as result of reverting less general fund dollars in fiscal year 2008 of $15.3 million, $6.9 million more general funds for annualizing costs, $3 million more general funds received in state financial aid, and $2.1 million general funds for enrollment growth and base operating needs. Grants and gifts increased $19.2 million in fiscal year 2008. The growth was primarily due to increased federal funding for Pell grants.

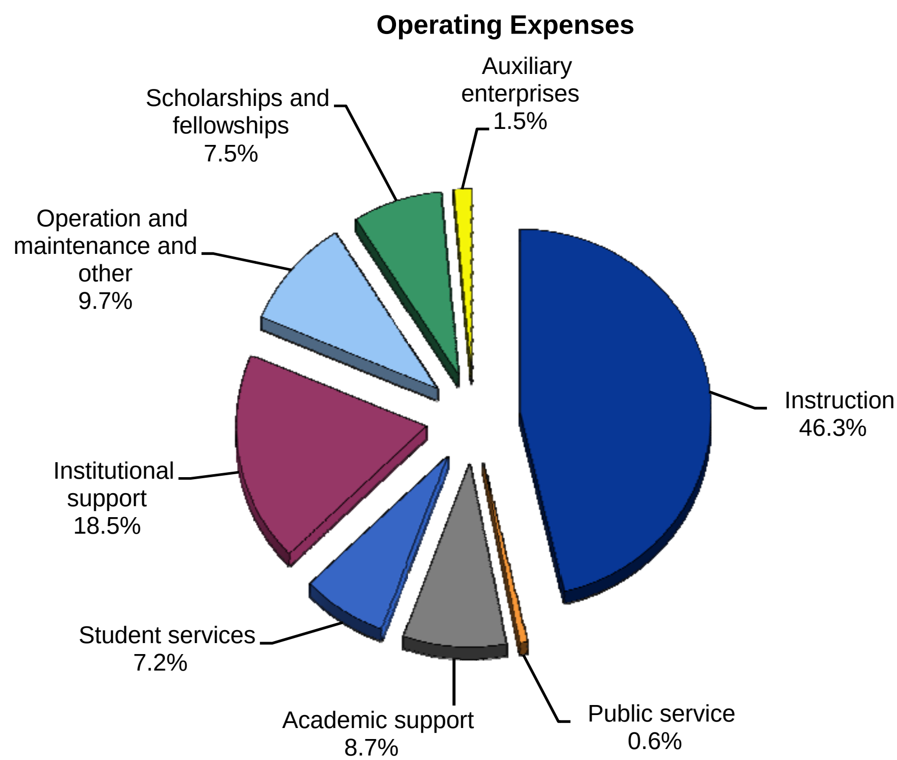
Capital appropriations totaling $68.4 million decreased $100.4 million or 59.5% over the prior year. The decrease in appropriations revenue for capital projects can be attributed to a decrease in general fund appropriations of $111,440,398 in fiscal year 2007 to $10,112,021 in fiscal year 2008.

Operating Expenses:

Operating expenses totaled approximately $845 million for fiscal 2008 and grew by $69.3 million. The natural expense category, compensation and benefits, comprises $570.7 million of VCCS total operating expenses. This category increased by $46.5 million (8.9%) over the previous year. The commonwealth provides merit based and across-the-board salary increases on a periodic basis. During fiscal year 2008, a 4% increase was provided to classified staff and an average increase of 5% was provided to faculty members. The net increase in compensation and benefits resulted in growth in almost all functional categories. Instruction expenses increased $34.2 million or 9.6% due to increases in personnel compensation, fringe benefit costs, and reinvestment in instructional programs and initiatives funded from increased tuition and fees and appropriation revenues. The largest percentage of growth in expenses was in the student financial assistance category (17.7%) indicating increased amounts available from external scholarship funding. Student services and institutional support increased by $5.5 million and $8 million respectively.

A graphic presentation of fiscal year 2008 operating revenues and operating expenses by source (per the Statement of Revenues, Expenditures and Changes in Net Assets) is below:





Statement of Cash Flows

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

(In thousands of dollars)

	For years ended June 30: 2008	2007*
Cash received from operations	$323,687	$284,540
Cash used in operations	803,706	717,929
Net cash used in operations	(480,019)	(433,389)
Net cash provided by investing activities	(3,303)	750
Net cash provided by (used in) capital and related financing activities	(32,079)	(19,992)
Net cash provided by non-capital financing activities	511,497	464,260
Net increase (decrease) in cash and cash equivalents	(3,904)	11,629
Cash and cash equivalents, beginning of year (restated)	119,494	107,865
Cash and cash equivalents, end of year	$115,590	$119,494

*For comparative purposes, 2007 balances have been restated for reporting changes (see footnote 1L).

Cash and cash equivalents decreased by $3.9 million in fiscal year 2008 compared to an $11.6 million increase in fiscal year 2007. Net cash used in operating activities in fiscal year 2008 was $804 million compared to $718 million in fiscal year 2007**.** This can be attributed to increases in expenditures for suppliers and employee wages and fringe benefits, partially offset by an increase in tuition and fees. Net cash used by capital financing activities increased by $12.1 million. Increases were primarily comprised of capital revenues (state and local appropriations and grants) of $40.1 million offset by increases in capital asset purchases of $53.2 million. The capital appropriation increases reflect the change in appropriation available balances for capital projects between fiscal years. Net cash provided by non-capital financing increased by $47.2 million in fiscal year 2008 compared to fiscal year 2007 principally due to increased state appropriations of $30.5 million (net of reversion) and increases in grants and gifts of $15.9 million.

Economic Outlook

The VCCS receives approximately 57 percent of its operating budget through general fund appropriations from the Commonwealth of Virginia. The Commonwealth experienced a significant downturn in the economy during fiscal year 2008 that was in line with but not as severe as the downturn in the national economy. In fiscal year 2008, the Commonwealth predicted much lower revenue growth and this was realized as general fund revenue collections grew only 1.3 percent. Further economic slowing is forecasted for the Commonwealth for fiscal year 2009. Accordingly, the Commonwealth reduced the VCCS general fund dollars by $19.1 million in October 2007 (for fiscal year 2008 and after) in response to revenue shortfalls. As the nation continues to struggle with the significant economic downturn, additional budget reductions are being considered by the Commonwealth for fiscal year 2009 and beyond.

With the implementation of the *Higher Education Restructuring Act*, a commitment was made by the 2005 General Assembly to fund enrollment growth and core operations of higher education institutions. The *Higher Education Restructuring Act* endorsed the concept of restoring responsibility and authority for financial management to the Boards of Visitors at all institutions. In that spirit, the *Act* provides that institutions meeting prescribed academic and management standards be allowed to carry-forward funds from one fiscal year to the next, as well as retain interest earnings on tuition and fee revenues and receive a share of the Commonwealth's rebate from the small purchase charge card program. The VCCS met its academic and management standards in fiscal year 2008.

In addition, the 2005 General Assembly retained the existing language in the *Appropriations Act* that provides explicit authority to the Board of Visitors to set tuition and fee rates as well as the expectation that in-state students pay one-third of their costs and out-of-state students pay 100 percent of their costs. The 2007 General Assembly appropriated a "Tuition Incentive Fund" providing, in part, approximately $1.0 million in additional general funds to the VCCS if tuition and mandatory E & G fees were increased by no more than six percent for the 2007-08 academic year. The State Board for Community Colleges has committed to funding the *Dateline 2009* initiative, as well as ensuring moderate tuition increases. Dateline 2009 outlines the strategic direction for the VCCS. A significant part of this initiative relies on expansion of the VCCS funding base. Tuition represents the VCCS' share of that funding.

The State Board for Community Colleges approved a tuition increase of $5 per credit hour applicable to all in-state students and an increase $5 per credit hour applicable to all out-of-state students effective fall term 2008. It is anticipated that this will generate approximately $13.2 million in tuition and fee revenues in fiscal year 2009. The Northern Virginia tuition differential was increased by $2.50 per credit hour, applicable to all students and effective fall term 2008. It is anticipated that this will generate approximately $1.7 million in tuition and fee revenues in fiscal year 2009. The Technology fee was increased by $1.00 per credit hour, bringing the fee to $4.50 per credit hour for all students. The technology fee increase will generate additional revenue of $2.6 million in fiscal year 2009.

In the fiscal year 2009 budget, the VCCS received approximately $2.2 million new general fund dollars specifically earmarked to address base funding needs identified by the Joint Subcommittee of Higher Education Funding Policies. In addition, because the VCCS did not exceed the six percent tuition increase limit in fiscal year 2008, $1.0 million from the Tuition Incentive Fund provided in fiscal year 2008 continues to be available to fund the base operational needs in fiscal year 2009.

Chapter 847*, 2007 Acts of Assembly* authorized capital outlay appropriations of $144,151,500 during fiscal year 2008. $116,242,000 of the Chapter 847 capital outlay appropriations were originally funded through general funds. During fiscal year 2008, Item C-326.30 of Chapter 847 of the 2008 *Acts of Assembly* authorized the issuance of bonds to replace or "supplant" $115,293,203 in general funds for VCCS projects to bond funds. Most of the projects funded in 2008 are currently in the design phase with construction scheduled to begin in fiscal year 2010.

The VCCS also received authorization for 22 new projects in the *Virginia Acts of Assembly*, 2008 Special Session 1 - Chapter 1. The funding for these projects has only been approved for the planning stage of the projects. These projects will be funded through VCBA bond funds and will be in the design phase during fiscal year 2009.

FINANCIAL STATEMENTS

Virginia Community College System
Consolidated
Statement of Net Assets
As of June 30, 2008

	VCCS	Component Units Foundations
ASSETS		
Current Assets		
Cash and cash equivalents (Note 2)	111,575,506	26,209,131
Appropriation available	10,601,443	
Short term investments (Note 2)	14,186,984	3,600,213
Accounts receivable (Note 3)	12,453,560	1,305,214
Pledges receivable (Note 3)		4,021,923
Due from commonwealth	5,930,571	
Interest receivable	28,794	192,985
Prepaid expenses	9,188,975	22,266
Inventories	2,308,899	11,968
Notes receivable (Note 3)	1,726,768	1,906
Total Current Assets	168,001,500	35,365,606
Noncurrent Assets		
Restricted cash and cash equivalents (Note 2)	2,549,825	
Cash with trustees (Note 2)	1,116,922	
Endowment cash and cash equivalents (Note 2)	347,287	3,885,911
Appropriation available	42,407,616	
Endowment investments (Note 2)		56,173,073
Other long-term investments (Note 2)		46,365,163
Accounts receivable, net	220,900	
Investments in real estate		1,827,321
Pledges receivable (Note 3)		4,518,053
Due from commonwealth	24,206,370	
Notes receivable (Note 3)	2,062,073	28,985
Non-depreciable capital assets, net (Note 4)	200,544,518	4,226,375
Depreciable capital assets, net (Note 4)	529,318,819	6,386,557
Total Noncurrent Assets	802,774,330	123,411,438
Total Assets	970,775,830	158,777,044
Liabilities		
Current Liabilities		
Accounts and retainage payable (Note 5)	31,295,276	4,458,039
Accrued payroll expense	33,066,228	56
Deferred revenue	28,415,132	856,021
Long-term liabilities-current portion (Note 7)	18,339,272	2,060,916
Due to Commonwealth	153,450	
Deposits	14,437,426	
Total Current Liabilities	125,706,784	7,375,032
Noncurrent Liabilities		
Long-term liabilities (Note 7)	61,735,909	824,029
Due to federal government (Note 7)	5,394,100	
Total Noncurrent Liabilities	67,130,009	824,029
Total Liabilities	192,836,793	8,199,061
Net Assets		
Invested in capital assets, net of related debt	682,326,955	10,259,122
Restricted for:		
Nonexpendable	(44,256)	52,261,543
Expendable	60,342,242	52,013,271
Unrestricted	35,314,096	36,044,047
Total Net Assets	777,939,037	150,577,983

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, 2008

	VCCS	Component Units Foundations
Revenues		
Operating Revenue		
Tuition and fees (net of scholarship allowance of $58,239,746)	234,420,204	
Federal grants and contracts	32,617,713	
State and local grants	5,666,401	
Nongovernmental grants	9,180,843	2,235,673
Sales/services of education department	476,083	
Auxiliary enterprises (net of scholarship allowance of $3,681,228)	14,621,769	
Gifts and contributions		8,178,253
Endowment income		1,525,469
Other operating revenues	10,064,705	1,500,930
Total Operating Revenue	307,047,718	13,440,325
Expenses		
Operating Expenses		
Instruction	391,328,596	1,055,957
Public service	5,192,762	94,661
Academic support	73,461,709	3,540,877
Student services	60,891,648	
Institutional support	156,668,880	4,433,824
Operation and maintenance	81,475,854	2,059,575
Scholarships and fellowships	63,440,202	3,350,721
Auxiliary enterprises	12,262,336	
Fundraising		841,170
Other expenses	521,407	122,895
Total Operating Expenses	845,243,394	15,499,680
Operating Income (Loss)	(538,195,676)	(2,059,355)
Nonoperating Revenues(Expenses)		
State appropriations (Note 12)	418,389,172	
Local appropriations	2,015,960	
Grants and gifts	99,062,821	
Investment income	6,806,812	1,921,372
Interest on capital asset related debt	(2,426,830)	(158,311)
Other nonoperating revenue (expense)	(90,589)	
Net Nonoperating Revenue	523,757,346	1,763,061
Income before other revenues, expenses gains (losses)	(14,438,330)	(296,294)
Capital appropriations-state (Note 19)	68,396,609	
Capital appropriations-local	6,546,834	
Capital gifts, grants and contracts	8,971,270	1,780,848
Additions to permanent and term endowments		9,375,729
Increase (Decrease) in Net Assets	69,476,383	10,860,283
Net Assets		
Net Assets beginning of year	708,462,654	139,717,700
Net Assets end of year	777,939,037	150,577,983

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, 2008

Cash flows from operating activities:	
Tuition and fees	248,413,960
Grants and contracts	50,034,527
Payments to suppliers and others	(156,381,747)
Payments for employee wages	(445,828,551)
Payments for employee fringes	(121,641,700)
Payment for scholarships	(66,307,949)
Payments for utilities	(12,612,065)
Sales and services of education department	476,083
Auxiliary	14,509,738
Loans issued to students	(933,886)
Loans collected from students	1,044,407
Other	9,207,961
Net cash used by operating activities	(480,019,222)
Cash flows from non-capital financing activities:	
State appropriations	418,389,172
Local appropriations	2,015,960
Grants and gifts	89,662,538
Agency receipts	21,189,326
Agency disbursements	(20,349,014)
PLUS, Stafford and Direct Lending loan receipts	42,340,261
PLUS, Stafford and Direct Lending loan disbursements	(42,313,585)
Borrowings	740,000
Loan repayments	(200,000)
Other non-operating revenue(expense)	21,958
Net cash provided (used) by non-capital financing activities	511,496,616
Cash flows from capital financing activities:	
Capital appropriations-state	117,109,487
Capital appropriations-local	6,546,834
Capital grants and gifts	2,519,248
Purchase capital assets	(151,310,418)
Proceeds from sale of capital assets	117,287
Debt interest payments	(2,426,830)
Debt principal payments	(4,634,231)
Net cash provided (used) by capital financing activities	(32,078,623)
Cash flows from investing activities:	
Purchases of investments	(15,951,868)
Sale of investments	7,232,472
Investment income	5,416,069
Net cash provided (used) by investing activities	(3,303,327)
Net incr (decr) in net assets	
Net increase (decrease) in cash and cash equivalents	(3,904,556)
Cash and cash equivalents, beginning of year as restated	119,494,096
Cash and cash equivalents, End of Year	115,589,540
Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating income (loss)	(538,195,676)
Adjustment to reconcile operating income (loss) to net cash used in operating activities:	
Depreciation expense	29,501,736
Changes in assets and liabilities:	
Appropriation available and accounts receivable, net	653,468
Prepaid expenses and other	7,195,462
Accrued compensation and leave	3,211,553
Accounts payable and other	2,143,770
Deferred revenue	5,953,728
Deposits pending distribution	9,516,737
Net cash used in operating activities	(480,019,222)
Noncash transactions	
ETF equipment	11,515,177
Assets acquired through capital leases or installment purchases	1,165,554
Donated fixed assets	3,818,880
Debt principal and interest payments made by Treasury	1,978,586

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, 2008

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, 2008, the foundations distributed $6,060,945 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, 2008.

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, 2008 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, 2007.

D. Inventories

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

E. 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.

F. Capital Assets

Plant assets consisting of land, buildings, infrastructure, equipment, library books 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. All equipment purchased under the Equipment Trust Fund program that is titled to the Virginia College Building Authority has been capitalized on these statements. 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, and 10 years for library books.

G. 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.

H. System Office Expenditures

The central office (the System Office) of the VCCS 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.

I. 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.

J. 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.

K. 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.

L. Restatements

Cash Flows Statement – Restatement of Beginning Cash:

Cash and cash equivalents on the Statement of Cash Flows at July 1, 2007 have been restated to a reflect reporting change to move general fund appropriation available balances out of cash into a separate line item on the Statement of Net Assets. The beginning cash and cash equivalent balances on the Statement of Cash Flows have been restated as follows:

Cash and cash equivalents, June 30, 2007	$237,734,076
Beginning cash and cash equivalents, July 1, 2007	$119,494,096
Restatement (appropriation available)	$118,239,980

Management Discussion and Analysis:

During fiscal year 2007, Pell federal grants were reported as operating revenue on the Statement of Revenues, Expenditures, and Changes in Net Assets and as grants and contracts on the Cash Flows Statement under the "Cash Flows from Operating Activities" section. Due to a reporting change in fiscal year 2008, Pell federal grants are shown as non-operating gifts and grants on the Statement of Revenues, Expenditures, and Changes in Net Assets and as grants and gifts on the Statement of Cash Flows under the "Cash Flows from Non-Capital Financing Activities" section. The comparative fiscal year 2007 balances in the Management Discussion and Analysis have been restated accordingly.

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 $21,096,061 at June 30, 2008.

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 2008.

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 2008.

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 2008.

Cash Equivalents	Credit Rating	Maturities	Fair Value
Local Govt. Investment Pool	AAA	0 – 3 months	$38,044,505
Certificates of Deposit	Not rated	0 – 3 months	$13,352,612
Repurchase Agreements	Not rated	0 – 3 months	$6,602,741
Mutual and Money Market Funds	Not rated	0 – 3 months	$3,894,664
Securities Lending (1)			$2,081,499
Total			$63,976,021

Investments	Credit Rating	Maturities	Fair Value
U.S. Govt. Treasury Bills	Not rated	4 – 12 months	$4,157,421
Mutual Funds	Not rated	4 – 12 months	$650,190
Federal Farm Credit Bank	AAA	1 – 5 years	$198,594
Federal Home Loan Bank	AAA	1 – 5 years	$304,625
Federal Home Loan Mort. Corp.	AAA	1 – 5 years	$226,727
Federal Home Loan Mort. Corp.	AAA	6 – 10 years	$202,781
Federal Home Loan Mort. Assoc.	AAA	6 – 10 years	$405,376
Federal Home Loan Bank	AAA	6 – 10 years	$200,250
Securities Lending (1)			$7,841,020
Total			$14,186,984

(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, 2008:

Cash and cash equivalents	$30,095,042
Investments:	
Mutual funds and money markets	$55,123,352
Stocks	22,794,648
Corporate bonds	11,690,987
U.S. government securities	5,634,240
UVA investment fund	4,707,876
Investment in real estate	4,416,322
Mortgage-backed securities	1,806,190
Cash surrender value of life insurance	1,072,586
Certificates of deposits	496,050
Other property investments	114,622
Split interest agreement	108,897
Total investments	$107,965,770

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, 2008:

Gross accounts receivable:	
Tuition and fees	$6,128,387
Auxiliary enterprises	979,732
Federal, state, local and nongovernmental grants, gifts, contracts	5,084,638
Other activities	1,265,752
Total gross accounts receivable	$13,458,509
Less: Allowance for doubtful accounts	(784,049)
Net accounts receivable	$12,674,460
Gross Loans and notes receivable	$3,961,165
Less: Allowance for doubtful accounts	(172,324)
Net loans and notes receivable	$3,788,841

Receivables not expected to be collected within one year are $2,062,073 in notes and loans receivable.

Community College Foundations

The foundations have the following receivables as of June 30, 2008:

Gross accounts receivable	$1,358,828
Less: Allowance for doubtful accounts	(53,614)
Net accounts receivable	$1,305,214

Pledges receivable:	
Due in one year	$4,149,228
Due in 1-5 years	4,965,878
Due in more than 5 years	34,469
Less: Allowance for doubtful accounts	(193,759)
Present value discount	(415,840)
Net pledges receivable	$8,539,976

Gross loans and notes receivable	$ 30,891
Less: Allowance for doubtful accounts	(0)
Net loans and notes receivable	$ 30,891

Receivables not expected to be collected within one year are $28,985 in notes and loans receivable and $4,518,053 in pledges receivable.

4. CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2008 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Nondepreciable capital assets:				
Land	$26,580,117	5,004,211		$31,584,328
Land improvements	11,120,793	786,203		11,906,996
Inexhaustible works of art	83,242	53,932		137,174
Construction in progress	112,307,609	139,795,629	(95,187,218)	156,916,020
Total capital assets not being depreciated	150,091,761	145,639,975	(95,187,218)	200,544,518
Depreciable capital assets:				
Buildings	500,038,195	89,399,850		589,438,045
Infrastructure	25,011,802	2,976,758		27,988,560
Equipment	140,611,571	17,512,407	(5,503,875)	152,620,103
Land improvements	50,788,574	3,004,502		53,793,076
Library books	41,420,788	1,989,171	(1,329,069)	42,080,890
Total other capital assets	757,870,930	114,882,688	(6,832,944)	865,920,674
Less accumulated depreciation for:				
Buildings	(144,470,734)	(12,252,461)		(156,723,195)
Infrastructure	(11,550,784)	(1,215,875)		(12,766,659)
Equipment	(95,763,302)	(12,148,114)	5,274,261	(102,637,155)
Land improvements	(29,954,673)	(1,690,092)		(31,644,765)
Library books	(31,963,959)	(2,195,191)	1,329,069	(32,830,081)
Total accumulated depreciation	(313,703,452)	(29,501,733)	6,603,330	(336,601,855)
Other capital assets, net	444,167,478	85,380,955	(229,614)	529,318,819
Total capital assets, net	$594,259,239	231,020,930	(95,416,832)	$729,863,337

Community College Foundations

The foundations had the following capital assets as of June 30, 2008:

Non-depreciable capital assets:	
Land	$1,723,374
Works of art	80,627
Construction in Process	2,422,374
Total nondepreciable capital assets	$4,226,375
Depreciable capital assets:	
Buildings	$6,502,843
Equipment	689,083
Site improvement	16,271
Total depreciable capital assets	$7,208,197
Less: Accumulated depreciation	(821,640)
Depreciable capital assets, net	$6,386,557
Total capital assets, net	$10,612,932

5. ACCOUNTS AND RETAINAGE PAYABLE

Accounts and retainage payable consisted of the following as of June 30, 2008:

Vendor payables	$ 23,111,989
Retainage payable	8,167,728
Taxes payable	15,559
Total	$31,295,276

6. COMMITMENTS

At June 30, 2008, the VCCS had future commitments for construction contracts totaling approximately $114,531,866. The System held $8,167,728 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, 2008 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Debt:					
Bonds payable	$ 1,094,968		$ 200,832	$ 894,136	$ 207,909
Other capital leases	21,017,496		1,589,587	19,427,909	1,675,161
Notes payable:					
Installment purchases	12,755,232	1,376,544	1,848,813	12,282,963	663,473
Pooled bonds	17,540,000	156,161	1,123,700	16,572,461	1,030,000
Other notes payable	480,000	740,000	200,000	1,020,000	1,020,000

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Other liabilities:					
Compensated absences	28,655,152	22,676,351	21,453,791	29,877,712	13,742,729
Federal loan program contributions	4,975,021	419,079	0	5,394,100	
Total other liabilities	33,630,173	23,095,430	21,453,791	35,271,812	13,742,729
Total long-term liabilities	$86,517,869	$25,368,135	$26,416,723	$85,469,281	$18,339,272

8. BONDS PAYABLE

Long-term debt in the form of bonds payable of the System as of June 30, 2008, consists of the following:

Higher Education Refunding Bonds, Series 1999, issued $1,868,800 to advance refund a portion of the Higher Education Bonds, Series 1992A. The balance is payable in annual installments ranging from approximately $185,000 to $240,000 with an average coupon rate of 4.18% payable semiannually. The final installment of $239,167 is due June 1, 2012. The outstanding balance at June 30, 2008 is $894,136.

Aggregate annual maturities of bonds payable for fiscal years after 2008:

Year Ending June 30	Principal	Interest	Total
2009	207,909	40,215	248,124
2010	219,967	31,119	251,086
2011	227,093	21,221	248,314
2012	239,167	11,002	250,169
Total debt service Requirements	$894,136	$103,557	$997,693

9. NOTES PAYABLE

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

Parking and access road improvements for John Tyler Community College - The balance is to be repaid in ten annual installments ranging from $70,000 to $130,000 with an average coupon rate of 4.03**%** payable semiannually. The final installment of $130,000 is due September 1, 2013. The outstanding balance at June 30, 2008 is $685,000.

Parking improvements for the Midlothian campus of John Tyler Community College - The balance is to be repaid in ten annual installments ranging from $35,000 to $45,000 with an average interest rate of 3.52**%** payable semiannually. The final installment of $45,000 is due September 1, 2008. The outstanding balance at June 30, 2008 is $45,000.

Parking garage for the Medical Education campus of Northern Virginia Community College - The balance is to be repaid in twenty annual installments ranging from $265,000 to $555,000 with an average coupon rate of 4.27**%** payable semiannually. The final installment of $555,000 is due September 1, 2021. The outstanding balance at June 30, 2008 is $5,895,598.

Parking deck for the Annandale Campus of Northern Virginia Community College - The balance is to be repaid in twenty annual installments ranging from $310,000 to $400,000 with an average coupon rate of 4.35**%** payable semiannually. The final installment of $400,000 is due September 1, 2023. The outstanding balance at June 30, 2008 is $6,400,000.

Parking garage for J. Sargeant Reynolds Community College - The balance is to be repaid in twenty annual installments ranging from $110,000 to $330,000 with an average coupon rate of 4.95**%** payable semiannually. The final installment of $330,000 is due September 1, 2022. The outstanding balance at June 30, 2008 is $3,546,863.

Other notes payable of $1,020,000 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
2009	$1,030,000	$746,066	$1,776,066
2010	1,010,000	703,025	1,713,025
2011	1,040,000	653,538	1,693,538
2012	1,075,000	601,638	1,676,638
2013	1,100,000	549,262	1,649,262
2014-2018	5,445,000	1,997,072	7,442,072
2019-2023	5,545,000	712,309	6,257,309
2024-2028	400,000	9,000	409,000
Sub Totals	$16,645,000	$5,971,910	$22,616,910
Plus: Bond Premium	$51,161		$51,161
Less: Bond Defeasance	($123,700)		($123,700)
Totals	$16,572,461	$5,971,910	$22,544,371

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 $33,339,667 and $12,543,280, respectively. Rent expense under operating lease agreements amounted to $8,290,712 for the year. A summary of future obligations under lease agreements as of June 30, 2008, follows:

Year Ending June 30	Capital Lease Obligations	Installment Purchase Obligations	Operating Lease Obligations
2009	2,588,914	1,085,855	4,768,698
2010	2,588,289	1,437,383	4,342,764
2011	3,090,783	1,437,382	3,655,028
2012	2,387,448	1,437,379	3,352,583

2013	2,387,340	1,349,796	4,632,216
2014-2018	9,368,528	5,453,957	5,801,785
2019-2023	2,580,865	3,897,541	
Total obligation and gross minimum lease payments	$24,992,167	$16,099,293	26,553,074
Less: Interest	(5,564,258)	(3,816,330)	
Present value of minimum lease payments	$19,427,909	$12,282,963	26,553,074

11. OPERATING EXPENSES BY NATURAL AND FUNCTIONAL CLASSIFICATIONS

VCCS operating expenses for the year ended June 30, 2008 were as follows:

	Natural Classification					
Functional Classification	Salaries & Benefits	Utilities	Scholar-ships	Depreciation	Supplies, Services & Other	Total
Instruction	$324,372,648	$196,848	$2,522,447	$17,349,977	$46,886,676	$391,328,596
Public Service	2,748,766	6,640	24,649		2,412,707	5,192,762
Acad. Support	57,777,828	54,975	382,648	3,787,620	11,458,638	73,461,709
Student Services	54,376,960	496	326,355	295,766	5,892,071	60,891,648
Inst. Support	108,233,117	51,047	139,503	6,655,202	41,590,011	156,668,880
O & M of Plant	20,916,682	12,480,683	2,431	1,394,913	46,681,145	81,475,854
Schol. & Fellows.			63,026,004		414,198	63,440,202
Aux. Enterprises	2,230,463	192,737	6,472	18,258	9,814,406	12,262,336
Other Expenses					521,407	521,407
Total Expenses	$570,656,464	$12,983,426	$66,430,509	$29,501,736	$165,671,259	$845,243,394

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 2008-09 provided that the VCCS meets financial and administrative standards outlined in the *Code of Virginia*.

During the year ended June 30, 2008, the Virginia Community College System received the following general fund appropriations in accordance with the Appropriation Act of 2007, Chapter 847, Acts of Assembly.

Appropriated - Chapter 847 - Approved April 4, 2007	$391,634,917
Additions:	
Transfers from central appropriations:	
Fiscal year 2008 employee salary increase plus faculty	2,975,222
Pay practices funding	420,607
Funding for fiscal year 2007 state employee salary increase	3,437,967
Fiscal year 2007 health insurance increase	2,508,145
Fiscal year 2008 health insurance increase	1,142,026
Employee retirement rate increase	3,055,118

Employee group life contribution increase	333,611
Employee sickness and disability increase	583,812
Employee retiree health care credit increase	266,886
Employee mileage reimbursement increase	85,287
Less:	
Virginia law officers retirement contribution rate decrease	(11,931)
Other:	
Transfer from SCHEV – VIVA	35,818
Carryover fiscal year 2007 year-end balances	19,944,778
DOE Literacy program	125,000
Commonwealth budget reduction	(19,097,478)
Tuition incentive fund	1,003,804
NVCC training program – Micron technology	1,000,000
Interest from E&G funds	741,981
Equipment Trust Fund lease payment	(633,657)
Transfer capital fee	(415,738)
Philpott Manufacturing	(482,733)
Reversion	(13,625,290)
Adjusted Unrestricted Appropriations	395,028,152

Other restricted appropriations were $23,361,020 for a total of $418,389,172.

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, 2008, the VCBA financed the ETF program with state funds, which will not require repayment.

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, 2008. 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, 2008, the VCCS estimates that no material liabilities will result from such audits.

16. PENSION PLAN

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

The VRS is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions. This is a fixed benefit plan, with benefits vesting after five years of service. Current benefit provisions are based on a formula using years of service, salary, and age. The VRS does not measure assets and pension benefit obligations separately for individual State institutions. Information relating to this plan is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). The Commonwealth, not the VCCS, has overall responsibility for contributions to this plan.

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

Individual contracts issued under the ORP plan provide for full and immediate vesting of the VCCS contributions. Total pension costs under this plan were $5,410,588 and $4,829,507 for years ended June 30, 2008 and 2007, respectively. Contributions to the ORP plan were calculated using the base salary amount of $52,024,880 and $46,437,565 for fiscal years 2008 and 2007. The VCCS total payroll for fiscal years 2008 and 2007 was $446,185,347 and $393,553,466 respectively.

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 Revenue	$10,112,021
Less: General Fund Reversion	(28,417,804)
Virginia College Building Authority appropriation revenue	28,240,750
General Obligation Bond appropriation revenue	53,872,706
Central Capital Planning Fund - appropriation revenue	2,610,350
Tidewater Community College capital lease agreement	1,978,586
Total	$68,396,609

20. COMPONENT UNIT FINANCIAL INFORMATION

Below is a summary of the foundations.

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

Virginia Community College System Foundations
Statement of Net Assets
As of June 30, 2008

	Southwest Virginia Community College Educational Foundation	Northern Virginia Community College Educational Foundation	Patrick Henry Community College Educational Foundation	Lord Fairfax Community College Educational Foundation	Mountain Empire Community College Educational Foundation	Combined Non-Major Component Units	Total Component Units
ASSETS							
Total current assets	$ 2,794,532	$ 4,777,088	$ 161,443	$ 3,950,445	$ 21,126	$ 23,660,972	$ 35,365,606
Noncurrent assets:							
Other noncurrent assets	7,940,657	10,175,858	11,023,723	6,157,250	10,208,915	67,292,103	112,798,506
Capital assets, net	5,446,010	-	-	179,650	-	4,987,272	10,612,932
Total noncurrent assets	13,386,667	10,175,858	11,023,723	6,336,900	10,208,915	72,279,375	123,411,438
Total assets	16,181,199	14,952,946	11,185,166	10,287,345	10,230,041	95,940,347	158,777,044
LIABILITIES							
Total current liabilities	16,399	2,653,882	352,426	21,464	15,825	4,315,036	7,375,032
Noncurrent liabilities:							
Long-term liabilities	-	-	-	-	-	824,029	824,029
Other noncurrent liabilities	-	-	-	-	-	-	-
Total noncurrent liabilities	-	-	-	-	-	824,029	824,029
Total liabilities	16,399	2,653,882	352,426	21,464	15,825	5,139,065	8,199,061
NET ASSETS							
Invested in capital assets, net of related debt	5,446,010	-	-	179,650	-	4,633,462	10,259,122
Restricted for:							
Nonexpendable	-	2,648,679	4,961,910	4,242,535	3,862,691	36,545,728	52,261,543
Expendable	6,141,974	2,939,806	4,084,499	5,151,767	1,329,155	32,366,070	52,013,271
Unrestricted	4,576,816	6,710,579	1,786,331	691,929	5,022,370	17,256,022	36,044,047
Total Net Assets	$ 16,164,800	$ 12,299,064	$ 10,832,740	$ 10,265,881	$ 10,214,216	$ 90,801,282	$ 150,577,983

Virginia Community College System Foundations
Statement of Revenues, Expenses, and Changes in Net Assets
As of June 30, 2008

	Southwest Virginia Community College Educational Foundation	Northern Virginia Community College Educational Foundation	Patrick Henry Community College Educational Foundation	Lord Fairfax Community College Educational Foundation	Mountain Empire Community College Educational Foundation	Combined Non-Major Component Units	Total Component Units
Total operating revenues	$ 2,040,688	$ 920,090	$ 1,283,498	$ 595,324	$ 661,397	$ 7,939,328	$ 13,440,325
Total operating expenses	1,416,102	1,358,503	1,162,798	491,620	760,851	10,309,806	15,499,680
Operating income (loss)	624,586	(438,413)	120,700	103,704	(99,454)	(2,370,478)	(2,059,355)
Nonoperating revenues (expenses):							
Investment Income	(400,031)	(109,071)	(831,352)	324,075	638,372	2,299,379	1,921,372
Other nonoperating revenues (expenses)	-	-	-	-	-	(158,311)	(158,311)
Net nonoperating revenue	(400,031)	(109,071)	(831,352)	324,075	638,372	2,141,068	1,763,061
Income before other revenues, expenses gains and losses	224,555	(547,484)	(710,652)	427,779	538,918	(229,410)	(296,294)
Capital gifts, grants and contracts	-	-	-	213	-	1,780,635	1,780,848
Additions to permanent and term endowments	-	69,592	42,685	1,098,415	401,913	7,763,124	9,375,729
Increase (decrease) in net assets	224,555	(477,892)	(667,967)	1,526,407	940,831	9,314,349	10,860,283
Net assets - beginning of year	15,940,245	12,776,956	11,500,707	8,739,474	9,273,385	81,486,933	139,717,700
Net assets - end of year	$ 16,164,800	$ 12,299,064	$ 10,832,740	$ 10,265,881	$ 10,214,216	$ 90,801,282	$ 150,577,983

Commonwealth of Virginia

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

Walter J. Kucharski, Auditor

September 1, 2009

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission

The State Board for Community Colleges

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the Virginia Community College System (System), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2008, which collectively comprise the Virginia Community College 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.

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 discretely presented component units of the System as of June 30, 2008, 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 8 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated September 1, 2009 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