VIRGINIA COMMUNITY COLLEGE SYSTEM

RICHMOND, VIRGINIA

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2002

APA

Auditor of
Public Accounts

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Virginia Community College System for the year ended June 30, 2002, found:

- The financial statements are presented fairly, in all material respects;

- internal control matters that we consider reportable conditions; however, we do not consider any of these to be material weaknesses;

  > These matters are reported fully in the section of the report entitled "Internal Control and Compliance Findings and Recommendations" and include our recommendation that the Virginia Community College System ensure the Colleges and the System have current information security plans.

- instances of noncompliance required to be reported that are described fully in the section of the report entitled "Internal Control and Compliance Findings and Recommendations"; and

- adequate corrective action of prior audit findings.

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Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

April 30, 2003

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission

The State Board for Community Colleges

We have audited the accounts and records of **Virginia Community College System,** as of and for the year ended June 30, 2002, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of Virginia Community College System, a component unit of the Commonwealth of Virginia, as of June 30, 2002 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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. 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2002, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the System has implemented a new finanical reporting model, as required by the provisions of GASB Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and GASB Statement 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, as of June 30, 2002.

The Management's Discussion and Analysis on pages seven through twelve is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

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

In planning and performing our audit of the financial statements of the Virginia Community College System as of and for the year ended June 30, 2002, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants 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.

Compliance

As part of obtaining reasonable assurance about whether the Virginia Community College System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards. These instances of noncompliance are described in the section of the report titled "Internal Control and Compliance Findings and Recommendations."

Internal Control Over Financial Reporting

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

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

Status of Prior Findings

The System and its Colleges have taken adequate corrective action with respect to audit findings reported in the prior year report.

The "Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting" is intended solely for the information and use of the Governor and General Assembly of Virginia, the State Board for Community Colleges, its audit committee and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on June 27, 2003.

AUDITOR OF PUBLIC ACCOUNTS

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Update Information Security Plan

Applicable to: Virginia Community College System

Since 1998, the System Office has not updated the Office's comprehensive information security plan to reflect its current operating environment. The System Office has not updated the business impact analysis or risk assessment to form the basis for an updated comprehensive information security plan. Since last updating the comprehensive information security plan, the System has implemented a new administrative system.

Not updating the information security plan, business impact analysis, or risk assessment timely increases the costs of updating and if the plan becomes too stale, management may find that it would need to replace the entire plan from scratch. A plan that is nearly 5 years old will require a substantial revision.

These documents represent the System Office's and the individual college's responses to some of the basic computer safeguards that every entity needs to take to protect its assets. The System has to protect not only its physical assets, but also the data that it stores. This lack of timely update of security and risk evaluations at individual colleges has been the subject of two internal audit reports.

System Office information technology management issued general guidance to the colleges in 1998 to help them develop comprehensive security plans. The colleges were expected to develop plans using those guidelines; however, System management never followed-up with the colleges and has not provided additional guidance to the colleges on reviewing or updating their comprehensive security plans.

System Office information technology management is updating the guidance it issued in 1998, and it should issue that guidance as soon as possible. System management must provide guidance, training, deadlines, and follow-up to ensure that the System and the colleges have current comprehensive security plans to protect the System's information and resources.

Enhance Fixed Asset Procedures

Applicable to: Blue Ridge Community College
Germanna Community College
J. Sargeant Reynolds Community College
Patrick Henry Community College
Paul D. Camp Community College
Rappahannock Community College
Southside Virginia Community College
Virginia Highlands Community College
Virginia Western Community College

The fixed asset coordinators at these colleges do not always properly record all fixed asset changes in the Fixed Asset Inventory System and do not follow adequate fixed asset accounting and control procedures.

- Blue Ridge, Germanna, Rappahannock and Southside Virginia failed to remove disposed assets from the Fixed Asset Inventory System.

- J. Sargeant Reynolds did not complete an equipment inventory within two years as required by Section 30500 of the Commonwealth Accounting Policies and Procedures Manual.

- Patrick Henry failed to dispose of one item listed as surplused on the Fixed Asset Inventory System. The College also does not document the disposition of disposed items.

- Paul D. Camp failed to properly record two purchases in the Fixed Asset Inventory System.

- Virginia Highlands does not maintain proper separation of duties over fixed assets. The accountant who records and adjusts the Fixed Asset Inventory System, performs the College's physical inventory, and reconciles the fixed asset records to the Financial Records System. Additionally, there is no supervisory review of fixed asset transactions including adjustments and reconciliations. Also, the College lacks formal written procedures for conducting a physical inventory.

- Virginia Western failed to record the correct nomenclature code, which assigns useful life for depreciation, on three of six tested fixed asset purchases. Also, we found two of thirteen tagged assets not recorded in the Fixed Asset Inventory System. Additionally, eight of ten scales in the Dental Lab did not have inventory identification tags.

Each College's Fixed Asset Coordinator should review and document fixed asset procedures for the proper recording of asset records. College management should ensure that the Coordinators receive adequate training to record all fixed asset purchases and changes accurately and promptly. The System's Office should ensure the Coordinators receive training on the importance of nomenclature codes in the calculation of depreciation. Finally, management should commit the necessary resources to complete required equipment inventories and promptly resolve and record all discrepancies.

Properly Administer Return of Title IV Funds

Applicable to: Dabney S. Lancaster Community College,
New River Community College,
Southside Virginia Community College,

Dabney S. Lancaster Community College and Southside Virginia Community College did not always record and post Title IV refunds in a timely manner. Both colleges performed Title IV refund calculations timely and accurately; however, the two colleges failed to promptly return federal funds to the federal Department of Education. Additionally, New River Community College did not properly calculate Title IV refunds since they incorrectly calculated the number of days in their scheduled breaks.

34 CFR Part 668.22 (c) requires that colleges have a mechanism in place to identify students who have withdrawn or ceased attendance, in order to promptly and properly calculate any return of Title IV funds. Part 668.22 (j) requires that colleges return unearned Title IV funds as soon as possible to the federal Department of Education, but no later than 30 days after the date the college determined the student withdrew. 34 CFR Part 668.22 (f) requires the exclusion of scheduled breaks of five or more days, including weekends, in the calculation of Title IV refunds.

Colleges should follow the return of Title IV funds procedures prescribed by the federal government to ensure that withdrawals are properly identified and that refunds are properly calculated and returned to the U.S. Department of Education.

Provide Campus Security Report to All Current and Perspective Students and Employees

Applicable to: Dabney S. Lancaster Community College
Southside Virginia Community College
Southwest Virginia Community College

Dabney S. Lancaster Community College did not completely prepare and directly provide to students and employees their annual campus security report. Southside Virginia Community College and Southwest Virginia Community College did not directly provide to students and employees their annual security report.

34 CFR 668.41(e) requires that currently enrolled students and employees receive the institution's annual campus security report in its entirety through publications, mailings, or electronic media sent directly to individuals. According to the above requirement, colleges can post this report to a web site, but they must make available to each student a notice that identifies the information required to be disclosed; provides the exact electronic web site address; states that upon request, the individual is entitled to a paper copy; and informs the individual how to request a paper copy.

Colleges should comply with standards set forth by the Department of Education requiring preparation and direct notification of the annual security report.

MANAGEMENT DISCUSSION AND ANALYSIS

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, 2002. This discussion has been prepared by management and should be read in conjunction with the financial statements and footnotes. In this first period of reporting under GASB 35, the VCCS has elected to not restate prior periods for the purpose of providing comparative data. However, in future years, when prior year information is available, a comparative analysis of financial data will be presented.

Financial Highlights

The following events impacted net assets of the VCCS in fiscal year 2002:

- During fiscal year 2002, the Commonwealth of Virginia realized a general fund budget shortfall. This shortfall was largely attributed to the national economy and significantly impacted the stock market and the revenues of the Commonwealth. This shortfall resulted in the VCCS reverting 3 percent of its general fund appropriations (less debt service and amounts earmarked for lease payments) or $9.2 million.

- $14.6 million of VCCS carry-forward funds reverted to the Commonwealth at the end of fiscal year 2001. These dollars are general and non-general funds largely committed to encumbrances and represent approximately 3 percent of the VCCS Educational and General fund budget. The VCCS typically is re-appropriated these funds in the subsequent fiscal year. However, $2.6 million of the $14.6 million was not returned to the VCCS in fiscal year 2002.

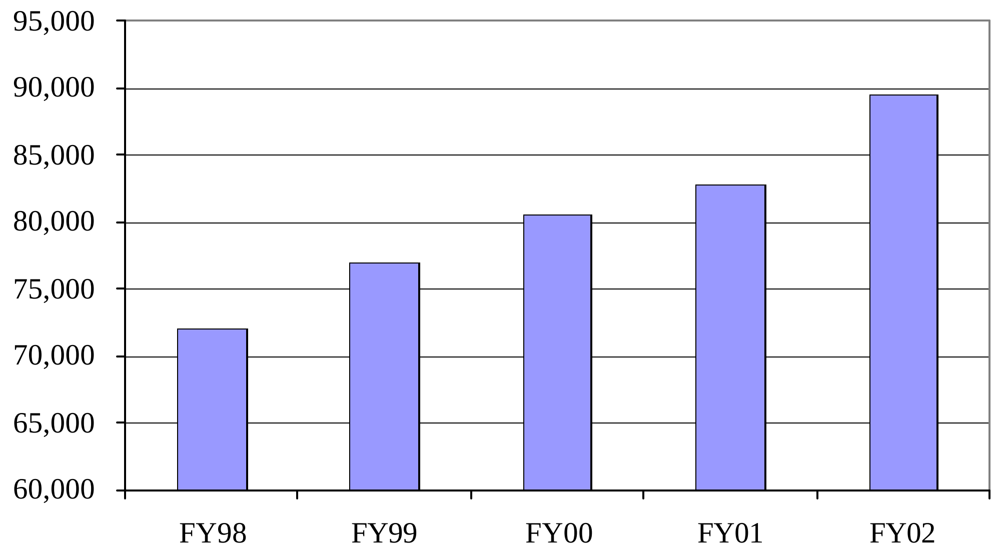
- Near the end of fiscal year 2002, the Commonwealth allowed state agencies, including colleges and universities, to prepay anticipated budget cuts for fiscal year 2003. This strategy was designed to help the Commonwealth resolve a cash shortage at year-end. The VCCS submitted $5.6 million towards this prepayment that resulted in a significantly lower reversion at the end of fiscal year 2002.

Net assets increased by $18.3 million principally due to the purchase and construction of fixed assets and increased prepaid expenses. Debt increased by a net amount of $3.5 million. Additional debt of $7.3 million was incurred to finance construction of the parking deck at the Northern Virginia Community College Medical Education Campus. $6 million of the bond proceeds were unspent as of June 30, 2002. Capital lease obligations were reduced $3.5 million.

Enrollment Information

Enrollments are at an all-time high at the VCCS. Below is a chart depicting full-time equivalent students attending the VCCS over the past 5 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.

VCCS Enrollment - Full Time Equivalents



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

Financial Statements

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

Statement of Net Assets

The Statement of Net Assets presents the assets and liabilities of the VCCS at the end of the fiscal year. The Statement also provides the amount of net assets and their availability for expenditure. Net assets are divided into three major categories. The first category, invested in capital net of related debt, consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets. The next category is restricted net assets, which are classified as nonexpendable or expendable. Nonexpendable restricted net assets are permanent endowments that are available for investment purposes only and loan funds. 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 as of June 30, 2002 is as follows:

(In thousands of dollars)

Assets:	
Current assets	$ 90,126
Capital assets, net	422,790
Other assets	32,713
Total Assets	545,629
Liabilities	
Current liabilities	63,137
Non-current liabilities	54,422
Total Liabilities	117,559
Net Assets	
Invested in capital assets, net of debt	385,963
Restricted-nonexpendable	452
Restricted-expendable	23,797
Unrestricted	17,859
Total Net Assets	$ 428,071

Current assets consist primarily of cash and investments of $75.4 million (including appropriations available of $5.8 million), accounts and notes receivable of $8.3 million, and prepaid expenses of $4.7 million at June 30, 2002.

Capital additions were equipment and library book purchases of $14.4 and $1.9 million, respectively. Construction-in-progress additions during the year were principally comprised of $19.3 million at Northern Virginia Community College for the Medical Education Campus, $2.4 million at Tidewater Community College for the Advanced Technology Center, $1.8 million at Thomas Nelson Community College for the Instructional Support Building, $1.4 million at Blue Ridge Community College for the Business Technology Center, and $1.3 million for the Working Development Center at Paul D. Camp Community College. These projects were funded with state appropriations, local appropriations, and bond proceeds of $10.0, $10.4 and $5.5 million, respectively.

Other assets are principally cash, investments, and appropriations available for the purchase of fixed assets.

At June 30, 2002, the VCCS had future commitments for construction contracts totaling $31.0 million. Commitments are primarily comprised of $19.3 million for Medical Education Campus at Northern Virginia Community College, $2.4 million for the Advanced Technology Center at Tidewater Community College and $1.4 million for the Business Technology Center at Blue Ridge Community College.

Current liabilities consist primarily of accounts payable of $13.4 million, accrued compensation of $29.4, deferred revenue of $11.2 million, and debt obligations of $5.9 million. Noncurrent liabilities are comprised of accrued leave of $12.3 million, long-term debt of $37.6 million, and amounts due to the federal government of $4.5 million.

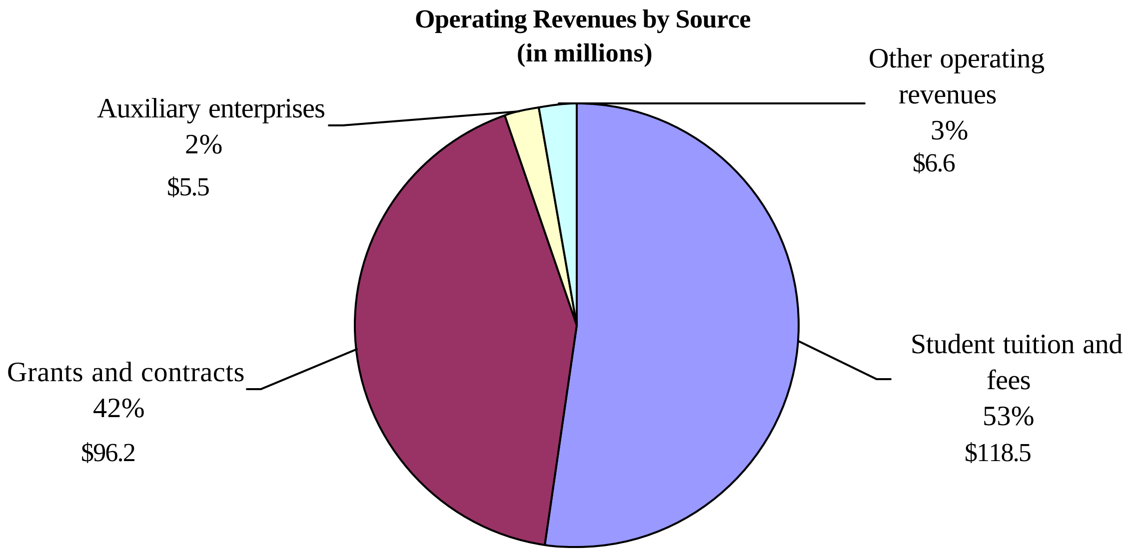
Statement of Revenues, Expenses, and Changes in Net Assets

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.

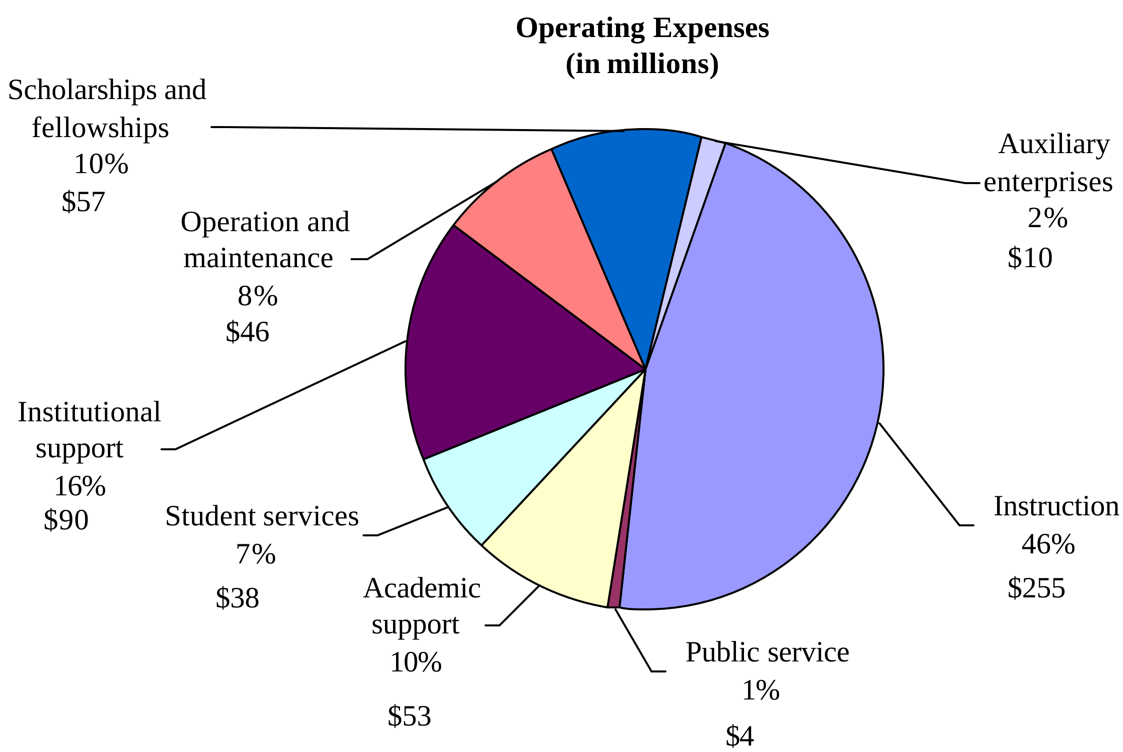
A summarized statement of revenues, expenses and changes in net assets for the year ended June 30, 2002 is as follows:

(In thousands of dollars)	
Operating revenue	$ 245,597
Operating expenses	554,075
Operating loss	(308,478)
Nonoperating revenues (expenses):	
State appropriations	307,015
Private gifts, grants and local appropriations	2,633
Investment income	1,575
Interest expense	(2,183)
Other	(1,598)
Net nonoperating revenues	307,442
Income (loss) before other revenues, expenses, gains or losses	(1,036)
Capital appropriations	11,842
Capital gifts/grants	7,512
Increase in net assets	18,318
Net assets, beginning of year as restated	409,753
Net assets, end of year	$ 428,071

A graphic presentation of operating revenues by source is below:



A graphic presentation of operating expenses by major function 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)	
Net cash used in operations	$ (295,838)
Net cash provided by non capital financing activities	310,146
Net cash used in capital and related financing activities	(27,183)
Net cash used by investing activities	(77)
Net increase (decrease) in cash and cash equivalents	(12,952)
Cash and cash equivalents, beginning of year	114,435
Cash and cash equivalents, end of year	$ 101,483

Economic Outlook

The VCCS is highly dependent on the Commonwealth for financial support. In fiscal year 2002, more than 70 percent of the VCCS educational and general funds were received from the Commonwealth's general fund. Due to the recent downturn in the national and Virginia economy, Commonwealth's revenue collections have not been sufficient to support the anticipated expenditures of state agencies. This resulted in 3 percent general fund budget cuts to the VCCS in fiscal year 2002. In addition, the Virginia General Assembly has assessed additional budget cuts for state agencies in the 2002-2004 biennium. The budget cuts for the VCCS are $13.2 million (4.3 percent of VCCS general fund budget) in fiscal year 2003 and $18.1 million (5.9 percent of the VCCS general fund budget) in fiscal year 2004. These cuts are reflected in the general fund appropriation in the *2002 Virginia Acts of the Assembly* (Chapter 899). The VCCS also lost $4.4 million in Equipment Trust funding from the previous fiscal year due to the Commonwealth's budget shortfall.

To partially offset the 3 percent general fund cuts assessed to the VCCS in the 2002-2004 biennium, the State Board for Community Colleges increased tuition by 9 percent for in-state and out-of-state students beginning in the Summer Term 2002. In addition, to help offset the anticipated loss of $4.4 million in Equipment Trust Funding in the 2002-2004 biennium, the State Board for Community Colleges increased technology fees by $1.50 per credit hour to $3.00 per credit hour beginning in the Summer Term 2002.

In October, additional budget cuts of $23.8 million (8 percent of the VCCS general fund budget) and $28.9 million (10 percent of the VCCS general fund budget) were accessed for fiscal years 2003 and 2004, respectively. To help offset this loss of funding, the State Board for Community Colleges increased tuition $12.25 per credit hour for in-state and out-of-state students beginning in the Spring Term 2003.

FINANCIAL STATEMENTS

VIRGINIA COMMUNITY COLLEGE SYSTEM
STATEMENT OF NET ASSETS
As of June 30, 2002

ASSETS	
Current assets:	
Cash and cash equivalents (Note 3)	$ 73,492,198
Short term investments (Note 3)	1,913,929
Accounts receivable (Note 4)	5,477,153
Due from the Commonwealth	1,723,948
Interest receivable	43,444
Prepaid expenses	4,671,896
Inventories	1,702,048
Notes receivable (Note 4)	1,101,232
Total current assets	90,125,848
Noncurrent assets:	
Cash and cash equivalents (Note 3)	21,618,403
Cash with trustees (Note 3)	6,017,813
Endowment cash and cash equivalents (Note 3)	354,528
Restricted investments (Note 3)	1,088,000
Notes receivable (Note 4)	3,634,636
Capital assets, net (Note 5)	422,790,468
Total noncurrent assets	455,503,847
Total assets	545,629,695
LIABILITIES	
Current liabilities:	
Accounts and retainage payable	13,444,373
Accrued payroll expense	17,442,691
Deferred revenue	11,205,583
Long-term liabilities-current portion	17,868,122
Due to commonwealth	165,750
Deposits	3,010,847
Total current liabilities	63,137,366
Noncurrent liabilities (Note 7):	
Deferred revenue	19,817
Long term liabilities	49,900,293
Due to federal government	4,501,145
Total noncurrent liabilities	54,421,255
Total liabilities	117,558,621
NET ASSETS	
Invested in capital assets, net of related debt	385,962,937
Restricted for:	
Nonexpendable	452,391
Expendable	23,796,947
Unrestricted	17,858,799
Total net assets	$ 428,071,074

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

VIRGINIA COMMUNITY COLLEGE SYSTEM
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2002

Operating revenue:	
Tuition and fees (net of scholarship allowances of $26,784,279)	$ 118,519,493
Federal grants and contracts	96,195,378
State and local grants	5,456,131
Nongovernmental grants	6,563,353
Sales and services of educational departments	1,984,433
Auxiliary enterprises (net of scholarship allowances of $3,364,090)	10,771,152
Other operating revenues	6,106,957
Total operating revenue	245,596,897
Operating expenses:	
Instruction	255,085,731
Public service	4,473,227
Academic support	53,128,933
Student services	38,450,235
Institutional support	90,312,790
Operation and maintenance	46,293,362
Scholarships and fellowships	56,670,025
Auxiliary enterprises	9,660,308
Total operating expenses	554,074,611
Operating income (loss)	(308,477,714)
Nonoperating revenues (expenses):	
State appropriations (Note 6)	307,014,673
Local appropriations	1,859,179
Grants and gifts	774,278
Investment income	1,575,123
Interest on capital asset related debt	(2,182,620)
Other nonoperating revenue (expense)	(1,598,432)
Total nonoperating revenue	307,442,201
Income before other revenues	(1,035,513)
Capital appropriations	11,841,973
Capital grants and gifts	7,512,121
Increase in net assets	18,318,581
Net assets - beginning of year	409,752,493
Net assets - end of year	$ 428,071,074

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

VIRGINIA COMMUNITY COLLEGE SYSTEM
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2002

Cash flows from operating activities:	
Tuition and fees	$ 115,275,152
Grants and contracts	106,771,614
Payments to suppliers and others	(158,848,093)
Payments to employees	(378,398,287)
Sales and services of educational departments	1,984,581
Auxiliary enterprises revenues	10,799,350
Loans issued to students	(1,350,625)
Loans collected from students	1,341,519
Other	6,586,217
Net cash used by operating activities	(295,838,572)
Cash flows from non-capital financing activities:	
State appropriations	307,014,673
Local appropriations	1,859,179
Grants and gifts	785,824
Agency expenses	(6,547,540)
Agency revenues	6,645,784
PLUS, Stafford and Direct Lending loan receipts	2,920,711
PLUS, Stafford and Direct Lending loan disbursements	(2,919,232)
Loan receipts	1,009,665
Loan repayments	(629,225)
Other non-operating revenues	6,729
Net cash flow provided by non-capital financing activities	310,146,568
Cash flow from capital financing activities:	
Capital appropriations	10,453,429
Capital grants and gifts	3,926,572
Purchase capital assets	(40,228,161)
Proceeds from sale of capital assets	85,216
Proceeds form bond issue	7,285,000
Debt interest payments	(1,061,066)
Debt principal payments	(7,643,984)
Net cash used by capital financing activities	(27,182,994)
Cash flow from investing activities:	
Purchases of investments	(3,394,739)
Sale of investments	1,730,760
Investment income	1,586,732
Net cash used by investing activities	(77,247)
Net decrease in cash and cash equivalents	(12,952,245)
Cash and cash equivalents - beginning of year	114,435,187
Cash and cash equivalents - end of year	$ 101,482,942

Reconciliation of operating income (loss) to net cash used in operating activities:		
Operating income (loss)	$	(308,477,714)
Adjustment to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation expense		20,689,109
Changes in assets and liabilities:		
Accounts receivable, net		(1,645,312)
Prepaid expenses and other		(4,679,313)
Accrued compensation and other		1,089,559
Accounts payable		1,178,280
Deferred revenue		(3,999,142)
Deposits pending distribution		5,961
Net cash used in operating activities	$	(295,838,572)
Noncash transactions:		
Equipment Trust Fund assets	$	3,081,553
Asset acquired through capital leases or installment purchases	$	4,389,779
Donated fixed assets	$	539,576
Debt principal and interest payments made by Treasury	$	1,960,958

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

NOTES TO FINANCIAL STATEMENTS

VIRGINIA COMMUNITY COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2002

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, 23 community colleges located on 40 campuses throughout the Commonwealth, and the Information Technology Utility. 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, the System Office, and the Information Technology Utility under the control of the State Board for Community Colleges. A list of colleges included in this audit is found in the schedule entitled, "Community College Presidents". Each individual college and the System Office have educational foundations that are further described in Note 2. The assets of these educational foundations, which are separately incorporated and managed by their own boards, are not included in these statements.

The VCCS has no component units, as defined by GASB Statement Number 14, *The Financial Reporting Entity*.

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. Accounting Policy Changes

The VCCS adopted the following accounting and reporting change for the year ended June 30, 2002:

GASB Statement Number 34 – *Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement Number 35 – *Basic Financial Statements - and Management's Discussion and Analysis – for Public Colleges and Universities.* These Statements impose new standards for financial reporting. The fund-group perspective previously required has been replaced with a comprehensive, entity-wide perspective of assets, liabilities, net assets, revenues, expenses, change in net assets, and cash flows. Therefore, the titles and formats of the financial statements have changed significantly. In addition, management is required to provide a management's discussion and analysis that gives readers an analysis of the overall financial position and results of operations of the VCCS.

The significant changes made in order to comply with the new requirements were recording depreciation on capital assets, reporting tuition and fees net of scholarship discounts and allowances, and recording revenues and expenses related to the summer term that encompasses two fiscal years during the period earned and incurred.

C. Basis of Accounting

For financial reporting purposes, the System 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. Under the accrual basis, 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, 2002.

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

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

Capital 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 Financial Records System and the Fixed Asset Inventory System. 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. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 20-25 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 Statement of Net Assets. The amount reflects, as of June 30, 2002, 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 employment taxes on leave balances for which employees will be compensated.

H. System Office Expenditures

The Central 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

Operating revenues include activities that have the characteristics of exchange transactions, such as (1) tuition and fees, (2) sales and services of auxiliary enterprises, (3) most federal, state and local grants and (4) contracts and interest on student loans.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, as defined by GASB Statement 9, *Reporting Cash Flows of Proprietary Fund Accounting*, and state appropriations and investment income, as defined by GASB Statement 34.

Nonoperating expenses include interest on debt related to the purchase of capital assets and losses on disposal of capital asset. 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 Statements of Revenue, Expenses, and Changes in Net Assets. Scholarships discounts and allowances are the difference between the stated charge for goods and services provided by the System, and the amount that is paid by students and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell 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 System 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 and 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 and loan funds.

Restricted net assets-expendable: Restricted expendable net assets include resources in which the System 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 System to first apply the expense towards restricted resources and then towards unrestricted resources.

As a result of implementing GASB Statement Number 35, beginning fund net assets have been restated as follows:

Combined fund balances, June 30, 2001, as previously reported	$ 633,649,842
Reclassification of federal loan and other balances	(4,420,709)
Deferred revenue	(3,120,283)
Adjustment to write-off allowance for doubtful accounts on federal loan balances	345,226
Adjustment to record accumulated depreciation as of June 30, 2001	(205,858,350)
Adjustment to fixed asset values	(7,141,267)
Adjustment to capital lease obligation	(446,143)
Adjustment to write-off unbound periodicals	(3,339,065)
Adjustment to record previously expensed works of art as non-depreciable capital assets	83,242
Combined fund balances, July 1, 2002, restated as net assets	$ 409,752,493

2. AFFILIATED ORGANIZATIONS

Each College and the System's Office have organized educational foundations that provide exclusive benefit to the colleges and System. The educational foundations are non-profit organizations created to raise funds supporting college programs, students, and related activities.

Limited members of the College Boards, locality appointed advisory boards of the System, represent the college on the related foundation's governing board. All educational foundations are independently audited. The State Board requires submission of yearly financial statements to the

System's Office. The following is a condensed summary of the financial condition of the foundations at June 30, 2002 except for Danville, John Tyler, New River, and Virginia Western that are as of December 31, 2001.

Assets	$76,634,517
Liabilities	1,373,469
Net Assets	75,261,048
Total	$76,634,517
Revenues	$13,556,973
Expenditures	$11,182,900

3. CASH AND INVESTMENTS

A. Cash and Cash Equivalents

Cash of the Virginia Community College System that is maintained by the Treasurer of Virginia is invested and collateralized pursuant to Section 2.2-1800, et seq., Code of Virginia (1950), as amended, who is responsible for the collection, disbursement, custody and investment of State funds.

Local 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 for Public Deposits Act, Section 2.2-4400 et seq. of the Code of Virginia.

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

B. Investments

Certain deposits and investments are held by the System. Such investments are reported separately from cash and cash equivalents. Investments represent securities with maturities of more than 3 months and for which management intends to hold the securities to maturity.

C. Credit Risk

The System's cash equivalents and investments are categorized below to give an indication of the level of credit risk assumed by the System at June 30, 2002. Credit risk is the risk the System may not be able to obtain possession of its investment instrument or collateral at maturity.

Category 1 - Insured or registered securities or securities held by the Virginia Community College System or its agent in the name of the Virginia Community College System.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the name of the Virginia Community College System.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the name of the Virginia Community College System.

Categorization of cash equivalents and investments held at June 30, 2002:

	Category 1	Category 2	Category 3	Market Value
Cash				$ 65,125,483
Cash equivalents:				
Categorized:				
U.S. Government Securities	$ 348,471	$ -	$ -	348,471
Repurchase Agreements	2,562,798	2,135,642	2,435,000	7,133,440
Non-Categorized:				
Money Market	-	-	-	618,285
Local Government Investment Pool	-	-	-	28,257,263
Investments:				
Categorized:				
U.S. Government Securities	2,474,692	-	-	2,474,692
Non-Categorized:				
Mutual Funds	-	-	-	527,237
Total	$ 5,385,961	$ 2,135,642	$ 2,435,000	$ 104,484,871

4. ALLOWANCE FOR DOUBTFUL ACCOUNTS

The following receivables included an allowance for doubtful accounts at June 30, 2002:

Accounts receivable - Gross	$5,672,174
Less: Allowance for doubtful accounts	(195,021)
Accounts receivable - Net	$5,477,153

Notes and loans receivable - Gross	$4,851,374
Less: Allowance for doubtful accounts	(115,506)
Notes receivable – Net	$4,735,868

5. CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2002 are as follows:

	Beginning Balance	Additions	Transfers from CIP	Retirements	Ending Balance
Capital assets not being depreciated:					
Land	$ 25,506,822	$ 101,615	$ -	$ -	$ 25,608,437
Inexhaustible works of art	83,242	-	-	-	83,242
Construction in progress	93,145,748	32,160,986	(12,988,395)	-	112,318,339
Total capital assets not being depreciated	118,735,812	32,262,601	(12,988,395)	-	138,010,018
Other capital assets:					
Buildings	298,779,554	185,949	12,495,306	64,717	311,396,092
Infrastructure	11,969,467	120,486	277,966	126,351	12,241,568
Equipment	96,703,376	14,453,329	-	10,412,149	100,744,556
Land improvements	38,724,799	825,615	215,123	19,829	39,745,708
Library books	36,386,096	1,938,401	-	1,004,296	37,320,201
Total other capital assets	482,563,292	17,523,780	12,988,395	11,627,342	501,448,125
Less accumulated depreciation for:					
Buildings	89,440,921	6,788,539	-	7,207	96,222,253
Infrastructure	5,288,288	582,040	-	-	5,870,328
Equipment	60,644,948	11,010,048	-	8,855,313	62,799,683
Land improvements	21,576,317	817,042	-	12,958	22,380,401
Library books	28,907,876	1,491,440	-	1,004,306	29,395,010
Total accumulated depreciation	205,858,350	20,689,109	-	9,879,784	216,667,675
Other capital assets, net	276,704,942	(3,165,329)	12,988,395	1,747,558	284,780,450
Total capital assets, net	$395,440,754	$ 29,097,272	$ -	$1,747,558	$ 422,790,468

CIP additions include capitalized interest of $11,672.

6. STATE APPROPRIATIONS

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

During the year ended June 30, 2002, the Virginia Community College System received the following supplemental unrestricted appropriations in accordance with the Appropriation Act of 2001-02, Chapter 1073, Acts of Assembly.

Original Legislative Appropriations	$ 308,189,922
Less: Revert – delayed opening new space-operating funds	391,224
Transfer Blue Ridge Community College workforce lease to State Treasury	194,000
Appropriated Enrolled Budget Bill	307,604,698
Additions:	
Transfers from central appropriations:	
Classified salary adjustments-annualized	2,611,395
Employee health care insurance premium increase	2,243,168
Carryover – unspent appropriations	9,389,632
Employee deferred compensation savings match	1,399,060
Less:	
General fund reversion	(9,251,570)
Prepay FY03 reversions	(5,659,256)
VRS rate reduction	(3,339,352)
VRS rate suspension-partial	(3,266,422)
Retiree health credit savings reversion	(733,267)
Higher Education Equipment Trust Fund non-general cash	(512,750)
Group Life Rate Suspension-partial year	(218,014)
Gas and power savings	(134,589)
Integrated human resource information system costs	(128,689)
Automobile liability premium savings reversion	(18,856)
Indemnity Bond Premium holiday	(10,301)
Philpott Manufacturing	(582,000)
General fund reversion	(3,438,234)
Adjusted Unrestricted Appropriations	$ 295,954,653

The VCCS also received restricted appropriations of $11,060,020 for a total of $307,014,673.

7. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2002 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts due within one year
Debt:					
Bonds payable	$ 2,743,435	$ -	$ 350,247	$ 2,393,188	$ 366,710
ETF leases	5,393,603	-	3,910,814	1,482,789	1,482,789
Other capital leases	25,196,530	1,500,886	1,118,326	25,579,090	1,207,914
Installment purchases	5,715,774	2,888,893	3,069,105	5,535,562	1,842,331
Notes payable:					
Pooled bonds	325,000	7,285,000	35,000	7,575,000	35,000
Other notes payable	621,950	1,009,665	629,225	1,002,390	1,002,390
Total bonds, notes and capital leases	39,996,292	12,684,444	9,112,717	43,568,019	5,937,134
Other liabilities:					
Compensated absences	23,831,705	16,361,311	15,992,620	24,200,396	11,930,988
Liability to federal government	4,406,506	167,376	72,737	4,501,145	-
Deferred revenue	-	19,817	-	19,817	-
Total other liabilities	28,238,211	16,548,504	16,065,357	28,721,358	11,930,988
Total long-term liabilities	$68,234,503	$29,232,948	$ 25,178,074	$72,289,377	$17,868,122

8. BONDS PAYABLE

Long-term debt in the form of bonds payable of the System as of June 30, 2002, consists of the following:

Higher Education Bonds, Series 1992A, issued $3,010,000 to finance construction of a parking deck on the Alexandria campus of Northern Virginia Community College with average coupon interest of 5.40 percent payable semiannually. The final installment of the outstanding balance of $145,000 is due June 1, 2003.

Higher Education Bonds, Series 1994 (9c), issued $1,685,000 to finance construction of a parking lot on the Portsmouth campus of Tidewater Community College. The balance is payable in annual installments from $210,000 to $225,000 with an average coupon rate of 5.85 percent payable semiannually. The final installment of $225,000 is due June 1, 2004. The outstanding balance at June 30, 2002 is $435,000.

Higher Education Refunding Bonds, Series 1999, issued $1,868,800 to advance refund a portion of the Higher Education Bonds, Series 1992A noted above. The balance is payable in annual installments ranging from approximately $10,000 to $240,000 with an average coupon rate of 4.32 percent payable semiannually. The final installment of $239,167 is due June 1, 2012. The outstanding balance at June 30, 2002 is $1,813,188.

Aggregate annual maturities of bonds payable for fiscal years after 2002:

Year Ending June 30	Principal	Interest	Total
2003	$ 366,710	$115,290	$ 482,000
2004	391,660	94,258	485,918
2005	175,138	73,259	248,397
2006	178,778	65,377	244,155
2007	185,934	58,047	243,981
2008-2012	1,094,968	152,308	1,247,276
Total debt service Requirements	$2,393,188	$558,539	$ 2,951,727

9. NOTES PAYABLE

Notes payable represents an agreement with the Virginia Public Building Authority (VPBA) to finance 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 coupon rate of 3.83 percent payable semiannually. The final installment of $45,000 is due September 1, 2008. The outstanding balance at June 30, 2002 is $290,000.

Notes payable represents an agreement with the Virginia Public Building Authority (VPBA) to finance the 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 4.61 percent payable annually. The final installment of $555,000 is due September 1, 2021. The outstanding balance at June 30, 2002 is $7,285,000.

Other notes payable of $1,002,390 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
2003	$ 1,037,390	$ 10,473	$ 1,047,863
2004	305,000	328,503	633,503
2005	310,000	319,082	629,082
2006	320,000	309,472	629,472
2007	335,000	298,735	633,735
2008-2012	1,720,000	1,291,905	3,011,905
2013-2017	2,020,000	896,419	2,916,419
2018-2022	2,530,000	385,381	2,915,381
Totals	$ 8,577,390	$ 3,839,970	$ 12,417,360

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 $38,243,418 and $5,505,349, respectively. Rent expense under operating lease agreements amounted to $7,011,208 for the year. A summary of future obligations under lease agreements as of June 30, 2002, follows:

Year Ending June 30	Operating Lease Obligations	Capital Lease Obligations	Installment Purchase Obligations
2003	$ 1,662,768	$ 2,628,718	$ 2,024,540
2004	1,447,534	2,635,817	1,232,432
2005	1,364,047	2,639,973	1,097,863
2006	836,790	2,390,212	952,474
2007	675,126	2,394,272	637,272
2008-2012	5,401,715	11,945,584	63,232
2013-2017	264,000	10,660,526	-
2018-2022	-	3,694,685	-
Total obligation and gross minimum lease payment	$ 11,651,980	38,989,787	6,007,813
Less: Interest		13,410,697	472,251
Present value of minimum lease payments	$ 11,651,980	$ 25,579,090	$ 5,535,562

11. 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, 2002, the VCBA financed the ETF program with state funds, which will not require repayment. However, debt obligations are outstanding for prior fiscal years. All remaining obligations under prior lease agreements are due in the fiscal year ending June 30, 2003. The gross minimum lease payments, interest and present value of the minimum lease payments are $1,553,222, $70,433 and $1,482,789, respectively.

12. COMMITMENTS

At June 30, 2002, the VCCS had future commitments for construction contracts totaling approximately $31,084,642. The System held $2,888,659 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.

13. PENSION PLAN

Employees of the Virginia Community College System are employees of the Commonwealth of Virginia. Substantially all full-time classified salaried employees of the System participate in a defined benefit pension plan administered by the Virginia Retirement System (VRS). 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.

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. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2002. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

Most full-time faculty and certain administrative staff participate in one of five optional retirement plans. Each is a fixed-contribution plan where the retirement benefits received are based on the employer's (10.4 percent) contributions, plus interest and dividends. As with VRS, the employees' contributions are assumed by the employer. Individual contracts issued under the ORP plan provide for full and immediate vesting of the VCCS contributions. Total pension costs under this plan were $3,892,839 and $3,682,053 for years ended June 30, 2002 and 2001, respectively. Contributions to the ORP plan were calculated using the base salary amount of $37,431,141 and $35,404,355 for fiscal years 2002 and 2001. The VCCS total payroll for fiscal years 2002 and 2001 was $310,355,389 and $295,370,135 respectively.

14. POST-EMPLOYMENT BENEFITS

The Commonwealth participates in the VRS-administered statewide group life insurance program which provides post-employment life insurance benefits to eligible retired and terminated employees. The Commonwealth also provides health care credits against the monthly health 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.

15. CONTINGENCIES

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, 2002, the VCCS estimates that no material liabilities will result from such audits.

Litigation

The VCCS has been named as a defendant in a lawsuit involving a contract dispute with a construction vendor. It is not possible to estimate the loss or range of loss at this time.

16. OPERATING EXPENSES BY NATURAL AND FUNCTIONAL CLASSIFICATIONS

VCCS operating expenses for the year ended June 30, 2002 were as follows:

	Natural Classification					
Functional Classification	Salaries and benefits	Utilities	Scholarships	Depreciation	Supplies, services and other	Total
Instruction	$220,883,717	$ -	$ 1,060,950	$10,909,386	$22,231,678	$255,085,731
Public Service	2,492,167	-	230	250,173	1,730,657	4,473,227
Academic Support	42,098,525	22,160	131,911	3,158,646	7,717,691	53,128,933
Student Services	35,379,701	-	103,000	95,179	2,872,355	38,450,235
Instructional Support	65,044,423	17,338	40,903	5,331,112	19,879,014	90,312,790
Operation and Maintenance of Plant	12,978,488	7,326,544	3,999	865,987	25,118,344	46,293,362
Scholarships and Fellowships	-	-	56,670,025	-	-	56,670,025
Auxiliary Enterprises	1,285,841	75,999	383,106	78,626	7,836,736	9,660,308
Total Expenses	$380,162,862	$ 7,442,041	$ 58,394,124	$20,689,109	$87,386,475	$554,074,611

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.

COMMUNITY COLLEGE PRESIDENTS

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