

**VIRGINIA COMMUNITY COLLEGE SYSTEM
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 1999**

***AUDITOR OF
PUBLIC
ACCOUNTS***



COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Virginia Community College System for the year ended June 30, 1999, 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;
- no instances of noncompliance required to be reported; and
- adequate corrective action of prior audit findings, except for the prior year finding titled "Enhance Fixed Asset Procedures."

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July 11, 2000

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.,
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the accounts and records of the **Virginia Community College System** as of and for the year ended June 30, 1999, 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 balance sheet of the Virginia Community College System as of June 30, 1999, and the related statements of changes in fund balances and current fund revenues, expenditures, and other changes for the year then ended. 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 generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards. 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 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 Virginia Community College System as of June 30, 1999, and the changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended, in conformity with generally accepted accounting principles.

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, 1999, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of 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 no instances of noncompliance that are required to be reported under Government Auditing Standards.

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 are described in the section entitled "Internal Control 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 over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be a material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Status of Prior Year Findings

J. Sargeant Reynolds and Tidewater Community Colleges have not taken adequate corrective action with respect to the previously reported finding "Enhance Fixed Asset Procedures." Accordingly, we included this finding in the section entitled, "Internal Control Findings and Recommendations." The System has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this 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, State Board of Community Colleges, audit committee and management, and is not intended to be and should not be used by anyone other than those 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 August 14, 2000.

AUDITOR OF PUBLIC ACCOUNTS

JEG:aom
aom:218

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Virginia Community College Utility

The Utility is an organizational entity within the Community College System that serves and administers the information technology needs for the 23 Community Colleges and System Office. While the individual Colleges maintain their own internal networks and support their users, the Utility administers shared data, network, and video services and assists college information technology personnel with use and integration of these services into their local network. Our review of Utility operations disclosed the following weaknesses:

Modify RACF Configuration

We found weaknesses in the RACF settings for the Utility's mainframe computer that could increase the risk of unauthorized access to data sets and general resources. During the year, the Utility converted two of the three logical partitions of its mainframe from ACF2 to RACF security software. The third partition is a test platform that the Utility plans to convert to RACF in the coming year. ACF2 and RACF are security packages that use defined rule sets to control access to computer programs and data. Our specific findings follow:

1. The Utility has the "Protect All" feature in RACF turned off. This feature mandates that users can access or create a data set only if protected by a RACF profile and is essential because the Utility has the "Automatic Data Set Protection" feature turned off as recommended by the vendor.
2. The Utility has not implemented the "Auto Inactivation of Inactive Users" feature that inactivates users after a specified period of inactivity. The Utility should implement this feature to strengthen control over its user base.
3. The Utility has not implemented the password history feature that enables the security system to keep generations of passwords to prevent users from consistently using the same passwords within a specified number of cycles. Using the password history feature can strengthen password controls.
4. The generic user identification (userid) IBMUSER includes the "SPECIAL" attribute that allows the user full control of all profiles. In addition, we found sixteen other userids that have the "SPECIAL" attribute permission. The Utility should review the permissions for these userids to determine if the users require this permission to perform their job duties and remove any unnecessary access.
5. The SYS1.racf data set profile has a "read" uniform access authority given to users assigned to this profile. The Utility should modify this profile to a "none" uniform access authority to prevent users from viewing confidential information and grant permissions explicitly for this profile. Also, the SYS1.racf data set that contains all user profiles and its backup reside on the same disk pack. For data recovery purposes, these data sets should reside on different disk packs.

6. Userid NVOPER has “Alter” access to the SYS1.racf data set from one logical partition and “Control” access to the data set from the other partition. The “Alter” access allows full control of the data set to authorize other users or groups to access the data set. The Utility should review the permissions of this userid and downgrade the Alter access.

Modify Router Configuration

The main Cisco router in the Utility data center, through which passes the Colleges’ accounting system information, did not use Cisco’s more secure “Enable Secret” encryption method for its privileged password. After we brought this matter to their attention, the Utility re-configured the router to use the “Enable Secret” encryption method to minimize the risk of unauthorized changes to the router’s configuration.

Individual College Issues

Enforce Time and Effort Reporting Procedures

Applicable To: Tidewater Community College

Tidewater did not have time and effort reports for 25 of 26 full time federal grant employees. Time and effort reports certify the amount of the employee’s time spent working on a federal grant. OMB Circular A-21, Cost Principles for Educational Institutions require complete and available time and effort reports for all employees rendering services under federal grants.

The College should enforce its time and effort reporting procedures to provide compliance with federal regulations. Failure to provide proper time and effort reports may result in questioned federal grant costs. After we brought the matter to their attention, the College subsequently obtained the effort reports for the 25 employees.

Exercise Sound Contract Management

Applicable To: Tidewater Community College

Tidewater operated vending services with expired vendor contracts. The College’s failure to properly execute new valid contracts could result in lost revenues, disagreements with vendors or actions from other potential vendors. The Portsmouth Campus has two vending contracts that expired in August 1999 and February 2000. The Chesapeake and Norfolk Campuses have one vending contract each, which expired in February 2000. The Agency Procurement and Surplus Property Manual states that written notice of the Commonwealth’s intention to renew shall be given approximately 90 days before the expiration date of each contract period.

The College should follow procurement regulations to ensure it executes binding contracts as required.

Enhance Fixed Asset Procedures

Applicable To: Blue Ridge Community College
J. Sargeant Reynolds Community College
New River Community College

Southside Virginia Community College
Southwest Virginia Community College
Tidewater Community College
Virginia Western Community College

These colleges do not properly record all fixed asset changes in the Fixed Asset Inventory System. We found the following:

- Blue Ridge did not affix an identification tag to one asset, reported five assets in incorrect locations, and incorrectly tagged two assets.
- J. Sargeant Reynolds incorrectly affixed identification tags to three assets, reported eleven assets in incorrect locations, and listed one asset on the fixed asset system that the College does not own.
- New River could not locate four assets and failed to record the disposal of one asset.
- Southside Virginia incorrectly affixed identification tags to three assets, reported six assets in incorrect locations, could not locate three assets, and recorded two assets on the fixed asset system incorrectly.
- Southwest Virginia did not affix an identification tag to six assets, reported four assets in incorrect locations, could not locate seven assets, and recorded four assets on the fixed asset system incorrectly.
- Tidewater did not affix an identification tag to five assets, reported two assets in incorrect locations, incorrectly recorded three assets in the fixed asset system, and has not performed a physical inventory of equipment since October 1997.
- Virginia Western did not affix an identification tag to five assets, could not locate one asset, failed to record three assets in the fixed asset system, incorrectly recorded five assets in the system, and recorded six assets in the system after excessive lag time of from two to eight months.

The colleges' Fixed Asset Coordinators should review fixed asset procedures for the proper recording of asset records. College management should ensure that the Coordinators receive adequate training to help them record all fixed asset changes accurately and promptly.

FINANCIAL STATEMENTS

VIRGINIA COMMUNITY COLLEGE SYSTEM
BALANCE SHEET
As of June 30, 1999

A S S E T S	Current Funds		Loan Funds	Endowment and Similar Funds
	Unrestricted	Restricted		
Cash and cash equivalents (Note 3)	\$ 24,137,006	\$ 3,803,596	\$ 531,043	\$ 998
Investments (Note 3)	17,254,016	8,567	-	377,638
Appropriations available	-	-	-	-
Accounts receivable (Note 4)	3,754,222	348,671	-	-
Notes receivable (Note 4)	458	-	3,814,525	-
Interest receivable	17,274	-	73	-
Loans receivable	9,737	-	-	-
Prepaid expenses	220,487	140	-	-
Due from other funds	865,028	442	332	-
Due from grantors	-	182,557	-	-
Inventories	1,432,729	-	-	-
Land	-	-	-	-
Site improvements	-	-	-	-
Buildings	-	-	-	-
Equipment and library books	-	-	-	-
Construction in progress	-	-	-	-
Total assets	\$ 47,690,957	\$ 4,343,973	\$ 4,345,973	\$ 378,636
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 4,512,323	\$ 297,250	-	\$ -
Retainage payable (Note 5)	-	-	-	-
Accrued expenses	10,737,857	718,242	-	-
Accrued compensated absences	20,755,428	541,103	-	-
Due to Commonwealth of Virginia:				
Petty cash advance	170,890	-	-	-
Federal reimbursable grants advance	-	308,000	-	-
Deferred revenue	11,417,102	-	-	-
Due to other funds	-	864,875	-	927
Deposits held in custody for others	78,679	381	145	-
Notes payable (Note 6)	-	-	-	-
Bonds payable (Note 7)	-	-	-	-
Capital lease obligations (Note 8)	-	-	-	-
Installment purchase obligations (Note 8)	-	-	-	-
Equipment trust fund obligations (Note 9)	-	-	-	-
Total liabilities	47,672,279	2,729,851	145	927
Fund balances:				
Unrestricted	18,678	-	-	-
Restricted	-	1,614,122	-	-
Loan funds - College	-	-	1,164,409	-
Loan funds - Federal	-	-	3,181,419	-
True endowment funds	-	-	-	14,000
Quasi-endowment funds	-	-	-	363,709
Net investment in plant	-	-	-	-
Total fund balances	18,678	1,614,122	4,345,828	377,709
Total liabilities and fund balances	\$ 47,690,957	\$ 4,343,973	\$ 4,345,973	\$ 378,636

The accompanying notes to financial statements are an integral part of this statement.

Unexpended	Plant Funds		Agency Funds	Total (Memorandum Only)
	Renewals and Replacements	Investment in Plant		
\$ 4,995,980	\$ 166,276	\$ -	\$ 1,028,936	\$ 34,663,835
10,065,504	-	-	2,757,003	30,462,728
43,352,953	4,957,966	-	-	48,310,919
847,876	13,933	-	1,378	4,966,080
-	-	-	-	3,814,983
21,746	2,744	-	-	41,837
-	-	-	-	9,737
-	-	-	-	220,627
-	-	-	-	865,802
-	-	-	-	182,557
-	-	-	-	1,432,729
-	-	22,102,816	-	22,102,816
-	-	45,071,560	-	45,071,560
-	-	227,458,968	-	227,458,968
-	-	124,381,361	-	124,381,361
-	-	103,185,390	-	103,185,390
<u>\$ 59,284,059</u>	<u>\$ 5,140,919</u>	<u>\$ 522,200,095</u>	<u>\$ 3,787,317</u>	<u>\$ 647,171,929</u>

\$ 1,397,691	\$ 179,478	\$ -	\$ 66,524	6,453,266
1,334,496	435,037	-	-	1,769,533
-	-	-	-	11,456,099
-	-	-	-	21,296,531
-	-	-	-	170,890
-	-	-	-	308,000
-	-	-	-	11,417,102
-	-	-	-	865,802
-	24,364	-	3,720,793	3,824,362
351,403	-	43,597	-	395,000
-	-	3,383,928	-	3,383,928
-	-	15,122,409	-	15,122,409
-	-	7,015,897	-	7,015,897
-	-	14,063,598	-	14,063,598
<u>3,083,590</u>	<u>638,879</u>	<u>39,629,429</u>	<u>3,787,317</u>	<u>97,542,417</u>

12,083,124	-	-	-	12,101,802
44,117,345	4,502,040	-	-	50,233,507
-	-	-	-	1,164,409
-	-	-	-	3,181,419
-	-	-	-	14,000
-	-	-	-	363,709
-	-	482,570,666	-	482,570,666
<u>56,200,469</u>	<u>4,502,040</u>	<u>482,570,666</u>	<u>-</u>	<u>549,629,512</u>
<u>\$ 59,284,059</u>	<u>\$ 5,140,919</u>	<u>\$ 522,200,095</u>	<u>\$ 3,787,317</u>	<u>\$ 647,171,929</u>

VIRGINIA COMMUNITY COLLEGE SYSTEM
STATEMENT OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 1999

	Current Funds		Loan
	Unrestricted	Restricted	Funds
Revenues and other additions:			
Unrestricted current funds revenues	\$ 395,014,196	\$ -	\$ -
State appropriations - Restricted	-	10,793,104	-
Local appropriations - Restricted	-	45,846	-
Federal grants and contracts - Restricted	-	73,103,893	-
State grants and contracts - Restricted	-	4,500,200	-
Local grants and contracts - Restricted	-	278,572	-
Private gifts, grants and contracts - Restricted	-	4,314,180	1,500
U.S. Government advances	-	-	258,667
Investment income	-	4,363	5,699
Endowment income	-	1,598	110
Interest on loans receivable	-	-	77,158
Expended for plant facilities (including \$6,761,057 charged to current funds)	-	-	-
Recovery of write-offs	-	-	35,246
Retirement of indebtedness (including \$4,590,883 charged to current funds)	-	-	-
Other sources	-	10,826	27,548
Total revenues and other additions	395,014,196	93,052,582	405,928
Expenditures and other deductions:			
Educational and general expenditures	378,050,828	90,784,969	-
Auxiliary enterprise expenditures	8,378,391	-	-
Indirect cost recovered	-	1,054,226	-
Refunded to grantors	-	253,835	50,000
Loan cancellations and write-offs	-	-	123,662
Administrative and collection costs	-	-	27,945
Expended for plant facilities (includes noncapitalized expenditures of \$ 6,753,510)	-	-	-
Retirement of indebtedness	-	-	-
Interest on indebtedness	-	-	-
Liquidation of endowment	-	-	-
Disposal of plant facilities	-	-	-
Total expenditures and other deductions	386,429,219	92,093,030	201,607
Transfers among funds - Additions/(Deductions):			
Mandatory:			
(To)/From other funds	(86,223)	-	86,223
Nonmandatory:			
(To)/From other funds	(2,541,585)	1,009	34,911
Total transfers among funds	(2,627,808)	1,009	121,134
Net increase (decrease) for the year	5,957,169	960,561	325,455
Fund balances (deficit) at July 1, 1998	(5,938,491)	653,561	4,020,373
Fund balances at June 30, 1999	\$ 18,678	\$ 1,614,122	\$ 4,345,828

The accompanying notes to financial statements are an integral part of this statement.

Endowment and Similar Funds	Plant Funds			
	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
\$ -	\$ -	\$ -	\$ -	\$ -
-	52,388,799	8,118,701	5,203,510	-
-	3,218,882	26,508	-	-
-	-	-	-	-
-	-	-	-	-
-	730,706	-	-	-
801	414,217	-	-	211,094
-	-	-	-	-
6,386	931,197	6,419	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	30,805,888
-	-	-	-	-
-	-	-	-	9,361,784
-	61,022	42,641	-	-
7,187	57,744,823	8,194,269	5,203,510	40,378,766
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	24,160,958	6,637,383	-	-
-	-	-	4,770,901	-
-	-	-	920,329	-
5,000	-	-	-	-
-	-	-	-	8,335,248
5,000	24,160,958	6,637,383	5,691,230	8,335,248
-	-	-	-	-
(5,000)	2,017,945	5,000	487,720	-
(5,000)	2,017,945	5,000	487,720	-
(2,813)	35,601,810	1,561,886	-	32,043,518
380,522	20,598,659	2,940,154	-	450,527,148
\$ 377,709	\$ 56,200,469	\$ 4,502,040	\$ -	\$ 482,570,666

VIRGINIA COMMUNITY COLLEGE SYSTEM
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES
For the Year Ended June 30, 1999

	Unrestricted	Restricted	Total
Revenues:			
Student tuition and fees	\$ 135,843,879	\$ -	\$ 135,843,879
State appropriations (Note 10)	237,694,798	10,791,472	248,486,270
Local appropriations	1,488,768	56,958	1,545,726
Federal grants and contracts	1,021,888	71,916,332	72,938,220
State grants and contracts	32,202	3,723,079	3,755,281
Local grants and contracts	-	228,306	228,306
Private gifts, grants, and contracts	57,713	4,065,201	4,122,914
Endowment income	490	3,621	4,111
Sales and services of educational departments	735,422	-	735,422
Sales and services of auxiliary enterprises	12,245,441	-	12,245,441
Other sources:			
Commissions	3,358,748	-	3,358,748
Investment income	682,431	-	682,431
Rents and leases	76,404	-	76,404
Sale of surplus property	37,877	-	37,877
Insurance recoveries	113,618	-	113,618
Miscellaneous	1,624,517	-	1,624,517
Total current revenues	395,014,196	90,784,969	485,799,165
Expenditures and mandatory transfers:			
Educational and general:			
Instructional	188,677,186	22,533,047	211,210,233
Public service	2,157,378	240,230	2,397,608
Academic support	42,877,713	29,434	42,907,147
Student services	31,180,607	2,750,462	33,931,069
Institutional support	80,900,762	1,160,291	82,061,053
Operation and maintenance of plant	30,644,648	-	30,644,648
Scholarships and fellowships	1,612,534	64,071,505	65,684,039
Educational and general expenditures	378,050,828	90,784,969	468,835,797
Mandatory transfers for:			
Loan fund matching grant	86,223	-	86,223
Total educational and general	378,137,051	90,784,969	468,922,020
Auxiliary enterprises:			
Expenditures	8,378,391	-	8,378,391
Total expenditures and mandatory transfers	386,515,442	90,784,969	477,300,411
Other transfers and additions/(deductions):			
Excess of restricted receipts over transfers to revenue	-	1,213,387	1,213,387
Refunded to grantors	-	(253,835)	(253,835)
Nonmandatory transfers:			
(To)/from current funds	(1,009)	1,009	-
(To)/from loan funds	(29,911)	-	(29,911)
(To)/from plant funds	(2,510,665)	-	(2,510,665)
Net increase in fund balances	\$ 5,957,169	\$ 960,561	\$ 6,917,730

The accompanying notes to 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, 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The accompanying financial statements include all fund groups of the individual Community Colleges and the System Office under the control of the State Board for Community Colleges. A list of entities included in this audit is found in the schedule entitled, "Community Colleges Audited."

The Virginia Community College System 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 23 community colleges located on 39 campuses throughout the Commonwealth. The System was founded for the purpose of broadening the base of higher education in Virginia and providing a much wider variety of post-high school education and technical training opportunities than previously available. The System is governed by the State Board for Community Colleges, which follows higher education policy guidelines established by the State Council of Higher Education for Virginia. Operating and administrative responsibilities rest with the System Office in Richmond.

Section 2100 of the GASB, Codification of Governmental Accounting and Financial Reporting Standards, describes the criteria for determining which organizations, functions and activities should be part of the Commonwealth for financial reporting purposes. The basic criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Commonwealth to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Commonwealth.

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

The accompanying financial statements include the accounts of all organizational units of the Virginia Community College System. Each individual college and the System Office have educational foundations that are defined as related parties. The assets of related parties, which are separately incorporated and managed by their own boards, are not included in these statements. Related parties are described in Note 2.

B. Fund Accounting

To ensure the observance of limitations and restrictions placed on the use of resources, the accounts are maintained in accordance with the principles of “fund accounting.” Resources are classified for accounting and reporting purposes into funds that may be used for activities or objectives specified. Separate accounts are maintained for each fund, however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the State Board. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds, and are in contrast with unrestricted funds over which the governing board retains full control and use in achieving any of its institutional purposes, subject only to prescribed policies governing the use of state appropriations.

Unrestricted revenue is accounted for in the Unrestricted Current Fund. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Restricted Current Funds are reported as revenues and expenditures when expended for current operating purposes.

A summary of fund group definitions is as follows:

1. Current Funds - Current funds balances are separated into those which are restricted by donors and those which are unrestricted. Restricted funds may only be expended for the purposes indicated by the donor or grantor whereas unrestricted funds are available for current operations at the discretion of the System.
2. Loan Funds - Loan funds represent funds, which are limited by the terms of their donors or by action of the State Board for the purpose of making loans to students.
3. Endowment and Similar Funds - Endowment and similar funds record the usage of income from moneys subject to restrictions of gift instruments requiring that the principle be invested and only the income be expended. While quasi-endowment funds have been established by the governing board for the same purpose as endowment funds, any portion of quasi-endowment funds may be expended.
4. Plant Funds - Plant funds are divided into four groups: unexpended, renewal and replacement, retirement of indebtedness, and net investment in plant. Unexpended plant funds represent funds which were specified by external sources or designated by the State Board for the acquisition

and construction of physical properties. Renewal and replacement funds represent funds for the renovation and replacement of physical properties. The retirement of indebtedness fund includes resources held for the retirement of both principle and interest on debt. Investment in plant represents the capitalized value of physical property owned by the System, less associated long-term debt.

5. Agency Funds - Agency funds reflect funds held in trust by the System as custodian.

C. Basis of Accounting

The financial statements of the System have been prepared in accordance with generally accepted accounting principles for colleges and universities. The System utilizes the accrual basis of accounting in accordance with the American Institute of Certified Public Accountant's audit guide, Audits of Colleges and Universities. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred through the receipt of goods or services. The Statement of Current Funds Revenues, Expenditures and Other Changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

D. Investments

Interest-bearing temporary investments and investments are stated at fair market value in accordance with GASB 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools.

E. Inventories

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

F. Investment in Plant

Plant assets consisting of land, buildings, improvements, equipment, and construction in progress are stated at appraised historical cost or actual cost where determinable. Current fund expenditures for equipment are capitalized when the unit acquisition cost is \$5,000 or greater and the estimated useful life is two years or more. Library books are valued at average cost per volume (\$31 per book and \$58 per periodical). The accompanying financial statements include no provision for depreciation of plant assets.

G. Deferred Revenue

Deferred revenue consists primarily of student tuition collected for the summer academic term but not earned as of June 30, 1999.

H. Accrued Compensated Absences

Accrued compensated absences reflected in the accompanying financial statements represents the amounts of vacation, sick, and compensatory leave earned by employees of the System but not taken at June 30, 1999, as well as related fringe benefits. The amount reflects all earned vacation, sick, and compensatory leave payable under the Commonwealth of Virginia's leave pay-out policy and the System's faculty and administrator's leave pay-out policy upon employment termination. An additional liability amount has been included for those employees with less than five years of service based on the probability they will eventually become vested. Also included in the liability is the System's share of the FICA taxes on leave balances for which employees will be compensated.

I. System Office Expenditures

The System Office provides a variety of functions ranging from management control to centralized support services. Because most of these activities are management in nature and cover the operation of the entire System, they have been classified as Institutional Support.

2. RELATED PARTIES

Each College and the System Office have organized educational foundations that provide exclusive benefit to the College 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 foundation's governing board.

All educational foundations are independently audited. The State Board requires submission of yearly financial statements to the System Office. The following is a condensed summary of the financial condition of the foundations at June 30, 1999, except for Danville, John Tyler, New River, and Virginia Western Community Colleges, which are as of December 31, 1998, and Blue Ridge, Eastern Shore, Patrick Henry, and Thomas Nelson Community Colleges which are as of June 30, 1998.

Assets	<u>\$59,277,727</u>
Liabilities	\$ 2,540,272
Fund Balance	<u>56,737,455</u>
Total	<u>\$59,277,727</u>
Revenue	<u>\$ 14,860,966</u>
Expenditures	<u>\$ 5,161,834</u>

Each College provides varying levels of support to the foundation in exchange for their services. Most Colleges provide use of property and equipment, office supplies, accounting services, clerical staff, and data processing support to the foundation. College employees or committees may be responsible for awarding scholarships, soliciting donations, investing funds, and managing other day-to-day functions. Some foundations reimburse the College for an agreed portion of expenses. Foundation reimbursements are recorded as an expenditure refund and unreimbursed expenditures are included in these financial statements as an expenditure of the System. Other material transactions between the System and Foundations are described below.

J. Sargeant Reynolds Community College

The Foundation and the College have agreed to deposit funds with First Virginia Bank - Colonial in order to facilitate a loan to the J. Sargeant Reynolds Community College Foundation for the purchase of the Central Administration Building and the construction of a warehouse facility.

The College had loans receivable due from the Foundation at June 30, 1999 of \$232,326. These loans were noninterest bearing and are due on demand.

In June 1990, the Foundation issued \$1,010,000 Revenue Refunding Bonds. The bonds are collateralized solely by a pledge of the Foundation's 20-year capital lease with the College and the rents and profits derived therefrom, and by a first lien deed of trust and security interest in such facility. The College is currently in the fourteenth year of the lease agreement with the Foundation for the Rebcor Building, the land on which it is located and the adjacent warehouse. The ownership of this property will transfer to the College at the end of the lease.

3. CASH AND INVESTMENTS

A. Cash and Cash Equivalents

All state funds of the System are held by the Treasurer of Virginia pursuant to Section 2.1-177, et seq., Code of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Cash and cash equivalents represent deposits and short-term investments with maturities of less than three months. Each fund's equity in pooled state funds is reported as "Cash and Cash Equivalents" on the balance sheet and is not categorized as to credit risk.

Deposits with banks and savings institutions are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act. Under this Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50 percent of excess deposits to a collateral pool in the name of the State Treasury board. Savings institutions are required to collateralize 100 percent of deposits in excess of FSLIC limits.

B. Investments

Certain deposits and investments are held by the System or are represented by specific identifiable investment securities held by the Treasurer of Virginia for the System. Such investments are reported separately from cash and cash equivalents. Investments represent

securities with maturities of less than one year and for which management intends to hold the securities to maturity.

Statutes authorize the investment of funds held by the System in obligations of the Commonwealth, federal government, other states or political subdivisions thereof, Virginia political subdivisions, the International Bank for Reconstruction and Development, the Asian Development Bank, and the African Development Bank. In addition, the System may invest in prime quality commercial paper rated prime 1 by Moody's Investment Service or A-1 by Standard and Poor's Incorporated, overnight term or open repurchase agreements and money market funds comprised of investments which are otherwise legal investments of the System.

The System invested bond proceeds in the State Non-Arbitrage Program (SNAP) held by the Treasurer of Virginia. These proceeds are invested in money market funds and shown on the following page as non-categorized in accordance with GASB 3. At June 30, 1999, the State Treasurer held \$361,650 in the SNAP program for the System.

The System's investments, including short-term investments, are categorized below to give an indication of the level of credit risk assumed by the System at June 30, 1999. Credit risk is the risk that the System may not be able to obtain possession of its investment instrument or collateral at maturity. Risk Category 1 includes investments which are insured or registered or for which the securities are held by the System or its safekeeping agent in the System's name. Risk Category 2 includes uninsured or unregistered investments for which the securities are held by the broker's or dealer's trust department or safekeeping agent in the System's name. Risk Category 3 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent but not in the System's name. The composition and categorization of investments held by the System at June 30, 1999, is as follows:

Categorization of investments for assets held at June 30, 1999

<u>Temporary Investments</u>	<u>Fair Value</u>
Category 1:	
Repurchase agreement	\$ 878,306
Category 2:	
Repurchase agreement	2,591,000
Category 3:	
Repurchase agreement	2,769,757
Non-categorized:	
Mutual Funds	<u>1</u>
Total temporary investments	<u>\$6,239,064</u>

Investments:

Category 1:

U. S. Government Securities	\$ 2,546,272
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Non-categorized:

Mutual Funds	428,020
State Non-arbitrage Program	361,650
Local Government Investment Pool	<u>27,126,786</u>

Total investments	<u>\$30,462,728</u>
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	<u>Temporary Investments</u>	<u>Investments</u>
Current Funds:		
Unrestricted	\$4,628,564	\$17,254,016
Restricted	38	8,567
Loan Funds	39,718	-
Endowment Funds	-	377,638
Plant Funds:		
Unexpended	1,498,621	10,065,504
Agency Funds	<u>72,123</u>	<u>2,757,003</u>
Total	<u>\$6,239,064</u>	<u>\$30,462,728</u>

4. ALLOWANCE FOR DOUBTFUL ACCOUNTS

The following receivables included an allowance for doubtful accounts at June 30, 1999:

Unrestricted Current Funds:	
Accounts receivable - Gross	\$ 3,858,332
Less: Allowance for doubtful accounts	<u>(104,110)</u>
Accounts receivable - Net	<u>\$ 3,754,222</u>
Loan Funds:	
Notes receivable - Gross	\$ 4,398,520
Less: Allowance for doubtful accounts	<u>(583,995)</u>
Notes receivable - Net	<u>\$ 3,814,525</u>

5. COMMITMENTS

At June 30, 1999, the System had future commitments for construction contracts totaling approximately \$20,491,409. The System held \$1,769,533 as a retainage payable on the construction contracts for work performed. The retainage payable will be remitted to the various contractors upon satisfactory completion of the construction projects.

6. 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 10 annual installments ranging from \$35,000 to \$45,000 with an average interest rate of 3.83 percent payable semiannually. The final installment of \$45,000 is due September 1, 2008. The outstanding balance at June 30, 1999 is \$395,000.

7. BONDS PAYABLE

Bonds payable of the System as of June 30, 1999, consists of the following:

	<u>Balance</u>
Higher Education Bonds, Series 1992A, issued \$3,010,000 to finance Parking Deck Construction for the Alexandria Campus of Northern Virginia Community College, the balance payable in annual installments from \$125,000 to \$145,000 with average coupon interest of 5.33 percent payable semiannually, the final installment of \$145,000 due June 1, 2003	\$ 540,000
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 payable in annual installments from \$170,000 to \$225,000 with an average coupon rate of 6 percent payable semiannually, the final installment of \$225,000 due June 1, 2004	1,000,000
Higher Education Refunding Bonds, Series 1998, issued \$1,868,800 to refund a portion of the Higher Education Bonds, Series 1992A noted above. The balance is payable in annual installments from \$10,000 to \$240,000 with an average coupon rate of 4 percent payable semiannually, the final installment of \$239,167 due June 1, 2012.	<u>1,843,928</u>
Total bonds payable	<u>\$3,383,928</u>

Changes in Bonds Payable

During the year ended June 30, 1999 the following changes occurred in bonds payable:

	<u>Balance</u> <u>July 1, 1998</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 1999</u>
Bonds payable	<u>\$ 3,679,174</u>	<u>\$ -</u>	<u>\$ 295,246</u>	<u>\$ 3,383,928</u>

Future Obligations

Annual debt service requirements to maturity for long-term debt is as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$ 310,246	\$ 171,188	\$ 481,434
2001	330,247	153,929	484,176
2002	350,247	135,250	485,497
2003	366,710	115,290	482,000
2004	391,660	94,258	485,918
Later years	<u>1,634,818</u>	<u>348,992</u>	<u>1,983,810</u>
Total debt service requirements	<u>\$3,383,928</u>	<u>\$1,018,907</u>	<u>\$4,402,835</u>

8. LEASE COMMITMENTS AND INSTALLMENT PURCHASES

The System is committed under various capital lease, operating lease, and installment purchase agreements. Book value of assets capitalized under capital lease and installment purchase agreements total \$18,830,333 and \$10,133,178, respectively. Rent expense under operating lease agreements amounted to \$4,788,939 for the year. A summary of future obligations under lease agreements as of June 30, 1999, follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Operating Lease</u> <u>Obligations</u>	<u>Capital Lease</u> <u>Obligations</u>	<u>Installment</u> <u>Purchase</u> <u>Obligations</u>
2000	\$ 1,418,140	\$ 1,626,798	\$ 2,552,170
2001	705,259	1,609,779	2,285,214
2002	519,333	1,613,746	1,575,737
2003	381,368	1,569,180	749,469
2004	255,506	1,382,584	718,149
Later Years	<u>329,274</u>	<u>15,386,873</u>	<u>-</u>
Total obligation and gross minimum lease payment	<u>\$3,608,880</u>	23,188,960	7,880,739

Less: Amount of interest	<u>8,066,551</u>	<u>864,842</u>
Present value of minimum Lease payments	<u>\$15,122,409</u>	<u>\$7,015,897</u>

9. EQUIPMENT TRUST FUND

The System receives an allocation made by the Virginia College Building Authority from the Higher Education Equipment Trust Fund for the purpose of acquiring equipment under leasing agreements with the Authority. The System Office is the lessee of certain equipment under capital leases expiring in various years through 2003. Fixed assets acquired at June 30, 1999, and the associated liability are recorded in the Investment in Plant Fund. A summary of future obligations under lease agreements follows:

<u>Year Ending June 30,</u>	<u>Equipment Trust Fund Obligation</u>
2000	\$ 4,749,062
2001	4,965,491
2002	4,142,355
2003	<u>1,553,225</u>
Gross minimum lease payment	15,410,133
Less: Amount of interest	<u>1,346,535</u>
Present value of minimum lease payment	<u>\$ 14,063,598</u>

10. STATE APPROPRIATIONS - UNRESTRICTED FUNDS

The System receives state appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that such unexpended appropriations shall revert, except as specifically provided by the General Assembly, at the end of a 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.

The following is a summary of state appropriations received by the System during the year ended June 30, 1999 including all supplemental appropriations.

Original legislative appropriation	\$ 242,393,299
Supplemental appropriations:	
Classified salary adjustment	1,261,298
Management standards carry forward	8,508,034
Health care surcharge	1,102,928
HEETF lease payment supplement	1,157,440

Less:	
VIVA library grant	(109,339)
Correction faculty salary costs	(339,907)
Faculty retirement savings	(160,876)
Group life holiday savings	(1,118,547)
SEOG transfer adjustment	(3,391)
Retiree health credit reversion	(134,336)
Philpott manufacturing	(500,000)
Legislative amendments	(1,149,985)
IHRIS payment	(134,666)
General Fund reversion	<u>(13,077,154)</u>
Adjusted appropriations	<u>\$ 237,694,798</u>

11. RETIREMENT PLANS AND OTHER POST EMPLOYMENT BENEFITS

Employees of the Virginia Community College System are employees of the Commonwealth. Substantially all full-time classified salaried employees of the System participate in a defined benefit pension plan administered by the Virginia Retirement System (VRS). The VRS also administers life insurance and health related plans for retired employees. Information relating to these plans is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). The Commonwealth, not the System, has overall responsibility for contributions to these plans.

Most full-time faculty and certain administrative staff participate in one of five optional retirement plans. Each is a fixed contribution program where the retirement benefits received are based on the employer's contributions plus interest and dividends. As with VRS, the employees' contributions are assumed by the employer. Total pension costs under these programs were \$3,037,842 for the year ended June 30, 1999. Contributions to these programs were calculated using base salaries of \$29,210,019 for the year ended June 30, 1999. The contribution percentage amounted to 10.4 percent.

12. CONTINGENCIES - GRANTS

The System 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 System. As of June 30, 1999, the System estimates that no material liabilities will result from such audits.

13. SURETY BOND

The employees of the System were covered by a Faithful Performance Duty Bond administered by the Commonwealth of Virginia's Department of General Services, Division of Risk Management with liability limits of \$500,000 for each occurrence. Information relating to the Commonwealth's self-insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

VIRGINIA COMMUNITY COLLEGE SYSTEM

COMMUNITY COLLEGES AUDITED

For the Year Ended June 30, 1999

Blue Ridge Community College

Dabney S. Lancaster Community College

Eastern Shore Community College

J. Sargeant Reynolds Community College

New River Community College

Northern Virginia Community College

Southside Virginia Community College

Southwest Virginia Community College

Thomas Nelson Community College

Tidewater Community College

Virginia Western Community College

VIRGINIA COMMUNITY COLLEGE SYSTEM
Richmond, Virginia

STATE BOARD FOR COMMUNITY COLLEGES

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Jerry W. Kilgore
Benjamin T. King, Jr.

Bruce D. Leftwich
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Frank Nunez
Robert B. Seidensticker
J. F. Taylor, Jr.
Wilbur E. Thomas

Robert C. Wrenn

ADMINISTRATIVE OFFICER

Arnold R. Oliver, Chancellor

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. Robert H. Sandel
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Patrick Henry Community College	Dr. Max F. Wingett
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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. DiCrocce
Virginia Highlands Community College	Dr. F. David Wilkin
Virginia Western Community College	Dr. Charles L. Downs
Wytheville Community College	Dr. William F. Snyder