

VIRGINIA COMMUNITY COLLEGE SYSTEM

AUDITED FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2009

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

VCCS Financial Report 2008-2009

STATE BOARD MEMBERS

*Robert W. Shinn, Chair
Gary C. Hancock, Vice Chair*

*Shahnaz M. Ahmed
Megan C. Beyer
Hank W. Chao
Mark R. Graham
Danny Hunley
Barbara A. Johnsen
Adele Johnson*

*Constance R. Kincheloe
Chris A. Lumsden
Nathaniel Xavier Marshall
Jeffery K. Mitchell
R. Michael Mohler
Alan G. Toxopeus*

CHANCELLOR

*Glenn DuBois
Secretary, State Board*

OFFICER REPORTING

*David S. Mair
Controller*

VCCS Financial Report 2008-2009

TABLE OF CONTENTS

*M, D & A*_____1

Financial Statements:

*Statement of Net Assets*_____10

*Statement of Revenue, Expenses and Changes in Net Assets*_____11

*Statement of Cash Flows*_____12

*Notes to the Financial Statements*_____15-31

*Independent Auditor's Report*_____32-33

VIRGINIA COMMUNITY COLLEGE SYSTEM

Management's 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, 2009. This discussion has been prepared by management and should be read in conjunction with the financial statements and footnotes.

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

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

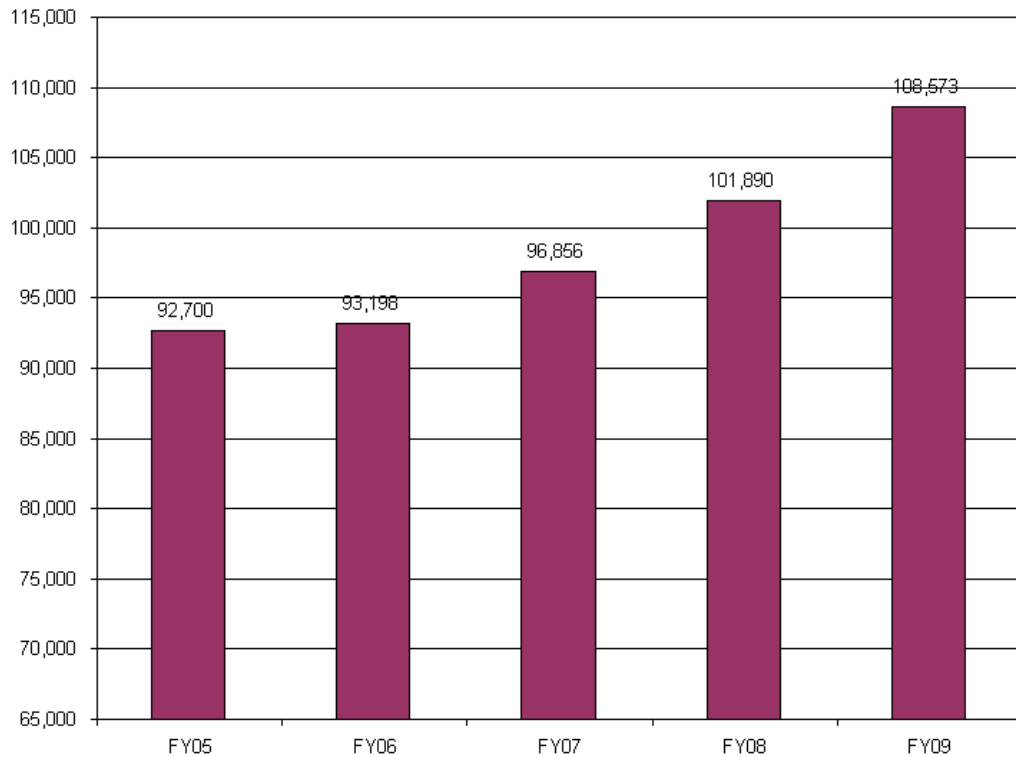
Financial Highlights

The following represents significant financial highlights for the VCCS in fiscal year 2009:

- On a biennial basis, adjustments are made to the state budget to provide full-year funding for costs such as salary and benefits. In fiscal year 2009, an additional \$20.9 million from the general fund was appropriated to provide full-year funding for costs previously funded for only part of the prior biennium.
- In November 2008, statewide budget reductions resulted in the VCCS losing \$19.8 million in state funding. This budget action was in addition to \$19.1 million that was permanently deducted from the general fund appropriation for the VCCS in October 2007.
- The State Board for Community Colleges increased tuition rates by \$5 per credit hour and the technology fee rate by \$1 per credit hour applicable to all students effective fall 2008. As a result of these increases, tuition and fee revenue increased approximately \$18.5 million in fiscal year 2009.
- From fiscal year 2008 to 2009, student full-time equivalent enrollment (FTEs) increased 6.56% from 101,889 FTEs to 108,573 FTEs resulting in an increase in tuition and fee revenue of approximately \$13.7 million in fiscal year 2009.

Below is a chart depicting full-time equivalent students attending the VCCS over the past five fiscal years. The VCCS mission is to provide comprehensive higher education and workforce training programs and services of superior quality that are financially and geographically accessible and that meet individual, business and community needs of the Commonwealth.

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 loan funds and permanent endowments (available for investment purposes only). Expendable restricted net assets are available for expenditure by the VCCS but must be spent for purposes determined by external entities. Unrestricted net assets are not subject to externally imposed restrictions and may be designated for specific purposes by management of the VCCS.

A summarized Statement of Net Assets is as follows:

(In thousands of dollars)

	As of June 30:	
	<u>2009</u>	<u>2008*</u>
Assets		
Current assets	\$ 189,804	\$168,001
Capital assets, net	840,207	728,873
Other non-current assets	48,237	72,911
Total Assets	<u>1,078,248</u>	<u>969,785</u>
Liabilities		
Current liabilities	136,536	125,707
Non-current liabilities	76,955	67,130
Total Liabilities	<u>213,491</u>	<u>192,837</u>
Net Assets		
Invested in capital assets, net of debt	798,975	681,336
Restricted-nonexpendable		
Restricted-expendable	13,429	60,342
Unrestricted	52,353	35,270
Total Net Assets	<u>\$864,757</u>	<u>\$776,948</u>

* June 30, 2008 balances have been restated (see footnote 1L).

Current assets consist of \$149.6 million in cash and investments, \$.094 million in appropriation available, \$18.8 million in accounts, notes, and interest receivable, \$3.7 million in amounts due from the Commonwealth, \$15.6 million in prepaid expenses, and \$2.1 million in inventories. Current assets increased by \$21.8 million due to increases in deferred revenue cash of \$11.2 million associated with increases in tuition and fees and enrollment, increases in securities lending cash and cash equivalents of \$5.8 million, increases in the local government investment pool of \$8.4 million, and increases in prepaid expenditures of \$6.4 million. These increases were partially offset by decreases in appropriation available in the system office of \$10.5 million associated with disbursing and supplanting general funds for capital projects in fiscal year 2009.

Net capital assets increased by \$111.3 million from fiscal year 2008 to fiscal year 2009. This increase can primarily be attributed to the capitalization of design and construction costs of numerous capital outlay projects. The project costs capitalized during 2009 include: TCC Relocate Portsmouth Campus for \$27.6 million, JTCC Midlothian Phase II for \$16.7 million, TNCC Historic Triangle Campus for \$10.5 million, SWVCC LRC for \$6.8 million, DCC Health Sciences Building for \$5.6 million, PVCC Science & Technology Building for \$4.2 million, NVCC renovate CS Building for \$3.9 million, JSRCC renovate Burnette Hall for \$3.5 million, CVCC Library for \$2.7 million, LFCC Workforce Training Center for \$2.5 million, NVCC Alexandria new construction for Phase III and renovate Phase 1 & II for \$2 million, TCC Blackwater Building for \$1.7 million, ESCC Workforce Development Center for \$1.5 million, PHCC LRC/West Hall renovation for \$1.5 million, TCC Norfolk Student Center for \$1.4 million, NVCC Phase III Loudoun for \$1.4 million, NVCC Phase III Manassas for \$1.1 million, various other JTCC projects for \$5 million, various other TCC projects for \$3.7 million, various other NVCC projects \$3.2 million, and various other BRCC projects for \$1.1 million. Lastly, capitalized costs associated with the NVCC purchase of the Woodard Property on the Woodbridge Campus was \$2.7 million.

Other non-current assets decreased by \$24.7 million in fiscal year 2009 from fiscal year 2008. The decrease can be attributed to a reduction in general fund cash of \$38.7 million caused mostly by the supplanting of general funds for capital outlay projects with VCBA funds. An additional decrease of \$4 million for amounts due from the commonwealth is the result of reduced general obligation bond fund activity at the end of fiscal year 2009. An offsetting increase in non-current

assets of \$17.2 million is cash with trustee which is primarily made up of funds at the Bank of New York Mellon set aside for the construction of the TCC Norfolk Campus Student Center.

Current liabilities consist of accounts and retainage payable of \$27.2 million, accrued payroll and leave compensation of \$46.5 million, deferred revenue of \$35.3 million, securities lending obligations of \$17.4 million, debt obligations of \$5.1 million, amounts due to the Commonwealth of \$1.54 million, and deposits of \$4.9 million. Current liabilities increased \$10.8 million in fiscal year 2009 resulting from increases in security lending obligations of \$7.5 million and increases in deferred revenue of \$6.9 million primarily associated with higher tuition and increased enrollments. These increases were partially offset by decreases in accounts and retainage payable for capital projects. These include the NVCC CS Building renovation at Annandale of \$.9 million and the NC Phase III renovations of \$1.6 million, and the TNCC Historic Triangle Campus of \$1.6 million.

Net assets increased by \$87.8 million in fiscal year 2009. Increases in investment in capital net assets occurred primarily as a result of the following capitalized costs for 2009: \$113.4 million for buildings, \$18.9 for equipment, \$6.5 million for land improvements, \$5 million for infrastructure, and \$2.9 for land. These increases in capital net assets were offset by a net increase in accumulated depreciation in fiscal year 2009 of \$22.4 million and the disposal of \$9.9 million in equipment. Increases in unrestricted net assets of \$17.1 million were primarily associated with increases in prepaid expenditures (\$6.4 million), educational and general cash from summer revenue collections not deferred (\$3.6 million), and activities associated with the accumulation of funds for the student centers at TCC (\$4.6 million). Decreases in restricted expendable net assets of \$46.9 million were primarily associated with the supplanting of general funds with Virginia College Building Authority funding of \$37.1 million and fiscal year 2009 general fund capital outlay expenditures of \$12.1 million offset by \$3.8 million increase in restricted expendable net assets for the student centers at TCC.

Statement of Revenues, Expenses and Changes in Net Assets

The purpose of the Statement of Revenues, Expenses and Changes in Net Assets is to present operating and non-operating revenues received by the institution, operating and non-operating expenses incurred and any other revenues, expenses, gains and losses. Changes in net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Assets.

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

(In thousands of dollars)		
	For the year ended June 30:	
	2009	2008*
Operating revenue	\$367,455	\$307,048
Operating expenses	908,997	846,234
Operating loss	(541,542)	(539,186)
Non-operating revenues(expenses):		
State appropriations	408,947	418,389
Local appropriations	1,834	2,016
Grants and gifts	122,388	99,063
Investment income	4,842	6,807
Interest expense	(2,279)	(2,427)
Other	(747)	(91)
Net non-operating revenue	534,985	523,757
Loss before other revenues, expenses, gains or losses	(6,557)	(15,429)
Capital appropriations-state	72,428	68,396

Capital appropriations-local	13,618	6,547
Capital gifts and grants	8,320	8,971
Increase in net assets	<u>87,809</u>	<u>68,485</u>
Net assets, beginning of year, as restated	<u>776,948</u>	<u>708,463</u>
Net assets, end of year	<u>\$864,757</u>	<u>\$776,948</u>

* June 30, 2008 balances have been restated (see footnote 1L).

Operating Revenues:

Total operating revenues increased \$60.4 million or 19.7% percent over prior year. Student tuition and fee revenues increased \$23.7 million due to the moderate rise in both in-state and out-of-state tuition and fee rates effective for the fall term 2008 and increases in enrollment. In addition, federal grant revenues increased \$35.5 million primarily due to VCCS assuming workforce investment activities from the Virginia Employment Commission.

Non-operating and Other Revenues:

Total non-operating revenue increased \$11.2 million or 2.1% over the prior year. The increase is primarily due to the increase in grants and gifts of \$23.3 million primarily associated with increases in federal Pell grant funding. This was offset by \$9.4 million for decreases in state appropriation revenue primarily attributable to general fund budget cuts in fiscal year 2009.

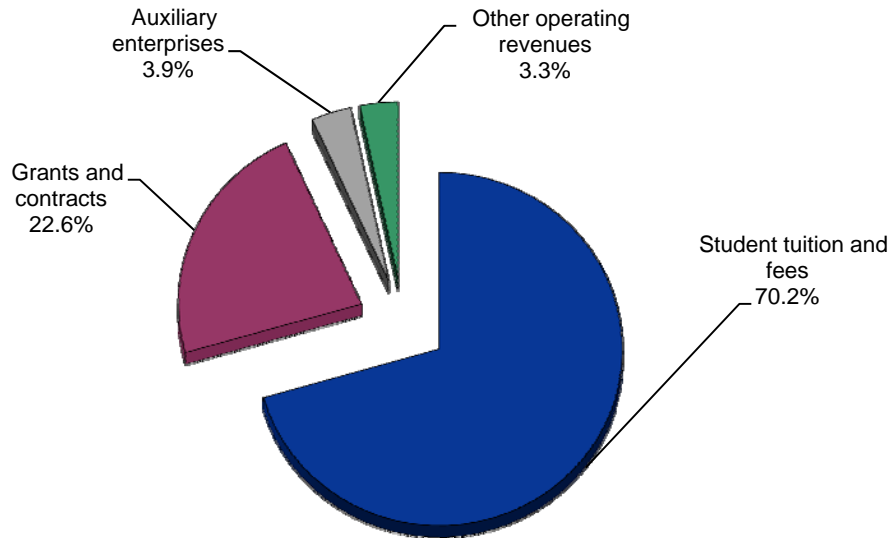
Capital appropriations totaling \$72.4 million increased \$4 million or 5.9% over the prior year. The increase in appropriation revenue for capital projects can be attributed to an increase in Virginia College Building Authority revenue in fiscal year 2009 of \$42.1 million offset by a decrease in general obligation bond revenue of \$16.6 million, a decrease in general fund revenue (due to reversions) of \$18.8 million, and a decrease of central capital planning revenue of \$2.6 million.

Operating Expenses:

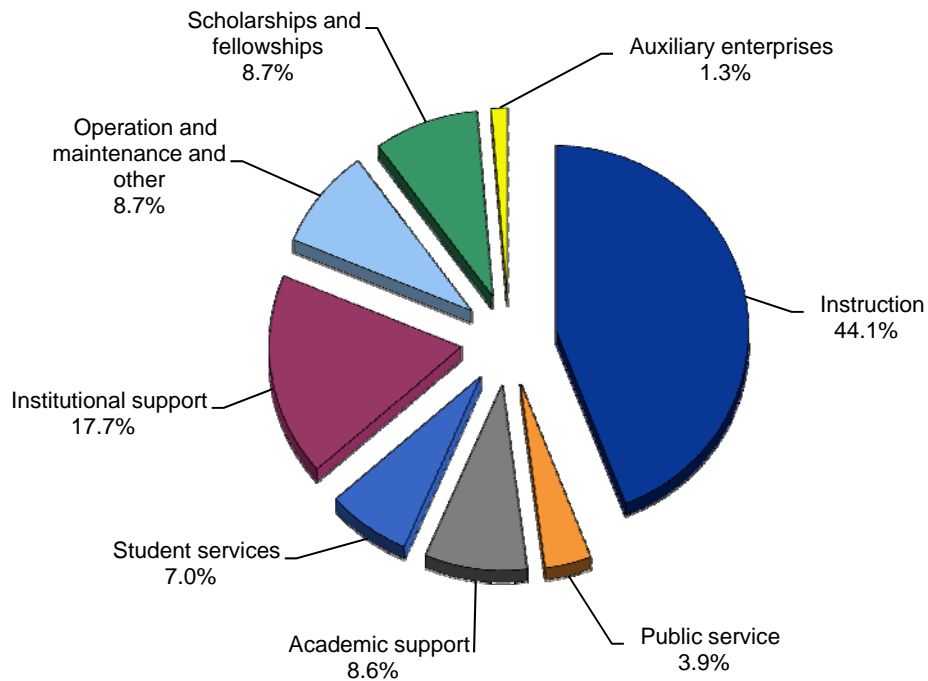
Operating expenses totaled approximately \$909 million for fiscal 2009 and grew by \$62.8 million. Revenue increases in Pell grant funding, the workforce investment activity transition to the VCCS, and moderate tuition and fee increases directly correspond to the increases in operating expenses.

A graphic presentation of fiscal year 2009 operating revenues and operating expenses by source (per the Statement of Revenues, Expenditures and Changes in Net Assets) is below:

Operating Revenues by Source



Operating Expenses



Statement of Cash Flows

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

	(In thousands of dollars)	
	For years ended June 30:	
	2009	2008*
Cash received from operations	\$376,133	\$313,765
Cash used in operations	871,145	804,698
Net cash used in operations	(495,012)	(490,933)
Net cash provided by investing activities	7,422	4,538
Net cash provided by (used in) capital and related financing activities	(1,513)	(31,088)
Net cash provided by non-capital financing activities	524,631	511,497
Net increase (decrease) in cash and cash equivalents	35,528	(5,986)
Cash and cash equivalents, beginning of year (as restated)	113,508	119,494
Cash and cash equivalents, end of year	\$149,036	\$113,508

*June 30, 2008 balances have been restated (see footnote 1L).

The primary operating sources of cash for the VCCS included tuition and fees of \$266.5 million, operating grants and contracts of \$81.7 million, and auxiliary revenues of \$12.7 million. The primary uses of operating cash included employee salaries, wages, and fringe benefits of \$586.4 million and operating expenditures (payments to suppliers/others and utilities) of \$199.1 million. Net cash used in operations is significantly greater than the cash received from operations on this statement due to the required presentation of state appropriation and grants/gifts as cash flows from non-capital financing activities. Net cash flows from capital and related financing activities increased \$29.6 million primarily due to state and local capital appropriations of \$16.1 million and proceeds from revenue bonds of \$14.6 million. Net cash flows from non-capital financing activities increased \$13.1 million primarily due to increases in Pell grant revenues. The overall increase in cash and cash equivalents was \$35.5 million at the end of fiscal year 2009.

Economic Outlook

The Commonwealth's economy continued to decline during fiscal year 2009 in line with but not as severe as the national economy. In fiscal year 2009, the Commonwealth predicted much lower revenue growth and this was realized as general fund revenue collections declined by 9.2%. In response to the revenue shortfalls, the Commonwealth reduced the VCCS general fund dollars by \$19.8 million in November 2008 (for fiscal year 2009 and after) and by an additional \$66.0 million in fiscal year 2010 (for fiscal year 2010 and thereafter). These reductions are in addition to the \$19.1 million that was permanently deducted from the general fund appropriation of the VCCS in October 2007. In summary, for fiscal year 2010 and future years, the VCCS general funds have been reduced by 21.68% or \$85,927,705 as a result of state mandated budget reductions. The federal government's ARRA (American Recovery and Reinvestment Act) will provide \$40.7 million in fiscal year 2010 and \$19.4 million in fiscal year 2011 to help temporarily offset the significant general fund budget reductions implemented in fiscal years 2008, 2009, and 2010.

One of the objectives of the federal government's ARRA funding is to minimize the need to increase tuition. The State Board for Community Colleges adopted, during its strategic planning process, a concept of maintaining as much stability and predictability in tuition as possible, implementing manageable increases in both good times and bad in order to avoid spikes in tuitions. Further, the Board has noted its intention to keep VCCS tuition and mandatory fees at less than half the rates of public four year institutions in Virginia. The VCCS's rate in 2008-09 was 34% of the average of the four-year institutions for total tuition and mandatory fees.

Effective with the fall 2009 session, the State Board for Community Colleges approved a tuition increase of \$5.55 per credit hour applicable to all in-state students and an increase of \$5.50 per credit hour applicable to all out-of-state students. It is anticipated that this will generate approximately \$17.9 million in tuition revenues in fiscal year 2010. The technology fee was increased by \$1 per credit hour, bringing the fee to \$5.50 per credit hour for all students. The technology fee increase will generate additional revenue of \$3.25 million in fiscal year 2010.

Chapter 781, 2009 Acts of Assembly authorized capital outlay appropriations of \$47,848,000 for fiscal year 2010. \$41,789,000 of the capital appropriations are for new construction at the various community college campuses while \$6,059,000 capital appropriations are for equipment purchases for previously authorized capital projects. The funding breakdown for the capital outlay appropriations are as follows: General Funds (\$250,000), Higher Education Auxiliary Enterprise Funds (\$545,000), Higher Education Trust and Agency Funds (\$25,371,000), 9(D) Pooled Bond Construction Funds (\$15,623,000), & Virginia College Building Authority 21st Century Funds (\$6,059,000).

The VCCS also received authorization for 22 new projects in the Virginia Acts of Assembly, 2008 Special Session 1 – Chapter 1. The funding to proceed through construction has been authorized upon completion and approval of the design phase of the projects.

***FINANCIAL
STATEMENTS***

Virginia Community College System
Consolidated
Statement of Net Assets
As of June 30, 2009

Page 10

	VCCS	Component Units Foundations
ASSETS		
Current Assets		
Cash and cash equivalents (Note 2)	136,975,819	21,621,311
Appropriation available	93,869	
Short term investments (Note 2)	12,578,621	562,734
Accounts receivable (Note 3)	17,871,999	448,286
Pledges receivable (Note 3)		3,600,810
Due from commonwealth	3,712,735	
Interest receivable	226,249	183,752
Prepaid expenses	15,632,340	22,117
Inventories	2,046,770	
Notes receivable (Note 3)	665,690	53,620
Total Current Assets	189,804,092	26,492,630
Noncurrent Assets		
Restricted cash and cash equivalents (Note 2)	1,345,830	
Cash with trustees (Note 2)	18,287,150	
Endowment cash and cash equivalents (Note 2)	347,484	4,310,290
Appropriation available	3,723,932	
Endowment investments (Note 2)		57,595,060
Other long-term investments (Note 2)	617,000	31,380,185
Accounts receivable, net	238,221	
Investments in real estate		2,188,628
Pledges receivable (Note 3)		4,482,342
Due from commonwealth	20,238,489	
Notes receivable (Note 3)	3,439,553	27,232
Non-depreciable capital assets, net (Note 4)	203,386,756	3,849,081
Depreciable capital assets, net (Note 4)	636,819,953	6,453,363
Total Noncurrent Assets	888,444,368	110,286,181
Total Assets	1,078,248,460	136,778,811
Liabilities		
Current Liabilities		
Accounts and retainage payable (Note 5)	27,154,217	3,461,389
Accrued payroll expense	31,861,354	
Deferred revenue	35,289,945	235,575
Long-term liabilities-current portion (Note 7)	19,788,260	61,041
Securities lending obligation	17,422,578	
Due to Commonwealth	153,450	
Deposits	4,866,764	
Total Current Liabilities	136,536,568	3,758,005
Noncurrent Liabilities		
Long-term liabilities (Note 7)	72,092,694	813,308
Due to federal government (Note 7)	4,861,943	
Total Noncurrent Liabilities	76,954,637	813,308
Total Liabilities	213,491,205	4,571,313
Net Assets		
Invested in capital assets, net of related debt	798,974,985	10,302,444
Restricted for:		
Nonexpendable	0	55,331,349
Expendable	13,428,919	42,534,523
Unrestricted	52,353,351	24,039,182
Total Net Assets	864,757,255	132,207,498

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

Virginia Community College System

Page 11

**Consolidated
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2009**

		Component Units
	VCCS	Foundations
Revenues		
Operating Revenue		
Tuition and fees (net of scholarship allowance of \$74,098,158)	258,139,427	
Federal grants and contracts	68,096,678	113,330
State and local grants	4,273,308	
Nongovernmental grants	10,498,700	2,348,224
Sales/services of education department	463,589	
Auxiliary enterprises (net of scholarship allowance of \$3,359,958)	14,153,423	
Gifts and contributions		7,081,248
Endowment income		(10,428,581)
Other operating revenues	11,829,450	1,508,704
Total Operating Revenue	<u>367,454,575</u>	<u>622,925</u>
Expenses		
Operating Expenses		
Instruction	400,883,910	836,373
Public service	35,081,918	98,606
Academic support	77,677,809	2,895,783
Student services	63,912,090	58,405
Institutional support	161,016,826	7,400,384
Operation and maintenance	79,061,832	2,854,975
Scholarships and fellowships	79,454,946	4,215,479
Auxiliary enterprises	11,752,118	
Fundraising		1,160,522
Other expenses	155,627	256,555
Total Operating Expenses	<u>908,997,076</u>	<u>19,777,082</u>
Operating Income (Loss)	<u>(541,542,501)</u>	<u>(19,154,157)</u>
Nonoperating Revenues(Expenses)		
State appropriations (Note 12)	408,947,385	
Local appropriations	1,834,437	
Grants and gifts	122,387,873	
Investment income	4,841,735	(8,435,309)
Interest on capital asset related debt	(2,279,066)	(20,872)
Other nonoperating revenue (expense)	(747,393)	
Net Nonoperating Revenue	<u>534,984,971</u>	<u>(8,456,181)</u>
Income before other revenues, expenses gains (losses)	<u>(6,557,530)</u>	<u>(27,610,338)</u>
Capital appropriations-state (Note 19)	72,428,213	
Capital appropriations-local	13,618,054	
Capital gifts, grants and contracts	8,320,247	960,577
Additions to permanent and term endowments		8,279,276
Increase (Decrease) in Net Assets	<u>87,808,984</u>	<u>(18,370,485)</u>
Net Assets		
Net Assets beginning of year, as restated (Note 1L)	<u>776,948,271</u>	<u>150,577,983</u>
Net Assets end of year	<u>864,757,255</u>	<u>132,207,498</u>

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

Virginia Community College System
Consolidated
Statement of Cash Flows
For the Year Ended June 30, 2009

Page 12

	VCCS
Cash flows from operating activities:	
Tuition and fees	266,471,470
Grants and contracts	81,674,260
Payments to suppliers and others	(182,957,233)
Payments for employee wages	(463,693,543)
Payments for employee fringes	(122,723,418)
Payment for scholarships	(83,459,418)
Payments for utilities	(16,159,872)
Sales and services of education department	463,589
Auxiliary	14,243,936
Loans issued to students	(2,152,208)
Loans collected from students	839,960
Other	12,439,974
Net cash used by operating activities	<u>(495,012,503)</u>
Cash flows from non-capital financing activities:	-
State appropriations	408,947,385
Local appropriations	1,834,437
Grants and gifts	113,676,868
Agency receipts	8,609,409
Agency disbursements	(8,420,037)
PLUS, Stafford and Direct Lending loan receipts	75,155,763
PLUS, Stafford and Direct Lending loan disbursements	(75,264,112)
Borrowings	1,108,045
Loan repayments	(1,020,000)
Other non-operating revenue(expense)	3,765
Net cash provided (used) by non-capital financing activities	<u>524,631,523</u>
Cash flows from capital financing activities:	-
Capital appropriations-state	126,090,592
Capital appropriations-local	13,618,054
Capital grants and gifts	(2,163,440)
Purchase capital assets	(141,413,585)
Proceeds from sale of capital assets	212,195
Proceeds from bond issue	14,620,000
Debt interest payments	(2,279,066)
Debt principal payments	(10,197,746)
Net cash provided (used) by capital financing activities	<u>(1,512,996)</u>
Cash flows from investing activities:	-
Purchases of investments	(6,981,302)
Sale of investments	9,548,564
Investment income	4,854,811
Net cash provided (used) by investing activities	<u>7,422,073</u>
Net incr (decr) in net assets	
Net increase (decrease) in cash and cash equivalents	35,528,097
Cash and cash equivalents, beginning of year as restated	113,508,041
Cash and cash equivalents, End of Year	<u><u>149,036,138</u></u>

Virginia Community College System
Consolidated
Statement of Cash Flows
For the Year Ended June 30, 2009

Page 13

	VCCS
Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating income (loss)	(543,118,559)
Adjustment to reconcile operating income (loss) to net cash used in operating activities:	
Depreciation expense	33,462,419
Changes in assets and liabilities:	
Appropriation available and accounts receivable, net	(786,812)
Prepaid expenses and other	1,729,625
Accrued compensation and leave	(862,052)
Accounts payable and other	5,826,851
Deferred revenue	6,874,813
Deposits pending distribution	285,154
Net cash used in operating activities	(496,588,561)
Reconciliation of cash and cash equivalents:	
Cash and cash equivalents per Statement of Net Assets	156,956,283
Less: Securities Lending Cash Equivalents	7,920,145
Cash and cash equivalents end of year	<u>149,036,138</u>
Noncash transactions	
ETF equipment	11,696,002
Assets acquired through capital leases or installment purchases	4,079,269
Donated fixed assets	485,893
Debt principal and interest payments made by Treasury	1,988,590

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

*NOTES TO THE
FINANCIAL
STATEMENTS*

VIRGINIA COMMUNITY COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

As of June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Community College System (VCCS) was established as an institution of higher education in 1965. The System includes the State Board for Community Colleges, a System Office located in Richmond, and twenty-three community colleges located on forty campuses throughout the Commonwealth. The State Board for Community Colleges is the governing body and is charged with the responsibility to establish, control, and administer a statewide system of publicly supported comprehensive community colleges. The System therefore functions as a statewide institution of higher learning.

The accompanying financial statements include all of the individual community colleges and the System Office under the control of the State Board for Community Colleges.

The System is a discrete component unit of the Commonwealth of Virginia and is included in the general-purpose financial statements of the Commonwealth. A separate report is prepared for the Commonwealth of Virginia that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority.

B. Community College Foundations

The community college foundations are legally separate, tax-exempt organizations formed to promote the achievements and further the aims and purposes of the colleges. The foundations accomplish their purposes through fundraising and funds management efforts that benefit the colleges and their programs. Although the colleges do not control the timing or amount of receipts from the foundations, the majority of resources or income thereon that the foundations hold and invest is restricted to the activities of the colleges by the donors. Because these restricted resources held by the foundations can only be used by, or for the benefit of the colleges, the foundations are considered component units under GASB Statement 39, *Determining Whether Certain Organizations are Component Units*. Accordingly, the community college foundations are presented as discrete component units in the financial statements.

During the year ended June 30, 2009, the foundations distributed \$7,477,961 to the colleges for both restricted and unrestricted purposes. Complete financial statements for the foundations can be obtained by writing the VCCS Office of Fiscal Services, 101 N. 14th St., Richmond, VA 23219.

C. Basis of Accounting

For financial reporting purposes, the VCCS is considered a special purpose government engaged in only business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods and services. Accordingly, the financial statements have been

presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. All material internal transactions have been eliminated.

Revenues and expenses of the summer academic term occur within two fiscal years, because the term extends from May through August and the fiscal year ends on June 30. Expenses and an equal amount of revenue have been reported in the current period for the portion of the summer academic term from May 16 through June 30, 2009.

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

The community college foundations are private, nonprofit organizations that report under FASB standards, including FASB Statement 117, Financial Reporting for Not-for-Profit Organizations. As such, certain revenue recognition criteria and presentation features are different from GASB. No modifications have been made to the financial information of the foundations in the financial statements of the VCCS regarding these criteria and presentation features.

The financial statements for the community college foundations are for the year ending June 30, 2009 except for Dabney S. Lancaster, Eastern Shore, Germanna, John Tyler, Lord Fairfax, Mountain Empire, New River, Piedmont, Tidewater (Educational and Real Estate Foundations), Virginia Western, and Wytheville (Educational and Scholarship Foundations) that are as of December 31, 2008.

D. Inventories

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

E. Investments

Investments meeting the valuation standards outlined in GASB Statement 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, have been shown at fair market value. The remaining investments have been recorded at cost.

F. Capital Assets

Plant assets consisting of land, buildings, infrastructure, equipment, library books and construction in progress are stated at appraised historical cost or actual cost where determinable. Improvements to buildings, infrastructure and land that significantly increase the usefulness, efficiency or life of the asset are capitalized. Routine maintenance and repairs are charged to operations when incurred. Interest expense relating to construction is capitalized. Donated assets are recorded at the estimated fair value at the date of donation. The fixed asset values presented in these financial statements are extracted from the financial data maintained by the System's Administrative Information System (AIS). Current fund expenditures for equipment are capitalized when the unit acquisition cost is \$5,000 or greater and the estimated useful life is one year or more. Occupancy permits are used to determine when to reclassify buildings from construction-in-progress. Depreciation is calculated using the straight-line

method over the estimated useful lives of the assets, generally 50 years for buildings, 20 to 25 years for infrastructure and land improvements, 3 to 25 years for equipment, and 10 years for library books.

G. Accrued Compensated Absences

The amount of leave earned but not taken by all classified employees, administrative/professional faculty, teaching faculty, and presidents is recorded as a liability on the balance sheet. The amount reflects, as of June 30, all unused annual leave, compensatory leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave pay out policy. An additional liability amount has been included for those employees with less than five years of service based on the probability they will eventually become vested. Also included in the liability is the System's share of the FICA taxes on leave balances for which employees will be compensated.

H. System Office Expenditures

With the exception of the workforce investment grant expenditure activity in the System Office of the VCCS classified as public service, the remaining expenditure activity in the System Office provides a variety of functions ranging from management control to centralized support services. Because most of these activities are management in nature and cover the operation of the entire System, they have been classified as institutional support.

I. Classification of Revenues and Expenses

The VCCS has classified its revenues as either operating or nonoperating revenues according to the following criteria:

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

Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, state appropriations and investment income.

Nonoperating expenses include interest on debt related to the purchase of capital assets and losses on disposal of capital equipment. All other expenses are classified as operating expenses.

J. Scholarship Discounts and Allowances

Student tuition and fees revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenue, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the VCCS, and the amount that is paid by students and/or third parties making payments on the student's behalf. Certain governmental grants and other federal, state or nongovernmental programs are recorded as either operating or nonoperating revenues in the financial statements. To the extent that such revenues are used to satisfy tuition and fees and other student charges, the VCCS has recorded a scholarship discount and allowance.

K. Net Assets

Net assets are classified as follows:

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

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

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

Unrestricted net assets: Unrestricted net assets represent resources that may be used at the discretion of the governing board for any lawful purpose.

When an expense is incurred that can be paid from either restricted or unrestricted resources, it is the policy of the VCCS to first apply the expense towards restricted resources and then towards unrestricted resources.

L. Restatements:

Statement of Changes in Revenues, Expenditures, and Net Assets:

Net assets as of June 30, 2008 - previously reported	\$777,834,237
Audit adjustments	\$104,800
Correction of asset overstatement	(\$990,766)
Net assets as of July 1, 2008 - as restated	<u>\$776,948,271</u>

Statement of Cash Flows:

Cash and cash equivalents - June 30, 2008 previously reported	\$115,589,540
Less Securities Lending cash equivalents	<u>\$(2,081,499)</u>
Cash and cash equivalents - June 30, 2008 as restated	<u>\$113,508,041</u>

Management Discussion and Analysis:

The fiscal year 2008 financial statement comparative section of the Management Discussion and Analysis has been restated for the changes outlined above.

2. **CASH AND INVESTMENTS**

Cash and Cash Equivalents

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

Pursuant to Section 2.2-1800, et seq., *Code of Virginia*, all state funds of the VCCS are maintained by the Treasurer of Virginia who is responsible for the collection, disbursement, custody, and investment of state funds.

Deposits

Local cash deposits with banks and savings institutions not with the Treasurer of Virginia are covered by federal depository insurance or collateralized in accordance with the Virginia Security of Public Deposits Act, Section 2.2-4400 et seq., *Code of Virginia*. Deposits covered by the Virginia Security of Public Deposits Act totaled \$22,960,448 at June 30, 2009.

Investments

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

Investments of the member colleges of the VCCS are limited to those allowed under Chapter 45, Investments of Public Funds Act, Sections 2.2-4500 and 2.2-4501 of the *Code of Virginia*. Commonwealth of Virginia law limits investments in stocks, bonds, notes, and other evidences of indebtedness of the Commonwealth and those unconditionally guaranteed as to the payment of principal and interest by the Commonwealth. Investments in United States agencies all carry the explicit guarantee of the United States government. Additionally, Virginia's community colleges may participate in the Local Government Investment Pool as authorized by Chapter 46 of the *Code of Virginia* and managed by the Commonwealth of Virginia Treasury Board. Authorized investments in the Local Government Investment Pool are limited to those set forth for local officials in Chapter 45, Sections 2.2-4500 of the *Code of Virginia*.

GASB Statement No. 40, Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3, issued March 2003, became effective for the fiscal year ending June 30, 2005, and imposed new standards for financial reporting. The VCCS implemented the necessary changes to be in compliance with this Statement. The deposits and investments of state and local governments are exposed to risks that have the potential to result in losses. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, foreign currency risk, and any other risks. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. As an element of credit risk, this Statement requires disclosure of credit quality ratings for investments in debt securities as well as investments in external investment pools, money market mutual funds, bond mutual funds, and other pooled investment of fixed-income securities. As an element of foreign currency risk, this Statement requires certain disclosures of investments that have fair values that could be adversely affected by changes in exchange rates. Deposit and investment policies related to the risks identified in the Statement are also required to be disclosed.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. VCCS has no investments exposed to custodial credit risk for 2009.

Interest Rate Risk

Disclosure of the maturities of investments is required when the fair market value is adversely affected by changes in interest rates. Investments subject to interest rate risk are outlined in the accompanying chart.

Credit Risk

Disclosure of the credit quality rating is required for investments exposed to the risk that an issuer or other counterparty will not fulfill its obligations. Investments subject to credit rate risk are outlined in the accompanying chart.

Concentration of Credit Risk

Disclosure of any one issuer is required when it represents 5 percent or more of total investments. VCCS does not have such concentration of credit risk for 2009.

Foreign Currency Risk

Disclosure is required for investments exposed to changes in exchange rates that will adversely affect the fair value of an investment or a deposit. VCCS has no investments or deposits subject to Foreign Currency Risk for 2009.

<u>Cash Equivalents</u>	<u>Credit Rating</u>	<u>Fair Value</u>
Local Govt. Investment Pool		\$44,152,244
Certificates of Deposit	AAA	9,663,442
Repurchase Agreements	Not Rated	2,889,569
Mutual and Money Market Funds	Not Rated	2,161,413
Securities Lending ⁽¹⁾		7,920,145
		<u>\$66,786,813</u>

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
			<u>(In Years)</u>	
			<u>Less 1 yr</u>	<u>1-5 yrs</u>
U.S. Govt. Treasury Bills	Not Rated	\$1,996,781	\$1,996,781	
Mutual Funds	Not Rated	669,533	669,533	
Agency Mortgage Backed Securities	AAA	1,026,874	409,874	617,000
Securities Lending ⁽¹⁾		9,502,433	9,502,433	
		<u>\$13,195,621</u>	<u>\$12,578,621</u>	<u>\$617,000</u>

⁽¹⁾ GASB Statement Number 28, *Accounting and Financial Reporting for Securities Lending Transactions*, establishes standards of accounting and financial reporting for transactions where governmental entities transfer securities to broker-dealers and other entities for collateral, and simultaneously agree to return the collateral for the same securities in the future. The amounts identified above represent the VCCS' allocated share of securities received for securities lending transactions held in the general account of the Commonwealth of Virginia. The Commonwealth's policy is to record unrealized gains and losses in the General Fund in the Commonwealth's basic financial statements. When gains or losses are realized, the actual gains and losses are recorded by the affected agencies. Information related to the credit risk of these investments and securities lending transactions held in the general account is available in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*.

Community College Foundations

The Foundations had the following cash, cash equivalents and investments as of June 30, 2009:

Cash and cash equivalents	\$ 25,931,601
Investments:	
Mutual funds and money markets	\$ 43,056,239
Stocks	21,995,156
Corporate bonds	10,762,510
U.S. government securities	4,902,761
UVA investment fund	3,435,179
Certificates of deposits	2,530,770
Investment in real estate	2,188,628
Mortgage-backed securities	1,756,706
Cash surrender value of life insurance	675,327
Assets held for resale	333,418
Split interest agreement	89,913
Total investments	<u>\$91,726,607</u>

Some VCCS foundations had balances in bank and savings institutions that exceeded federally-insured limits. However, the foundations do not believe this poses any significant credit risk.

3. RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

The following receivables included an allowance for doubtful accounts at June 30, 2009:

Gross accounts receivable:	
Tuition and fees	\$ 5,952,602
Auxiliary enterprises	1,300,492
Federal, state, local and nongovernmental grants, gifts, contracts	10,641,113
Other activities	1,454,993
Total gross accounts receivable	<u>\$19,349,200</u>
Less: Allowance for doubtful accounts	<u>(1,238,980)</u>
Net accounts receivable	<u>\$18,110,220</u>
 Gross Loans and notes receivable	 \$ 4,919,874
Less: Allowance for doubtful accounts	<u>(814,631)</u>
Net loans and notes receivable	<u>\$ 4,105,243</u>

Receivables not expected to be collected within one year are \$3,677,774 in accounts, notes, and loans receivable.

Community College Foundations

The foundations have the following receivables as of June 30, 2009:

Gross accounts receivable	\$452,989
Less: Allowance for doubtful accounts	<u>(4,703)</u>
Net accounts receivable	<u>\$448,286</u>
 Pledges receivable:	
Due in one year	\$3,730,481
Due in 1-5 years	4,971,467

Due in more than 5 years	21,468
Less: Allowance for doubtful accounts	(209,088)
Present value discount	(431,176)
Net pledges receivable	<u>\$8,083,152</u>
Gross loans and notes receivable	\$ 88,773
Less: Allowance for doubtful accounts	(7,921)
Net loans and notes receivable	<u>\$ 80,852</u>

Receivables not expected to be collected within one year are \$27,232 in notes and loans receivable and \$4,482,342 in pledges receivable.

4. CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2009 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Nondepreciable capital assets:				
Land	\$31,241,928	2,903,553		\$34,145,481
Land improvements	11,862,284	3,149,760		15,012,044
Inexhaustible works of art	137,174			137,174
Construction in progress	156,916,020	120,282,130	(123,106,093)	154,092,057
Total capital assets not being depreciated	200,157,406	126,335,443	(123,106,093)	203,386,756
Depreciable capital assets:				
Buildings	588,397,171	113,445,631	(102,336)	701,740,466
Infrastructure	27,988,560	5,026,042		33,014,602
Equipment	152,620,103	19,176,847	(9,922,019)	161,874,931
Land improvements	53,793,076	3,332,813		57,125,889
Library books	42,080,890	1,916,699	(1,875,346)	42,122,243
Total other capital assets	864,879,800	142,898,032	(11,899,701)	995,878,131
Less accumulated depreciation for:				
Buildings	(156,285,975)	(15,447,276)	1,023	(171,732,228)
Infrastructure	(12,766,659)	(1,439,392)		(14,206,051)
Equipment	(102,637,155)	(12,626,140)	8,690,737	(106,572,558)
Land improvements	(31,644,765)	(1,887,207)		(33,531,972)
Library books	(32,830,081)	(2,060,634)	1,875,346	(33,015,369)
Total accumulated depreciation	(336,164,635)	(33,460,649)	10,567,106	(359,058,178)
Other capital assets, net	528,715,165	109,437,383	(1,332,595)	636,819,953
Total capital assets, net	<u>\$728,872,571</u>	<u>235,772,826</u>	<u>(124,438,688)</u>	<u>\$840,206,709</u>

Community College Foundations

The foundations had the following capital assets as of June 30, 2009:

Non-depreciable capital assets:	
Land	\$ 1,583,598
Works of art	128,507
Construction in Process	2,136,976

Total nondepreciable capital assets	<u>\$ 3,849,081</u>
Depreciable capital assets:	
Buildings	\$6,815,863
Equipment	709,017
Site improvement	16,271
Total depreciable capital assets	<u>\$7,541,151</u>
Less: Accumulated depreciation	<u>(1,087,788)</u>
Depreciable capital assets, net	<u>\$ 6,453,363</u>
Total capital assets, net	<u><u>\$10,302,444</u></u>

5. ACCOUNTS AND RETAINAGE PAYABLE

Accounts and retainage payable consisted of the following as of June 30, 2009:

Vendor payables	\$19,601,848
Retainage payable	7,548,388
Taxes payable	3,981
Total	<u><u>\$27,154,217</u></u>

6. COMMITMENTS

At June 30, 2009, the VCCS had future commitments for construction contracts totaling approximately \$75,163,420. The System held \$7,548,388 as retainage payable on construction and architectural/engineering contracts for work performed. The retainage payable will be remitted to the various contractors upon satisfactory completion of the construction projects.

7. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2009 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Debt:					
Bonds payable	\$ 894,136	\$ 29,928	\$ 247,034	\$ 677,030	\$ 212,972
Other capital leases	19,427,909		1,675,163	17,752,746	1,743,753
Notes payable:					
Installment purchases	12,282,963	6,170,265	7,271,626	11,181,602	560,309
Pooled bonds	16,572,461	15,403,116	1,034,581	30,940,996	1,490,000
Other notes payable	1,020,000	1,108,045	1,020,000	1,108,045	1,108,045
Total bonds, notes and capital leases	<u>50,197,469</u>	<u>22,711,354</u>	<u>11,248,404</u>	<u>61,660,419</u>	<u>5,115,079</u>
Other liabilities:					
Compensated absences	29,877,712	21,129,003	20,786,180	30,220,535	14,673,181
Federal loan program contributions	5,394,100	2,250	534,407	4,861,943	
Total other liabilities	<u>35,271,812</u>	<u>21,131,253</u>	<u>21,320,587</u>	<u>35,082,478</u>	<u>14,673,181</u>

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Total long-term liabilities	\$85,469,281	\$43,842,607	\$32,568,991	\$96,742,897	\$19,788,260

8. BONDS PAYABLE

Long-term debt in the form of bonds payable of the System as of June 30, 2009, consists of the following:

Higher Education Refunding Bonds, Series 1999, issued \$1,868,800 to advance refund a portion of the Higher Education Bonds, Series 1992A. The balance is payable in annual installments ranging from approximately \$185,000 to \$240,000 with an average coupon rate of 4.18% payable semiannually. The final installment of \$231,855 is due June 1, 2012. The outstanding balance at June 30, 2009 is \$677,030.

Aggregate annual maturities of bonds payable for fiscal years after 2009:

Year Ending June 30	Principal	Interest	Total
2010	\$212,972	\$31,516	\$244,488
2011	216,475	25,166	241,641
2012	231,855	11,459	243,314
Plus: Bond Premium	29,928		29,928
Less: Bond Defeasance	(14,200)		(14,200)
Total debt service Requirements	\$677,030	\$68,141	\$745,171

9. NOTES PAYABLE

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

Parking and access road improvements for John Tyler Community College - The balance is to be repaid in ten annual installments ranging from \$70,000 to \$130,000 with an average coupon rate of 4.03% payable semiannually. The final installment of \$130,000 is due September 1, 2013. The outstanding balance at June 30, 2009 is \$580,000.

Parking garage for the Medical Education campus of Northern Virginia Community College - The balance is to be repaid in twenty annual installments ranging from \$265,000 to \$555,000 with an average coupon rate of 4.27% payable semiannually. The final installment of \$555,000 is due September 1, 2021. The outstanding balance at June 30, 2009 is \$5,583,318.

Parking deck for the Annandale Campus of Northern Virginia Community College - The balance is to be repaid in twenty annual installments ranging from \$310,000 to \$400,000 with an average coupon rate of 4.35% payable semiannually. The final installment of \$400,000 is due September 1, 2023. The outstanding balance at June 30, 2009 is \$6,000,000.

Parking garage for J. Sargeant Reynolds Community College - The balance is to be repaid in twenty annual installments ranging from \$110,000 to \$330,000 with an average coupon rate of 4.95% payable semiannually. The final installment of \$330,000 is due September 1, 2022. The outstanding balance at June 30, 2009 is \$3,385,862.

Student Center for Tidewater Community College - The balance is to be repaid in twenty annual installments ranging from \$480,000 to \$1,100,000 with an average coupon rate of 4.17% payable semiannually. The final installment of \$1,100,000 is due September 1, 2029. The outstanding balance at June 30, 2009 is new debt of \$14,620,000 and an unamortized bond premium of \$771,816 for a total of \$15,391,816.

Other notes payable of \$1,108,045 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
2010	1,490,000	1,354,821	2,844,821
2011	1,530,000	1,290,784	2,820,784
2012	1,585,000	1,219,834	2,804,834
2013	1,635,000	1,143,184	2,778,184
2014	1,695,000	1,067,029	2,762,029
2015-2019	8,595,000	4,256,038	12,851,038
2020-2024	8,710,000	2,198,687	10,908,687
2025-2029	4,995,000	646,956	5,641,956
Sub Totals	\$30,235,000	\$13,177,333	\$43,412,333
Plus: Bond Premium	818,396		818,396
Less: Bond Defeasance	(112,400)		(112,400)
Totals	\$30,940,996	\$13,177,333	\$44,118,329

10. LEASE COMMITMENTS AND INSTALLMENT PURCHASES

The System is committed under various capital lease, operating lease, and installment purchase agreements. The cost of assets capitalized under capital lease and installment purchase agreements total \$33,231,032 and \$8,942,428, respectively. Rent expense under operating lease agreements amounted to \$9,385,403 for the year. A summary of future obligations under lease agreements as of June 30, 2009, follows:

Year Ending June 30	Capital Lease Obligations	Installment Purchase Obligations	Operating Lease Obligations
2010	\$ 2,588,339	\$ 1,040,187	\$ 4,566,682
2011	3,090,783	1,145,257	4,784,317
2012	2,387,448	1,203,767	4,217,974
2013	2,387,249	1,203,767	4,047,350
2014	2,381,803	1,203,764	2,628,608
2015-2019	8,094,217	5,643,883	4,430,053
2020-2024	1,478,371	3,902,092	345,000
2025-2029		54,203	
Total obligation and gross minimum lease payments	\$22,408,210	\$15,396,920	\$25,019,984

Less: Interest	(4,655,464)	(4,215,318)	
Present value of minimum lease payments	\$17,752,746	\$11,181,602	\$25,019,984

11. OPERATING EXPENSES BY NATURAL AND FUNCTIONAL CLASSIFICATIONS

VCCS operating expenses for the year ended June 30, 2009 were as follows:

Natural Classification						
Functional Classification	Salaries & Benefits	Utilities	Scholarships	Depreciation	Supplies, Services & Other	Total
Instruction	\$329,375,975	\$ 266,095	\$ 2,643,189	\$20,895,539	\$ 47,703,112	\$400,883,910
Public Service	5,803,950	2,764	34,851		29,240,353	35,081,918
Acad. Support	58,906,484	38,244	394,242	3,689,723	14,649,116	77,677,809
Student Services	57,081,610	553	456,174	55,119	6,318,634	63,912,090
Inst. Support	110,690,681	278,341	606,601	7,108,899	42,332,304	161,016,826
O & M of Plant	21,662,763	15,282,641	61,797	1,670,042	40,384,589	79,061,832
Schol. & Fellows.	21,929		79,206,163		226,854	79,454,946
Aux. Enterprises	2,004,488	190,830	29,355	43,097	9,484,348	11,752,118
Other Expenses					155,627	155,627
Total Expenses	\$585,547,880	\$16,059,468	\$83,432,372	\$33,462,419	\$190,494,937	\$908,997,076

12. STATE APPROPRIATIONS

All Commonwealth unrestricted revenues must be appropriated by the Legislature and are provided on an annual basis. Unspent balances of these appropriations at the close of the fiscal year revert to the Commonwealth's General Fund. These reverted funds are eligible for re-appropriation in fiscal year 2009-10 provided that the VCCS meets financial and administrative standards outlined in the *Code of Virginia*.

During the year ended June 30, 2009, the Virginia Community College System received the following general fund appropriations in accordance with the Appropriation Act of 2009, Chapter 781, Acts of Assembly.

Appropriated - Chapter 781 - approved April 8, 2009 \$396,453,692

Additions:

Transfers from central appropriations:

Real estate surcharge rates 1,184

Less:

Transfer 2009 net central account distributions (1,619,950)

Reduction state employee sickness and disability contributions (248,273)

Other:

Transfer from SCHEV – VIVA 37,029

Carryover fiscal year 2008 year-end balances 13,581,846

DOE Literacy program 125,000

Commonwealth budget reduction (19,822,684)

Equipment Trust Fund lease payment (633,657)

Transfer capital fee (415,738)

Philpott manufacturing (482,733)

Reversion (7,598,316)

Adjusted Unrestricted Appropriations \$379,377,400

Other restricted appropriations were \$29,569,985 for a total of \$408,947,385.

13. EQUIPMENT TRUST FUND

The System participates in the Higher Education Equipment Trust Fund of the Virginia College Building Authority (VCBA). The Higher Education Equipment Trust Fund provides funds to public colleges and universities for equipment acquisition. In prior years, funds were provided in the form of a lease. During the year ended June 30, 2009, the VCBA financed the ETF program with state funds, which will not require repayment.

14. DONOR-RESTRICTED ENDOWMENTS

VCCS has two donor-restricted endowments. The net appreciation on investments of donor-restricted endowments that is available for expenditure by the governing board did not change for the year ended June 30, 2009. These amounts are reported as restricted expendable net assets. Total-return policy is followed for authorizing and spending investment income.

15. CONTINGENCIES ON GRANTS

The VCCS receives assistance from non-state grantor agencies in the form of grants. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant agreements. Substantially all grants are subject to financial and compliance audits by the grantors. All disallowances as a result of these audits become a liability of the VCCS. As of June 30, 2009, the VCCS estimates that no material liabilities will result from such audits.

16. PENSION PLAN

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

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

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

Individual contracts issued under the ORP plan provide for full and immediate vesting of the VCCS contributions. Total pension costs under this plan were \$5,613,906 and \$5,410,588 for years ended June 30, 2009 and 2008, respectively. Contributions to the ORP plan were calculated using the base salary amount of \$53,979,861 and \$52,024,880 for fiscal years 2009 and 2008. The VCCS total payroll for fiscal years 2009 and 2008 was \$460,989,155 and \$446,185,347 respectively.

17. RISK MANAGEMENT

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The System participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plan are administered by the Department of Human Resource Management, and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, faithful performance of duty bonds, automobile, and air and watercraft plans. The System pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

A Faithful Performance Duty Bond administered by the Commonwealth of Virginia's Department of Treasury, Division of Risk Management, covers the employees of the VCCS. The Faithful Performance Duty Bond provides coverage with liability limits of \$500,000 for each occurrence.

18. POST-EMPLOYMENT BENEFITS

The Commonwealth participates in the VRS-administered statewide group life insurance program which provides post-employment life insurance to eligible retired and terminated employees. The Commonwealth also provides health care credit against the monthly insurance premiums of its retirees who have at least 15 years of state service and participate in the state's health plan. Information related to these plans is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report.

19. CAPITAL APPROPRIATIONS-STATE

Capital appropriations-state is comprised of the following:

General Fund Reversion Reduction	(\$37,103,841)
Virginia College Building Authority appropriation revenue	70,298,809
General Obligation Bond appropriation revenue	37,244,655
Tidewater Community College capital lease agreement	<u>1,988,590</u>
Total	<u>\$72,428,213</u>

20. COMPONENT UNIT FINANCIAL INFORMATION

Below is a summary of the foundations.

VCCS has five major component units—Lord Fairfax Community College Educational Foundation, Northern Virginia Community College Educational Foundation, Mountain Empire Community College Educational Foundation, Patrick Henry Community College

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

Virginia Community College System Foundations
Statement of Net Assets
As of June 30, 2009

	Southwest Virginia Community College Educational Foundation	Northern Virginia Community College Educational Foundation	Lord Fairfax Community College Educational Foundation	Patrick Henry Community College Educational Foundation	Mountain Empire Community College Educational Foundation	Combined Non- Major Component Units	Total Component Units
ASSETS							
Total current assets	\$ 921,745	\$ 1,594,904	\$ 3,642,765	\$ 163,577	\$ 561,514	\$ 19,608,125	\$ 26,492,630
Noncurrent assets:							
Other noncurrent assets	8,287,384	9,734,465	5,304,021	9,103,465	7,454,778	60,099,624	99,983,737
Capital assets, net	5,413,820	-	179,650	-	-	4,708,974	10,302,444
Total noncurrent assets	13,701,204	9,734,465	5,483,671	9,103,465	7,454,778	64,808,598	110,286,181
Total assets	14,622,949	11,329,369	9,126,436	9,267,042	8,016,292	84,416,723	136,778,811
LIABILITIES							
Total current liabilities	15,194	67,479	56,083	254,923	54,815	3,309,511	3,758,005
Noncurrent liabilities:							
Long-term liabilities	-	-	-	-	-	813,308	813,308
Other noncurrent liabilities	-	-	-	-	-	-	-
Total noncurrent liabilities	-	-	-	-	-	813,308	813,308
Total liabilities	15,194	67,479	56,083	254,923	54,815	4,122,819	4,571,313
NET ASSETS							
Invested in capital assets, net of related debt	5,413,820	-	179,650	-	-	4,708,974	10,302,444
Restricted for:							
Nonexpendable	-	2,701,093	3,553,028	5,585,372	4,199,982	39,291,874	55,331,349
Expendable	4,850,785	3,110,791	4,958,424	3,870,940	1,563,897	24,179,686	42,534,523
Unrestricted	4,343,150	5,450,006	379,251	(444,193)	2,197,598	12,113,370	24,039,182
Total Net Assets	\$ 14,607,755	\$ 11,261,890	\$ 9,070,353	\$ 9,012,119	\$ 7,961,477	\$ 80,293,904	\$ 132,207,498

Virginia Community College System Foundations
Statement of Revenues, Expenses, and Changes in Net Assets
As of June 30, 2009

	Southwest Virginia Community College Educational Foundation	Northern Virginia Community College Educational Foundation	Lord Fairfax Community College Educational Foundation	Patrick Henry Community College Educational Foundation	Mountain Empire Community College Educational Foundation	Combined Non- Major Component Units	Total Component Units
Total operating revenues	\$ 1,163,115	\$ 1,008,997	\$ (665,659)	\$ 738,966	\$ (522,934)	\$ (1,099,560)	\$ 622,925
Total operating expenses	1,457,416	1,516,448	549,790	1,157,290	607,047	14,489,091	19,777,082
Operating income (loss)	(294,301)	(507,451)	(1,215,449)	(418,324)	(1,129,981)	(15,588,651)	(19,154,157)
Nonoperating revenues (expenses):							
Investment Income	(1,262,744)	(583,136)	(77,289)	(1,605,681)	(1,589,098)	(3,317,361)	(8,435,309)
Other nonoperating revenues (expenses)	-	-	-	-	-	(20,872)	(20,872)
Net nonoperating revenue	(1,262,744)	(583,136)	(77,289)	(1,605,681)	(1,589,098)	(3,338,233)	(8,456,181)
Income before other revenues, expenses gains and losses	(1,557,045)	(1,090,587)	(1,292,738)	(2,024,005)	(2,719,079)	(18,926,884)	(27,610,338)
Capital gifts, grants and contracts	-	-	-	-	-	960,577	960,577
Additions to permanent and term endowments	-	53,413	97,210	203,384	466,340	7,458,929	8,279,276
Increase (decrease) in net assets	(1,557,045)	(1,037,174)	(1,195,528)	(1,820,621)	(2,252,739)	(10,507,378)	(18,370,485)
Net assets - beginning of year	16,164,800	12,299,064	10,265,881	10,832,740	10,214,216	90,801,282	150,577,983
Net assets - end of year	\$ 14,607,755	\$ 11,261,890	\$ 9,070,353	\$ 9,012,119	\$ 7,961,477	\$ 80,293,904	\$ 132,207,498



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

June 25, 2010

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
and Review Commission

State Board for Community Colleges

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the **Virginia Community College System**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2009, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the System, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the System is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component units of the System that were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of the System as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated June 25, 2010, on our consideration of the Virginia Community College System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.


AUDITOR OF PUBLIC ACCOUNTS