

VIRGINIA COMMUNITY COLLEGE SYSTEM

**AUDITED FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2014**

Prepared by:
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VCCS Financial Report 2013-2014

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VCCS Financial Report 2013-2014

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VIRGINIA COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis

The Virginia Community College System (VCCS) was established by the Virginia General Assembly as an institution of higher education in 1965. The System includes the State Board for Community Colleges, a System Office located in Richmond, and twenty-three community colleges located on forty campuses throughout the Commonwealth. The VCCS mission is to give everyone the opportunity to learn and develop the right skills so lives and communities are strengthened.

The following discussion and analysis provides an overview of the financial position and activities of the VCCS for the year ended June 30, 2014. This discussion has been prepared by management and should be read in conjunction with the financial statements and footnotes.

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

Financial Highlights

The following represents significant financial highlights for the VCCS in fiscal year 2014:

- Annual adjustments are made to the state budget to account for updated salary costs, fringe benefit rates, and other savings/expenses resulting from statewide operations during the fiscal year. In fiscal year 2014, approximately \$15.0 million was added to the VCCS budget for these purposes.
- General fund appropriations increased by approximately \$8.8 million in fiscal year 2014, from \$340.4 million to \$349.3 million. However, statewide budget reductions implemented from mid-fiscal year 2008 through fiscal year 2012 resulted in a significant decline in VCCS general fund revenues. The net result has been an overall decrease of 10.8% in general fund revenues from mid-fiscal year 2008 through fiscal year 2014.
- Several significant capital projects in the construction phase during fiscal year 2013 were substantially complete prior to the beginning of fiscal year 2014. Consequently, state capital appropriations revenue decreased by approximately \$34.7 million due to a reduction in Virginia College Building Authority (VCBA) reimbursements.
- Effective fall 2013, the State Board for Community Colleges approved a tuition increase of \$5.50 per credit hour for all students and tuition differential rate increases of \$2.00 per credit hour for Northern Virginia Community College (NVCC) and \$1.00 per credit hour for J. Sargeant Reynolds Community College (JSRCC), Tidewater Community College (TCC), Thomas Nelson Community College (TNCC), and Virginia Western Community College (VWCC). TCC offset the tuition differential increase with a \$1.00 decrease in its student activity fee. As a result of these changes and increases approved in the prior year that affected summer 2013 revenue, tuition and fee revenue increased approximately \$23.0 million in fiscal year 2014.
- From fiscal year 2013 to 2014, student full-time equivalent (FTE) enrollment decreased 2.28% from 123,651 FTEs to 120,827 FTEs. This decrease resulted in a decline in tuition and fee collections of approximately \$11.9 million in fiscal year 2014. One FTE represents 30 credit hours of classes taken by a student over an academic year and is calculated on an annual basis by taking the total credit hours taught divided by 30.

Financial Statements

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

Statement of Net Position

The Statement of Net Position presents the assets, deferred outflows of resources, liabilities, and deferred inflows of resources for the VCCS at the end of the fiscal year. The Statement also provides the net position of the VCCS at the end of the fiscal year. Net position is a residual amount equal to assets plus deferred outflows of resources less liabilities plus deferred inflows of resources. VCCS had no deferred inflows of resources in fiscal year 2014; therefore, net position is equal to assets plus deferred outflows of resources less liabilities. Net position is presented in three categories. The first category, "Net investment in capital assets," consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of any borrowings that are attributable to the acquisition, construction or improvement of those assets. The next category is "Restricted net position" which consists of restricted assets reduced by liabilities related to those assets. Restricted net position balances are further classified as nonexpendable or expendable. Nonexpendable balances consist of loan funds and permanent endowments (available for investment purposes only). Expendable balances are available for expenditure by the VCCS, but must be spent for purposes determined by external entities. Unrestricted net position balances are not subject to externally imposed restrictions and may be designated for specific purposes by management of the VCCS.

A summarized Statement of Net Position is as follows:

	(in thousands of dollars)			
	As of June 30:			
	2014	2013*	Dollar Change	Percentage Change
Assets				
Current assets	\$274,733	\$283,023	(\$8,290)	(2.93%)
Capital assets, net	1,281,161	1,262,947	18,214	1.44%
Other non-current assets	78,422	76,913	1,509	1.96%
Total Assets	\$1,634,316	\$1,622,883	\$11,433	0.70%
Deferred Outflows of Resources	597	682	(85)	(12.46%)
Total Assets and Deferred Outflows of Resources	\$1,634,913	\$1,623,565	\$11,348	0.70%
Liabilities				
Current liabilities	\$159,851	\$174,577	(\$14,726)	(8.44%)
Non-current liabilities	153,886	162,721	(8,835)	(5.43%)
Total Liabilities	\$313,737	\$337,298	(\$23,561)	(6.99%)

Net Position

Net investment in capital assets	\$1,170,686	\$1,153,018	\$17,668	1.53%
Restricted-nonexpendable	-	-	-	-
Restricted-expendable	11,187	15,395	(4,208)	(27.33%)
Unrestricted	139,304	117,854	21,450	18.20%
Total Net Position	\$1,321,177	\$1,286,267	\$34,910	2.71%

* June 30, 2013 amounts have been restated (see footnotes 1M and 7)

Current Assets

Current assets consist of \$213.4 million in cash and investments, \$17.2 million in accounts, notes, and interest receivable, \$8.8 million in amounts due from the commonwealth, \$32.7 million in prepaid expenses, and \$2.7 million in inventories. The \$8.3 million decrease in current assets was primarily attributable to decreases of \$13.4 million in cash and cash equivalents, \$4.1 million in accounts receivable, and \$1.9 million in amounts due from commonwealth, partially offset by an increase of \$11.5 million in prepaid expenses.

The \$13.4 million decrease in cash and cash equivalents represents a 5.9% decrease as compared to prior year and was primarily attributable to a reduction of \$6.1 million in securities and lending cash equivalents and a decision by TCC to shift \$20.2 million from cash equivalents to longer term investments. The securities and lending cash equivalent and investment balances represent the VCCS' allocated share of cash collateral received and reinvested and securities received for the State Treasury's securities lending program. A schedule providing the allocated amount for VCCS is provided by the State Comptroller's Office each fiscal year. Offsetting increases in cash and cash equivalents include \$3.4 million in private gift funds received by MECC and approximately \$9 million from increased fees to fund future student activity buildings and planned parking improvement initiatives at NVCC.

The decrease in accounts receivable was primarily due to final payment of insurance proceeds of \$1.5 million to Germanna Community College (GCC) for earthquake damage incurred during fiscal year 2012 and a decrease in the tuition receivable balance of \$2.5 million with a \$0.7 million decrease at GCC due to better monitoring and follow-up of past due accounts and a \$1.6 million decrease at Danville Community College due to a correction in receivable reporting.

Amounts due from commonwealth decreased primarily because of a change in commonwealth policy with regard to interest on educational and general (E&G) cash balances and small purchase charge card (SPCC) rebates. Related revenue for fiscal year 2013, reported as a due from commonwealth as of June 30, 2013, was \$1.8 million. However, during the 2014 Special Session, the General Assembly removed the provision requiring payment of E&G related interest and SPCC rebates to colleges. Therefore, no related due from amount was recorded for fiscal year 2014.

The increase in prepaid expenses was primarily due a \$10.7 million increase in prepayments by NVCC. The college had additional funds available because certain initiatives budgeted for expenditure during fiscal year 2014 were not started as planned.

Capital Assets, Net of Accumulated Depreciation

The overall increase of \$18.2 million in net capital assets was due to changes across various capital asset categories. The following table compares fiscal year 2014 to fiscal year 2013 capital asset balances by category:

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

As of June 30:

Capital Asset Category	2014	2013*	Dollar Change	Percentage Change
Land	\$66,437	\$65,397	\$1,040	1.59%
CIP	41,116	164,590	(123,474)	(75.02%)
Land Improvements	36,967	34,091	2,876	8.44%
Infrastructure	42,607	32,323	10,284	31.82%
Buildings	1,000,734	874,185	126,549	14.48%
Equipment	67,545	66,319	1,226	1.85%
Intangibles	11,749	11,302	447	3.96%
Library books	14,006	14,740	(734)	(4.98%)
Total	\$1,281,161	\$1,262,947	\$18,214	1.44%

*June 30, 2013 amounts have been restated (see footnote 1M)

Land increased due to the purchase of 13.5 acres by Patrick Henry Community College (PHCC). Construction in Progress (CIP) decreased and buildings, land improvements, and infrastructure increased due to reclassification of completed capital projects on various campuses from CIP to the applicable depreciable asset categories (e.g. TCC's Virginia Beach, Norfolk, and Chesapeake Student Centers, NVCC's Woodbridge Campus Academic Building). Other current year additions to buildings included completed projects at Blue Ridge Community College (BRCC) and completion of the Student Center and the Learning Resource Center projects at Southside Virginia Community College (SSVCC.). Equipment purchases increased in fiscal year 2014 due to a delay in funding of the fiscal year 2013 ETF allocation. Colleges were unable to request reimbursement until fiscal year 2014 and consequently, many chose to defer 2013 purchases until 2014. Intangible assets increased due to capitalization of software costs for development of the VCCS website and the purchase and implementation of a Decision Support System. Library books decreased due to unit reductions at BRCC and Paul D Camp Community College (PDCCC) coupled with an overall increase in accumulated depreciation in excess of asset additions.

Other Non-Current Assets

The \$1.5 million increase in other non-current assets was due to an increase of \$21.4 million in other long-term investments, partially offset by decreases of \$5.5 million in restricted cash and cash equivalents, \$11.9 million in cash equivalents with trustees, and \$2.4 million in appropriation available.

The increase in other long-term investments was due to student center revenues received by TCC and invested to cover future student center operations and maintenance. The decrease in restricted cash and cash equivalents was primarily attributable to decreases in local plant fund cash held by TCC, JSRCC, and Thomas Nelson Community College (TNCC) as additional funds were expended on various locally funded capital projects.

Cash equivalents held with trustees consists of balances in State Non-Arbitrage Program (SNAP) accounts related to pooled bond capital projects. The overall balance decreased by \$11.9 million in fiscal year 2014 as payments continued on various pooled bond projects.

During fiscal year 2013, the VCCS received \$3.7 million in capital appropriation revenue for planning costs related to projects at seven VCCS colleges. The funds had not been expended as of June 30, 2013 and the balance was classified as appropriation available. During fiscal year 2014, \$2.4 million was expended and the remaining balance of \$1.3 million was classified as appropriation available as of June 30, 2014.

Deferred Outflows of Resources

The financial statement category deferred outflows of resources is used to report consumption of net assets applicable to a future reporting period. The balances reported for fiscal years 2013 and 2014 represent the unamortized deferred loss on defeasance of debt related to refinancing of pooled bond issuances at NVCC and JSRCC.

Current Liabilities

Current liabilities consist of accounts and retainage payable of \$23.7 million, accrued payroll expense of \$47.9 million, unearned revenue of \$49.6 million, long-term obligations (current portion) of \$32.5 million, deposits of \$5.9 million, and securities and lending obligations and amounts due from commonwealth totaling \$0.2 million.

Current liabilities decreased \$14.7 million in fiscal year 2014 primarily due to decreases of \$6.7 million in accounts and retainage payable, \$6.5 million in securities lending obligations, and \$3.6 million in unearned revenue offset by increases of \$1.3 million in current accrued leave liability and \$0.5 million in accrued payroll expense. The securities and lending obligation represents the VCCS' allocated share of securities received for securities lending transactions held in the general account of the Commonwealth of Virginia. A schedule providing the allocated amount for VCCS is provided by the State Comptroller's Office each fiscal year and fluctuations between years are common. The change in unearned revenue represents a decrease of approximately 6.7% and is attributable to a decline in summer enrollment. FTEs for summer 2014 as compared to summer 2013 decreased at 22 of the 23 colleges and resulted in an overall VCCS summer FTE enrollment decrease of 7.2%.

Non-Current Liabilities

Non-Current liabilities consist of capital lease liabilities of \$6.3 million, installment purchases payable of \$3.9 million, pooled bonds of \$124.8 million, accrued leave of \$13.9 million, federal loan program amounts due of \$4.8 million, and unearned revenue of \$0.2 million. The decrease of \$8.8 million in non-current liabilities was due to current year payment of principal on pooled bond, capital lease, and installment purchase notes, current year amortization of bond premiums, and reclassification of principal payments due within one year from long-term to short-term.

Net Position

The \$17.7 million increase in net investment in capital assets is explained by an increase of \$18.2 million in capital assets, net of accumulated depreciation, reduced by an increase of \$0.5 million in capital asset related debt. The decrease of \$4.2 million in restricted expendable net position was due to increased spending on state and local capital projects from funds with external restrictions. The increase of \$21.5 million in unrestricted net position was primarily due to changes in year-end accruals related to operating funds, indirect cost recoveries in excess of redistributions and expenses, additional commission and vending revenues, and increased revenues from other sources at several colleges, including a \$3.3 million unrestricted gift to Mountain Empire Community College (MECC) and increases in parking revenue and local capital contributions at NVCC. The balance in total net position is a residual amount equal to total assets and deferred outflows of resources less total liabilities and is one measure of the current financial condition of an organization. The increase of 2.71% is an indication that the overall financial condition of the VCCS improved in fiscal year 2014.

Statement of Revenues, Expenses and Changes in Net Position

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

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

(in thousands of dollars)

	For the year ended June 30:		Dollar Change	Percentage Change
	2014	2013*		
Operating revenue	\$513,236	\$512,794	\$442	0.09%
Operating expenses	1,208,283	1,199,318	8,965	0.75%
Operating loss	(\$695,047)	(\$686,524)	(\$8,523)	1.24%
Non-operating revenues and expenses	\$671,881	\$669,099	\$2,782	0.42%
Income (loss) before other revenues, expenses, gains or losses	(\$23,166)	(\$17,425)	(\$5,741)	32.95%
Other revenues	\$58,076	\$93,989	(\$35,913)	(38.21%)
Increase in net position	\$34,910	\$76,564	(\$41,654)	(54.40%)
Net position, beginning of year	\$1,286,267	\$1,209,703	\$76,564	6.33%
Net position, end of year	\$1,321,177	\$1,286,267	\$34,910	2.71%

* June 30, 2013 amounts have been restated (see footnote 1M)

The following table is a more detailed representation and comparison of amounts included in operating, non-operating, and other (capital) revenues during the periods ended June 30, 2014 and 2013:

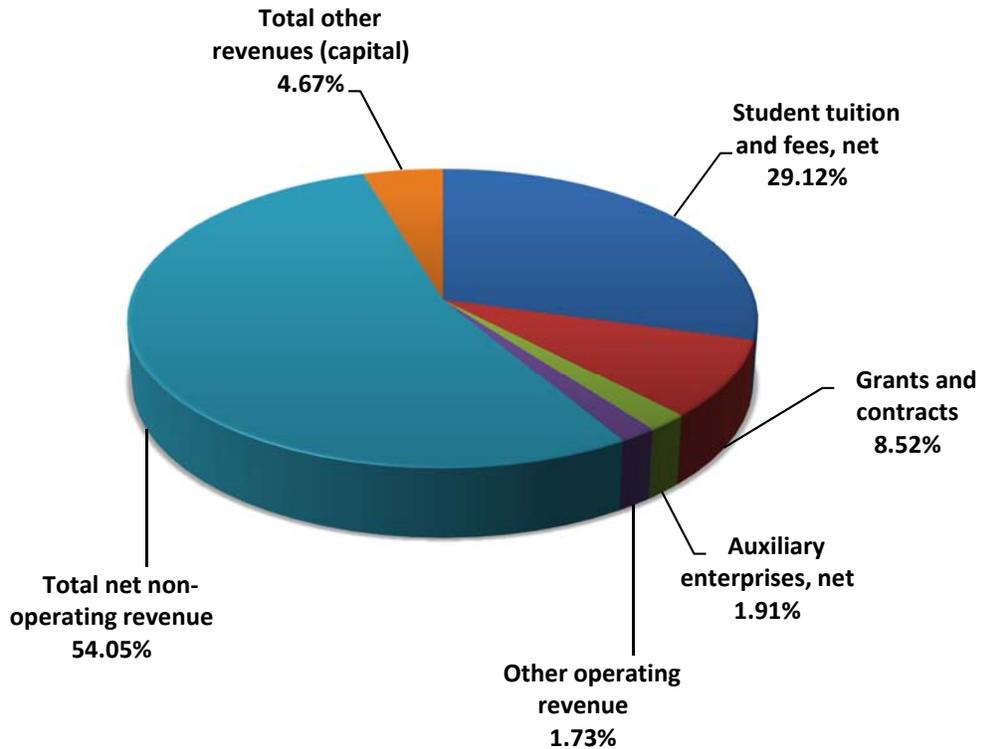
Summary of Revenues
For the years ended June 30, 2014 and 2013
(in thousands of dollars)

	2014	2013	Dollar Change	Percentage Change
Operating revenues				
Student tuition and fees, net	\$361,983	\$360,487	\$1,496	0.41%
Grants and contracts	105,981	107,348	(1,367)	(1.27%)
Auxiliary enterprises, net	23,706	21,279	2,427	11.41%
Other operating revenue**	21,565	23,680	(2,115)	(8.93%)
Total Operating Revenues	\$513,235	\$512,794	\$441	0.09%
Non-operating activity				
State operating appropriations	\$404,868	\$397,827	\$7,041	1.77%
Local operating appropriations	2,521	2,190	331	15.11%
Grants and gifts	271,706	269,020	2,686	1.00%
Investment income	994	2,518	(1,524)	(60.52%)
Interest expense	(4,145)	(1,977)	(2,168)	109.66%
Other	(4,063)	(479)	(3,584)	748.23%
Total net non-operating revenue	\$671,881	\$669,099	\$2,782	0.42%
Other revenues (capital)				
Capital appropriations-state	\$47,741	\$82,432	(\$34,691)	(42.08%)
Capital appropriations-local	7,285	6,602	683	10.35%
Capital gifts and grants	3,050	4,955	(1,905)	(38.45%)
Total other revenues (capital)	\$58,076	\$93,989	(\$35,913)	(38.21%)
Total revenues	\$1,243,192	\$1,275,882	(\$32,690)	(2.56%)

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

A graphic presentation of fiscal year 2014 revenues by source (per the Statement of Revenues, Expenses and Changes in Net Position) is below.

Total Revenue - By Source



Operating Revenues

Total operating revenues remained relatively constant as compared to the prior year with a total percentage increase of only 0.09%. Gross student tuition and fee revenues (before scholarship discounts and allowances) rose by approximately \$5.1 million, an increase of 0.95%. Increased revenue from higher tuition and fee rates was offset by decreased revenue due to fewer student FTEs, changes in related accrual balances, and reclassification of student center revenue from tuition and fees to auxiliary enterprises as student centers became operational. In addition, scholarship discounts and allowances changed little in the current year with an increase of only 2.0%; therefore, net tuition and fees revenue remained relatively flat in fiscal year 2014 as compared to fiscal year 2013. Auxiliary enterprise revenue did increase in the current year due to additional parking and facilities revenues, while other operating revenue fell because of a decrease in current year refunds of prior year operating disbursements and due to reduced commission and vending revenues. Since total auxiliary and other operating revenues compose less than 10% of total operating revenues, these changes had little impact on the overall percentage change.

Non-operating and Other Revenues

Total net non-operating revenue (non-operating and other) decreased by \$33.1 million or 4.3% as compared to the prior year primarily as a result of a \$34.7 million decline in state capital

appropriation revenue related to a reduction in Virginia College Building Authority (VCBA) reimbursements in fiscal year 2014. Specifically, there was a decrease in VCBA reimbursements of \$14 million at NVCC and \$10 million at TCC because several projects at NVCC and TCC were in the construction phase during fiscal year 2013, but were substantially complete prior to the beginning of fiscal year 2014.

The following table is a detailed breakdown of operating expenses by function and a comparison of changes by category for the periods ended June 30, 2014 and 2013:

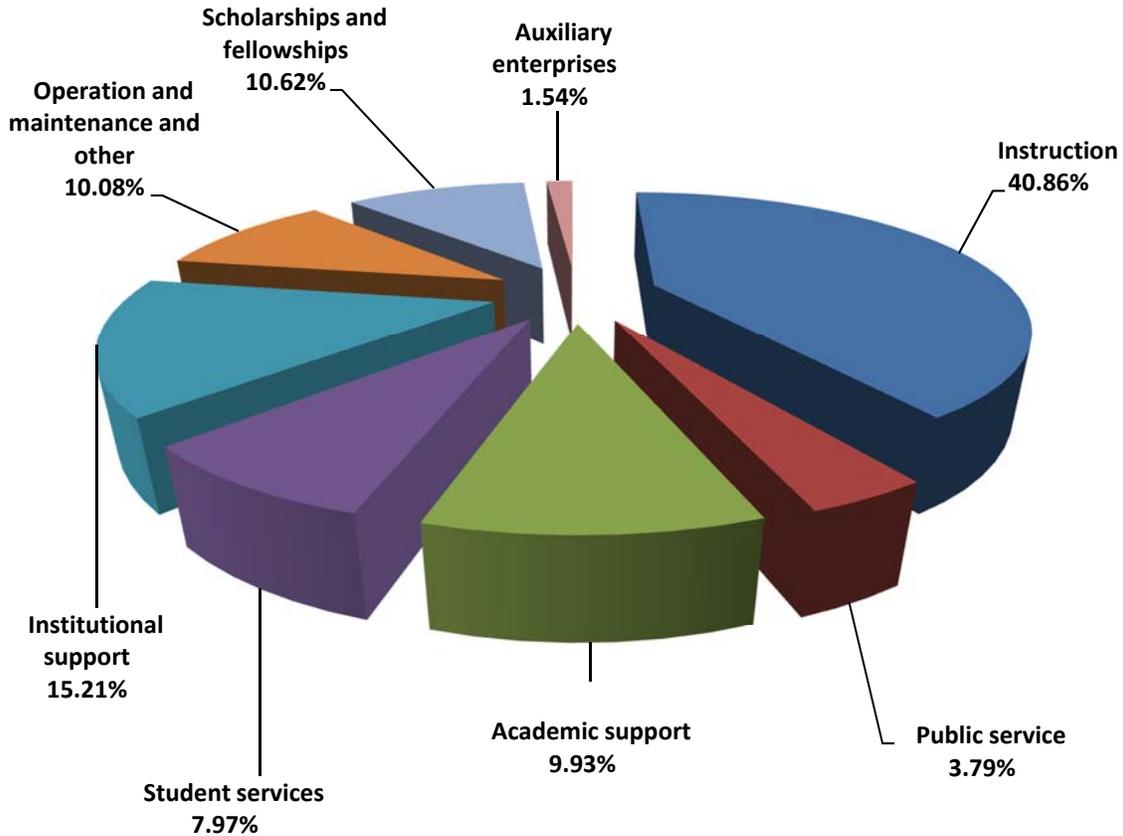
Summary of Expenses by Function
For the years ended June 30, 2014 and 2013
(in thousands of dollars)

	<u>2014</u>	<u>2013*</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating expenses:				
Instruction	\$493,718	\$497,314	(3,596)	(0.72%)
Public service	45,833	51,829	(5,996)	(11.57%)
Academic support	119,952	105,705	14,247	13.48%
Student services	96,242	90,445	5,797	6.41%
Institutional support	183,775	180,832	2,943	1.63%
Operation and maintenance	121,667	125,550	(3,883)	(3.09%)
Scholarships and fellowships	128,295	135,232	(6,937)	(5.13%)
Auxiliary enterprises	18,615	12,304	6,311	51.29%
Other expenses	185	107	78	72.90%
Total operating expenses	<u>\$1,208,282</u>	<u>\$1,199,318</u>	<u>\$8,964</u>	<u>0.75%</u>

* June 30, 2013 amounts have been restated (see footnote 1M)

A graphic presentation of fiscal year 2014 operating expenses by function (per the Statement of Revenues, Expenses and Changes in Net Position) is below.

Operating Expenses Functional Category



Operating Expenses

Operating expenses totaled approximately \$1.2 billion for fiscal 2014 and grew by \$9.0 million. The natural expense category, compensation and benefits, comprised \$720 million of total VCCS operating expenses. This category increased by \$14.4 million (2%) due to normal fluctuations in staffing levels and increased employee benefit costs. Scholarship expenses declined by \$6.8 million (4.9%) due to decreased enrollment, and the net change across the other natural expense categories (e.g. utilities, depreciation, and supplies, services, and other expenses) was an increase of \$1.3 million (0.4%). These changes resulted in fluctuations between functional categories, but the overall effect was an increase in total operating expenses of less than 1%.

Statement of Cash Flows

The Statement of Cash Flows provides additional information about the financial results of the VCCS by reporting the major sources and uses of cash.

A summary of the cash flows is as follows:

(in thousands of dollars)

For the year ended
June 30:

	2014	2013*	Dollar Change	Percentage Change
Cash received from operations	\$511,342	\$508,055	\$3,287	0.65%
Cash used in operations	1,152,619	1,139,002	13,617	1.20%
Net cash used in operations	(\$641,277)	(\$630,947)	(\$10,330)	1.64%
Net cash provided by non-capital financing activities	\$671,034	\$661,171	\$9,863	1.49%
Net cash used in capital and related financing activities	(35,424)	(4,693)	(30,731)	(654.83%)
Net cash provided by (used in) investing activities	(19,002)	(5,111)	(13,891)	(271.79%)
Net increase (decrease) in cash and cash equivalents	(\$24,669)	\$20,420	(\$45,089)	(220.81%)
Cash and cash equivalents, beginning of year as adjusted	\$274,755	\$254,335		
Cash and cash equivalents, end of year	\$250,086	\$274,755		

* June 30, 2013 amounts have been restated (see footnote 1M)

The primary operating sources of cash for the VCCS included tuition and fees of \$360.5 million, operating grants and contracts of \$106.1 million, and auxiliary revenues of \$24 million. The primary uses of operating cash included employee salaries, wages, and fringe benefits of \$717.5 million, operating expenses (payments to suppliers/others and utilities) of \$283 million and scholarships of \$132.8 million. Net cash used in operations is significantly greater than the cash received from operations on this statement due to the required presentation of state appropriation and grants/gifts as cash flows from non-capital financing activities. Net cash provided by non-capital financing was higher due to increased state appropriations. Net cash flows from capital and related financing activities decreased \$30.7 million largely due to a \$58 million decrease in state capital appropriations, a \$64.6 million decrease in capital asset purchases and a \$32.7 million decrease in proceeds from bond issue. Net cash provided by (used in) investing activities decreased \$13.9 million due to additional investments purchased by TCC for future student center operation and maintenance. The overall decrease in cash and cash equivalents was \$24.7 million at the end of fiscal year 2014.

Economic Outlook

In fiscal year 2014, the Commonwealth predicted a 1.0% increase in general fund revenues and this prediction was not realized as revenue collections actually decreased by 1.6%. This was the first year in which revenues declined after three consecutive years of increasing revenues. In response to revenue shortfalls in previous years, the Commonwealth permanently reduced the VCCS general fund by approximately \$75.5 million between fiscal years 2008 and 2012; however, \$51.2 million has been added since that time including \$18.1 million for fiscal year 2015. The net effect for fiscal year 2015 and future years is that VCCS general funds will have been reduced by 6.2% or \$24.3 million as a result of state mandated budget reductions.

The Commonwealth of Virginia's recent authorization for new general funds was granted as incentives to minimize tuition increases. The State Board for Community Colleges adopted, during its strategic planning process, a concept of maintaining as much stability and predictability in tuition as possible, implementing manageable increases in both good times and bad in order to avoid spikes in tuitions. Further, the Board has noted its intention to keep VCCS tuition and mandatory fees at less than half the rates of public four year institutions in Virginia. The VCCS' rate in fiscal year 2015 will be 37.3% of the average of the four-year institutions for total tuition and mandatory fees.

Effective with the fall 2014 session, the State Board for Community Colleges approved a tuition increase of \$5.50 per credit hour and a technology fee increase of \$1.00 per credit hour applicable to all students. Within the VCCS, five colleges have instituted tuition differential rates ranging from \$1.00 per credit hour to \$24.80 per credit hour. The VCCS estimates that the tuition and technology fee increases will generate approximately \$25.0 million in tuition and deferred revenues in fiscal year 2015, assuming level enrollments.

Chapter 2, 2014 Special Session 1 of the Virginia Acts of Assembly, authorized the detailed planning of three new projects at various community college campuses during fiscal year 2015. The Acts of Assembly also authorized the funds for equipment for five projects for which construction was previously provided. In addition, the Act included approval of an appropriation for revenue bonds to construct a parking garage at Blue Ridge Community College.

The VCCS capitalized construction expenses totaling \$50 million during fiscal year 2014. These costs included some projects that are still in progress and some that were completed in fiscal year 2014. Construction costs for projects completed during fiscal year 2014 totaled \$173.4 million.

The VCCS entered into contractual commitments for capital projects totaling \$345.9 million as of June 30, 2014. Expenses processed against these commitments as of June 30, 2014 totaled \$260.5 million, leaving an unpaid commitment balance of \$85.4 million.

***FINANCIAL
STATEMENTS***

Virginia Community College System
Consolidated
Statement of Net Position
As of June 30, 2014

	<u>VCCS</u>	<u>Component Units Foundations</u>
ASSETS		
Current Assets		
Cash and cash equivalents (Note 2)	212,454,127	21,910,004
Appropriation available	10,483	
Short term investments (Note 2)	902,374	27,885,687
Accounts receivable, net (Note 3)	14,232,832	603,085
Pledges receivable (Note 3)		2,778,499
Due from commonwealth	8,829,828	
Interest receivable	408,625	171,955
Prepaid expenses	32,674,121	169,229
Inventories	2,688,259	
Notes receivable, net (Note 3)	<u>2,532,000</u>	<u>127,231</u>
Total Current Assets	<u>274,732,649</u>	<u>53,645,690</u>
Noncurrent Assets		
Restricted cash and cash equivalents (Note 2)	4,876,088	
Cash equivalents with trustees	32,805,705	
Endowment cash and cash equivalents (Note 2)	35,899	5,415,524
Appropriation available	1,305,589	
Endowment investments (Note 2)		109,020,933
Other long-term investments (Note 2)	30,795,745	41,292,331
Accounts receivable, net (Note 3)	11,490	313,357
Investments in real estate		2,122,674
Pledges receivable (Note 3)		8,186,341
Due from commonwealth	6,576,562	
Notes receivable, net (Note 3)	2,015,489	1,026,497
Non-depreciable capital assets, net (Note 4)	107,701,377	12,530,152
Depreciable capital assets, net (Note 4)	<u>1,173,459,247</u>	<u>9,797,608</u>
Total Noncurrent Assets	<u>1,359,583,191</u>	<u>189,705,417</u>
Total Assets	<u>1,634,315,840</u>	<u>243,351,107</u>
Deferred Outflows of Resources	597,300	
Total Assets and Deferred Outflows of Resources	<u>1,634,913,140</u>	<u>243,351,107</u>
Liabilities		
Current Liabilities		
Accounts and retainage payable (Note 5)	23,738,349	1,990,800
Accrued payroll expense	47,911,359	20,548
Unearned revenue	49,624,820	13,500
Long-term liabilities-current portion (Note 7)	32,446,232	323,311
Securities lending obligation	88,217	
Due to Commonwealth	153,050	
Deposits	<u>5,888,756</u>	<u>6,845,019</u>
Total Current Liabilities	<u>159,850,783</u>	<u>9,193,178</u>
Noncurrent Liabilities		
Unearned revenue	249,962	
Long-term liabilities (Note 7)	148,827,483	9,534,494
Due to federal government (Note 7)	<u>4,808,289</u>	
Total Noncurrent Liabilities	<u>153,885,734</u>	<u>9,534,494</u>
Total Liabilities	<u>313,736,517</u>	<u>18,727,672</u>

**Virginia Community College System
Consolidated
Statement of Net Position
As of June 30, 2014**

	VCCS	Component Units
Net Position	Foundations	Foundations
Net investment in capital assets	1,170,685,694	14,368,353
Restricted for:		
Nonexpendable		69,444,203
Expendable	11,187,031	83,894,251
Unrestricted	139,303,898	56,916,628
Total Net Position	1,321,176,623	224,623,435

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

**Virginia Community College System
Consolidated**

**Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2014**

	VCCS	Component Units Foundations
Revenues		
Operating Revenue		
Tuition and fees (net of scholarship allowance of \$182,733,167)	361,983,456	
Federal grants and contracts	90,810,761	
State and local grants	7,627,791	843,088
Nongovernmental grants	7,542,423	1,360,481
Sales/services of education department	244,718	
Auxiliary enterprises (net of scholarship allowance of \$4,691,934)	23,705,593	
Gifts and contributions		12,757,353
Endowment income		17,960,002
Other operating revenues	21,320,635	4,874,721
Total Operating Revenue	513,235,377	37,795,645
Expenses		
Operating Expenses		
Instruction	493,717,472	1,671,553
Public service	45,833,194	2,082,928
Academic support	119,952,297	2,917,256
Student services	96,242,442	579,540
Institutional support	183,775,107	6,522,876
Operation and maintenance	121,666,473	1,133,568
Scholarships and fellowships	128,295,278	6,486,478
Auxiliary enterprises	18,615,256	
Fundraising		1,780,475
Other expenses	185,075	250,876
Total Operating Expenses	1,208,282,594	23,425,550
Operating Income (Loss)	(695,047,217)	14,370,095
Nonoperating Revenues(Expenses)		
State appropriations (Note 11)	404,867,676	
Local appropriations	2,520,894	
Grants and gifts	271,706,660	
Investment income	993,881	6,492,840
Interest on capital asset related debt	(4,145,074)	
Other nonoperating revenue (expense)	(4,063,136)	13,165
Net Nonoperating Revenue	671,880,901	6,506,005
Income before other revenues, expenses gains (losses)	(23,166,316)	20,876,100
Capital appropriations-state (Note 18)	47,740,789	
Capital appropriations-local	7,285,739	
Capital gifts, grants and contracts	3,049,839	2,096,076
Additions to permanent and term endowments		12,590,094
Increase (Decrease) in Net Position	34,910,051	35,562,270
Net Position		
Net Position beginning of year, as restated (Note 1M)	1,286,266,572	189,061,165
Net Position end of year	1,321,176,623	224,623,435

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, 2014

	VCCS
Cash flows from operating activities:	
Tuition and fees	360,532,595
Grants and contracts	106,079,072
Payments to suppliers and others	(282,968,698)
Payments for employee wages	(564,506,103)
Payments for employee fringes	(152,952,567)
Payment for scholarships	(132,817,413)
Payments for utilities	(18,598,336)
Sales and services of education department	244,718
Auxiliary	24,011,757
Loans issued to students	(775,593)
Loans collected from students	899,514
Other	19,574,410
Net cash used by operating activities	(641,276,644)
Cash flows from non-capital financing activities:	
State appropriations	404,867,676
Local appropriations	2,520,894
Grants and gifts	265,135,546
Agency receipts	11,562,914
Agency disbursements	(11,672,837)
PLUS, Stafford and Direct Lending loan receipts	194,411,316
PLUS, Stafford and Direct Lending loan disbursements	(193,576,251)
Borrowings	5,704,500
Loan repayments	(6,470,000)
Other non-operating revenue(expense)	(1,449,970)
Net cash provided (used) by non-capital financing activities	671,033,788
Cash flows from capital financing activities:	
Capital appropriations-state	47,924,816
Capital appropriations-local	7,285,739
Capital grants and gifts	2,745,028
Purchase capital assets	(78,584,774)
Proceeds from sale of capital assets	364,621
Proceeds from bond issue	-
Debt interest payments	(6,531,236)
Debt principal payments	(8,627,807)
Net cash provided (used) by capital financing activities	(35,423,613)
Cash flows from investing activities:	
Purchases of investments	(23,153,244)
Sale of investments	1,844,685
Investment income	2,306,207
Net cash provided (used) by investing activities	(19,002,352)
Net incr (decr) in net position	
Net increase (decrease) in cash and cash equivalents	(24,668,821)
Cash and cash equivalents, beginning of year as restated (Note 1M)	274,755,188
Cash and cash equivalents, End of Year	250,086,367

**Virginia Community College System
Consolidated
Statement of Cash Flows
For the Year Ended June 30, 2014**

	VCCS
Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating income (loss)	(695,047,217)
Adjustment to reconcile operating income (loss) to net cash used in operating activities:	
Depreciation expense	57,532,640
Changes in assets and liabilities:	
Appropriation available and accounts receivable, net	9,731,735
Prepaid expenses and other	(11,573,664)
Accrued compensation and leave	1,820,329
Accounts payable and other	(184,334)
Unearned revenue	(3,502,655)
Deposits pending distribution	(53,478)
Net cash used in operating activities	(641,276,644)
Reconciliation of cash and cash equivalents:	
Cash and cash equivalents per Statement of Net Position	250,171,819
Less: Securities Lending Cash Equivalents	85,452
Cash and cash equivalents end of year	250,086,367
Noncash transactions	
Donated fixed assets	401,185
Debt principal and interest payments made by Treasury	2,012,610

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, 2014

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 discrete component units.

During the year ended June 30, 2014, the foundations distributed \$6,648,818 to the colleges for both restricted and unrestricted purposes. Complete financial statements for the foundations can be obtained by writing the VCCS Office of Fiscal Services, 101 N. 14th St., Richmond, VA 23219.

C. Financial Statement Descriptions

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

The Statement of Net Position presents the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the VCCS at the end of the fiscal year and also provides the amount of net position and the availability

for expenditure. The Statement of Revenues, Expenses and Changes in Net Position presents operating and non-operating revenues received by the institution, operating and non-operating expenses incurred and any other revenues, expenses, gains and losses. The Statement of Cash Flows provides additional information about the financial results of the VCCS by reporting the major sources and uses of cash.

D. Basis of Accounting

For financial reporting purposes, the VCCS is considered a special purpose government engaged in only business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods and services. Accordingly, the financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. All material internal transactions have been eliminated.

Revenues and expenses of the summer academic term occur within two fiscal years, because the term extends from May through August and the fiscal year ends on June 30. Expenses and an equal amount of revenue have been reported in the current period for the portion of the summer academic term from May 16 through June 30, 2014.

The community college foundations are private, nonprofit organizations that report under FASB standards. As such, certain revenue recognition criteria and presentation features are different from GASB. No modifications have been made to the financial information of the foundations in the financial statements of the VCCS regarding these criteria and presentation features.

The financial statements for the community college foundations are for the year ending June 30, 2014 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) which are as of December 31, 2013.

E. Prepaid Assets

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

F. Inventories

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

G. Investments

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

H. Capital Assets

Plant assets consisting of land, buildings, infrastructure, equipment, library books, intangible assets, and construction in progress are stated at appraised historical cost or actual cost where determinable. Improvements to buildings, infrastructure and land that significantly increase the usefulness, efficiency or life of the asset are capitalized. Routine maintenance and repairs are charged to operations when incurred. Interest expense relating to construction is capitalized. Donated assets are recorded at the estimated fair value at the date of donation. The fixed asset values presented in these financial statements are extracted from the financial data maintained by the System's Administrative Information System (AIS). Current fund expenses for equipment are capitalized when the unit acquisition cost is \$5,000 or greater and the estimated useful life is one year or more. Occupancy permits are used to determine when to reclassify buildings from construction-in-progress. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 20 to 25 years for infrastructure and land improvements, 3 to 25 years for equipment, 10 years for library books, and 5 to 10 years for intangible assets - computer software.

I. Accrued Compensated Absences

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

J. Classification of Revenues and Expenses

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

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

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

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

K. Scholarship Discounts and Allowances

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

that such revenues are used to satisfy tuition and fees and other student charges, the VCCS has recorded a scholarship discount and allowance.

L. Net Position

Net position balances are classified as follows:

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

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

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

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

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

M. Restatements

Statement of Revenues, Expenses, and Changes in Net Position:

Net Position as of June 30, 2013 - previously reported	\$1,286,184,175
Correction of NRCC understatements in capital assets and restricted cash and cash equivalents	815,612
Correction of BRCC understatement in capital assets	244,852
Change in accounting principle **	<u>(978,067)</u>
Net Position as of July 1, 2014 - as restated	<u>\$1,286,266,572</u>

**In March 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 65, Items previously reported as assets and liabilities, effective for the fiscal year beginning July 1, 2013. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities.

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 \$62,142,868 at June 30, 2014.

Investments

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

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

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. VCCS has no investments exposed to custodial credit risk for 2014.

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 2014.

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 2014.

<u>Cash Equivalents</u>	<u>Fair Value</u>	<u>Credit Rating</u>
Local Govt. Investment Pool	\$33,646,271	AAA
Certificates of Deposit	11,944,397	Not Rated
Repurchase Agreements	13,108,490	Not Rated
Mutual and Money Market Funds	1,653,935	Not Rated
Securities Lending ⁽¹⁾	85,452	
Total	<u>\$60,438,545</u>	

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less 1 year</u>	<u>1-5 years</u>
Agency Mortgage Backed Securities	\$277,959	-	\$277,959
Corporate Notes	802,175	-	802,175
Negotiable Certificates of Deposit	29,219,810	-	29,219,810
Municipal Securities	300,241	-	300,241
Mutual Funds	752,047	\$752,047	-
U.S. Treasury and Agency Securities	343,122	147,562	195,560
Securities Lending ⁽¹⁾	2,765	2,765	-
Total	<u>\$31,698,119</u>	<u>\$902,374</u>	<u>\$30,795,745</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, 2014:

Cash and cash equivalents	\$ 27,325,528
Investments:	
Mutual funds and money markets	\$ 79,327,101
Stocks	68,567,395
Corporate bonds	15,784,892
UVA investment fund	6,293,309
Certificates of deposits	2,455,620
Investment in real estate	2,122,674
U. S. government securities & bonds	1,945,549
Municipal bonds	1,495,979
Mortgage-backed securities	1,187,471
Cash surrender value of life insurance	574,484
Assets held for resale	330,448
Split interest agreement	129,692
Partnership investment	107,011
Total investments	<u>\$180,321,625</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, 2014:

Gross accounts receivable:	
Tuition and fees	\$ 11,010,189
Auxiliary enterprises	851,704
Federal, state, local and nongovernmental grants, gifts, contracts	2,598,727
Other activities	1,663,458
Total gross accounts receivable	<u>\$16,124,078</u>
Less: Allowance for doubtful accounts	<u>(1,879,756)</u>
Net accounts receivable	<u>\$14,244,322</u>
Gross Loans and notes receivable	\$ 4,883,313
Less: Allowance for doubtful accounts	<u>(335,824)</u>
Net loans and notes receivable	<u>\$ 4,547,489</u>

Receivables not expected to be collected within one year are \$2,026,979 in accounts, notes, and loans receivable.

Community College Foundations

The foundations have the following receivables as of June 30, 2014:

Gross accounts receivable	\$934,611
Less: Allowance for doubtful accounts	<u>(18,169)</u>
Net accounts receivable	<u>\$916,442</u>
Pledges receivable:	
Due in one year	\$2,996,377
Due in 1-5 years	8,893,340
Due in more than 5 years	278,661
Less: Allowance for doubtful accounts	(289,256)
Present value discount	<u>(914,282)</u>
Net pledges receivable	<u>\$10,964,840</u>
Gross loans and notes receivable	\$1,153,728
Less: Allowance for doubtful accounts	<u>-</u>
Net loans and notes receivable	<u>\$1,153,728</u>

Receivables not expected to be collected within one year are \$1,026,497 in notes and loans receivable and \$8,186,341 in pledges receivable.

4. CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2014 are as follows:

	Beginning* Balance	Increases	Decreases	Ending Balance
Nondepreciable capital assets:				
Land	\$65,397,324	\$1,039,748	-	\$66,437,072
Inexhaustible Works of Art	148,174	-	-	148,174
Construction in Progress	164,590,251	49,956,042	(173,430,162)	41,116,131
Total capital assets not being depreciated	\$230,135,749	\$50,995,790	(\$173,430,162)	\$107,701,377
Depreciable capital assets:				
Buildings	\$1,130,767,775	\$154,982,728		\$1,285,750,503
Infrastructure	53,929,828	13,070,986	-	67,000,814
Equipment	176,105,402	21,914,684	(7,020,833)	190,999,253
Land Improvements	77,485,597	5,911,408	-	83,397,005
Library Books	48,298,942	2,219,051	(1,728,556)	48,789,437
Intangible	45,979,484	1,509,966	(297,890)	47,191,560
Total other capital assets	\$1,532,567,028	\$199,608,823	(\$9,047,279)	\$1,723,128,572
Less accumulated depreciation for:				
Buildings	(\$256,582,740)	(\$28,434,092)		(\$285,016,832)
Infrastructure	(21,607,079)	(2,787,089)	-	(24,394,168)
Equipment	(109,934,199)	(19,261,279)	5,593,046	(123,602,432)
Land Improvements	(43,395,234)	(3,034,513)	-	(46,429,747)
Library Books	(33,559,145)	(2,952,900)	1,728,556	(34,783,489)
Intangible	(34,677,781)	(1,062,766)	297,890	(35,442,657)
Total accumulated depreciation	(\$499,756,178)	(\$57,532,639)	\$7,619,492	(\$549,669,325)
Other capital assets, net	\$1,032,810,850	\$142,076,184	(\$1,427,787)	\$1,173,459,247
Total capital assets, net	\$1,262,946,599	\$193,071,974	(\$174,857,949)	\$1,281,160,624

*Beginning balances as restated (see footnote 1M)

Community College Foundations

The foundations had the following capital assets as of June 30, 2014:

Non-depreciable capital assets:	
Land	\$ 2,923,463
CIP	9,480,562
Works of art	126,127

Total nondepreciable capital assets	<u>\$12,530,152</u>
Depreciable capital assets:	
Buildings	\$10,753,912
Equipment	1,177,176
Site improvement	556,004
Total depreciable capital assets	<u>\$12,487,092</u>
Less: Accumulated depreciation	<u>(2,689,484)</u>
Depreciable capital assets, net	<u>\$ 9,797,608</u>
Total capital assets, net	<u><u>\$22,327,760</u></u>

5. ACCOUNTS AND RETAINAGE PAYABLE

Accounts and retainage payable consisted of the following as of June 30, 2014:

Vendors payable	\$19,724,236
Students payable	646,939
Retainage payable	3,365,631
Taxes payable	1,543
Total	<u><u>\$23,738,349</u></u>

6. COMMITMENTS

At June 30, 2014, the VCCS had future contractual commitments totaling \$85,350,250. The System held \$3,365,631 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, 2014 is as follows:

	Beginning*	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Debt:					
Capital leases	\$10,050,791		\$1,887,667	\$8,163,124	\$1,859,361
Notes payable:					
Installment purchases	4,975,071		877,840	4,097,231	231,461
Pooled bonds	136,219,932		5,895,315	130,324,617	5,540,000
Other notes payable	6,470,000	5,704,500	6,470,000	5,704,500	5,704,500
Total bonds, notes and capital leases	<u>\$157,715,794</u>	<u>\$5,704,500</u>	<u>\$15,130,822</u>	<u>\$148,289,472</u>	<u>\$13,335,322</u>
Other liabilities:					
Compensated absences	31,686,726	24,538,767	23,241,250	32,984,243	19,110,910

	Beginning*	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Federal loan program contributions	4,792,728	15,561		4,808,289	
Total other liabilities	\$36,479,454	\$24,554,328	\$23,241,250	\$37,792,532	\$19,110,910
Total long-term liabilities	\$194,195,248	\$30,258,828	\$38,372,072	\$186,082,004	\$32,446,232

*Beginning balance as restated due to implementation of Governmental Accounting Standards Board (GASB) Statement No. 65, Items previously reported as assets and liabilities

8. NOTES PAYABLE

Notes payable represent agreements with the Virginia College Building Authority (VCBA) to finance the following projects:

Parking garage for the Medical Education campus of Northern Virginia Community College - The balance is to be repaid in annual installments ranging from \$340,000 to \$530,000 with coupon rates ranging from 3% to 5% payable semiannually. The final installment of \$530,000 is due September 1, 2021. The outstanding balance at June 30, 2014 is \$3,980,080.

Parking deck for the Annandale Campus of Northern Virginia Community College - The balance is to be repaid in annual installments ranging from \$355,000 to \$400,000 with a coupon rate of 5% payable semiannually. The final installment of \$360,000 is due September 1, 2023. The outstanding balance at June 30, 2014 is \$4,243,800.

Parking garage for J. Sargeant Reynolds Community College - The balance is to be repaid in annual installments ranging from \$200,000 to \$325,000 with coupon rates ranging from 3% to 5% payable semiannually. The final installment of \$325,000 is due September 1, 2022. The outstanding balance at June 30, 2014 is \$2,582,247.

Student Center for Tidewater Community College Norfolk Campus - The balance is to be repaid in annual installments ranging from \$510,000 to \$1,100,000 with an average coupon rate of 4.17% payable semiannually. The final installment of \$1,100,000 is due September 1, 2028. The outstanding balance at June 30, 2014 is \$12,615,471.

Workforce Training and Technology Center for J. Sargeant Reynolds Community College - The balance is to be repaid in annual installments ranging from \$30,000 to \$75,000 with an average coupon rate of 4.914% payable semiannually. The final installment of \$75,000 is due September 1, 2029. The outstanding balance at June 30, 2014 is \$893,655.

Student Center for Tidewater Community College Virginia Beach Campus – The balance is to be repaid in annual installments ranging from \$420,000 to \$1,600,000 with coupon rates ranging from 3% to 5% payable semiannually. The final installment of \$585,000 is due September 1, 2030. The outstanding balance at June 30, 2014 is \$20,749,674.

Student Center for Tidewater Community College Chesapeake Campus - The balance is to be repaid in annual installments ranging from \$500,000 to \$1,125,000 with coupon rates ranging from 3% to 5% payable semiannually. The final installment of \$415,000 is due September 1, 2030. The outstanding balance at June 30, 2014 is \$14,583,857.

Academic Building for Tidewater Community College Chesapeake Campus - The balance is to be repaid in annual installments ranging from \$170,000 to \$325,000 with an average coupon rate of 4.969% payable semiannually. The final installment of \$325,000 is due September 1, 2024. The outstanding balance at June 30, 2014 is \$3,104,813.

Student Center for Blue Ridge Community College Weyers Cave Campus - The balance is to be repaid in annual installments ranging from \$335,000 to \$660,000 with a coupon rate of 3.12% payable semiannually. The final installment of \$660,000 is due September 1, 2030. The outstanding balance at June 30, 2014 is \$8,996,449.

Student Center for Tidewater Community College Portsmouth Campus - The balance is to be repaid in annual installments ranging from \$520,000 to \$1,065,000 with a coupon rate of 3.12% payable semiannually. The final installment of \$1,065,000 is due September 1, 2030. The outstanding balance at June 30, 2014 is \$14,550,000.

Student Center for Virginia Western Community College - The balance is to be repaid in annual installments ranging from \$200,000 to \$465,000 with an average coupon rate of 4.23% payable semiannually. The final installment of \$465,000 is due September 1, 2031. The outstanding balance at June 30, 2014 is \$6,415,619.

Parking garage for Germanna Community College - The balance is to be repaid in annual installments ranging from \$175,000 to \$405,000 with an average coupon rate of 4.23% payable semiannually. The final installment of \$405,000 is due September 1, 2031. The outstanding balance at June 30, 2014 is \$5,578,253.

Parking garage for John Tyler Community College Midlothian Campus - The balance is to be repaid in annual installments ranging from \$210,000 to \$440,000 with an average coupon rate of 3.6% payable semiannually. The final installment of \$440,000 is due September 1, 2032. The outstanding balance at June 30, 2014 is \$6,836,072.

Parking garage for Tidewater Community College Chesapeake Campus - The balance is to be repaid in annual installments ranging from \$740,000 to \$1,620,000 with an average coupon rate of 3.6% payable semiannually. The final installment of \$1,620,000 is due September 1, 2032. The outstanding balance at June 30, 2014 is \$25,194,627.

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

Other notes payable of \$5,704,500 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
2015	\$5,540,000	\$5,449,835	\$10,989,835
2016	5,790,000	5,180,804	10,970,804
2017	6,060,000	4,892,604	10,952,604
2018	6,365,000	4,592,391	10,957,391
2019	6,660,000	4,276,291	10,936,291
2020-2024	36,055,000	16,412,572	52,467,572
2025-2029	37,135,000	8,041,100	45,176,100
2030-2034	17,575,000	977,637	18,552,637
Sub Totals	<u>\$121,180,000</u>	<u>\$49,823,234</u>	<u>\$171,003,234</u>
Plus: Bond Premium	9,144,617		9,144,617
Totals	<u>\$130,324,617</u>	<u>\$49,823,234</u>	<u>\$180,147,851</u>

9. LEASE COMMITMENTS AND INSTALLMENT PURCHASES

The System is committed under various capital lease, operating lease, and installment purchase agreements. The cost of assets capitalized under capital lease and installment purchase agreements total \$32,021,622 and \$5,107,175, respectively. Rent expense under operating lease agreements amounted to \$11,464,488 for the year. A summary of future obligations under lease agreements as of June 30, 2014 follows:

Year Ending June 30	Capital Lease Obligations	Installment Purchase Obligations	Operating Lease Obligations
2015	\$2,201,398	\$302,894	\$ 2,608,944
2016	2,383,355	489,796	6,987,503
2017	1,281,281	489,796	5,494,205
2018	1,108,932	489,794	5,153,335
2019	1,107,492	489,795	4,930,686
2020-2024	1,520,426	2,185,861	6,028,775
2025-2029		347,963	
Total obligation and gross minimum lease payments	\$9,602,884	\$4,795,899	\$31,203,448
Less: Interest	(1,439,760)	(698,668)	
Present value of minimum lease payments	<u>\$8,163,124</u>	<u>\$4,097,231</u>	<u>\$31,203,448</u>

10. OPERATING EXPENSES BY NATURAL AND FUNCTIONAL CLASSIFICATIONS

VCCS operating expenses for the year ended June 30, 2014 were as follows:

Natural Classification

Functional Classification	Salaries & Benefits	Utilities	Scholarships	Depreciation	Supplies, Services & Other	Total
Instruction	\$ 384,732,449	\$ 187,434	\$ 2,563,270	\$ 37,860,604	\$ 68,373,715	\$ 493,717,472
Public Service	7,118,271		80,341		38,634,582	45,833,194
Acad. Support	81,804,633	67,262	352,235	6,443,438	31,284,729	119,952,297
Student Services	79,316,877	2,806	695,579	1,364,437	14,862,743	96,242,442
Inst. Support	123,245,867	220,187	1,162,923	8,745,007	50,401,123	183,775,107
O & M of Plant	38,875,016	17,919,560	1,400	3,050,777	61,819,720	121,666,473
Schol. & Fellows.	92,877		127,865,429		336,972	128,295,278
Aux. Enterprises	4,428,742	323,401	42,480	68,377	13,752,256	18,615,256
Other Expenses					185,075	185,075
Total Expenses	\$ 719,614,732	\$ 18,720,650	\$ 132,763,657	\$ 57,532,640	\$ 279,650,915	\$ 1,208,282,594

11. STATE APPROPRIATIONS

All Commonwealth unrestricted revenues must be appropriated by the Legislature and are provided on an annual basis. Unspent balances of these appropriations at the close of the fiscal year revert to the Commonwealth's General Fund. These reverted funds are eligible for re-appropriation in fiscal year 2014-15 provided that the VCCS meets financial and administrative standards outlined in the *Code of Virginia*.

During the year ended June 30, 2014, the Virginia Community College System received the following general fund appropriations in accordance with Chapter 1, 2014 Special Session I, Virginia Acts of Assembly.

Appropriated – Chapter 1 – approved April 1, 2014	\$349,260,407
Additions:	
Net central accounts distribution	15,026,815
Other:	
Transfer from SCHEV – VIVA	37,090
Transfer from VEDP	195,000
Carryover fiscal year 2013 year-end balances	26,035,300
Equipment Trust Fund lease payment	(633,657)
Reclassification of capital project planning fees	(220,000)
Reclassification of apprenticeship related funds	(100,000)
Capital fee transfers	(3,222,450)
Philpott manufacturing	(398,788)
Reversion	(21,857,154)
Adjusted Unrestricted Appropriations	<u>\$364,122,563</u>

Other restricted appropriations were \$40,745,113 for a total of \$404,867,676.

12. EQUIPMENT TRUST FUND

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

13. DONOR-RESTRICTED ENDOWMENTS

VCCS has two donor-restricted endowments. The net appreciation on investments of donor-restricted endowments that is available for expenditure by the governing board did not change for the year ended June 30, 2014. These amounts are reported as restricted expendable net position. Total-return policy is followed for authorizing and spending investment income.

14. CONTINGENCIES ON GRANTS

The VCCS receives assistance from non-state grantor agencies in the form of grants. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant agreements. Substantially all grants are subject to financial and compliance audits by the grantors. All disallowances as a result of these audits become a liability of the VCCS. As of June 30, 2014, the VCCS estimates that no material liabilities will result from such audits.

15. PENSION PLAN

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

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

Participants in the ORP may select from one of five plan administrators for the receipt and investment of contributions. This is a fixed-contribution plan where the retirement benefits received are based on the employer's (10.4%) contributions, plus interest and dividends for those employees who became a member prior to July 1, 2010. For those employees who became a member on or after July 1, 2010, the employer's contributions are 8.5% and the employee's contributions are 5%.

Individual contracts issued under the ORP plan provide for full and immediate vesting of the VCCS contributions. Total pension costs under this plan were \$6,133,621 and \$6,015,967 for years ended June 30, 2014 and 2013, respectively. Contributions to the ORP plan were calculated using the base salary amount of \$62,414,223 and \$59,511,553 for fiscal years 2014 and 2013. The VCCS total payroll for fiscal years 2014 and 2013 was \$564,049,623 and \$551,122,545 respectively.

Employees of the VCCS are employees of the Commonwealth of Virginia. State employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to \$20 per pay period. The dollar amount match can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the

Internal Revenue Code. Employer contributions under the Deferred Compensation Plan were approximately \$2,033,807 for fiscal year 2014.

16. RISK MANAGEMENT

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

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

17. POST-EMPLOYMENT BENEFITS

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

18. CAPITAL APPROPRIATIONS-STATE

Capital appropriations-state is comprised of the following:	
General Fund Reversion	\$ (48,876)
Virginia College Building Authority appropriation revenue	45,556,627
General Obligation Bond appropriation revenue	428
Central Capital Planning Fund (net pre-planning revenue)	220,000
Tidewater Community College capital lease agreement	<u>2,012,610</u>
Total	<u>\$47,740,789</u>

19. COMPONENT UNIT FINANCIAL INFORMATION

Below is a summary of the foundations.

VCCS has five major component units—Northern Virginia Community College Educational Foundation, Mountain Empire Community College Foundation, Patrick Henry Community College Foundation, Southwest Virginia Community College Educational Foundation, and Virginia Western Community College Educational Foundation. Additionally, the System has twenty-two non-major component units—Blue Ridge Community College Educational Foundation, Central Virginia Community College

Educational Foundation, Dabney S. Lancaster Community College Educational Foundation, Danville Community College Educational Foundation, Eastern Shore Community College Foundation, Germanna Community College Educational Foundation, J. Sargeant Reynolds Community College Educational Foundation, J. Sargeant Reynolds Community College Real Estate Foundation, John Tyler Community College Foundation, Lord Fairfax Community College Educational Foundation, New River Community College Educational Foundation, Paul D. Camp Community College Foundation, Piedmont Community College Educational Foundation, Rappahannock Community College Educational Foundation, Southside Virginia Community College Foundation, Thomas Nelson Community College Educational Foundation, Tidewater Community College Educational Foundation, Tidewater Community College Real Estate Foundation, Virginia Highlands Community College Educational Foundation, Wytheville Community College Educational Foundation, Wytheville Community College Scholarship Foundation, and the Virginia Foundation for Community College Education. These organizations are separately incorporated entities and other auditors examine the related financial statements.

Virginia Community College System Foundations
Statement of Net Position
As of June 30, 2014

	Southwest Virginia Community College Educational Foundation	Northern Virginia Community College Educational Foundation	Patrick Henry Community College Educational Foundation	Mountain Empire Community College Educational Foundation	Virginia Western Community College Educational Foundation	Combined Non- Major Component Units	Total Component Units
ASSETS							
Total current assets	\$ 18,285,242	\$ 14,740,514	\$ 1,230,513	\$ 261,387	\$ 873,960	\$ 18,254,074	\$ 53,645,690
Noncurrent assets:							
Other noncurrent assets	-	10,108,561	14,715,008	17,398,962	12,053,346	113,101,780	167,377,657
Capital assets, net	4,605,759	-	578,000	624	10,792	17,132,585	22,327,760
Total noncurrent assets	4,605,759	10,108,561	15,293,008	17,399,586	12,064,138	130,234,365	189,705,417
Total assets	<u>22,891,001</u>	<u>24,849,075</u>	<u>16,523,521</u>	<u>17,660,973</u>	<u>12,938,098</u>	<u>148,488,439</u>	<u>243,351,107</u>
LIABILITIES							
Total current liabilities	17,083	6,893,095	9,441	52,984	79,704	2,140,871	9,193,178
Noncurrent liabilities:							
Long-term liabilities	-	-	-	-	-	9,534,494	9,534,494
Other noncurrent liabilities	-	-	-	-	-	-	-
Total noncurrent liabilities	-	-	-	-	-	9,534,494	9,534,494
Total liabilities	<u>17,083</u>	<u>6,893,095</u>	<u>9,441</u>	<u>52,984</u>	<u>79,704</u>	<u>11,675,365</u>	<u>18,727,672</u>
NET POSITION							
Net investment in capital assets	4,605,759	-	578,000	624	10,792	9,173,178	14,368,353
Restricted for:							
Nonexpendable	-	3,575,038	6,415,862	6,503,358	-	52,949,945	69,444,203
Expendable	8,539,478	5,544,954	2,240,268	6,881,233	11,830,594	48,857,724	83,894,251
Unrestricted	9,728,681	8,835,988	7,279,950	4,222,774	1,017,008	25,832,227	56,916,628
Total Net Position	<u>\$ 22,873,918</u>	<u>\$ 17,955,980</u>	<u>\$ 16,514,080</u>	<u>\$ 17,607,989</u>	<u>\$ 12,858,394</u>	<u>\$ 136,813,074</u>	<u>\$ 224,623,435</u>

Virginia Community College System Foundations
Statement of Revenues, Expenses, and Changes in Net Position
As of June 30, 2014

	Southwest Virginia Community College Educational Foundation	Northern Virginia Community College Educational Foundation	Patrick Henry Community College Educational Foundation	Mountain Empire Community College Educational Foundation	Virginia Western Community College Educational Foundation	Combined Non- Major Component Units	Total Component Units
Total operating revenues	\$ 3,738,831	\$ 2,249,451	\$ 2,922,944	\$ 2,836,266	\$ 2,484,420	\$ 23,563,733	\$ 37,795,645
Total operating expenses	1,134,776	1,952,652	1,436,189	689,557	1,528,241	16,684,135	23,425,550
Operating income (loss)	2,604,055	296,799	1,486,755	2,146,709	956,179	6,879,598	14,370,095
Nonoperating revenues (expenses):							
Investment Income	1,982,426	1,150,852	-	-	318,006	3,041,556	6,492,840
Other nonoperating revenues (expenses)	-	-	13,165	-	-	-	13,165
Net nonoperating revenue	1,982,426	1,150,852	13,165	-	318,006	3,041,556	6,506,005
Income before other revenues, expenses gains and losses	4,586,481	1,447,651	1,499,920	2,146,709	1,274,185	9,921,154	20,876,100
Capital gifts, grants and contracts	134,495	-	575,000	-	-	1,386,581	2,096,076
Additions to permanent and term endowments	-	163,899	447,259	2,242,192	331,570	9,405,174	12,590,094
Increase (decrease) in net position	4,720,976	1,611,550	2,522,179	4,388,901	1,605,755	20,712,909	35,562,270
Net Position - beginning of year	18,152,942	16,344,430	13,991,901	13,219,088	11,252,639	116,100,165	189,061,165
Net Position - end of year	\$ 22,873,918	\$ 17,955,980	\$ 16,514,080	\$ 17,607,989	\$ 12,858,394	\$ 136,813,074	\$ 224,623,435

20. LITIGATION

A few community colleges have been named as defendants in lawsuits. The final outcome of these lawsuits cannot be determined at this time. However, management is of the opinion that any ultimate liability to which the colleges may be exposed will not have a material effect upon the Virginia Community College System's financial position.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

October 13, 2015

The Honorable Terence R. McAuliffe
Governor of Virginia

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

State Board for Community Colleges
Virginia Community College System

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the Virginia Community College System, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units of the System, which are discussed in Note 1. Those financial statements were audited by other

auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the System, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component units of the System that were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards.

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

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

Opinion

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of the System as of June 30, 2014, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we are also issuing our report dated October 13, 2015, on our consideration of the Virginia Community College System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the System's internal control over financial reporting and compliance.



AUDITOR OF PUBLIC ACCOUNTS

EMS/alh