

VIRGINIA COMMUNITY COLLEGE SYSTEM

**AUDITED FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2012**

Prepared by:
Office of Fiscal Services
Virginia Community College System
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VCCS Financial Report 2011-2012

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VCCS Financial Report 2011-2012

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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, 2012. 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 2012:

- 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 2012, approximately \$3.4 million was added to the VCCS budget for these purposes.
- Statewide budget reductions implemented since mid-fiscal year 2008 have resulted in the VCCS general fund revenues declining from \$391.6 million in fiscal year 2008 to \$316.1 million in fiscal year 2012, a decrease of 19.3%.
- The VCCS spent approximately \$40.1 million in federal funding in fiscal year 2012 as part of the American Recovery and Reinvestment Act (ARRA). Of that amount, approximately \$24.8 million was used to fund faculty salaries and \$1.1 million was used for financial aid.
- Effective fall 2011, the State Board for Community Colleges approved a tuition increase of \$8.50 per credit hour and a technology fee increase of \$1.00 per credit hour for all students. In addition, the State Board approved a tuition differential rate increase of \$2.80 per credit hour for Northern Virginia Community College effective fall 2011. As a result of these increases, tuition and fee revenue increased approximately \$40.2 million in fiscal year 2012.
- From fiscal year 2011 to 2012, student full-time equivalent (FTE) enrollment increased 0.96% from 128,416 FTEs to 129,653 FTEs. This increase, coupled with a change in the proportion of in-state and out-of-state students, resulted in a net increase in tuition and fee collections of approximately \$1.4 million in fiscal year 2012. 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 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 assets, 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:			
	2012	2011	Dollar Change	Percentage Change
Assets				
Current assets	\$277,722	\$257,279	\$20,443	7.95%
Capital assets, net	1,177,532	1,040,861	136,671	13.13%
Other non-current assets	84,175	99,928	(15,753)	-15.76%
Total Assets	\$1,539,429	\$1,398,068	\$141,361	10.11%
Liabilities				
Current liabilities	\$190,781	\$176,649	\$14,132	8.00%
Non-current liabilities	138,945	133,455	5,490	4.11%
Total Liabilities	\$329,726	\$310,104	\$19,622	6.32%
Net Assets				
Invested in capital assets, net of debt	\$1,101,292	\$984,915	\$116,377	11.81%
Restricted-nonexpendable	-	-	-	-
Restricted-expendable	11,665	18,157	(6,492)	-35.75%
Unrestricted	96,746	84,892	11,854	13.96%
Total Net Assets	\$1,209,703	\$1,087,964	\$121,739	11.19%

Current Assets

Current assets consist of \$223.6 million in cash and investments, \$24.9 million in accounts, notes, and interest receivable, \$4.8 million in amounts due from the commonwealth, \$21.5 million in prepaid expenses, and \$2.9 million in inventories. The \$20.4 million increase in current assets was primarily due to increases of \$21.1 million in cash and cash equivalents and \$6.0 million in accounts receivable, partially offset by decreases in short term investments and prepaid expenses of \$3.6 million and \$3.0 million, respectively.

The \$21.1 million increase in cash and cash equivalents represents a 10.57% increase as compared to prior year and was primarily due to a \$16 million increase in unspent local funds invested in cash equivalents (e.g. the Local Government Investment Pool) and an increase of \$5.1 million in securities and lending cash equivalents. This increase is directly correlated with the 11.19% increase in net assets as compared to prior year and the percentage of current assets held as cash and cash equivalents has remained relatively constant, 77.8% in fiscal year 2011 as compared to 79.7% in fiscal year 2012.

The \$6.0 million increase in accounts receivable was attributable to a system wide increase of \$3.0 million in third party receivables for tuition and fees and to over \$1 million in reimbursable capital project costs incurred by Lord Fairfax Community College (LFCC) and J. Sargeant Reynolds Community College (JSRCC) for which reimbursement had not been received as of fiscal year end. In addition, as of June 30, 2012, \$2.0 million in insurance recovery proceeds remained payable to the VCCS for earthquake damage at Germanna Community College (GCC).

Short term investments decreased by \$3.6 million due to a \$2.9 million reduction in securities and lending investments and also because of a decision by several colleges to invest in instruments classified as cash and cash equivalents instead of short term investments.

The \$3.0 million reduction in prepaid expenses was due to a decrease of \$2.5 million in System Office prepaid amounts for information technology related contracts and agreements and a \$0.5 million decrease in Virginia Western Community College (VWCC) prepaid facility rental payments.

Capital Assets, Net of Accumulated Depreciation

The overall increase of \$136.7 million in net capital assets was due to changes across various capital asset categories. The following table compares fiscal year 2012 to fiscal year 2011 capital asset balances by category:

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

Capital Asset Category	As of June 30:		Dollar Change	Percentage Change
	2012	2011		
Land	\$40,425	\$40,425	\$0	0.00%
CIP	156,873	148,924	7,949	5.34%
Land Improvements	55,881	49,140	6,741	13.72%
Infrastructure	27,229	20,623	6,606	32.03%
Buildings	802,656	694,138	108,518	15.63%
Equipment	66,495	59,718	6,777	11.35%
Intangibles	13,358	12,890	468	3.63%

Library books	14,615	15,003	-388	-2.59%
Total	\$1,177,532	\$1,040,861	\$136,671	13.13%

CIP increased due to ongoing capital projects on various campuses (e.g. Tidewater Student Center - Portsmouth). The increases in land improvements, infrastructure, and buildings were all due to additions of buildings and related assets on Northern Virginia Community College's (NVCC) Manassas, Loudon, and Annandale campuses. Other current year additions to buildings included completed projects at GCC, JSRCC, Rappahannock Community College (RCC), and Thomas Nelson Community College (TNCC). The increase in equipment was the result of a delay in funding of the fiscal year 2011 Equipment Trust Fund (ETF) allocation until fiscal year 2012. Because of this delay, many of the colleges spent two years of ETF money in fiscal year 2012. In addition, equipment increased as items were purchased to furnish new buildings, including the new facilities on NVCC campuses. Intangibles increased due to capitalization of costs incurred by System Office related to a new Decision Support System and a new Software Management System. Library books decreased due to unit reductions at RCC and Tidewater Community College (TCC).

Other Non-Current Assets

The \$15.8 million decline in other non-current assets was primarily due to decreases of \$7.6 million in restricted cash and cash equivalents and \$9.3 million in cash with trustees, partially offset by a \$1.1 million increase in amounts due from commonwealth.

Restricted cash and cash equivalents held in local accounts decreased by \$5.5 million due to spending on locally funded capital projects (e.g. \$2.5 million on various projects at JSRCC) and unreimbursed Virginia College Bond Authority (VCBA) cash basis expenditures increased by \$2.1 million, thereby reducing restricted state cash balances.

Cash with trustees represents the balance held in State Non-Arbitrage Program (SNAP) accounts related to pooled bond capital projects. The balance decreased by \$9.3 million in fiscal year 2012 as payments continued on the various pooled bond projects.

The \$1.1 million increase in amounts due from commonwealth was the result of greater VCBA bond activity at the end of fiscal year 2012. The balance represents the sum of unreimbursed cash and accrual expenses for VCBA financed projects at the end of each fiscal year.

Current Liabilities

Current liabilities consist of accounts and retainage payable of \$40.8 million, accrued payroll and leave compensation of \$44.4 million, deferred revenue of \$54.9 million, securities lending obligations of \$16.8 million, debt obligations of \$26.9 million, and amounts due to commonwealth and deposits totaling \$6.9 million.

Current liabilities increased \$14.1 million in fiscal year 2012 primarily due to increases of \$7.9 million in accounts and retainage payable and \$5.1 million in debt obligations. Payable amounts increased because VCCS had more large construction projects in progress at the end fiscal year 2012 and consequently, amounts due to contractors were significantly higher. In addition, prior to June 30, 2012, a tentative legal settlement was reached on a construction claim related to LFCC's Science Laboratory Building and a \$3 million liability was recorded in anticipation of payment. Debt obligations increased by \$5.1 million due to issuance of additional notes related to new capital projects at Wytheville Community College (WCC) and VWCC. The remaining \$1.1 million change represents an increase in current liabilities of 0.6% and was caused by normal year-to-year fluctuations of other liability balances (e.g. securities lending obligations).

Non-Current Liabilities

Non-Current liabilities consist of capital lease liabilities of \$10.2 million, installment purchases payable of \$4.9 million, pooled bonds of \$102.9 million, accrued leave of \$15.6 million, federal loan program amounts due of \$5.1 million, and deferred revenue of \$0.2 million. The increase of \$5.5 million in non-current liabilities was due to issuance of new pooled bond notes, offset by current year principal payments on various types of debt. New pooled bond additions totaled \$12.9 million, while current principal payments on bonds, pooled bond notes, capital leases, and installment purchases totaled \$7.1 million. Proceeds from new pooled bond notes were reserved for specific capital projects at VWCC, and GCC and for refinancing of debt at NVCC.

Net Assets

The \$116.4 million increase in invested in capital assets, net of related debt is explained by an increase of \$136.7 in capital assets, net of accumulated depreciation, reduced by an increase of \$20.3 million in capital asset related debt. The decrease of \$6.5 million in restricted expendable net assets was due to increased spending on both state and local capital projects from funds with external restrictions. The increase of \$11.9 million in unrestricted net assets was primarily due to additional student center revenue at TCC, VWCC, and Blue Ridge Community College (BRCC), as well as increased parking revenue across many of the colleges. In both instances, revenue exceeded related expense and therefore, the unrestricted net asset balance increased. The balance in net assets represents the difference between total assets and total liabilities and is one measure of the current financial condition of an organization. The increase of 11.19% is an indication that the overall financial condition of the VCCS improved in fiscal year 2012.

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:		Dollar	Percentage
	2012	2011	Change	Change
Operating revenue	\$503,134	\$464,771	\$38,363	8.25%
Operating expenses	1,163,033	1,085,809	77,224	7.11%
Operating loss	(\$659,899)	(\$621,038)	(\$38,861)	6.26%
Non-operating revenues and expenses	\$647,285	\$643,567	\$3,718	0.58%
Income (loss) before other revenues, expenses, gains or losses	(\$12,614)	22,529	(\$35,143)	-155.99%

Other revenues	\$134,353	\$109,976	\$24,377	22.17%
Increase in net assets	\$121,739	\$132,505	(\$10,766)	-8.13%
Net assets, beginning of year	\$1,087,964	\$955,459	\$132,505	13.87%
Net assets, end of year	\$1,209,703	\$1,087,964	\$121,739	11.19%

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, 2012 and 2011:

Summary of Revenues
For the years ended June 30, 2012 and 2011
(in thousands of dollars)

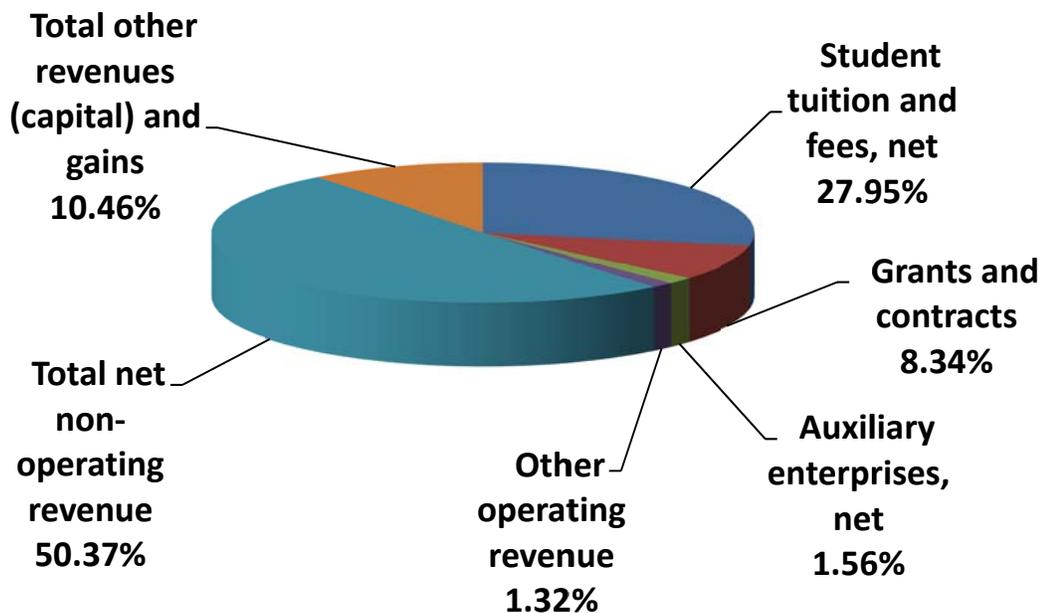
	2012	2011	Dollar Change	Percentage Change
Operating revenues				
Student tuition and fees, net	\$359,039	\$324,435	\$34,604	10.67%
Grants and contracts	107,117	107,424	(307)	-0.29%
Auxiliary enterprises, net	20,003	16,514	3,489	21.13%
Other operating revenue**	16,975	16,398	577	3.52%
Total Operating Revenues	\$503,134	\$464,771	\$38,363	8.25%
Non-operating activity				
State operating appropriations	\$341,122	\$359,697	(\$18,575)	-5.16%
Local operating appropriations	2,140	2,213	(73)	-3.30%
Grants and gifts	303,085	281,776	21,309	7.56%
Investment income	3,208	2,638	570	21.61%
Interest expense	(2,254)	(1,888)	(366)	19.39%
Other	(16)	(869)	853	-98.16%
Total net non-operating revenue	\$647,285	\$643,567	\$3,718	0.58%
Other revenues (capital)				
Capital appropriations-state	121,317	89,655	31,662	35.32%
Capital appropriations-local	6,935	12,484	(5,549)	-44.45%

Capital gifts and grants	3,992	7,837	(3,845)	-49.06%
Extraordinary gain	2,109	-	2,109	
Total other revenues (capital)	\$134,353	\$109,976	\$24,377	22.17%
Total revenues	\$1,284,772	\$1,218,314	\$66,458	5.45%

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

A graphic presentation of fiscal year 2012 revenues by source (per the Statement of Revenues, Expenses and Changes in Net Assets) is below.

Total Revenue - By Source



Operating Revenues

Total operating revenues increased \$38.4 million or 8.25% percent over the prior year. Gross student tuition and fee revenues (before scholarship discounts and allowances) rose by \$52.3 million due to increases in tuition and fee rates and a slight increase in the number of FTEs. However, net student tuition and fees only increased by \$34.6 million because scholarship discounts and allowances also went up by \$17.7 million as additional aid was received and used to satisfy student charges. In addition, net auxiliary enterprise revenue increased by \$3.5 million. Most of the increase in net auxiliary revenue was due to operation of a new student center on TCC's Norfolk campus which generated revenue of \$2.6 million and reduction of auxiliary discounts and allowances of \$0.5 million.

Non-operating and Other Revenues

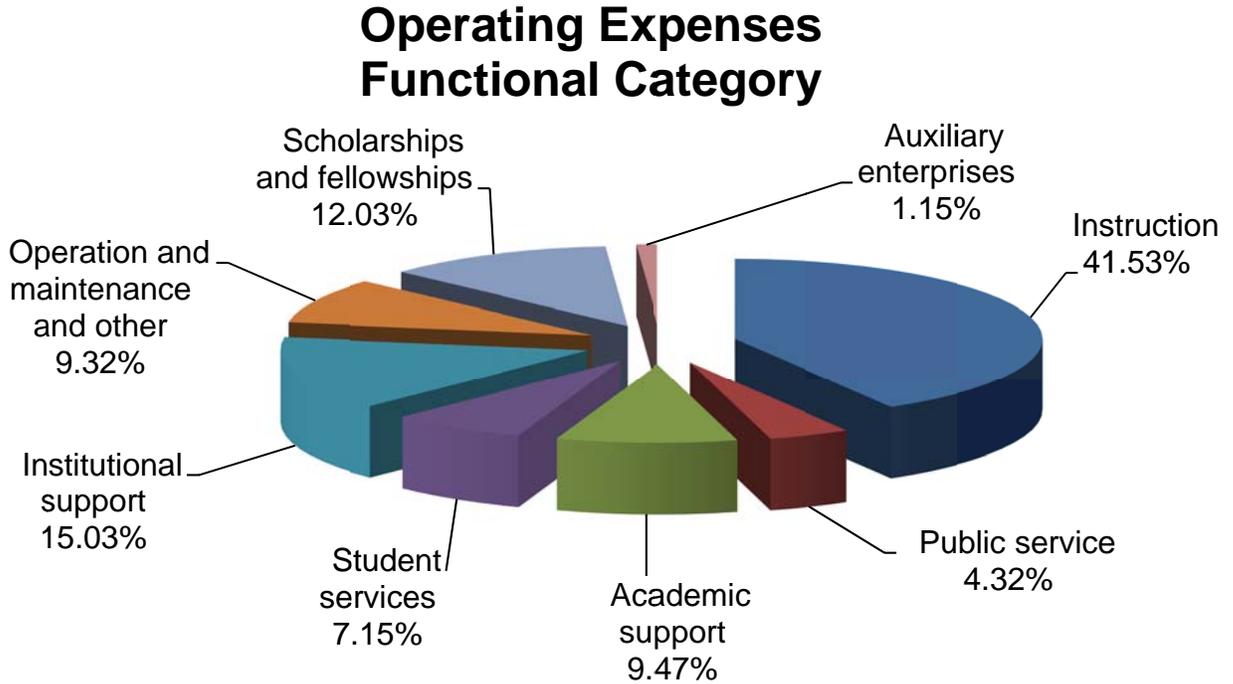
Total net revenue (non-operating and other) increased \$28.1 million or 3.7% over the prior year. Additional appropriation revenue of \$7.5 million (net operating and capital appropriations) was received in fiscal year 2012 and grants and gifts revenue increased by \$21.3 million because of increases in non-capitalized ETF gift revenue, federal Pell grant funding, and State Fiscal Stabilization Fund (SFSF) amounts received as part of ARRA. In addition, VCCS recognized an extraordinary gain of \$2.1 million in fiscal year 2012 related to earthquake damage at GCC. The above increases were partially offset by a \$3.8 million decrease in capital gifts and grants revenue due to several private capital donations received in fiscal year 2011, including a large land donation to TCC from the City of Chesapeake.

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, 2012 and 2011:

Summary of Expenses by Function
For the years ended June 30, 2012 and 2011
(in thousands of dollars)

	2012	2011	Dollar Change	Percentage Change
Operating expenses:				
Instruction	\$483,032	\$445,325	\$37,707	8.47%
Public service	50,236	48,091	2,145	4.46%
Academic support	110,091	85,638	24,453	28.55%
Student services	83,177	74,518	8,659	11.62%
Institutional support	174,780	165,641	9,139	5.52%
Operation and maintenance	108,334	107,518	816	0.76%
Scholarships and fellowships	139,925	145,235	(5,310)	-3.66%
Auxiliary enterprises	13,404	13,585	(181)	-1.33%
Other expenses	54	258	(204)	-79.07%
Total operating expenses	\$1,163,033	\$1,085,809	\$77,224	7.11%

A graphic presentation of fiscal year 2012 operating expenses by function (per the Statement of Revenues, Expenses and Changes in Net Assets) is below.



Operating Expenses

Operating expenses totaled approximately \$1.163 billion for fiscal 2012 and grew by \$77.2 million. The natural expense category, compensation and benefits, comprised \$670.3 million of total VCCS operating expenses. This category increased by \$39.6 million (6.28%) compared to the prior year, primarily due to increases in the number of adjunct faculty FTEs, filling of previously vacant positions, and increased employee benefit costs. In addition, supplies, services and other expenses increased by \$34.4 million (13.83%) and depreciation expense increased by \$6.2 million (14.96%). These increases resulted in growth in most of the functional categories. Specifically, expenses for instruction, public service, academic support, student services, and institutional support all rose in the current year due to increases in personnel compensation, fringe benefit costs, and reinvestment in programs and initiatives necessary for advancement of the VCCS mission.

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:

	2012	2011	Dollar Change	Percentage Change
Cash received from operations	\$502,586	\$480,535	\$22,051	4.59%
Cash used in operations	1,109,515	1,058,358	51,157	4.83%
Net cash used in operations	(\$606,929)	(\$577,823)	(\$28,629)	4.95%
Net cash provided by non-capital financing activities	\$649,265	\$645,432	\$3,833	0.59%
Net cash used in capital and related financing activities	(46,447)	(15,949)	(30,498)	191.22%
Net cash provided by (used in) investing activities	3,194	8,636	(5,442)	-63.02%
Net increase (decrease) in cash and cash equivalents	(\$917)	\$60,296	(\$61,213)	-101.52%
Cash and cash equivalents, beginning of year	\$255,252	\$194,956	\$60,296	30.93%
Cash and cash equivalents, end of year	\$254,335	\$255,252	(\$917)	-0.36%

The primary operating sources of cash for the VCCS included tuition and fees of \$355 million, operating grants and contracts of \$107.5 million, and auxiliary revenues of \$20.4 million. The primary uses of operating cash included employee salaries, wages, and fringe benefits of \$668.7 million and operating expenditures (payments to suppliers/others and utilities) of \$295.3 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 decreased \$30.5 million as a result of the increase in capital asset purchases. Net cash flows from non-capital financing activities increased \$3.8 million due to the increase in treasury loan borrowings. The overall decrease in cash and cash equivalents was \$0.9 million at the end of fiscal year 2012.

Economic Outlook

In fiscal year 2012, the Commonwealth predicted a 5.0% increase in general fund revenues and this prediction was exceeded as revenue collections actually went up by 5.8%. This marks the second consecutive year that revenues have increased and as result, total revenues for the Commonwealth have finally returned to fiscal year 2008 levels. 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, \$16.5 million is slated to be added in fiscal year 2013. The net effect for fiscal year 2013 and future years is that VCCS general funds will have been reduced by 15.1% or \$59.0 million as a result of state mandated budget reductions. During fiscal year 2012, the federal government's ARRA provided \$24.8 million in funds specifically targeted to help offset general fund budget reductions; however, fiscal year 2012 was the final year in which the VCCS expects to receive ARRA funding designated for this purpose.

One of the objectives of the federal government's ARRA funding was 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 fiscal year 2013 will be 37.7% of the average of the four-year institutions for total tuition and mandatory fees.

Effective with the fall 2012 session, the State Board for Community Colleges approved a tuition increase of \$5.50 per credit hour applicable to all students. The VCCS estimates that this increase will generate approximately \$30.3 million in tuition and deferred revenues in fiscal year 2013, assuming a 1% enrollment increase.

Chapter 3, 2012 Virginia Acts of Assembly, authorized state capital appropriations of \$96.8 million for fiscal year 2013. This entire amount is for new construction at the various community college campuses. All of the funding approved for the state capital appropriations will be from bond proceeds. The VCCS also received funding to plan seven new projects at various community college campuses in Chapter 3. Detailed planning costs for these projects will be funded 50 percent from amounts in the Central Capital Fund and 50 percent from higher education operating non-general fund sources.

The VCCS capitalized construction expenditures totaling \$154.3 million during fiscal year 2012. These costs included some projects that are still in progress and some that were completed in fiscal year 2012. The total construction costs for projects completed during fiscal year 2012 totaled \$146.4 million.

The VCCS entered into contractual commitments for capital projects totaling \$426.5 million as of June 30, 2012. Expenditures processed against these projects as of June 30, 2012 totaled \$300.8 million, leaving an unpaid commitment balance of \$125.7 million.

***FINANCIAL
STATEMENTS***

**Virginia Community College System
Consolidated
Statement of Net Assets
As of June 30, 2012**

	<u>VCCS</u>	<u>Component Units Foundations</u>
ASSETS		
Current Assets		
Cash and cash equivalents (Note 2)	221,438,189	13,035,663
Appropriation available	19,647	
Short term investments (Note 2)	2,148,515	21,920,461
Accounts receivable, net (Note 3)	20,852,266	664,828
Pledges receivable (Note 3)		3,990,881
Due from commonwealth	4,798,985	
Interest receivable	397,672	185,844
Prepaid expenses	21,460,627	30,755
Inventories	2,929,923	7,750
Notes receivable, net (Note 3)	3,675,993	72,405
Total Current Assets	<u>277,721,817</u>	<u>39,908,587</u>
Noncurrent Assets		
Restricted cash and cash equivalents (Note 2)	(4,957,355)	
Cash with trustees (Note 2)	54,092,221	
Endowment cash and cash equivalents (Note 2)	39,130	3,728,747
Appropriation available	63,421	
Endowment investments (Note 2)		92,501,817
Other long-term investments (Note 2)	500,010	18,472,834
Accounts receivable, net (Note 3)	4,193	
Investments in real estate		2,076,202
Pledges receivable (Note 3)		2,427,428
Due from commonwealth	33,084,185	
Notes receivable, net (Note 3)	1,349,020	1,300,480
Non-depreciable capital assets, net (Note 4)	220,056,879	3,677,840
Depreciable capital assets, net (Note 4)	957,475,557	6,969,121
Total Noncurrent Assets	<u>1,261,707,261</u>	<u>131,154,469</u>
Total Assets	<u>1,539,429,078</u>	<u>171,063,056</u>
Liabilities		
Current Liabilities		
Accounts and retainage payable (Note 5)	40,775,463	1,382,821
Accrued payroll expense	44,415,378	8,720
Deferred revenue	54,921,685	290
Long-term liabilities-current portion (Note 7)	26,945,027	1,312,389
Securities lending obligation	16,780,571	
Due to Commonwealth	153,450	
Deposits	6,789,126	54,918
Total Current Liabilities	<u>190,780,700</u>	<u>2,759,138</u>
Noncurrent Liabilities		
Deferred revenue	171,048	
Long-term liabilities (Note 7)	133,678,737	664,420
Due to federal government (Note 7)	5,095,706	
Total Noncurrent Liabilities	<u>138,945,491</u>	<u>664,420</u>
Total Liabilities	<u>329,726,191</u>	<u>3,423,558</u>
Net Assets		
Invested in capital assets, net of related debt	1,101,291,737	10,646,961
Restricted for:		
Nonexpendable		63,597,006
Expendable	11,664,968	58,090,083
Unrestricted	96,746,182	35,305,448
Total Net Assets	<u>1,209,702,887</u>	<u>167,639,498</u>

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

**Virginia Community College System
Consolidated**

**Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2012**

	VCCS	Component Units Foundations
Revenues		
Operating Revenue		
Tuition and fees (net of scholarship allowance of \$178,521,796)	359,038,823	
Federal grants and contracts	93,742,262	55,080
State and local grants	6,281,907	978,431
Nongovernmental grants	7,092,948	961,584
Sales/services of education department	403,627	
Auxiliary enterprises (net of scholarship allowance of \$5,343,350)	20,003,047	
Gifts and contributions		10,340,369
Endowment income		2,055,339
Other operating revenues	16,571,469	4,108,162
Total Operating Revenue	503,134,083	18,498,965
Expenses		
Operating Expenses		
Instruction	483,031,550	1,281,179
Public service	50,236,353	4,326,806
Academic support	110,091,496	3,290,549
Student services	83,176,851	12,773
Institutional support	174,779,960	4,214,988
Operation and maintenance	108,334,377	3,763,814
Scholarships and fellowships	139,924,899	5,160,721
Auxiliary enterprises	13,403,630	
Fundraising		1,164,619
Other expenses	53,596	516,802
Total Operating Expenses	1,163,032,712	23,732,251
Operating Income (Loss)	(659,898,629)	(5,233,286)
Nonoperating Revenues(Expenses)		
State appropriations (Note 11)	341,121,969	
Local appropriations	2,139,793	
Grants and gifts	303,084,508	
Investment income	3,208,456	844,115
Interest on capital asset related debt	(2,254,135)	
Other nonoperating revenue (expense)	(16,227)	936
Net Nonoperating Revenue	647,284,364	845,051
Income before other revenues, expenses gains (losses)	(12,614,265)	(4,388,235)
Capital appropriations-state (Note 18)	121,316,764	
Capital appropriations-local	6,935,286	
Capital gifts, grants and contracts	3,992,473	409,340
Additions to permanent and term endowments		7,486,526
Extraordinary gain (Note 20)	2,108,904	
Increase (Decrease) in Net Assets	121,739,162	3,507,631
Net Assets		
Net Assets beginning of year, as restated (Note 1M)	1,087,963,725	164,131,867
Net Assets end of year	1,209,702,887	167,639,498

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, 2012**

Cash flows from operating activities:

Tuition and fees	354,978,987
Grants and contracts	107,459,229
Payments to suppliers and others	(278,593,956)
Payments for employee wages	(548,178,260)
Payments for employee fringes	(120,527,606)
Payment for scholarships	(144,853,327)
Payments for utilities	(16,742,397)
Sales and services of education department	403,627
Auxiliary	20,429,992
Loans issued to students	(619,249)
Loans collected from students	588,674
Other	18,725,036
Net cash used by operating activities	<u>(606,929,250)</u>

Cash flows from non-capital financing activities:

State appropriations	341,121,969
Local appropriations	2,139,793
Grants and gifts	300,926,757
Agency receipts	10,749,483
Agency disbursements	(10,661,537)
PLUS, Stafford and Direct Lending loan receipts	180,417,093
PLUS, Stafford and Direct Lending loan disbursements	(180,195,729)
Borrowings	5,089,500
Loan repayments	(1,375,000)
Other non-operating revenue(expense)	1,052,914
Net cash provided (used) by non-capital financing activities	<u>649,265,243</u>

Cash flows from capital financing activities:

Capital appropriations-state	119,217,686
Capital appropriations-local	6,935,286
Capital grants and gifts	3,992,473
Purchase capital assets	(180,778,416)
Proceeds from sale of capital assets	415,573
Proceeds from insurance recoveries	58,019
Proceeds from bond issue	12,771,569
Debt interest payments	(2,254,135)
Debt principal payments	(6,805,733)
Net cash provided (used) by capital financing activities	<u>(46,447,678)</u>

Cash flows from investing activities:

Purchases of investments	(3,104,853)
Sale of investments	3,610,310
Investment income	2,688,942
Net cash provided (used) by investing activities	<u>3,194,399</u>

Net incr (decr) in net assets

Net increase (decrease) in cash and cash equivalents (917,286)

Cash and cash equivalents, beginning of year	<u>255,252,159</u>
Cash and cash equivalents, End of Year	<u><u>254,334,873</u></u>

**Virginia Community College System
Consolidated
Statement of Cash Flows
For the Year Ended June 30, 2012**

Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating income (loss)	(659,898,629)
Adjustment to reconcile operating income (loss) to net cash used in operating activities:	
Depreciation expense	47,743,200
Changes in assets and liabilities:	
Appropriation available and accounts receivable, net	46,573
Prepaid expenses and other	2,389,367
Accrued compensation and leave	1,857,363
Accounts payable and other	3,090,044
Deferred revenue	(2,610,780)
Deposits pending distribution	453,612
Net cash used in operating activities	<u><u>(606,929,250)</u></u>
Reconciliation of cash and cash equivalents:	
Cash and cash equivalents per Statement of Net Assets	270,612,185
Less: Securities Lending Cash Equivalents	<u>16,277,312</u>
Cash and cash equivalents end of year	<u><u>254,334,873</u></u>
Noncash transactions	
ETF equipment	12,735,228
Donated fixed assets	3,912,188
Debt principal and interest payments made by Treasury	2,018,234

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, 2012

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, 2012, the foundations distributed \$5,667,359 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 Assets, the Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows.

The Statement of Net Assets presents the assets and liabilities of the VCCS at the end of the fiscal year and also provides the amount of net assets and their availability for expenditure. The Statement of Revenues, Expenses and Changes in Net Assets 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, 2012.

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. 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, 2012 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, 2011.

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 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, 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 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.

L. 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.

M. Restatements

Community College Foundations
Statement of Changes in Revenues, Expenditures, and Net Assets:

Net assets as of June 30, 2011 - previously reported	\$163,519,350
Correction of asset understatement	<u>612,517</u>
Net assets as of July 1, 2011 - as restated	<u>\$164,131,867</u>

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 \$51,706,688 at June 30, 2012.

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 2012.

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 2012.

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 2012.

<u>Cash Equivalents</u>	<u>Fair Value</u>	<u>Credit Rating</u>
Local Govt. Investment Pool	\$64,874,054	AAA
Certificates of Deposit	9,438,894	Not Rated
Repurchase Agreements	1,212,387	Not Rated
Mutual and Money Market Funds	1,856,535	Not Rated
Securities Lending ⁽¹⁾	16,277,312	
Total	<u>\$93,659,182</u>	

Investment Maturities (In Years)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less 1 yr</u>	<u>1-5 yrs</u>
Mutual Funds	\$736,856	\$736,856	
Agency Mortgage Backed Securities	1,408,410	908,400	\$500,010
Securities Lending ⁽¹⁾	503,259	503,259	
Total	<u>\$2,648,525</u>	<u>\$2,148,515</u>	<u>\$500,010</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, 2012:

Cash and cash equivalents	\$ 16,764,410
Investments:	
Mutual funds and money markets	\$ 62,250,583
Stocks	36,048,809
Corporate bonds	19,006,340
UVA investment fund	5,449,597
Certificates of deposits	3,188,239
U. S. government securities & bonds	2,854,547
Mortgage-backed securities	2,579,616
Investment in real estate	2,163,402
Cash surrender value of life insurance	747,332
Assets held for resale	332,923
Municipal bonds	219,010

Split interest agreement	108,747
Partnership investment	21,175
Hedge fund	994
Total investments	<u>\$134,971,314</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, 2012:

Gross accounts receivable:	
Tuition and fees	\$ 13,088,223
Auxiliary enterprises	739,705
Federal, state, local and nongovernmental grants, gifts, contracts	5,647,678
Other activities	<u>2,958,183</u>
Total gross accounts receivable	\$22,433,789
Less: Allowance for doubtful accounts	<u>(1,577,330)</u>
Net accounts receivable	<u>\$20,856,459</u>
Gross Loans and notes receivable	\$ 5,320,828
Less: Allowance for doubtful accounts	<u>(295,815)</u>
Net loans and notes receivable	<u>\$ 5,025,013</u>

Receivables not expected to be collected within one year are \$1,353,213 in accounts, notes, and loans receivable.

Community College Foundations

The foundations have the following receivables as of June 30, 2012:

Gross accounts receivable	\$725,289
Less: Allowance for doubtful accounts	<u>(60,461)</u>
Net accounts receivable	<u>\$664,828</u>
Pledges receivable:	
Due in one year	\$4,280,270
Due in 1-5 years	2,493,202
Due in more than 5 years	317,749
Less: Allowance for doubtful accounts	(386,095)
Present value discount	<u>(286,817)</u>
Net pledges receivable	<u>\$6,418,309</u>
Gross loans and notes receivable	\$1,372,885
Less: Allowance for doubtful accounts	<u>-</u>
Net loans and notes receivable	<u>\$1,372,885</u>

Receivables not expected to be collected within one year are \$1,300,480 in notes and loans receivable and \$2,427,428 in pledges receivable.

4. CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2012 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Nondepreciable capital assets:				
Land	\$40,424,631			\$40,424,631
Land improvements	18,922,768	3,688,371		22,611,139
Inexhaustible works of art	148,174			148,174
Construction in progress	148,923,886	154,300,885	(146,351,836)	156,872,935
Total capital assets not being depreciated	\$208,419,459	\$157,989,256	(\$146,351,836)	\$220,056,879
Depreciable capital assets:				
Buildings	\$904,135,549	\$131,826,883	(1,049,759)	\$1,034,912,673
Infrastructure	38,107,113	8,533,953	(3,077)	46,637,989
Equipment	148,520,948	23,327,417	(6,016,426)	165,831,939
Land improvements	68,145,675	5,677,119		73,822,794
Library books	48,072,815	2,334,599	(2,879,899)	47,527,515
Intangible	43,334,140	2,561,823	(123,284)	45,772,679
Total other capital assets	\$1,250,316,240	\$174,261,794	(\$10,072,445)	\$1,414,505,589
Less accumulated depreciation for:				
Buildings	(\$209,997,303)	(\$22,259,118)		(\$232,256,421)
Infrastructure	(17,484,427)	(1,924,521)		(19,408,948)
Equipment	(88,950,734)	(16,118,581)	5,584,548	(99,484,767)
Land improvements	(37,928,050)	(2,624,656)		(40,552,706)
Library books	(33,070,202)	(2,722,384)	2,879,899	(32,912,687)
Intangible	(30,443,846)	(2,093,941)	123,284	(32,414,503)
Total accumulated depreciation	(\$417,874,562)	(\$47,743,201)	\$8,587,731	(\$457,030,032)
Other capital assets, net	\$832,441,678	\$126,518,593	(\$1,484,714)	\$957,475,557
Total capital assets, net	\$1,040,861,137	\$284,507,849	(\$147,836,550)	\$1,177,532,436

Community College Foundations

The foundations had the following capital assets as of June 30, 2012:

Non-depreciable capital assets:	
Land	\$ 1,172,022
CIP	2,379,691
Works of art	126,127
Total nondepreciable capital assets	\$3,677,840
Depreciable capital assets:	
Buildings	\$7,612,208
Equipment	692,356
Site improvement	543,832
Total depreciable capital assets	\$8,848,396

Less: Accumulated depreciation	(1,879,275)
Depreciable capital assets, net	<u>\$ 6,969,121</u>
Total capital assets, net	<u><u>\$10,646,961</u></u>

5. ACCOUNTS AND RETAINAGE PAYABLE

Accounts and retainage payable consisted of the following as of June 30, 2012:

Vendors payable	\$28,823,971
Students payable	775,366
Retainage payable	8,172,160
Legal settlement payable	3,000,000
Taxes payable	3,966
Total	<u><u>\$40,775,463</u></u>

6. COMMITMENTS

At June 30, 2012, the VCCS had future contractual commitments totaling approximately \$125,749,203. The System held \$8,172,160 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, 2012 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Debt:					
Bonds payable	\$ 236,561	\$ 4,700	\$ 241,261	\$ 0	
Other capital leases	13,476,264		1,621,817	11,854,447	1,690,129
Notes payable:					
Installment purchases	6,589,681		1,432,061	5,157,620	235,741
Pooled bonds	98,218,941	12,906,654	3,852,727	107,272,868	4,325,000
Other notes payable	1,375,000	5,089,500	1,375,000	5,089,500	5,089,500
Total bonds, notes and capital leases	<u>\$119,896,447</u>	<u>\$18,000,854</u>	<u>\$8,522,866</u>	<u>\$129,374,435</u>	<u>\$11,340,370</u>
Other liabilities:					
Compensated absences	30,261,846	21,977,918	20,990,435	31,249,329	15,604,657
Federal loan program contributions	5,109,455		13,749	5,095,706	
Total other liabilities	<u>\$35,371,301</u>	<u>\$21,977,918</u>	<u>\$21,004,184</u>	<u>\$36,345,035</u>	<u>\$15,604,657</u>

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Total long-term liabilities	\$155,267,748	\$39,978,772	\$29,527,050	\$165,719,470	\$26,945,027

8. NOTES PAYABLE

Notes payable represent agreements 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 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, 2012 is \$250,000.

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, 2012 is \$4,553,872.

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 \$355,000 is due September 1, 2023. The outstanding balance at June 30, 2012 is \$4,818,388.

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, 2012 is \$2,849,167.

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, 2012 is \$13,791,009.

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, 2012 is \$967,709.

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, 2012 is \$22,437,866.

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, 2012 is \$15,776,919.

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, 2012 is \$3,528,875.

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, 2012 is \$9,724,309.

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, 2012 is \$15,719,898.

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, 2012 is \$6,876,953.

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, 2012 is \$5,977,903.

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

Other notes payable of \$5,089,500 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
2013	\$4,325,000	\$4,647,469	\$8,972,469
2014	4,525,000	4,447,186	8,972,186
2015	4,560,000	4,237,860	8,797,860
2016	4,765,000	4,032,554	8,797,554
2017	4,985,000	3,815,729	8,800,729
2018-2022	28,400,000	15,300,621	43,700,621
2023-2027	28,030,000	8,841,682	36,871,682
2028-2032	21,730,000	2,089,888	23,819,888
Sub Totals	\$101,320,000	\$47,412,989	\$148,732,989
Plus: Bond Premium	6,718,968		6,718,968
Less: Bond Defeasance	(766,100)		(766,100)

Totals	<u>\$107,272,868</u>	<u>\$47,412,989</u>	<u>\$154,685,857</u>
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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 \$5,553,013, respectively. Rent expense under operating lease agreements amounted to \$8,801,365 for the year. A summary of future obligations under lease agreements as of June 30, 2012, follows:

Year Ending June 30	Capital Lease Obligations	Installment Purchase Obligations	Operating Lease Obligations
2013	\$2,202,662	\$ 367,980	\$ 4,249,586
2014	2,401,803	560,506	6,803,190
2015	2,385,995	560,507	6,001,674
2016	2,383,355	560,510	3,932,001
2017	1,281,281	560,506	2,870,939
2018-2022	3,694,813	2,744,316	8,012,344
2023-2027		1,230,462	
Total obligation and gross minimum lease payments	\$14,349,909	\$6,584,787	\$31,869,734
Less: Interest	(2,495,462)	(1,427,167)	
Present value of minimum lease payments	\$11,854,447	\$5,157,620	\$31,869,734

10. OPERATING EXPENSES BY NATURAL AND FUNCTIONAL CLASSIFICATIONS

VCCS operating expenses for the year ended June 30, 2012 were as follows:

Functional Classification	Natural Classification					Supplies, Services & Other	Total
	Salaries & Benefits	Utilities	Scholarships	Depreciation			
Instruction	\$ 374,825,282	\$ 191,588	\$ 1,944,767	\$ 31,133,214	\$ 74,936,699	\$ 483,031,550	
Public Service	8,321,272	432	103,522		41,811,127	50,236,353	
Acad. Support	73,550,092	75,470	1,648,353	5,067,921	29,749,660	110,091,496	
Student Services	69,866,008	4,415	1,199,432	574,185	11,532,811	83,176,851	
Inst. Support	105,329,001	297,395	903,547	8,348,141	59,901,876	174,779,960	
O & M of Plant	35,346,460	16,069,802	3,136	2,591,150	54,323,829	108,334,377	
Schol. & Fellows.	50,871		139,513,158		360,870	139,924,899	
Aux. Enterprises	2,991,980	154,863	54,993	28,589	10,173,205	13,403,630	
Other Expenses					53,596	53,596	
Total Expenses	\$ 670,280,966	\$ 16,793,965	\$145,370,908	\$ 47,743,200	\$ 282,843,673	\$1,163,032,712	

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 2012-13 provided that the VCCS meets financial and administrative standards outlined in the *Code of Virginia*.

During the year ended June 30, 2012, the Virginia Community College System received the following general fund appropriations in accordance with the Appropriation Act of 2011, Chapter 890, Acts of Assembly.

Appropriated – Chapter 890 – approved May 2, 2011	\$316,171,281
Amendment – reduction in appropriation for heavy equipment program	(50,000)
Appropriated – 2012 Special Session Chapter 2 – approved May 25, 2012	\$316,121,281
Additions:	
Net central accounts distribution	3,440,912
Adjustment for change in IT service rate	1,275
Other:	
Transfer from SCHEV – VIVA	40,208
Carryover fiscal year 2011 year-end balances	22,035,536
Equipment Trust Fund lease payment	(633,657)
Transfer capital fee	(3,096,450)
Philpott manufacturing	(398,788)
Reversion	<u>(34,341,369)</u>
Adjusted Unrestricted Appropriations	<u>\$303,168,948</u>

Other restricted appropriations were \$37,953,021 for a total of \$341,121,969.

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, 2012. These amounts are reported as restricted expendable net assets. 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, 2012, 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 \$5,907,902 and \$5,698,819 for years ended June 30, 2012 and 2011, respectively. Contributions to the ORP plan were calculated using the base salary amount of \$57,792,385 and \$55,310,639 for fiscal years 2012 and 2011. The VCCS total payroll for fiscal years 2012 and 2011 was \$538,297,053 and \$494,844,576 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 \$1,836,977 for fiscal year 2012.

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	\$ (136,310)
Virginia College Building Authority appropriation revenue	119,116,956
General Obligation Bond appropriation revenue	317,884
Tidewater Community College capital lease agreement	<u>2,018,234</u>
Total	<u>\$121,316,764</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, Piedmont Community College Educational 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 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, 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, 2012

	Southwest Virginia Community College Educational Foundation	Northern Virginia Community College Educational Foundation	Patrick Henry Community College Educational Foundation	Mountain Empire Community College Educational Foundation	Piedmont Virginia Community College Educational Foundation	Combined Non- Major Component Units	Total Component Units
ASSETS							
Total current assets	\$ 11,990,870	\$ 8,266,571	\$ 612,690	\$ 164,393	\$ 2,631,900	\$ 16,242,163	\$ 39,908,587
Noncurrent assets:							
Other noncurrent assets	332,543	6,599,520	12,088,909	11,560,228	6,451,957	83,474,351	120,507,508
Capital assets, net	4,758,220	-	-	-	-	5,888,741	10,646,961
Total noncurrent assets	5,090,763	6,599,520	12,088,909	11,560,228	6,451,957	89,363,092	131,154,469
Total assets	17,081,633	14,866,091	12,701,599	11,724,621	9,083,857	105,605,255	171,063,056
LIABILITIES							
Total current liabilities	96,721	124,945	148,414	44,333	4,250	2,340,475	2,759,138
Noncurrent liabilities:							
Long-term liabilities	-	-	-	-	44,786	619,634	664,420
Other noncurrent liabilities	-	-	-	-	-	-	-
Total noncurrent liabilities	-	-	-	-	44,786	619,634	664,420
Total liabilities	96,721	124,945	148,414	44,333	49,036	2,960,109	3,423,558
NET ASSETS							
Invested in capital assets, net of related debt	4,758,220	-	-	-	-	5,888,741	10,646,961
Restricted for:							
Nonexpendable	-	3,164,977	6,412,011	5,724,542	2,479,203	45,816,273	63,597,006
Expendable	6,152,591	3,868,514	4,003,052	3,002,982	4,230,661	36,832,283	58,090,083
Unrestricted	6,074,101	7,707,655	2,138,122	2,952,764	2,324,957	14,107,849	35,305,448
Total Net Assets	\$ 16,984,912	\$ 14,741,146	\$ 12,553,185	\$ 11,680,288	\$ 9,034,821	\$ 102,645,146	\$ 167,639,498

Virginia Community College System Foundations
Statement of Revenues, Expenses, and Changes in Net Assets
As of June 30, 2012

	Southwest Virginia Community College Educational Foundation	Northern Virginia Community College Educational Foundation	Patrick Henry Community College Educational Foundation	Mountain Empire Community College Educational Foundation	Piedmont Virginia Community College Educational Foundation	Combined Non- Major Component Units	Total Component Units
Total operating revenues	\$ 882,545	\$ 212,477	\$ 1,560,730	\$ 550,810	\$ 1,801,056	\$ 13,491,347	\$ 18,498,965
Total operating expenses	1,165,987	1,754,352	1,720,738	585,137	1,051,218	17,454,819	23,732,251
Operating income (loss)	(283,442)	(1,541,875)	(160,008)	(34,327)	749,838	(3,963,472)	(5,233,286)
Nonoperating revenues (expenses):							
Investment Income	138,202	265,781	63	-	30,675	409,394	844,115
Other nonoperating revenues (expenses)	-	-	936	-	-	-	936
Net nonoperating revenue	138,202	265,781	999	-	30,675	409,394	845,051
Income before other revenues, expenses gains and losses	(145,240)	(1,276,094)	(159,009)	(34,327)	780,513	(3,554,078)	(4,388,235)
Capital gifts, grants and contracts	58,740	-	-	-	-	350,600	409,340
Additions to permanent and term endowments	-	1,651,944	225,252	1,515,436	363,325	3,730,569	7,486,526
Increase (decrease) in net assets	(86,500)	375,850	66,243	1,481,109	1,143,838	527,091	3,507,631
Net assets - beginning of year	17,071,412	14,365,296	12,486,942	10,199,179	7,890,983	102,118,055	164,131,867
Net assets - end of year	\$ 16,984,912	\$ 14,741,146	\$ 12,553,185	\$ 11,680,288	\$ 9,034,821	\$ 102,645,146	\$ 167,639,498

20. IMPAIRMENT OF CAPITAL ASSETS

GASB Statement No. 42 requires an evaluation of prominent events or changes in circumstances related to capital assets to determine whether an impairment loss should be recorded and whether any insurance recoveries should be offset against the impairment loss.

In August 2011, an academic building on Germanna Community College's Fredericksburg Campus sustained extensive earthquake damage. Due to the rarity of earthquakes in Virginia, VCCS management considered the event to be both unusual in nature and infrequent in occurrence. Therefore, the impairment loss of \$903,737 was netted against related insurance recoveries of \$3,012,641 and resulted in a net extraordinary gain of \$2,108,904.

21. LITIGATION

Prior to June 30, 2012, a tentative settlement was reached on a construction claim related to Lord Fairfax Community College's Science Laboratory Building. A \$3 million liability has been recorded in anticipation of payment.

In addition, a few community colleges have been named as defendants in other 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.

22. SUBSEQUENT EVENTS

In November 2012, the Virginia Community College System plans to issue a note to VCBA in the amount of \$21,910,000. The proceeds of the note will be used to finance construction of a parking garage on Tidewater Community College's Chesapeake Campus. The note will be payable in the years 2013-2033.

In November 2012, the Virginia Community College System plans to issue a note to VCBA in the amount of \$5,750,000. The proceeds of the note will be used to finance construction of a parking deck on John Tyler Community College's Midlothian Campus. The note will be payable in the years 2013-2033.



Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 7, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
And Review Commission

State Board for Community Colleges
Virginia Community College System

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, 2012, 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, 2012, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 11 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.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of the System. The financial statements of the individual community colleges are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The individual community college financial statements have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

In accordance with Government Auditing Standards, we have also issued our report dated August 7, 2013, 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