VIRGINIA COMMUNITY COLLEGE SYSTEM

AUDITED FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2015

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VCCS Financial Report 2014-2015

OFFICER REPORTING

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VCCS Financial Report 2014-2015

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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, 2015. 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 significant financial highlights for the VCCS in fiscal year 2015 were:

- Total net position decreased by 35.50% due to implementation of new accounting standards that required the VCCS to record a proportionate share of the overall pension liability of the Commonwealth. If the new standards had not been implemented in the current year, net position would have increased by 3.68%.

- Total operating revenues remained relatively constant with a total percentage decrease of only 0.57%. Student tuition and fees, net of scholarship discounts and allowances, represented 69.87% of total operating revenues.

- Effective fall 2014, the State Board for Community Colleges approved a tuition increase of $5.00 per credit hour and a technology fee increase of $1.00 per credit hour for all students. In addition, the State Board approved tuition differential rate increases of $1.50 per credit hour for NVCC and $1.00 per credit hour for Piedmont Virginia Community College (PVCC). As a result of these increases, tuition and fee revenue increased approximately $22.6 million in fiscal year 2015.

- From fiscal year 2014 to 2015, student full-time equivalent (FTE) enrollment decreased 3.79% from 120,827 FTEs to 116,249 FTEs. This decrease resulted in a decline in tuition and fee collections of approximately $23.0 million in fiscal year 2015. 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.

- Total state appropriations revenue (non-capital) remained relatively flat with an increase of only 1.54%, while state capital appropriations revenue increased by 81.04% due to projects in the construction phase at Blue Ridge Community College (BRCC), John Tyler Community College (JTCC), Lord Fairfax Community College (LFCC), Northern Virginia Community College (NVCC), and Tidewater Community College (TCC).

- Total operating expenses also remained relatively unchanged with an increase of only 1.05%. Expenses for employee compensation represented 60.09% of the total.

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 and deferred outflows of resources less liabilities and deferred inflows of resources. 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.

Effective fiscal year 2015, the Governmental Accounting Standards Board (GASB) issued Statement 68, *Accounting and Financial Reporting for Pensions*, and Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement 68*. These reporting changes require the VCCS to record a proportionate share of the pension liabilities, deferred inflows of resources, deferred outflows of resources, and expenses from the Virginia Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers' System (VaLORS) Retirement Plan. Prior to implementation of these statements, VRS did not measure assets and pension benefit obligations separately for individual state institutions. Therefore, for the purpose of our discussion and analysis, fiscal year 2014 comparative numbers have not been restated for changes related to implementation of GASB 68, as amended.

A summarized Statement of Net Position is as follows:

(in thousands of dollars)
As of June 30:

	2015	2014*	Dollar Change	Percentage Change
Assets				
Current assets	$278,865	$274,733	$4,132	1.50%
Capital assets, net	1,337,302	1,278,799	58,503	4.57%
Other non-current assets	74,505	78,422	(3,917)	(4.99%)
Total Assets	$1,690,672	$1,631,954	$58,718	3.60%
Deferred Outflows of Resources	52,562	597	51,965	8704.36%
Total Assets and Deferred Outflows of Resources	$1,743,234	$1,632,551	$110,683	6.78%

Liabilities				
Current liabilities	$173,037	$159,851	$13,186	8.25%
Non-current liabilities	630,942	153,886	477,056	310.01%
Total Liabilities	$803,979	$313,737	$490,242	156.26%
Deferred Inflows of Resources	88,646	-	88,646	100.00%
Total Liabilities and Deferred Inflows of Resources	$892,625	$313,737	$578,888	184.51%
Net Position				
Net investment in capital assets	$1,223,211	$1,168,324	$54,887	4.70%
Restricted-nonexpendable	34	-	34	-
Restricted-expendable	-	11,187	(11,187)	(100.00%)
Unrestricted	(372,636)	139,304	(511,940)	(367.50%)
Total Net Position	$850,609	$1,318,815	($468,206)	(35.50%)

* June 30, 2014 amounts have been restated for audit adjustments (see footnote 1-O). However, the 2014 column has not been adjusted to reflect the impact on balances related to implementation of GASB 68, as amended.

Current Assets

Current assets consist of $230.1 million in cash, cash equivalents, and short-term investments, $15.6 million in accounts, notes, and interest receivable, $9 million in amounts due from the commonwealth, $22.3 million in prepaid expenses, and $1.8 million in inventories. The $4.1 million increase in current assets was primarily attributable to a net increase of $16.7 million in cash, cash equivalents, and short-term investments, partially offset by decreases of $10.3 million in prepaid expenses, $1.4 million in accounts receivable, and $0.9 million in inventories.

The net increase of $16.7 million in cash, cash equivalents, and short-term investments represents a 7.9% increase as compared to prior year and was principally attributable to increased year-end cash at NVCC and TCC of $13.5 million and $5.4 million, respectively, partially offset by a decline of $3.2 million in year-end cash held by Mountain Empire Community College (MECC). Cash balance increases at NVCC were largely attributable to unspent locally held funds from fee collections and from local jurisdiction contributions for capital projects, as well as state cash balance increases from unspent unearned revenue proceeds, federal indirect cost recoveries, and noncredit tuition and fee collections. The increase at TCC was primarily due to a decision by TCC to shift $3.8 million from longer term investments to cash equivalents and to an increase in state cash balances from unspent unearned revenue proceeds. The decrease in cash at MECC was largely attributable to a $3.3 million disbursement to the Mountain Empire Community College Foundation (MECCF). The funds were received by MECC as part of a large private gift during fiscal year 2014 and were held by the college until disbursement to MECCF during fiscal year 2015.

The decrease in prepaid expenses was largely due to a deliberate decision by NVCC management to limit fiscal year 2016 related prepayments made in fiscal year 2015. As a result, prepaid expenses at NVCC decreased by $10.5 million as compared to fiscal year 2014. Accounts receivable balances decreased across most of the colleges because of changes to due diligence efforts that resulted in improved monitoring, collection, and write-off of aging balances.

The decrease in inventories was due to a transition by Eastern Shore Community College (ESCC), Southside Virginia Community College (SSVCC), and Dabney S. Lancaster Community College (DSLCC) from college owned to vendor owned bookstores. As a result of this transition, remaining bookstore inventories were liquidated during fiscal year 2015.

Capital Assets, Net of Accumulated Depreciation

The overall increase of $58.5 million in net capital assets was due to changes across various capital asset categories. The following table compares fiscal year 2015 to fiscal year 2014 capital asset balances by category:

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

	As of June 30:			
Capital Asset Category	**2015**	**2014***	**Dollar Change**	**Percentage Change**
Land	$66,455	$66,437	$18	0.03%
CIP	123,227	38,754	84,473	217.97%
Land Improvements	35,650	36,967	(1,317)	(3.56%)
Infrastructure	41,310	42,607	(1,297)	(3.04%)
Buildings	982,945	1,000,734	(17,789)	(1.78%)
Equipment	64,976	67,545	(2,569)	(3.80%)
Intangibles	9,581	11,749	(2,168)	(18.45%)
Library books	13,158	14,006	(848)	(6.05%)
Total	$1,337,302	$1,278,799	$58,503	4.57%

*June 30, 2014 amounts have been restated (see footnote 1-O)

Construction in Progress (CIP) increased due to expenditures on projects under construction at JTCC, NVCC, and TCC offset by a decrease in CIP as the Student Life Center at VWCC was moved to applicable depreciable asset categories. Depreciable Land Improvements, Infrastructure, Buildings, Equipment, and Intangibles all decreased due to an overall increase in accumulated depreciation in excess of asset additions. Library books decreased due to unit reductions at NVCC, BRCC, and Germanna Community College (GCC), coupled with an overall increase in accumulated depreciation in excess of asset additions.

Other Non-Current Assets

The $3.9 million decrease in other non-current assets was predominately due to decreases of $3.4 million in restricted cash and cash equivalents, $5.3 million in cash equivalents with trustees, and $4.3 million in other long-term investments, partially offset by an increase of $9.2 million in amounts due from the commonwealth.

Restricted cash and cash equivalents held in local accounts and restricted for specified capital projects increased by $2.7 million, while unreimbursed Virginia College Building Authority (VCBA) cash basis expenditures increased by $6.1 million, thereby reducing restricted state cash balances.

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 $5.3 million in fiscal year 2015 as payments continued on various pooled bond projects.

The decrease in other long-term investments was largely due to a decision by TCC to shift $3.8 million from long-term investments to cash equivalents in fiscal year 2015, while amounts due from the commonwealth increased by $9.2 million because of cash basis capital expenditures at BRCC, JTCC, LFCC, and NVCC that were eligible for reimbursement under the VCBA program.

Deferred Outflows of Resources

The financial statement category deferred outflows of resources is used to report consumption of resources applicable to a future reporting period. The balances reported for fiscal years 2014 and 2015 included deferred losses on defeasance of debt related to refinancing of pooled bond issuances at NVCC and JSRCC. The fiscal year 2015 balance also included amounts related to certain changes related to pensions and will be recognized as pension expense in future fiscal years.

Current Liabilities

Current liabilities consist of accounts and retainage payable of $34.6 million, accrued payroll expense of $48.9 million, unearned revenue of $53.6 million, long-term obligations (current portion) of $29.3 million, deposits of $6.4 million, and securities and lending obligations and amounts due to commonwealth totaling $0.2 million.

Current liabilities increased $13.2 million in fiscal year 2015 primarily due to increases of $10.9 million in accounts and retainage payable, $4.0 million in unearned revenue, and $1.0 million in accrued payroll expense, partially offset by a $3.1 million decrease in the current portion of long-term debt obligations.

JTCC's capital related accounts/retainage payable balances increased by $4.1 million in fiscal year 2015 due to related work on several projects. In addition, NVCC's total account/retainage payable balances increased by over $5 million due to capital project related activity and also increases in non-capital payable balances primarily for equipment purchases, operations and maintenance, and year-end payments for consulting, IT security, and other services.

The increase in unearned revenue was predominantly attributable to activity at NVCC and TCC. NVCC balances increased in fiscal year 2015 due to grant related cash advances, a reduction in the amount reclassified from deferred revenue to revenue for summer faculty wage expense, and additional students paying for summer term classes prior to fiscal year end. The increase at TCC was due to increased enrollment coupled with higher tuition and fee rates, a reduction in the amount reclassified from deferred revenue for summer faculty wage expense, and additional students paying for summer term prior to fiscal year end.

The change in accrued payroll represented a 2% increase from the prior fiscal year and was spread across multiple colleges. Such a minimal change is considered normal given personnel changes occurring in the ordinary course of business (e.g. turnover of personnel, pay rate changes).

The decrease in the current portion of long-term debt was principally due to reductions in short-term notes payable to the commonwealth and in the amount accrued for current compensated absences. During fiscal year 2015, the VCCS paid $1.7 million toward balances due on interest free loans made by the commonwealth to alleviate temporary cash shortfalls related to reimbursement based grants. The $1.9 million reduction in current compensated absence balances was due to normal employee turnover and changes in employee leave usage. These decreases were partially offset by increases in debt balances due within one year, as amounts due and paid in 2015 exceeded amounts due in fiscal year 2016.

Non-Current Liabilities

Non-Current liabilities consist of a net pension obligation of $480.2 million, capital lease liabilities of $4.2 million, installment purchases payable of $3.5 million, pooled bonds of $123.2 million, accrued leave of $13.8 million, federal loan program amounts due of $4.8 million, and unearned revenue of $1.2 million. The increase of $477.1 million in non-current liabilities was primarily due to implementation of new accounting standards which required the VCCS to record a proportionate share of the overall VRS pension liability. Prior to implementation of these standards, VRS did not measure assets and pension benefit obligations separately for individual state institutions; therefore, the 2014 related balance is not reflected in the summarized statement of net position above.

Deferred Inflows of Resources

The financial statement category deferred inflows of resources is used to report acquisition of resources applicable to a future reporting period. The balance in fiscal year 2015 reflects certain amounts related to pensions and will impact pension expense in future fiscal years.

Net Position

The $54.9 million increase in net investment in capital assets is explained by an increase of $58.5 million in capital assets, net of accumulated depreciation, reduced by a net increase of $3.6 million in capital asset related debt and deferred outflow balances. The respective decreases of $11.2 million and $511.9 million in the restricted expendable and the unrestricted net position categories were primarily due to implementation of new accounting standards and the consequent recording of the net pension obligation, as well as pension related deferred outflows and inflows of resources. The balance in total net position is a residual amount equal to the sum of total assets and deferred outflows of resources less the sum of total liabilities and deferred inflows of resources and is considered one measure of the current financial condition of an organization.

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: 2015	2014*	Dollar Change	Percentage Change
Operating revenue	$510,322	$513,236	($2,914)	(0.57%)
Operating expenses	1,220,949	1,208,283	12,666	1.05%
Operating loss	($710,627)	($695,047)	($15,580)	2.24%
Non-operating revenues and expenses	$668,424	$671,881	($3,457)	(0.51%)
Income (loss) before other revenues, expenses, gains or losses	($42,203)	($23,166)	($19,037)	82.18%
Other revenues	$96,241	$58,076	$38,165	65.72%
Increase in net position	$54,038	$34,910	$19,128	54.79%
Net position, beginning of year	$796,571	$1,283,905	($487,334)	(37.96%)
Net position, end of year	$850,609	$1,318,815	($468,206)	(35.50%)

*June 30, 2014 amounts have been restated for audit adjustments (see footnote 1-O). However, the 2014 column has not been adjusted to reflect the impact of implementation of GASB 68, as amended.

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, 2015 and 2014:

Summary of Revenues

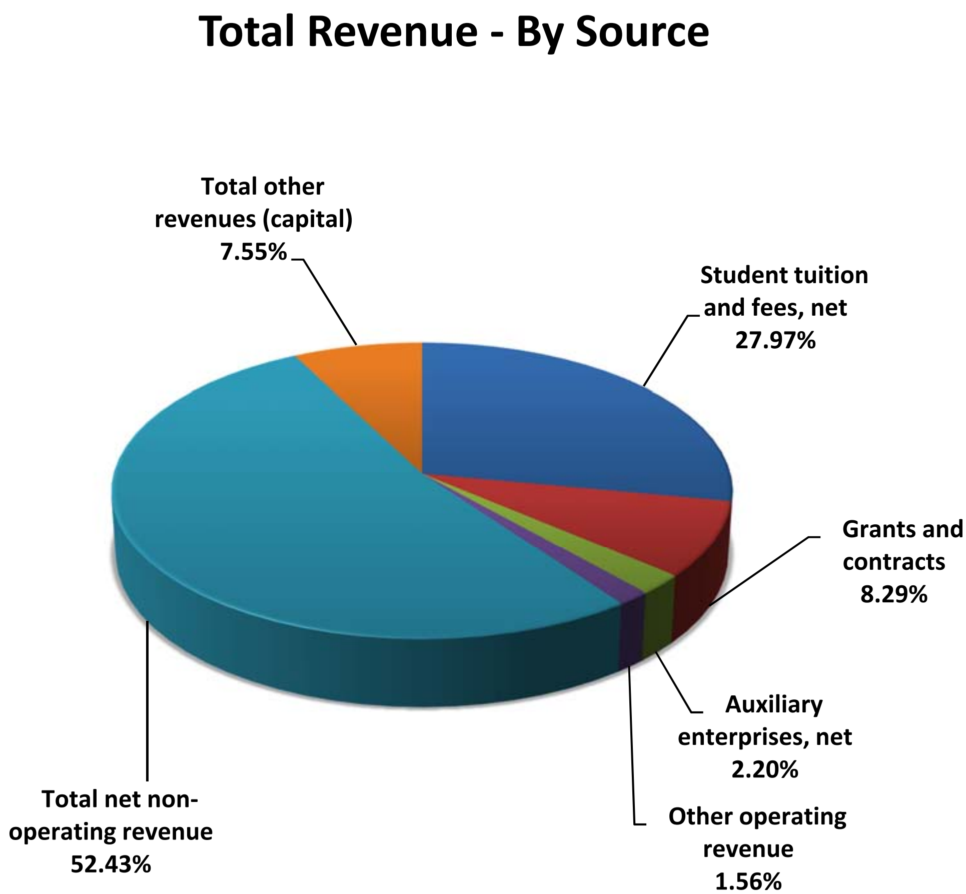
For the years ended June 30, 2015 and 2014
(in thousands of dollars)

	2015	2014*	Dollar Change	Percentage Change
Operating revenues				
Student tuition and fees, net	$356,578	$361,983	($5,405)	(1.49%)
Grants and contracts	105,754	105,981	(227)	(0.21%)
Auxiliary enterprises, net	28,087	23,706	4,381	18.48%
Other operating revenue**	19,903	21,565	(1,662)	(7.71%)
Total Operating Revenues	$510,322	$513,235	($2,913)	(0.57%)
Non-operating activity				
State operating appropriations	$411,086	$404,868	$6,218	1.54%
Local operating appropriations	2,182	2,521	(339)	(13.45%)
Grants and gifts	262,450	271,706	(9,256)	(3.41%)
Investment income	918	994	(76)	(7.65%)
Interest expense	(4,159)	(4,145)	(14)	0.34%
Other	(4,053)	(4,063)	10	(0.25%)
Total net non-operating revenue	$668,424	$671,881	($3,457)	(0.51%)
Other revenues (capital)				
Capital appropriations-state	$86,429	$47,741	$38,688	81.04%
Capital appropriations-local	6,831	7,285	(454)	(6.23%)
Capital gifts and grants	2,981	3,050	(69)	(2.26%)
Total other revenues (capital)	$96,241	$58,076	$38,165	65.72%
Total revenues	$1,274,987	$1,243,192	$31,795	2.56%

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

* June 30, 2014 amounts have been restated (see footnote 1-O)

A graphic presentation of fiscal year 2015 revenues by source (per the Statement of Revenues, Expenses and Changes in Net Position) is below.



Operating Revenues

Total operating revenues remained relatively constant as compared to the prior year with a total percentage decrease of only 0.57%. Gross student tuition and fee revenues (before scholarship discounts and allowances) declined by approximately $7.0 million, a decrease of 1.29%. Increased revenue from higher tuition and fee rates was more than offset by decreased revenue due to fewer student FTEs 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 a slight decrease of 0.9%; therefore, net tuition and fees revenue remained relatively flat in fiscal year 2015 as compared to fiscal year 2014.

Auxiliary enterprise revenue increased in the current year primarily due to $7.0 million in additional student center revenues at BRCC and TCC as additional centers were placed in operation during fiscal year 2015. This increase was partially offset by a decrease of $2.3 million in parking revenue at NVCC due to reduced enrollment and a decision by management to change the parking fee structure in fiscal year 2015. Other operating revenue fell because of a decrease in current year refunds of prior year operating disbursements, primarily at GCC and NVCC. As 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) increased by $34.7 million or 4.8% as compared to the prior year primarily as a result of a $38.7 million increase in state capital appropriation revenue related to additional VCBA activity in fiscal year 2015. Specifically, the increase was principally related to projects in the construction phase during fiscal year 2015 at BRCC, JTCC, LFCC, NVCC, and TCC.

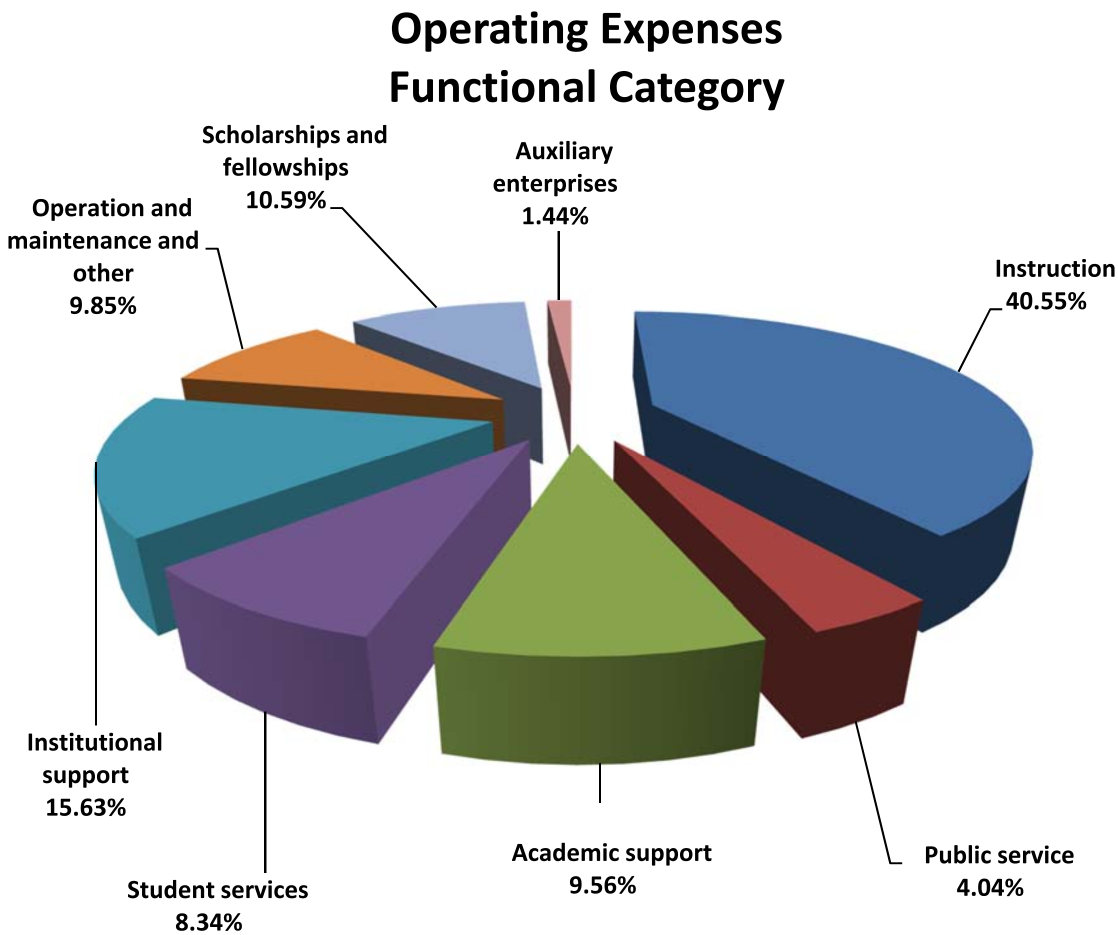
The following table is a detailed breakdown of operating expenses by function and a comparison of changes by category for the periods ended June 30, 2015 and 2014:

Summary of Expenses by Function
For the years ended June 30, 2015 and 2014
(in thousands of dollars)

	2015	**2014***	**Dollar Change**	**Percentage Change**
Operating expenses:				
Instruction	$495,025	$493,718	$1,307	0.26%
Public service	49,387	45,833	3,554	7.75%
Academic support	116,777	119,952	(3,175)	(2.65%)
Student services	101,771	96,242	5,529	5.74%
Institutional support	190,839	183,775	7,064	3.84%
Operation and maintenance	120,148	121,667	(1,519)	(1.25%)
Scholarships and fellowships	129,240	128,295	945	0.74%
Auxiliary enterprises	17,630	18,615	(985)	(5.29%)
Other expenses	132	185	(53)	(28.65%)
Total operating expenses	$1,220,949	$1,208,282	$12,667	1.05%

* June 30, 2014 amounts have been restated (see footnote 1-O)

A graphic presentation of fiscal year 2015 operating expenses by function (per the Statement of Revenues, Expenses and Changes in Net Position) is below.



Operating Expenses

Operating expenses totaled approximately $1.2 billion for fiscal 2015 and grew by $12.7 million. The natural expense category, compensation and benefits, comprised $733.6 million of total VCCS operating expenses. This category increased by $14 million (1.9%) due to normal fluctuations in staffing levels and increased employee benefit costs. Scholarship expenses declined by $1.8 million (1.3%) 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 $0.4 million (0.1%). These changes resulted in fluctuations between functional categories, but the overall effect was an increase in total operating expenses of only 1.05%.

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:			
	2015	**2014***	**Dollar Change**	**Percentage Change**
Cash received from operations	$516,527	$511,342	$5,185	1.01%
Cash used in operations	1,146,107	1,152,619	(6,512)	(0.56%)
Net cash used in operations	($629,580)	($641,277)	$11,697	(1.82%)
Net cash provided by non-capital financing activities	$662,850	$671,034	($8,184)	(1.22%)
Net cash used in capital and related financing activities	(30,400)	(35,424)	5,024	(14.18%)
Net cash provided by (used in) investing activities	5,586	(19,002)	24,588	(129.40%)
Net increase (decrease) in cash and cash equivalents	$8,456	($24,669)	$33,125	(134.28%)
Cash and cash equivalents, beginning of year as adjusted	$250,086	$274,755		
Cash and cash equivalents, end of year	$258,542	$250,086		

* June 30, 2014 amounts have been restated (see footnote 1O)

The primary operating sources of cash for the VCCS included tuition and fees of $360.6 million, operating grants and contracts of $106.7 million, and auxiliary revenues of $28.3 million. The primary uses of operating cash included employee salaries, wages, fringe benefits and pension benefits of $740 million, operating expenses (payments to suppliers/others and utilities) of $275.3 million and scholarships of $130.2 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 lower due to a decrease in grants and gifts. Net cash flows from capital and related financing activities increased $5 million due primarily to increases of $33.4 million in state capital appropriations and $4.8 million in proceeds from bond issuance, partially offset by an increase in cash disbursements of $33.9 million for capital asset purchases. Net cash provided by (used in) investing activities increased $24.6 million due to investment activity by TCC related to student center operation and maintenance. The overall increase in cash and cash equivalents was $8.5 million at the end of fiscal year 2015.

Economic Outlook

In fiscal year 2015, the Commonwealth predicted a 4.7% increase in general fund revenues and actually collected at a rate that was 8.1% above fiscal year 2014. 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, as of the fiscal year 2016 budget, $49.2 million has been added since that time including $6.3 million for fiscal year 2016. The net effect for fiscal year 2016 and future years is that VCCS general funds will have been reduced by 6.7% or $26.3 million as a result of state mandated budget reductions beginning in fiscal year 2008.

The State Board for Community Colleges has adopted a concept of maintaining as much stability and predictability in tuition as possible, and has implemented manageable annual tuition rate increases. 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 2016 will be 36.9% of the average of the four-year institutions for total tuition and mandatory fees.

Effective with the fall 2015 session, the State Board for Community Colleges approved a tuition increase of $6.50 per credit hour applicable to all students. Within the VCCS, eight colleges have tuition differential rates ranging from $1.00 per credit hour to $26.80 per credit hour. The VCCS estimates that the tuition rate increases will generate approximately $20.6 million in tuition and deferred revenues in fiscal year 2016, assuming a 1.03% decline in FTEs.

Chapter 665, 2015 Virginia Acts of Assembly, authorized the funds for equipment purchases related to two projects at BRCC and JTCC for which construction was previously authorized.

The VCCS capitalized construction expenses totaling $97.9 million during fiscal year 2015. These costs primarily included projects that are still in progress, but did include some that were completed in fiscal year 2015. Construction costs for projects completed during fiscal year 2015 totaled $13.5 million.

The VCCS entered into contractual commitments for capital projects totaling $223.5 million as of June 30, 2015. Expenses processed against these commitments as of June 30, 2015 totaled $138.9 million, leaving an unpaid commitment balance of $84.6 million.

CONSOLIDATED FINANCIAL STATEMENTS

Virginia Community College System
Consolidated
Statement of Net Position
As of June 30, 2015

	VCCS	Component Units Foundations
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	229,557,809	19,485,108
Appropriation available	6,372	
Short term investments (Note 2)	589,300	32,974,118
Accounts receivable, net (Note 3)	12,858,834	327,217
Pledges receivable (Note 3)		3,142,414
Due from commonwealth	8,967,726	
Interest receivable	400,958	198,272
Prepaid expenses	22,332,212	165,147
Inventories	1,776,942	
Notes receivable, net (Note 3)	2,374,557	136,618
Total Current Assets	278,864,710	56,428,894
Noncurrent Assets		
Restricted cash and cash equivalents (Note 2)	1,485,825	
Cash equivalents with trustees	27,489,232	
Endowment cash and cash equivalents (Note 2)	35,921	6,662,108
Appropriation available	1,020,901	
Endowment investments (Note 2)		123,990,591
Other long-term investments (Note 2)	26,446,035	39,562,782
Accounts receivable, net (Note 3)	264,875	597
Investments in real estate (Note 2)		2,084,689
Pledges receivable (Note 3)		8,237,792
Due from commonwealth	15,816,268	
Notes receivable, net (Note 3)	1,946,047	878,077
Non-depreciable capital assets, net (Note 4)	189,830,828	2,880,768
Depreciable capital assets, net (Note 4)	1,147,471,034	19,689,102
Total Noncurrent Assets	1,411,806,966	203,986,506
Total Assets	1,690,671,676	260,415,400
Deferred Outflows of Resources (Note 15)	52,562,276	
Total Assets and Deferred Outflows of Resources	1,743,233,952	260,415,400
Liabilities		
Current Liabilities		
Accounts and retainage payable (Note 5)	34,596,653	1,508,542
Accrued payroll expense	48,879,057	91,511
Unearned revenue	53,616,854	770,531
Long-term liabilities-current portion (Note 7)	29,351,662	481,730
Securities lending obligation	27,554	
Due to Commonwealth	153,050	
Deposits	6,412,179	5,201,514
Total Current Liabilities	173,037,009	8,053,828
Noncurrent Liabilities		
Unearned revenue	1,215,705	
Long-term liabilities (Note 7)	144,712,588	9,737,768
Due to federal government (Note 7)	4,794,667	
Pension obligations (Note 7)	480,219,000	
Total Noncurrent Liabilities	630,941,960	9,737,768
Total Liabilities	803,978,969	17,791,596
Deferred Inflows of Resources (Note 15)	88,646,000	
Total Liabilities and Deferred Inflows of Resources	892,624,969	17,791,596

Virginia Community College System
Consolidated
Statement of Net Position
As of June 30, 2015

	VCCS	Component Units Foundations
Net Position		
Net investment in capital assets	1,223,210,850	14,059,875
Restricted for:		
Nonexpendable	33,405	75,022,550
Expendable		95,109,645
Unrestricted	(372,635,272)	58,431,734
Total Net Position	850,608,983	242,623,804

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, 2015

	VCCS	Component Units Foundations
Revenues		
Operating Revenue		
Tuition and fees (net of scholarship allowance of $181,102,183)	356,578,354	
Federal grants and contracts	89,716,664	
State and local grants	8,162,436	1,020,168
Nongovernmental grants	7,874,790	1,793,689
Sales/services of education department	278,924	
Auxiliary enterprises (net of scholarship allowance of $2,451,411)	28,086,747	
Gifts and contributions		12,621,109
Endowment income		6,297,638
Other operating revenues	19,624,053	5,556,396
Total Operating Revenue	510,321,968	27,289,000
Expenses		
Operating Expenses		
Instruction	495,024,576	1,305,879
Public service	49,387,256	2,375,363
Academic support	116,777,392	2,940,149
Student services	101,770,517	557,517
Institutional support	190,838,457	8,383,655
Operation and maintenance	120,148,456	1,241,100
Scholarships and fellowships	129,240,452	7,654,748
Auxiliary enterprises	17,630,100	
Fundraising		1,924,205
Other expenses	132,086	484,317
Total Operating Expenses	1,220,949,292	26,866,933
Operating Income (Loss)	(710,627,324)	422,067
Nonoperating Revenues(Expenses)		
State appropriations (Note 11)	411,085,895	
Local appropriations	2,182,393	
Grants and gifts	262,450,576	
Investment income	917,922	3,126,221
Interest on capital asset related debt	(4,159,163)	
Other nonoperating revenue (expense)	(4,053,094)	(5,681)
Net Nonoperating Revenue	668,424,529	3,120,540
Income before other revenues, expenses gains (losses)	(42,202,795)	3,542,607
Capital appropriations-state (Note 18)	86,429,055	
Capital appropriations-local	6,831,053	
Capital gifts, grants and contracts	2,981,336	1,226,635
Additions to permanent and term endowments		13,231,127
Increase (Decrease) in Net Position	54,038,649	18,000,369
Net Position		
Net Position beginning of year, as restated (Note 1-O)	796,570,334	224,623,435
Net Position end of year	850,608,983	242,623,804

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, 2015

	VCCS
Cash flows from operating activities:	
Tuition and fees	360,602,695
Grants and contracts	106,670,150
Payments to suppliers and others	(257,343,069)
Payments for employee wages	(569,199,152)
Payments for employee fringes and pension benefits	(170,822,983)
Payment for scholarships	(130,240,472)
Payments for utilities	(17,971,982)
Sales and services of education department	278,924
Auxiliary	28,292,223
Loans issued to students	(529,910)
Loans collected from students	771,261
Other	19,911,817
Net cash used by operating activities	(629,580,498)
Cash flows from non-capital financing activities:	
State appropriations	411,085,895
Local appropriations	2,182,393
Grants and gifts	254,483,106
Agency receipts	12,998,087
Agency disbursements	(11,706,058)
PLUS, Stafford and Direct Lending loan receipts	186,611,506
PLUS, Stafford and Direct Lending loan disbursements	(187,252,502)
Borrowings	4,000,000
Loan repayments	(5,704,500)
Other non-operating revenue(expense)	(3,847,626)
Net cash provided (used) by non-capital financing activities	662,850,301
Cash flows from capital financing activities:	
Capital appropriations-state	81,352,125
Capital appropriations-local	6,831,053
Capital grants and gifts	2,456,276
Purchase capital assets	(112,463,340)
Proceeds from sale of capital assets	246,133
Proceeds from bond issue	4,844,920
Debt interest payments	(5,953,321)
Debt principal payments	(7,714,269)
Net cash provided (used) by capital financing activities	(30,400,423)
Cash flows from investing activities:	
Purchases of investments	(31,393,052)
Sale of investments	36,038,834
Investment income	940,668
Net cash provided (used) by investing activities	5,586,450
Net increase (decrease) in cash and cash equivalents	8,455,830
Cash and cash equivalents, beginning of year	250,086,367
Cash and cash equivalents, End of Year	258,542,197

Virginia Community College System
Consolidated
Statement of Cash Flows
For the Year Ended June 30, 2015

	VCCS
Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating income (loss)	(710,627,324)
Adjustment to reconcile operating income (loss) to net cash used in operating activities:	
Depreciation expense	58,574,760
Changes in assets, deferred outflows, liabilities and deferred inflows:	
Appropriation available and accounts receivable, net	7,622,669
Prepaid expenses and other	11,253,226
Accrued compensation and leave	(1,045,527)
Accounts payable and other	5,229,463
Unearned revenue	4,957,777
Deposits pending distribution	(117,167)
Pension related accounts	(5,428,375)
Net cash used in operating activities	(629,580,498)
Reconciliation of cash and cash equivalents:	
Cash and cash equivalents per Statement of Net Position	258,568,787
Less: Securities Lending Cash Equivalents	26,590
Cash and cash equivalents end of year	258,542,197
Noncash transactions	
Donated fixed assets	525,060
Debt principal and interest payments made by Treasury	2,016,800

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, 2015

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, 2015, the foundations distributed $8,759,687 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, 300 Arboretum Place, Suite 200, Richmond, VA 23236.

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, 2015.

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, 2015 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, 2014.

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. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Virginia Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers' System (VaLORS) Retirement Plan; and the additions to/deductions from the VRS State Employee Retirement Plan's and the VaLORS Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments held by VRS are reported at fair value.

J. 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.

K. 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.

L. 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.

M. Deferred Inflows and Outflows of Resources

Deferred outflows of resources are defined as the consumption of net assets applicable to a future reporting period. The deferred outflows of resources have a positive effect on net position similar to assets.

Deferred inflows of resources are defined as the acquisition of net assets applicable to a future reporting period. The deferred inflows of resources have a negative effect on net position similar to liabilities.

N. 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.

O. Restatements

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

Net Position as of June 30, 2014 - previously reported	$1,321,176,623
Correction of NVCC Construction in Progress asset overstatement	(2,362,289)
Change in accounting principle (GASB 68 implementation)**	(522,244,000)
Net Position as of July 1, 2015 - as restated	$796,570,334

**GASB Statement No. 68, Accounting and Financial Reporting for Pensions amends GASB Statement No. 27. Statement No. 68 was issued June 2012 and became effective for financial statements for fiscal years beginning after June 15, 2014.

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 $71,795,977 at June 30, 2015.

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, 2.2-4501, 2.2-4509 and 2.2-4510 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 2015.

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 2015.

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 2015.

Cash Equivalents	Fair Value	Credit Rating
Local Govt. Investment Pool	$33,971,943	AAA
Certificates of Deposit	11,099,090	Not Rated
Repurchase Agreements	16,812,789	Not Rated
Mutual and Money Market Funds	1,413,437	Not Rated
Securities Lending [1]	26,590	
Total	$63,323,849	

Investment Type	Fair Value	Less 1 year	1-5 years
Agency Mortgage Backed Securities	$310,367	-	$310,367
Corporate Notes	743,920	-	743,920
Negotiable Certificates of Deposit	24,719,151	-	24,719,151
Municipal Securities	302,809	-	302,809
Mutual Funds	588,336	$588,336	-
U.S. Treasury and Agency Securities	369,788	-	369,788
Securities Lending [1]	964	964	-
Total	$27,035,335	$589,300	$26,446,035

[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, 2015:

Cash and cash equivalents	$ 26,147,216
Investments:	
Mutual funds and money markets	$ 86,216,969

Stocks	79,695,230
Corporate bonds	12,726,042
UVA investment fund	7,202,775
Certificates of deposits	2,424,992
Investment in real estate	2,244,940
U. S. government securities & bonds	2,231,447
Municipal bonds	2,181,431
Mortgage-backed securities	1,991,660
Assets held for resale	843,525
Cash surrender value of life insurance	525,826
Partnership investment	203,069
Split interest agreement	124,274
Total investments	$198,612,180

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, 2015:

Gross accounts receivable:	
Tuition and fees	$ 9,593,698
Auxiliary enterprises	567,474
Federal, state, local and nongovernmental grants, gifts, contracts	2,789,136
Other activities	900,059
Total gross accounts receivable	$13,850,367
Less: Allowance for doubtful accounts	(726,658)
Net accounts receivable	$13,123,709
Gross Loans and notes receivable	$ 4,641,962
Less: Allowance for doubtful accounts	(321,358)
Net loans and notes receivable	$ 4,320,604

Receivables not expected to be collected within one year are $2,210,922 in accounts, notes, and loans receivable.

Community College Foundations

The foundations have the following receivables as of June 30, 2015:

Gross accounts receivable	$370,434
Less: Allowance for doubtful accounts	(42,620)
Net accounts receivable	$327,814
Pledges receivable:	
Due in one year	$3,247,896
Due in 1-5 years	7,606,422
Due in more than 5 years	1,448,135
Less: Allowance for doubtful accounts	(163,416)
Present value discount	(758,831)
Net pledges receivable	$11,380,206

Gross loans and notes receivable	$1,014,695
Less: Allowance for doubtful accounts	-
Net loans and notes receivable	$1,014,695

Receivables not expected to be collected within one year are $878,077 in notes and loans receivable and $8,237,792 in pledges receivable.

4. CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2015 are as follows:

	Beginning* Balance	Increases	Decreases	Ending Balance
Nondepreciable capital assets:				
Land / Land Improvements	$66,437,072	$18,047	-	$66,455,119
Inexhaustible Works of Art	148,174	-	-	148,174
Construction in Progress	38,753,842	97,935,677	(13,461,984)	123,227,535
Total capital assets not being depreciated	$105,339,088	$97,953,724	($13,461,984)	$189,830,828
Depreciable capital assets:				
Buildings	$1,285,750,503	$11,786,710	$(1,284,434)	$1,296,252,779
Infrastructure	67,000,814	1,768,200	-	68,769,014
Equipment	190,999,253	15,782,379	(8,891,922)	197,889,710
Land Improvements	83,397,005	1,860,503	-	85,257,508
Library Books	48,789,437	1,963,958	(2,436,357)	48,317,038
Intangible	47,191,560	98,339	(307,000)	46,982,899
Total other capital assets	$1,723,128,572	$33,260,089	($12,919,713)	$1,743,468,948
Less accumulated depreciation for:				
Buildings	($285,016,832)	($29,366,766)	$1,076,093	($313,307,505)
Infrastructure	(24,394,168)	(3,064,758)	-	(27,458,926)
Equipment	(123,602,432)	(17,889,080)	8,429,647	(133,061,865)
Land Improvements	(46,429,747)	(3,178,402)	-	(49,608,149)
Library Books	(34,783,489)	(2,812,185)	2,436,357	(35,159,317)
Intangible	(35,442,657)	(2,263,569)	304,074	(37,402,152)
Total accumulated depreciation	($549,669,325)	($58,574,760)	$12,246,171	($595,997,914)
Other capital assets, net	$1,173,459,247	($25,314,671)	($673,542)	$1,147,471,034

Total capital assets, net	$1,278,798,335	$72,639,053	($14,135,526)	$1,337,301,862

*Beginning balances as restated (see footnote 1-O)

Community College Foundations

The foundations had the following capital assets as of June 30, 2015:

Non-depreciable capital assets:	
Land	$ 2,754,641
Works of art	126,127
Total nondepreciable capital assets	$ 2,880,768
Depreciable capital assets:	
Buildings	$20,656,333
Equipment	1,890,613
Site improvement	556,004
Total depreciable capital assets	$23,102,950
Less: Accumulated depreciation	(3,413,848)
Depreciable capital assets, net	$19,689,102
Total capital assets, net	$22,569,870

5. ACCOUNTS AND RETAINAGE PAYABLE

Accounts and retainage payable consisted of the following as of June 30, 2015:

	VCCS	Foundations
Vendors payable	$28,858,187	$1,508,542
Students payable	620,111	
Retainage payable	5,117,102	
Taxes payable	1,253	
Total	$34,596,653	$1,508,542

6. COMMITMENTS

At June 30, 2015, the VCCS had future contractual commitments totaling $84,632,147. The System held $5,117,102 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, 2015 is as follows:

Beginning* Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year

	Beginning* Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Debt:					
Capital leases	$8,163,124		$1,859,361	$6,303,763	$2,080,351
Notes payable:					
Installment purchases	4,097,231		314,908	3,782,323	293,759
Pooled bonds	130,324,617	4,876,365	6,193,836	129,007,146	5,790,000
Other notes payable	5,704,500	4,000,000	5,704,500	4,000,000	4,000,000
Total bonds, notes and capital leases	$148,289,472	$8,876,365	$14,072,605	$143,093,232	$12,164,110
Other liabilities:					
Compensated absences	32,984,243	23,798,073	25,811,298	30,971,018	17,187,552
Pension Obligations	552,022,000		71,803,000	480,219,000	
Federal loan program contributions	4,808,289		13,622	4,794,667	
Total other liabilities	$589,814,532	$23,798,073	$97,627,920	$515,984,685	$17,187,552
Total long-term liabilities	$738,104,004	$32,674,438	$111,700,525	$659,077,917	$29,351,662

*Beginning balance as restated due to implementation of Governmental Accounting Standards Board (GASB) Statement No. 68

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, 2015 is $3,557,684.

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, 2015 is $3,811,406.

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, 2015 is $2,333,837.

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, 2015 is $11,995,202.

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, 2015 is $854,128.

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, 2015 is $19,845,578.

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, 2015 is $13,949,826.

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, 2015 is $2,877,782.

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, 2015 is $8,605,019.

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, 2015 is $13,920,051.

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, 2015 is $6,169,952.

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, 2015 is $5,365,928.

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, 2015 is $6,587,206.

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, 2015 is $24,280,703.

Parking garage for Blue Ridge Community College Weyers Cave Campus - The balance is to be repaid in annual installments ranging from $135,000 to $325,000 with coupon rates ranging from 4**%** to 5% payable semiannually. The final installment of $325,000 is due September 1, 2034. The outstanding balance at June 30, 2015 is $4,852,844.

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

Other notes payable of $4,000,000 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
2016	$5,790,000	$5,383,454	$11,173,454
2017	6,195,000	5,092,554	11,287,554
2018	6,505,000	4,786,141	11,291,141
2019	6,805,000	4,462,916	11,267,916
2020	7,095,000	4,136,779	11,231,779
2021-2025	37,110,000	15,503,956	52,613,956
2026-2030	38,320,000	6,723,612	45,043,612
2031-2035	11,900,000	609,087	12,509,087
Sub Totals	$119,720,000	$46,698,499	$166,418,499
Plus: Bond Premium	9,287,146		9,287,146
Totals	$129,007,146	$46,698,499	$175,705,645

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 $5,551,221 for the year. A summary of future obligations under lease agreements as of June 30, 2015 follows:

Year Ending June 30	Capital Lease Obligations	Installment Purchase Obligations	Operating Lease Obligations
2016	2,383,355	$385,008	$ 9,862,869
2017	1,108,443	489,796	8,841,895
2018	1,108,932	489,794	7,842,870
2019	1,107,492	489,795	7,271,107
2020	1,109,194	489,794	4,035,470
2021-2025	363,670	1,909,885	11,562,410
2026-2030		134,146	744,283
Total obligation and gross minimum lease payments	$7,181,086	$4,388,218	$50,160,904
Less: Interest	(877,323)	(605,895)	

Present value of minimum lease payments	$6,303,763	$3,782,323	$50,160,904

10. OPERATING EXPENSES BY NATURAL AND FUNCTIONAL CLASSIFICATIONS

VCCS operating expenses for the year ended June 30, 2015 were as follows:

Natural Classification

Functional Classification	Salaries & Benefits	Utilities	Scholarships	Depreciation	Supplies, Services & Other	Total
Instruction	$ 387,575,134	$ 127,446	$ 939,118	$ 36,658,265	$ 69,724,613	$ 495,024,576
Public Service	8,324,752	196	16,917	199,302	40,846,089	49,387,256
Acad. Support	82,774,911	86,766		7,073,657	26,842,058	116,777,392
Student Services	83,275,771	528	745,554	2,339,471	15,409,193	101,770,517
Inst. Support	126,575,185	175,769	476,413	9,148,574	54,462,516	190,838,457
O & M of Plant	39,889,263	17,247,425	656	3,029,373	59,981,739	120,148,456
Schol. & Fellows.	41,404		128,762,646		436,402	129,240,452
Aux. Enterprises	5,183,826	676,948	54,671	126,118	11,588,537	17,630,100
Other Expenses					132,086	132,086
Total Expenses	$ 733,640,246	$ 18,315,078	$130,995,975	$ 58,574,760	$ 279,423,233	$1,220,949,292

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 2015-16 provided that the VCCS meets financial and administrative standards outlined in the *Code of Virginia*.

During the year ended June 30, 2015, the Virginia Community College System received the following general fund appropriations in accordance with Chapter 665, 2015 Virginia Acts of Assembly.

Appropriated – Chapter 665 – approved March 26, 2015	$357,884,248
Additions:	
Net central accounts distribution	9,007,946
Other:	
Transfer from SCHEV – VIVA	36,463
Carryover fiscal year 2014 year-end balances	21,857,141
Equipment Trust Fund lease payment	(633,657)
Reclassification of capital project planning fees	(400,000)
Capital fee transfers	(3,222,450)
Philpott manufacturing	(394,647)
Reversion	(14,116,818)
Adjusted Unrestricted Appropriations	$370,018,226

Other restricted appropriations were $41,067,669 for a total of $411,085,895.

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, 2015. 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, 2015, the VCCS estimates that no material liabilities will result from such audits.

15. RETIREMENT PLANS

Virginia Retirement System – General Information about the Pension Plans

Plan Description

All full-time, salaried permanent employees of state agencies are automatically covered by the VRS State Employee Retirement Plan or the VaLORS Retirement Plan upon employment. These plans are administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. The State Retirement Plan and VaLORS Retirement Plan are single employer plans treated as cost-sharing employer plans for financial reporting purposes. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees in the VRS State Employee Retirement Plan – Plan 1, Plan 2, and, Hybrid and two different benefit structures for covered employees in the VaLORS Retirement Plan – Plan 1 and Plan 2. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below.

<table>
<tr><th colspan="3">Retirement Plan Provisions By Plan Structure</th></tr>
<tr><th>Plan 1</th><th>Plan 2</th><th>Hybrid</th></tr>
<tr>
<td>About Plan 1
Plan 1 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</td>
<td>About Plan 2
Plan 2 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</td>
<td>About the Hybrid Retirement Plan
The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see “Eligible Members”)
• The defined benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula.
• The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.</td>
</tr>
<tr>
<td>Eligible Members
Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

Hybrid Opt-In Election
VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid</td>
<td>Eligible Members
Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

Hybrid Opt-In Election
Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special</td>
<td>Eligible Members
Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:
• State employees*
• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan’s effective date for opt-in members was July 1, 2014.

*Non-Eligible Members</td>
</tr>
</table>

Retirement Plan Provisions By Plan Structure		
Plan 1	**Plan 2**	**Hybrid**
Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	Some employees are not eligible to participate in the Hybrid Retirement Plan. They include members of the Virginia Law Officers' Retirement System (VaLORS). Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions State employees, excluding state elected officials and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** State employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.	**Retirement Contributions** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may	**Creditable Service** Same as Plan 1.	**Creditable Service** **<u>Defined Benefit Component:</u>** Under the defined benefit component of the plan, creditable service includes active service. Members earn

Retirement Plan Provisions By Plan Structure		
Plan 1	**Plan 2**	**Hybrid**
include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.		creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. **Defined Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	**Vesting** Same as Plan 1.	**Vesting** **Defined Benefit Component:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. **Defined Contributions Component:** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component

Retirement Plan Provisions By Plan Structure		
Plan 1	**Plan 2**	**Hybrid**
		of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **<u>Defined Benefit Component:</u>** See definition under Plan 1 **<u>Defined Contribution Component:</u>** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Service Retirement Multiplier **VRS:** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty	**Service Retirement Multiplier** **VRS:** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for	**Service Retirement Multiplier** **<u>Defined Benefit Component:</u>** **VRS:** The retirement multiplier for the defined benefit component is 1.00%.

Retirement Plan Provisions By Plan Structure		
Plan 1	**Plan 2**	**Hybrid**
members is 1.70%. **VaLORS:** The retirement multiplier for VaLORS employees is 1.70% or 2.00%.	creditable service earned, purchased or granted on or after January 1, 2013. **VaLORS:** The retirement multiplier for VaLORS employees is 2.00%.	For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **VaLORS:** Not applicable. **Defined Contribution Component:** Not applicable.
Normal Retirement Age **VRS:** Age 65. **VaLORS:** Age 60.	**Normal Retirement Age** **VRS:** Normal Social Security retirement age. **VaLORS:** Same as Plan 1.	**Normal Retirement Age** **Defined Benefit Component:** **VRS:** Same as Plan 2. **VaLORS:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility **VRS:** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. **VaLORS:** Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	**Earliest Unreduced Retirement Eligibility** **VRS:** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. **VaLORS:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **VaLORS:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility	**Earliest Reduced Retirement Eligibility**	**Earliest Unreduced Retirement Eligibility**

Retirement Plan Provisions By Plan Structure		
Plan 1	**Plan 2**	**Hybrid**
VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. **VaLORS:** 50 with at least five years of creditable service.	**VRS:** Age 60 with at least five years (60 months) of creditable service. **VaLORS:** Same as Plan 1.	**<u>Defined Benefit Component:</u>** **VRS:** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. **VaLORS:** Not applicable. **<u>Defined Contribution Component:</u>** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. **<u>Eligibility:</u>** For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date. **<u>Exceptions to COLA Effective Dates:</u>** The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. **<u>Eligibility:</u>** Same as Plan 1 **<u>Exceptions to COLA Effective Dates:</u>** Same as Plan 1	**Cost-of-Living Adjustment (COLA) in Retirement** **<u>Defined Benefit Component:</u>** Same as Plan 2. **<u>Defined Contribution Component:</u>** Not applicable. **<u>Eligibility:</u>** Same as Plan 1 and Plan 2. **<u>Exceptions to COLA Effective Dates:</u>** Same as Plan 1 and Plan 2.

Retirement Plan Provisions By Plan Structure		
Plan 1	**Plan 2**	**Hybrid**
• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member Is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.		
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** State employees (including Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service	**Purchase of Prior Service**	**Purchase of Prior Service**

<table>
<tr><th colspan="3">Retirement Plan Provisions By Plan Structure</th></tr>
<tr><th>Plan 1</th><th>Plan 2</th><th>Hybrid</th></tr>
<tr><td>Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</td><td>Same as Plan 1.</td><td><u>Defined Benefit Component:</u>
Same as Plan 1, with the following exceptions:
• Hybrid Retirement Plan members are ineligible for ported service.
• The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.
• Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.

<u>Defined Contribution Component:</u>
Not applicable.</td></tr>
</table>

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, the 5.00% member contribution was paid by the employer. Beginning July 1, 2012 state employees were required to pay the 5.00% member contribution and the employer was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each state agency's contractually required contribution rate for the year ended June 30, 2015 was 12.33% of covered employee compensation for employees in the VRS State Employee Retirement Plan and 17.67% of covered employee compensation for employees in the VaLORS Retirement Plan. These rates were based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. The actuarial rate for the VRS State Employee Retirement Plan was 15.80% and the actuarial rate for VaLORS Retirement Plan was 21.06%. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions for the VRS State Employee Retirement Plan were funded at 78.02% of the actuarial rate and the contributions for the VaLORS Retirement Plan were funded at 83.88% of the actuarial rate for the year ended June 30, 2015. Contributions from the VCCS to the VRS State Employee Retirement Plan were $39.7 million and $28.9 million for the years ended June 30, 2015 and June 30, 2014, respectively. Contributions from the VCCS to the VaLORS Retirement Plan were $796 thousand and $665 thousand for the years ended June 30, 2015 and June 30, 2014, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the VCCS reported a liability of $471.7 million for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability and a liability of $8.5 million for its proportionate share of the VaLORS Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2014 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The VCCS' proportion of the Net Pension Liability was based on the VCCS' actuarially determined employer contributions to the pension plan for the year ended June 30, 2014 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2014, the VCCS' proportion of the VRS State Employee Retirement Plan was 8.43% as compared to 8.27% at June 30, 2013. At June 30, 2014, the VCCS' proportion of the VaLORS Retirement Plan was 1.26% as compared to 1.21% at June 30, 2013.

For the year ended June 30, 2015, the VCCS recognized pension expense of $34.2 million for the VRS State Employee Retirement Plan and $878 thousand for the VaLORS Retirement Plan. Since there was a change in proportionate share between June 30, 2013 and June 30, 2014, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2015, the VCCS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

VRS State Employee Retirement Plan ($ Thousands)	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ -	$ 84,194
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	11,096	3,423
Employer contributions subsequent to the measurement date	39,737	-
Total	$ 50,833	$ 87,617

VRS VaLORS Retirement Plan ($ Thousands)	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ -	$ 880
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	420	149
Employer contributions subsequent to the measurement date	796	-
Total	$ 1,216	$ 1,029

$40.5 million reported as deferred outflows of resources related to pensions resulting from the VCCS' contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30 ($ thousands)	VRS Retirement Plan	VaLORS Retirement Plan
2016	$18,383	$117
2017	$18,383	$115
2018	$18,702	$157
2019	$21,053	$220

Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the below assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Inflation	2.5 percent
Salary increases, including Inflation	3.5 percent – 5.35 percent
Investment rate of return expense, including inflation*	7.0 percent, net of pension plan investment

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:
RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 2 years and females set back 3 years.

Post-Retirement:
RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with females set back 1 year.

Post-Disablement:
RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of withdrawals for less than 10 years of service
- Decrease in rates of male disability retirement
- Reduce rates of salary increase by 0.25% per year

The total pension liability for the VaLORS Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the below assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Inflation	2.5 percent
Salary increases, including Inflation	3.5 percent – 4.75 percent
Investment rate of return expense, including inflation*	7.0 percent, net of pension plan investment

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for

all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 5 years and females set back 3 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with females set back 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for females under 10 years of service
- Increase in rates of disability
- Decrease service related disability rate from 60% to 50%

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2014, NPL amounts for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan are as follows (amounts expressed in thousands):

	State Employee Retirement Plan	**VaLORS Retirement Plan**
Total Pension Liability	$ 21,766,933	$ 1,824,577
Plan Fiduciary Net Position	16,168,535	1,150,450
Employers' Net Pension Liability (Asset)	$ 5,598,398	$ 674,127
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.28%	63.05%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
	Inflation		2.50%
	* Expected arithmetic nominal return		8.33%

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the state agency for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the State Agency's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the VCCS' proportionate share of the VRS State Employee Retirement Plan net pension liability using the discount rate of 7.00%, as well as what the VCCS' proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate (amounts expressed in thousands):

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
VCCS' proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	$691,009	$471,710	$287,824

The following presents the VCCS' proportionate share of the VaLORS Retirement Plan net pension liability using the discount rate of 7.00%, as well as what the VCCS' proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate (amounts expressed in thousands):

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
VCCS' proportionate share of the VaLORS VaLORS Retirement Plan Net Pension Liability	$11,629	$8,509	$5,946

Pension Plan Fiduciary Net Position

Detailed information about the VRS State Employee Retirement Plan's Fiduciary Net Position or the VaLORS Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2014 Comprehensive Annual Financial Report (CAFR). A copy of the 2014 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2014-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Pension Plan

The VCCS recognized $48,879,057 as Accrued Payroll Expenses as of June 30, 2015 which represents hours worked before June 30 but paid after July 1 or after. The portion payable to the VRS for pension contributions is estimated at $1,685,377.

Optional Retirement Plans

All qualified salaried employees of the VCCS are required to participate in a retirement benefit plan administered by the Virginia Retirement System (VRS) or in an 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.

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 $6,247,993 and $6,133,621 for years ended June 30, 2015 and 2014, respectively. Contributions to the ORP plan were calculated using the base salary amount of $63,044,628 and $62,414,223 for fiscal years 2015 and 2014. The VCCS total payroll for fiscal years 2015 and 2014 was $568,222,972 and $564,049,623 respectively.

Payables to the Optional Retirement Plan

The VCCS recognized $48,879,057 as Accrued Payroll Expenses as of June 30, 2015 which represents hours worked before June 30 but paid after July 1 or after. The portion payable for contributions to the optional retirement plans is estimated at $459,225.

Deferred Compensation Plan

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 $2,058,688 for fiscal year 2015.

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	$ (2,604,262)
Virginia College Building Authority appropriation revenue	86,566,050
General Obligation Bond appropriation revenue	50,467
Reclassification of capital project planning fees	400,000
Tidewater Community College capital lease agreement	2,016,800
Total	$86,429,055

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, 2015

	Southwest Virginia Community College Educational Foundation	Mountain Empire Community College Educational Foundation	Northern Virginia Community College Educational Foundation	Patrick Henry Community College Educational Foundation	Virginia Western Community College Educational Foundation	Combined Non-Major Component Units	Total Component Units
ASSETS							
Total current assets	$ 18,839,286	$ 738,365	$ 13,319,657	$ 1,165,840	$ 632,508	$ 21,733,238	$ 56,428,894
Noncurrent assets:							
Other noncurrent assets	-	21,285,500	11,513,569	15,087,502	14,254,349	119,275,716	181,416,636
Capital assets, net	4,109,675	208	-	1,633,420	12,556	16,814,011	22,569,870
Total noncurrent assets	4,109,675	21,285,708	11,513,569	16,720,922	14,266,905	136,089,727	203,986,506
Total assets	22,948,961	22,024,073	24,833,226	17,886,762	14,899,413	157,822,965	260,415,400
LIABILITIES							
Total current liabilities	47,507	66,199	5,526,338	59,196	53,790	2,300,798	8,053,828
Noncurrent liabilities:							
Long-term liabilities	-	-	-	-	-	9,737,768	9,737,768
Other noncurrent liabilities	-	-	-	-	-	-	-
Total noncurrent liabilities	-	-	-	-	-	9,737,768	9,737,768
Total liabilities	47,507	66,199	5,526,338	59,196	53,790	12,038,566	17,791,596
NET POSITION							
Net investment in capital assets	4,109,675	208	-	1,633,420	12,556	8,304,016	14,059,875
Restricted for:							
Nonexpendable	-	7,577,770	3,938,327	6,601,272	-	56,905,181	75,022,550
Expendable	5,471,767	10,101,353	5,778,297	2,512,758	13,589,295	57,656,175	95,109,645
Unrestricted	13,320,012	4,278,543	9,590,264	7,080,116	1,243,772	22,919,027	58,431,734
Total Net Position	$ 22,901,454	$ 21,957,874	$ 19,306,888	$ 17,827,566	$ 14,845,623	$ 145,784,399	$ 242,623,804

Virginia Community College System Foundations
Statement of Revenues, Expenses, and Changes in Net Position
As of June 30, 2015

	Southwest Virginia Community College Educational Foundation	Mountain Empire Community College Educational Foundation	Northern Virginia Community College Educational Foundation	Patrick Henry Community College Educational Foundation	Virginia Western Community College Educational Foundation	Combined Non-Major Component Units	Total Component Units
Total operating revenues	$ 994,328	$ 708,085	$ 2,247,675	$ 674,647	$ 2,846,107	$ 19,818,158	$ 27,289,000
Total operating expenses	1,454,453	681,077	2,059,669	1,425,019	1,558,731	19,687,984	26,866,933
Operating income (loss)	(460,125)	27,008	188,006	(750,372)	1,287,376	130,174	422,067
Nonoperating revenues (expenses):							
Investment Income	481,034	-	799,692	354,916	292,036	1,198,543	3,126,221
Other nonoperating revenues (expenses)	-	-	-	(5,681)	-	-	(5,681)
Net nonoperating revenue	481,034	-	799,692	349,235	292,036	1,198,543	3,120,540
Income before other revenues, expenses gains and losses	20,909	27,008	987,698	(401,137)	1,579,412	1,328,717	3,542,607
Capital gifts, grants and contracts	6,627	-	250,000	748,425	-	221,583	1,226,635
Additions to permanent and term endowments	-	4,322,877	113,210	966,198	407,817	7,421,025	13,231,127
Increase (decrease) in net position	27,536	4,349,885	1,350,908	1,313,486	1,987,229	8,971,325	18,000,369
Net Position - beginning of year	22,873,918	17,607,989	17,955,980	16,514,080	12,858,394	136,813,074	224,623,435
Net Position - end of year	$ 22,901,454	$ 21,957,874	$ 19,306,888	$ 17,827,566	$ 14,845,623	$ 145,784,399	$ 242,623,804

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.

REQUIRED SUPPLEMENTARY INFORMATION

VIRGINIA COMMUNITY COLLEGE SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION

As of June 30, 2015

Schedule of VCCS' Share of Net Pension Liability

Schedule of VCCS' Share of Net Pension Liability
VRS State Employee Retirement Plan
For the Year Ended June 30, 2015 *

	2015
VCCS' Proportion of the Net Pension Liability (Asset)	8.43%
VCCS' Proportionate Share of the Net Pension Liability (Asset)	$471,710,000
VCCS' Covered-Employee Payroll	$322,282,506
VCCS' Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	146.37%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.28%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

* The amounts presented have a measurement date of the previous fiscal year end.

Schedule of VCCS' Share of Net Pension Liability
VaLORS Retirement Plan
For the Year Ended June 30, 2015 *

	2015
VCCS' Proportion of the Net Pension Liability (Asset)	1.26%
VCCS' Proportionate Share of the Net Pension Liability (Asset)	$8,509,000
VCCS' Covered-Employee Payroll	4,504,482
VCCS' Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	188.90%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	63.05%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

* The amounts presented have a measurement date of the previous fiscal year end.

Schedule of Employer Contributions

Schedule of Employer Contributions
For the Year Ended June 30, 2015

Plan	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
State Employee	$39,737,433	$39,737,433	$0	$322,282,506	12.33%
VaLORS Employee	$795,942	$795,942	$0	$4,504,482	17.67%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

Notes to Required Supplementary Information
For the Year Ended June 30, 2015

Changes of benefit terms – There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013.and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

Changes of assumptions – The following changes in actuarial assumptions were made for the VRS - State Employee Retirement Plan effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of withdrawals for less than 10 years of service
- Decrease in rates of male disability retirement
- Reduce rates of salary increase by 0.25% per year

The following changes in actuarial assumptions were made for the VaLORS Retirement Plan effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for females under 10 years of service
- Increase in rates of disability
- Decrease service related disability rate from 60% to 50%

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

October 13, 2016

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
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 the 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, 2015, 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, 2015, 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.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 1 to the accompanying financial statements, the University implemented Governmental Accounting Standards Board (GASB) Statements No. 68 and No. 71, related to pension accounting and financial reporting for employers. Our opinion is not modified with respect to this matter.

Correction of 2014 Financial Statements

As discussed in Note 1 to the accompanying financial statements, an adjustment was made to beginning net position to correct a prior period overstatement of Construction in Progress. Our opinion is not modified with respect to this matter.

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 13, the Schedule of VCCS' Share of Net Pension Liability on page 55 and 56, the Schedule of Employer Contributions on page 57, and the Notes to Required Supplementary Information on pages 57 and 58 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 have also issued our report dated October 13, 2016, 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.

Martha S. Mavredes

AUDITOR OF PUBLIC ACCOUNTS

EMS/alh