VIRGINIA COMMUNITY COLLEGE SYSTEM

AUDITED FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2016

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VCCS Financial Report 2015-2016

OFFICER REPORTING

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VCCS Financial Report 2015-2016

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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, 2016. 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 2016 were:

- Total net position increased by 4.70%. An increase in net position is generally considered indicative of improvement in an organization's overall financial condition.

- Total operating revenues remained relatively constant with a total percentage increase of only 1.61%. Student tuition and fees, net of scholarship discounts and allowances, represented 69.66% of total operating revenues.

- Effective fall 2015, the State Board for Community Colleges approved a tuition increase of $6.50 per credit hour for all students. In addition, the State Board approved tuition differential rate increases of $2.00 per credit hour for Northern Virginia Community College (NVCC) and $1.00 per credit hour for each of the following: Reynolds Community College (JSRCC), Tidewater Community College (TCC), Virginia Western Community College (VWCC), Thomas Nelson Community College (TNCC), and Germanna Community College (GCC). These tuition rate increases accounted for additional tuition revenues of $24.0 million in fiscal year 2016.

- From fiscal year 2015 to 2016, student full-time equivalent (FTE) enrollment decreased 4.41% from 116,249 FTEs to 111,124 FTEs. This decrease resulted in a decline in tuition and fee collections of approximately $25.5 million in fiscal year 2016. 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 1.38%, while state capital appropriations revenue decreased by 20.71% due to completion of several large construction projects at NVCC and TCC.

- Total operating expenses also remained relatively unchanged with an overall decrease of 0.97%. Expenses for employee compensation represented 61.88% of the total.

Financial Statements

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

<u>Statement of Net Position</u>

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.

A summarized Statement of Net Position is as follows:

(in thousands of dollars)
As of June 30:

	2016	**2015***	**Dollar Change**	**Percentage Change**
Assets				
Current assets	$304,518	$278,865	$25,653	9.20%
Capital assets, net	1,367,965	1,337,302	30,663	2.29%
Other non-current assets	60,505	74,505	(14,000)	(18.79%)
Total Assets	$1,732,988	$1,690,672	$42,316	2.50%
Deferred Outflows of Resources	66,042	52,562	13,480	25.65%
Total Assets and Deferred Outflows of Resources	$1,799,030	$1,743,234	$55,796	3.20%

Liabilities				
Current liabilities	$192,993	$173,037	$19,956	11.53%
Non-current liabilities	669,509	630,942	38,567	6.11%
Total Liabilities	$862,502	$803,979	$58,523	7.28%
Deferred Inflows of Resources	45,905	88,646	(42,741)	(48.22%)
Total Liabilities and Deferred Inflows of Resources	$908,407	$892,625	$15,782	1.77%
Net Position				
Net investment in capital assets	$1,249,618	$1,223,211	$26,407	2.16%
Restricted-nonexpendable	9	34	(25)	(73.53%)
Restricted-expendable				
Unrestricted	(359,004)	(372,636)	13,632	3.66%
Total Net Position	$890,623	$850,609	$40,014	4.70%

* June 30, 2016 beginning net position was restated.

Current Assets

Current assets consist of $264.8 million in cash, cash equivalents, and short-term investments, $12.5 million in accounts, notes, and interest receivable, $11.3 million in amounts due from the commonwealth, $14.4 million in prepaid expenses, and $1.5 million in inventories. The $25.7 million increase in current assets was primarily attributable to an increase of $34.7 million in cash, cash equivalents, and short-term investments, partially offset by a decrease of $8 million in prepaid expenses.

The increase of $34.7 million in cash, cash equivalents, and short-term investments represents a 15.1% increase as compared to prior year and was principally attributable to a change in the timing of cash disbursement recordation for state vendor payments processed in June, but for which actual payment was made subsequent to fiscal year-end. Prior to the Commonwealth of Virginia's implementation of a new accounting system in fiscal year 2016, cash was immediately reduced for all state vendor payments on the processing date, regardless of the payment due date. However, upon implementation of the new system, the Commonwealth transitioned to a more accurate method of reporting cash and accounts payable balances related to vendor payment processing. The VCCS is a component unit of the Commonwealth and is required to reconcile its internal accounting system to the Commonwealth's on a regular basis. Therefore, this change in method was adopted by the VCCS and resulted in significant increases in fiscal year-end cash and offsetting accounts payable balances.

The decrease in prepaid expenses was largely due to a deliberate decision by NVCC management to limit fiscal year 2017 related prepayments made in fiscal year 2016. As a result, prepaid expenses at NVCC decreased by $6.4 million as compared to fiscal year 2015. In addition, TCC and Blue Ridge Community College (BRCC) prepaid expense balances decreased by $0.6 million and $0.5 million, respectively, as a result of improvements in cash budgeting at both schools and a decision by BRCC to set aside operating funds for a capital project rather than using the funds for prepayments.

Capital Assets, Net of Accumulated Depreciation

The overall increase of $30.7 million in net capital assets was due to changes across various capital asset categories. The following table compares fiscal year 2016 to fiscal year 2015 capital asset balances by category:

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

	As of June 30:			
Capital Asset Category	**2016**	**2015***	**Dollar Change**	**Percentage Change**
Land	$69,734	$66,455	$3,279	4.93%
CIP	53,667	123,227	(69,560)	(56.45%)
Land Improvements	39,264	35,650	3,614	10.14%
Infrastructure	44,010	41,310	2,700	6.54%
Buildings	1,077,698	982,945	94,753	9.64%
Equipment	64,064	64,976	(912)	(1.40%)
Intangibles	7,500	9,581	(2,081)	(21.72%)
Library Books	12,028	13,158	(1,130)	(8.59%)
Total	$1,367,965	$1,337,302	$30,663	2.29%

*June 30, 2015 CIP has been restated (see footnote 1-O)

Construction in Progress (CIP) decreased due to projects being moved to applicable depreciable and non-depreciable asset categories at NVCC, BRCC, TCC, and John Tyler Community College (JTCC). Depreciable Land Improvements, Infrastructure, Buildings, and Non-Depreciable Land Improvements all increased due to projects being moved out of CIP to the applicable asset categories. The decreases in Equipment, Intangibles, and Library Books are due to overall increases in accumulated depreciation in excess of asset additions.

Other Non-Current Assets

The $14 million decrease in other non-current assets was predominately due to decreases of $14.5 million in cash equivalents with trustees and $9.8 million in amounts due from the commonwealth, partially offset by increases of $4.2 million in restricted cash and cash equivalents and $6.2 million in other long-term investments.

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 $14.5 million in fiscal year 2016 as payments continued on various pooled bond projects.

Amounts due from the commonwealth decreased by $9.8 million because of large declines in unreimbursed cash basis expenditures at NVCC, JTCC, and TCC on projects eligible for reimbursement under the Virginia College Building Authority (VCBA) program.

Restricted cash and cash equivalents held in local accounts and restricted for specified capital projects decreased by $1.3 million; however, negative cash balances related to unreimbursed VCBA expenditures were $5.5 million less than in the previous year. The net effect of these two factors was an increase of $4.2 million in the overall restricted cash and cash equivalents balance.

Other long-term investment balances increased significantly at TCC and GCC. TCC management continued the practice of investing excess student center related cash in nonnegotiable certificates of deposit and as a result, TCC's overall investment balance increased by $5.1 million as compared to the prior year. GCC's balance increased by $1.1 million because of management's decision to invest in corporate bonds using funds previously held as cash equivalents.

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 2015 and 2016 included amounts for certain pension changes and will be recognized as pension expense in future fiscal years. In addition, the balances for both fiscal years included deferred losses on defeasance of debt related to refinancing of certain pooled bond issuances and will also be recognized as expense in future fiscal years.

Current Liabilities

Current liabilities consist of accounts and retainage payable of $49.9 million, accrued payroll expense of $50.7 million, unearned revenue of $53.3 million, long-term obligations (current portion) of $30.1 million, and securities and lending obligations and deposits totaling $9 million.

Current liabilities increased by $20 million in fiscal year 2016 primarily due to increases of $15.3 million in accounts and retainage payable, $1.8 million in accrued payroll expense, and $2.6 million in deposits.

As mentioned above, the Commonwealth of Virginia's transition to a new accounting system facilitated a more accurate method of reporting cash and accounts payable balances related to vendor payment processing. As a component unit of the Commonwealth, the VCCS elected to adopt this change in method and as a result, fiscal year-end cash and offsetting accounts payable balances increased significantly. Partially offsetting this increase in accounts payable was a $1.5 million decrease in retainage payable as final payment was made on several large projects during fiscal year 2016.

The change in accrued payroll represented a 3.66% 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 increase in the deposits balance was primarily due to NVCC's receipt, as of June 30, 2016, of Federal Pell Grant funds in excess of amounts disbursed to students or applied against eligible tuition and fee balances. The balance each fiscal year is the result of timing differences between receipt and disbursement of Pell Grant funds.

Non-Current Liabilities

Non-Current liabilities consist of a net pension obligation of $528.7 million, capital lease liabilities of $3.3 million, installment purchases payable of $3 million, pooled bonds of $117.5 million, accrued leave of $11.9 million, federal loan program amounts due of $4.4 million, and unearned revenue of

$0.7 million. The increase of $38.6 million in non-current liabilities was primarily due to an increase of $48.4 million in the VCCS' proportionate share of the overall VRS pension liability. Beginning in fiscal year 2015, with implementation of a new accounting standard, VRS began providing information on the measurement of assets and pension benefit obligations separately for individual colleges. The liability amount fluctuates each year based on many factors including rate of return on retirement investments, changes to actuarial assumptions, etc. The impact of the pension liability increase was partially offset by decreases of $5.7 million and $1.8 million, respectively, in long-term pooled bond debt and long-term compensated absences. The decrease in pooled bond debt was due to refunding of old debt and reclassification from long-term to short-term. The decrease in long-term compensated absences was mostly due to long-term versus short-term classification differences between fiscal years. The total compensated absences decrease was $0.57 million, a percentage decrease of less than 2%.

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 2016 reflects certain amounts related to pensions and will impact pension expense in future fiscal years.

Net Position

The $26.4 million increase in net investment in capital assets is explained by an increase of $30.7 million in capital assets, net of accumulated depreciation, reduced by a net increase of $4.3 million in capital asset related debt and deferred outflow balances. The increase of $13.6 million in the unrestricted net position category represents a percentage increase of 3.66% and was a result of slight increases in unrestricted revenue, coupled with an overall slight decrease in operating expense. 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. The increase of 4.70% is an indication that the overall financial condition of the VCCS improved in fiscal year 2016.

Statement of Revenue, Expenses and Changes in Net Position

The purpose of the Statement of Revenue, 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 Revenue, Expenses and Changes in Net Position.

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

(in thousands of dollars)

	For the year ended June 30: 2016	2015*	Dollar Change	Percentage Change
Operating revenue	$518,529	$510,322	$8,207	1.61%
Operating expenses	1,209,058	1,220,949	(11,891)	(0.97%)
Operating loss	($690,529)	($710,627)	$20,098	2.83%
Non-operating revenues and expenses	$648,434	$668,424	($19,990)	(2.99%)
Income (loss) before other revenues, expenses, gains or losses	($42,095)	($42,203)	$108	0.26%
Other revenues	$82,109	$96,241	($14,132)	(14.68%)
Increase in net position	$40,014	$54,038	($14,024)	(25.95%)
Net position, beginning of year	$850,609	$796,571	$54,038	6.78%
Net position, end of year	$890,623	$850,609	$40,014	4.70%

* June 30, 2016 beginning net position was restated.

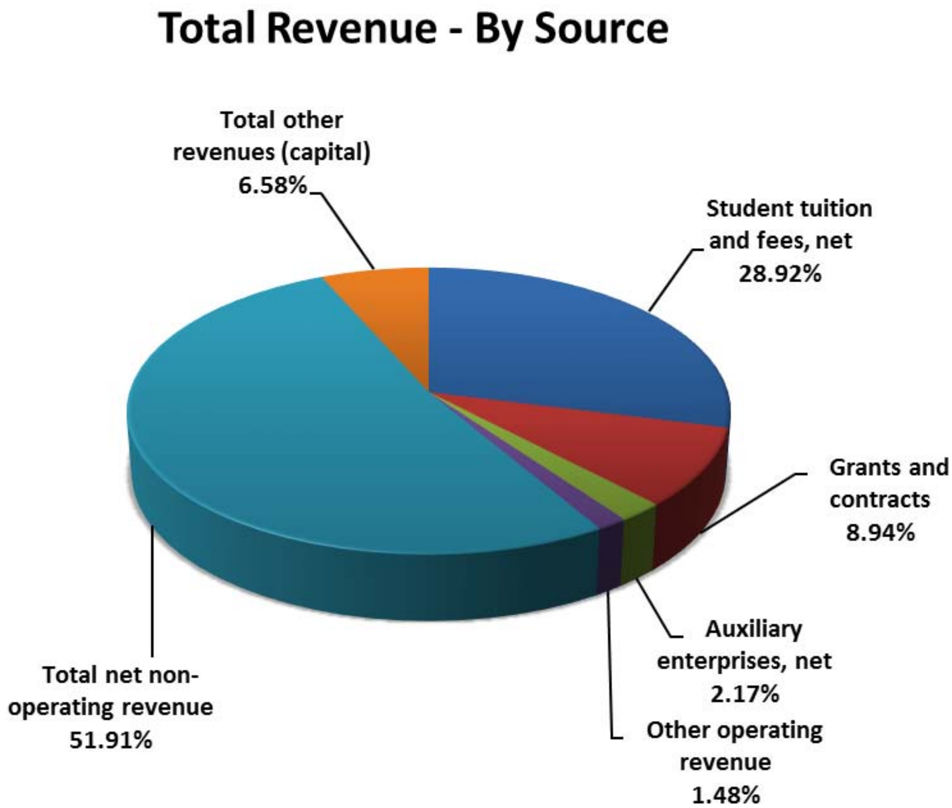
The following table is a more detailed representation and comparison of amounts included in operating, non-operating, and other (capital) revenues during the periods ended June 30, 2016 and 2015:

Summary of Revenues
For the years ended June 30, 2016 and 2015
(in thousands of dollars)

	2016	2015	Dollar Change	Percentage Change
Operating revenues				
Student tuition and fees, net	$361,227	$356,578	$4,649	1.30%
Grants and contracts	111,703	105,754	5,949	5.63%
Auxiliary enterprises, net	27,068	28,087	(1,019)	(3.63%)
Other operating revenue**	18,531	19,903	(1,372)	(6.89%)
Total Operating Revenues	$518,529	$510,322	$8,207	1.61%
Non-operating activity				
State operating appropriations	$416,741	$411,086	$5,655	1.38%
Local operating appropriations	2,379	2,182	197	9.03%
Grants and gifts	232,235	262,451	(30,216)	(11.51%)
Investment income	1,382	917	465	50.71%
Interest expense	(3,765)	(4,159)	394	9.47%
Other	(538)	(4,053)	3,515	86.73%
Total net non-operating revenue	$648,434	$668,424	($19,990)	(2.99%)
Other revenues (capital)				
Capital appropriations-state	$68,530	$86,429	($17,899)	(20.71%)
Capital appropriations-local	7,338	6,831	507	7.42%
Capital gifts and grants	6,241	2,981	3,260	109.36%
Total other revenues (capital)	$82,109	$96,241	($14,132)	(14.68%)
Total revenues	$1,249,072	$1,274,987	($25,915)	(2.03%)

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

A graphic presentation of fiscal year 2016 revenues by source (per the Statement of Revenue, 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 increase of only 1.61%. Gross student tuition and fee revenues (before scholarship discounts and allowances) declined by $0.16 million, a decrease of only 0.03%. Increased revenue from higher tuition and fee rates was offset by decreased revenue due to fewer student FTEs. However, scholarship discounts and allowances decreased slightly in the current year with a percentage decline of 2.66%; therefore, net tuition and fees revenue increased by 1.30% primarily due to a reduction in scholarship discounts and allowances applied against tuition and fees in fiscal year 2016 as compared to fiscal year 2015.

Non-operating and Other Revenues

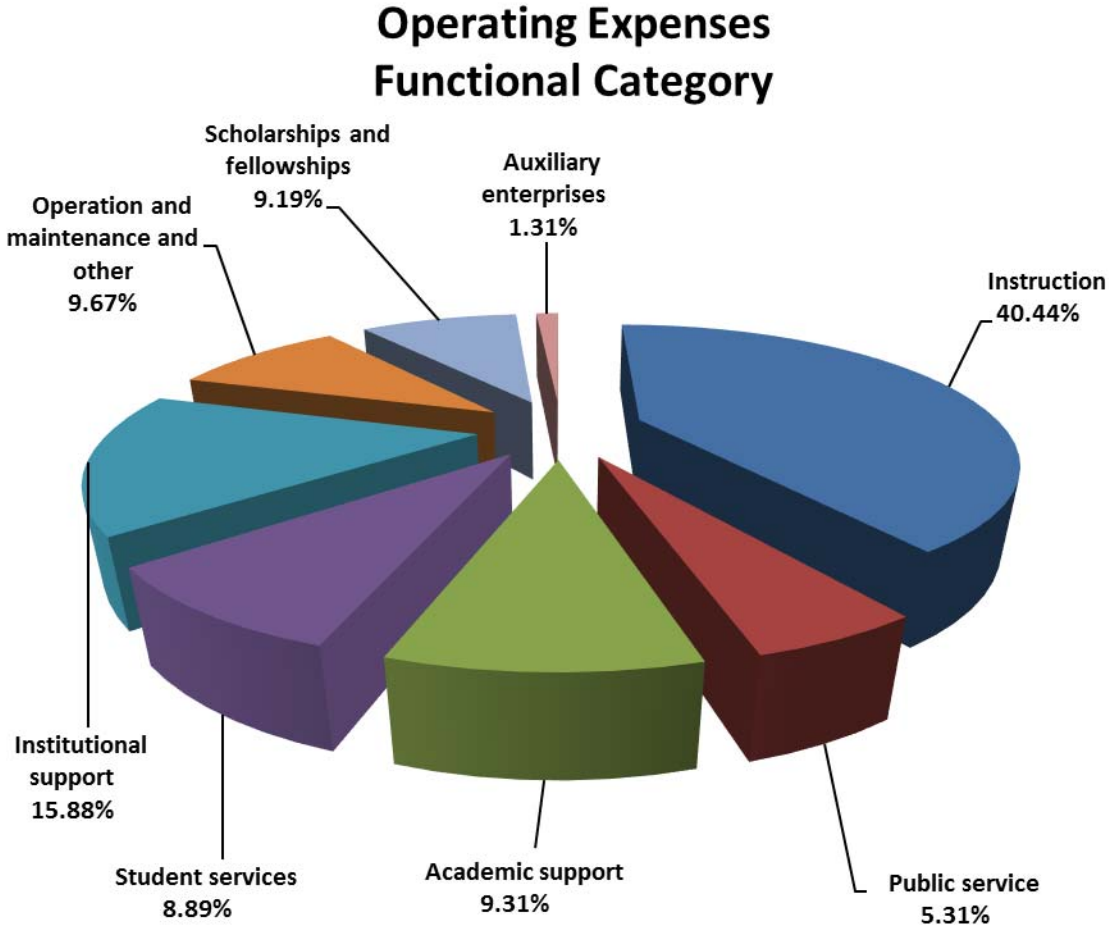
Total net non-operating revenue (non-operating and other) decreased by $34.1 million or 4.5% primarily as a result of a $26.9 million decrease in gifts, grants, and contracts (non-operating and capital) driven by a significant reduction in Federal Pell Grant revenue due to reduced student enrollment and a $17.9 million reduction in state capital appropriation revenue related to decreased VCBA funded activity. These decreases were partially offset by a $5.7 million increase, approximately 1.38%, in state operating appropriations, and by a reduction of $3.5 million in other non-operating expense.

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, 2016 and 2015:

Summary of Expenses by Function
For the years ended June 30, 2016 and 2015
(in thousands of dollars)

	2016	**2015**	**Dollar Change**	**Percentage Change**
Operating expenses:				
Instruction	$488,947	$495,025	($6,078)	(1.23%)
Public service	64,169	49,387	14,782	29.93%
Academic support	112,559	116,777	(4,218)	(3.61%)
Student services	107,509	101,771	5,738	5.64%
Institutional support	192,026	190,839	1,187	0.62%
Operation and maintenance	116,759	120,148	(3,389)	(2.82%)
Scholarships and fellowships	111,131	129,240	(18,109)	(14.01%)
Auxiliary enterprises	15,782	17,630	(1,848)	(10.48%)
Other expenses	176	132	44	33.33%
Total operating expenses	$1,209,058	$1,220,949	($11,891)	(0.97%)

A graphic presentation of fiscal year 2016 operating expenses by function (per the Statement of Revenue, Expenses and Changes in Net Position) is below.



Operating Expenses

Operating expenses totaled approximately $1.2 billion for fiscal 2016 and declined by $11.9 million. The natural expense category, compensation and benefits, comprised $748.2 million of total VCCS operating expenses. This category increased by $14.6 million (1.98%) due to normal fluctuations in staffing levels and increased employee benefit costs. Scholarship expenses declined by $17.8 million (13.58%) due to decreased enrollment coupled with reduced federal grant funding, and the net change across the other natural expense categories (i.e. utilities, depreciation, and supplies, services, and other expenses) was a decrease of $8.7 million (2.43%). These changes resulted in fluctuations between functional categories, but the overall effect was a decrease in total operating expenses of 0.97%.

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:			
	2016	**2015**	**Dollar Change**	**Percentage Change**
Cash received from operations	$521,161	$516,527	$4,634	0.90%
Cash used in operations	1,114,950	1,146,107	(31,157)	(2.72%)
Net cash used in operations	($593,789)	($629,580)	$35,791	5.68%
Net cash provided by non-capital financing activities	$646,599	$662,850	($16,251)	(2.45%)
Net cash used in capital and related financing activities	(23,586)	(30,400)	6,814	22.41%
Net cash provided by (used in) investing activities	(15,000)	5,586	(20,586)	(368.53%)
Net increase (decrease) in cash and cash equivalents	$14,224	$8,456	$5,768	68.21%
Cash and cash equivalents, beginning of year as adjusted	$258,542	$250,086		
Cash and cash equivalents, end of year	$272,766	$258,542		

The primary operating sources of cash for the VCCS included tuition and fees of $363.5 million, operating grants and contracts of $111.4 million, and auxiliary revenues of $26.8 million. The primary uses of operating cash included employee salaries, wages, fringe benefits and pension benefits of $753.5 million, operating expenses (payments to suppliers/others and utilities) of $247.2 million and scholarships of $113.9 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 $6.8 million due primarily to a decrease in cash disbursements of $14.4 million for capital asset purchases offset by a decrease of $5.9 million in state capital appropriations and $1.8 million in additional debt principal payments in fiscal year 2016. Net cash provided by (used in) investing activities decreased $20 million largely due to a reduction in sales of investments. The overall increase in cash and cash equivalents was $14.2 million at the end of fiscal year 2016.

Economic Outlook

In fiscal year 2016, the Commonwealth predicted a 3.2% increase in general fund revenues and actually collected at a rate that was 1.7% above fiscal year 2015. 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 2017 budget, $76.4 million has been added since that time including $27.2 million for fiscal year 2017. The net effect for fiscal year 2017 and future years is that VCCS general funds will have returned to the level attained 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 36.1% of the average of the four-year institutions for total tuition and mandatory fees.

Effective with the fall 2016 session, the State Board for Community Colleges approved a tuition increase of $3.75 per credit hour applicable to all students. Within the VCCS, eight colleges have tuition differential rates ranging from $0.50 per credit hour to $28.05 per credit hour. The VCCS estimates that the tuition rate increases, coupled with the impact of an expected 3.5% decline in FTE enrollment, will result in a tuition and deferred revenue net increase of $1.3 million in fiscal year 2017.

Chapter 759, Virginia Acts of Assembly, 2016 Reconvened Session, authorized the funding for construction of nine projects at various VCCS colleges. This chapter also authorized funding for detailed planning from amounts in the Central Capital Planning Fund for four VCCS projects.

The VCCS capitalized construction expenses totaling $74.3 million during fiscal year 2016. These costs primarily included some projects that are still in progress, but also included numerous projects that were completed during fiscal year 2016. Construction costs for projects completed during fiscal year 2016 totaled $140.6 million.

The VCCS entered into contractual commitments for capital projects totaling $218.5 million prior to June 30, 2016. Expenses processed against these commitments during fiscal year 2016 totaled $182 million, leaving an unpaid commitment balance of $36.5 million.

CONSOLIDATED FINANCIAL STATEMENTS

Virginia Community College System
Consolidated
Statement of Net Position
As of June 30, 2016

	VCCS	Component Units Foundations
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	254,102,176	16,173,555
Appropriation available	5,911	
Short term investments (Note 2)	10,740,135	34,418,246
Accounts receivable, net (Note 3)	10,111,400	751,872
Pledges receivable (Note 3)		3,584,366
Due from commonwealth	11,319,512	
Interest receivable	401,915	218,896
Prepaid expenses	14,362,485	158,518
Inventories	1,469,592	
Notes receivable, net (Note 3)	2,005,181	161,685
Total Current Assets	304,518,307	55,467,138
Noncurrent Assets		
Restricted cash and cash equivalents (Note 2)	5,660,973	
Cash equivalents with trustees	12,971,047	
Endowment cash and cash equivalents (Note 2)	35,979	6,130,617
Appropriation available	1,177,065	
Endowment investments (Note 2)		129,893,847
Other long-term investments (Note 2)	32,674,559	43,093,059
Accounts receivable, net (Note 3)	3,154	5,216
Investments in real estate (Note 2)		1,890,733
Pledges receivable (Note 3)		7,217,337
Due from commonwealth	6,056,368	
Notes receivable, net (Note 3)	1,925,751	952,319
Non-depreciable capital assets, net (Note 4)	123,549,119	2,792,871
Depreciable capital assets, net (Note 4)	1,244,415,888	18,906,622
Total Noncurrent Assets	1,428,469,903	210,882,621
Total Assets	1,732,988,210	266,349,759
Deferred Outflows of Resources (Note 15)	66,042,117	
Total Assets and Deferred Outflows of Resources	1,799,030,327	266,349,759
Liabilities		
Current Liabilities		
Accounts and retainage payable (Note 5)	49,927,062	1,069,573
Accrued payroll expense	50,666,608	193,799
Unearned revenue	53,251,774	630,858
Long-term liabilities-current portion (Note 7)	30,093,435	488,777
Securities lending obligation	3,639	
Due to Commonwealth		
Deposits	9,050,757	2,627,804
Total Current Liabilities	192,993,275	5,010,811
Noncurrent Liabilities		
Unearned revenue	654,337	
Long-term liabilities (Note 7)	135,783,849	9,025,225
Due to federal government (Note 7)	4,397,945	
Pension obligations (Note 7)	528,673,000	
Total Noncurrent Liabilities	669,509,131	9,025,225
Total Liabilities	862,502,406	14,036,036
Deferred Inflows of Resources (Note 15)	45,905,000	
Total Liabilities and Deferred Inflows of Resources	908,407,406	14,036,036

Virginia Community College System
Consolidated
Statement of Net Position
As of June 30, 2016

	VCCS	Component Units Foundations
Net Position		
Net investment in capital assets	1,249,617,569	13,668,664
Restricted for:		
Nonexpendable	9,419	77,511,908
Expendable		92,492,948
Unrestricted	(359,004,067)	68,640,203
Total Net Position	890,622,921	252,313,723

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

Virginia Community College System
Consolidated
Statement of Revenue, Expenses and Changes in Net Position
For the Year Ended June 30, 2016

	VCCS	Component Units Foundations
Revenues		
Operating Revenue		
Tuition and fees (net of scholarship allowance of $176,293,388)	361,226,808	
Federal grants and contracts	94,111,282	
State and local grants	5,075,842	1,049,052
Nongovernmental grants	12,515,490	1,630,632
Sales/services of education department	216,064	
Auxiliary enterprises (net of scholarship allowance of $2,033,680)	27,068,222	
Gifts and contributions		14,203,531
Endowment income		800,033
Other operating revenues	18,315,630	6,125,943
Total Operating Revenue	518,529,338	23,809,191
Expenses		
Operating Expenses		
Instruction	488,946,707	1,785,168
Public service	64,168,945	1,262,640
Academic support	112,559,318	5,378,117
Student services	107,509,160	226,527
Institutional support	192,025,907	7,165,715
Operation and maintenance	116,759,494	777,287
Scholarships and fellowships	111,130,572	8,573,607
Auxiliary enterprises	15,782,251	
Fundraising		2,366,552
Other expenses	175,685	403,421
Total Operating Expenses (Note 10)	1,209,058,039	27,939,034
Operating Income (Loss)	(690,528,701)	(4,129,843)
Nonoperating Revenues(Expenses)		
State appropriations (Note 11)	416,741,251	
Local appropriations	2,378,719	
Grants and gifts	232,235,280	
Investment income	1,381,644	5,792,553
Interest on capital asset related debt	(3,764,819)	
Other nonoperating revenue (expense)	(537,792)	22,889
Net Nonoperating Revenue	648,434,283	5,815,442
Income before other revenues, expenses gains (losses)	(42,094,418)	1,685,599
Capital appropriations-state (Note 18)	68,529,721	
Capital appropriations-local	7,337,466	
Capital gifts, grants and contracts	6,241,169	47,111
Additions to permanent and term endowments		7,957,209
Increase (Decrease) in Net Position	40,013,938	9,689,919
Net Position		
Net Position beginning of year, as restated (Note 1-O)	850,608,983	242,623,804
Net Position end of year	890,622,921	252,313,723

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, 2016

Cash flows from operating activities:	
Tuition and fees	363,507,256
Grants and contracts	111,425,422
Payments to suppliers and others	(229,104,303)
Payments for employee wages	(574,019,874)
Payments for employee fringes and pension benefits	(179,513,448)
Payment for scholarships	(113,906,003)
Payments for utilities	(18,130,695)
Sales and services of education department	216,064
Auxiliary	26,807,211
Loans issued to students	(275,545)
Loans collected from students	740,094
Other	18,464,637
Net cash used by operating activities	(593,789,184)
Cash flows from non-capital financing activities:	
State appropriations	416,741,251
Local appropriations	2,378,719
Grants and gifts	223,347,077
Agency receipts	12,215,917
Agency disbursements	(12,812,575)
PLUS, Stafford and Direct Lending loan receipts	158,097,123
PLUS, Stafford and Direct Lending loan disbursements	(155,190,771)
Borrowings	4,400,000
Loan repayments	(4,347,491)
Other non-operating revenue(expense)	1,769,902
Net cash provided (used) by non-capital financing activities	646,599,152
Cash flows from capital and related financing activities:	
Capital appropriations-state	75,432,895
Capital appropriations-local	7,337,466
Capital grants and gifts	5,673,450
Purchase capital assets	(98,059,503)
Proceeds from sale of capital assets	353,028
Proceeds from bond issue	1,137,000
Debt interest payments	(5,962,129)
Debt principal payments	(9,498,118)
Net cash provided (used) by capital financing activities	(23,585,911)
Cash flows from investing activities:	
Purchases of investments	(34,749,346)
Sale of investments	18,760,755
Investment income	988,873
Net cash provided (used) by investing activities	(14,999,718)
Net increase (decrease) in cash and cash equivalents	14,224,339
Cash and cash equivalents, beginning of year	258,542,197
Cash and cash equivalents, End of Year	272,766,536

Virginia Community College System
Consolidated
Statement of Cash Flows
For the Year Ended June 30, 2016

Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating income (loss)	(690,528,701)
Adjustment to reconcile operating income (loss) to net cash used in operating activities:	
Depreciation expense	59,441,181
Changes in assets, deferred outflows, liabilities and deferred inflows:	
Appropriation available and accounts receivable, net	11,618,208
Prepaid expenses and other	8,277,077
Accrued compensation and leave	1,211,477
Accounts payable and other	23,596,163
Unearned revenue	(926,448)
Deposits pending distribution	317,302
Pension related accounts	(6,795,443)
Net cash used in operating activities	(593,789,184)
Reconciliation of cash and cash equivalents:	
Cash and cash equivalents per Statement of Net Position	272,770,175
Less: Securities Lending Cash Equivalents	3,639
Cash and cash equivalents end of year	272,766,536
Noncash transactions	
Donated fixed assets	567,719
Debt principal and interest payments made by Treasury	2,014,159

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, 2016

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, 2016, the foundations distributed $9,119,106 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 Revenue, Expenses and Changes 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 Revenue, 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, 2016.

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.

The financial statements for the community college foundations are for the year ending June 30, 2016 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, 2015.

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. Cash Equivalents and Investments

Cash equivalents maintained by the VCCS are investments with original maturities of less than three months. Investments in money market accounts and in Commonwealth sponsored investment pools are reported at amortized cost. All other investments are reported at fair market value, in accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended by GASB Statement 72, *Fair Value Measurement and Application*. GASB Statement 72 provides guidance for determining fair value measurements using the level of fair value hierarchy and valuation techniques.

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 acquisition 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). 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. <u>Pensions</u>

The Virginia Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers' System (VaLORS) Retirement Plan are single employer pension plans that are treated like cost-sharing plans. 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 VRS State Employee Retirement Plan and the 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. <u>Accrued Compensated Absences</u>

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. Also included in the liability is the System's share of the FICA taxes on leave balances for which employees will be compensated.

K. <u>Classification of Revenues and Expenses</u>

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 Revenue, Expenses, and Changes in Net Position:

Net Position as of June 30, 2015 - previously reported	$852,971,272
Correction of NVCC Construction in Progress asset overstatement	(2,362,289)
Net Position as of July 1, 2015 - as restated	$850,608,983

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 $52,608,232 at June 30, 2016.

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 in money market accounts, non-negotiable certificates of deposit, the Virginia State Non-Arbitrage Program (SNAP) and the Local Government Investment Pool (LGIP) are reported at amortized cost. All other investments are reported at fair market value, in accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended by GASB Statement 72, *Fair Value Measurement and Application*. GASB Statement 72 provides guidance for determining fair value measurements using the level of fair value hierarchy and valuation techniques.

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 2016.

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 2016.

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 2016.

Cash Equivalents	Value	Credit Rating
Local Govt. Investment Pool	$58,434,194	S&P AAA
Non-Negotiable Cert. of Deposit	1,597,519	Not Rated
Repurchase Agreements	12,039,563	Not Rated
Mutual and Money Market Funds	1,917,014	Not Rated
State Non-arbitrage Program	12,971,047	Not Rated
Total	$86,959,337	

Investment Type	Value	Less 1 year	1-5 years	Credit Rating
Agy Mortgage Backed Securities	$330,426	$133,064	$197,362	S&P AA+
Corporate Bonds	21,421	-	21,421	S&P AAA
Corporate Bonds	26,100	-	26,100	S&P AA+
Corporate Bonds	174,316	-	174,316	S&P AA
Corporate Bonds	308,626	-	308,626	S&P AA-
Corporate Bonds	72,458	-	72,458	S&P A+
Corporate Bonds	474,851	-	474,851	S&P A
Corporate Bonds	218,308	-	218,308	S&P A-
Corporate Bonds	537,007	-	537,007	S&P BBB+
Corporate Bonds	100,001	-	100,001	S&P BBB
Negotiable Certificates of Deposit	29,907,151	-	29,907,151	Not Rated
Municipal Securities	77,369	-	77,369	Not Rated
Municipal Securities	51,701	-	51,701	S&P AAA
Municipal Securities	128,054	-	128,054	S&P AA
Municipal Securities	51,450	-	51,450	S&P AA-
Mutual Funds	599,353	-	599,353	Not Rated
U.S. Treasury and Agy Securities	389,775	-	389,775	Not Rated
Non-Negotiable Cert. of Deposit	9,946,327	9,946,327	-	Not Rated
Total	$43,414,694	$10,079,391	$33,335,303	

Fair Value Measurement

The following disclosures are made in accordance with GASB Statement 72 Fair Value Measurement and Application. This standard sets forth the framework for measuring fair value and provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of fair value hierarchy under GASB 72 are described as follows:

Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

Fair Value Measurement Using:

	Quoted Prices In Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Other Unobservable Inputs Level 3
Agency Mortgage Backed Securities	$ -	$ 330,426	-
Corporate Bonds	-	1,933,088	-
Negotiable Certificates of Deposit	-	29,907,151	-
Municipal Securities	-	308,574	-
Mutual and Money Market Funds	1,917,015	599,353	-
U.S. Treasury and Agency Securities	389,775	-	-
Repurchase Agreements	-	12,039,563	-
Total Investments measured at Fair Value	$2,306,790	$45,118,155	-

Community College Foundations

The Foundations had the following cash, cash equivalents and investments as of June 30, 2016:

Cash and cash equivalents	$ 22,304,172
Investments:	
Mutual funds and money markets	$ 82,390,155
Stocks	76,467,180
Corporate bonds	24,484,613
UVA investment fund	7,325,655
Certificates of deposits	6,559,619
Municipal bonds	5,203,847
Investment in real estate	2,078,757
Mortgage-backed securities	1,996,736
U.S. government securities & bonds	1,487,970
Cash surrender value of life insurance	508,215
Partnership investment	344,071
Assets held for resale	332,970
Split interest agreement	116,097
Total investments	$209,295,885

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, 2016:

Gross accounts receivable:	
Tuition and fees	$ 7,390,486
Auxiliary enterprises	506,458
Federal, state, local and nongovernmental grants, gifts, contracts	2,435,064
Other activities	745,935
Total gross accounts receivable	$11,077,943
Less: Allowance for doubtful accounts	(963,389)
Net accounts receivable	$10,114,554
Gross Loans and notes receivable	$ 4,177,414
Less: Allowance for doubtful accounts	(246,482)
Net loans and notes receivable	$ 3,930,932

Receivables not expected to be collected within one year are $1,928,905 in accounts, notes, and loans receivable.

Community College Foundations

The foundations have the following receivables as of June 30, 2016:

Gross accounts receivable	$757,088
Less: Allowance for doubtful accounts	-
Net accounts receivable	$757,088
Pledges receivable:	
Due in one year	$3,676,107
Due in 1-5 years	7,010,680
Due in more than 5 years	963,770
Less: Allowance for doubtful accounts	(180,105)
Present value discount	(668,749)
Net pledges receivable	$10,801,703
Gross loans and notes receivable	$1,114,004
Less: Allowance for doubtful accounts	-
Net loans and notes receivable	$1,114,004

Receivables not expected to be collected within one year are $952,319 in notes and loans receivable and $7,217,337 in pledges receivable.

4. CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2016 are as follows:

	Beginning* Balance	Increases	Decreases	Ending Balance
Nondepreciable capital assets:				
Land / Land Improvements	$66,455,119	$3,385,724	($107,232)	$69,733,611
Inexhaustible Works of Art	148,174	-	-	148,174
Construction in Progress	123,227,535	70,923,418	(140,483,619)	53,667,334
Total capital assets not being depreciated	$189,830,828	$74,309,142	($140,590,851)	$123,549,119
Depreciable capital assets:				
Buildings	$1,296,252,779	$125,342,822	-	$1,421,595,601
Infrastructure	68,769,014	6,029,404	(3,700)	74,794,718
Equipment	197,889,710	16,931,476	(8,478,893)	206,342,293
Land Improvements	85,257,508	7,193,613	-	92,451,121
Library Books	48,317,038	1,643,343	(1,774,427)	48,185,954
Intangible	46,982,899	24,440	-	47,007,339
Total other capital assets	$1,743,468,948	$157,165,098	($10,257,020)	$1,890,377,026
Less accumulated depreciation for:				
Buildings	($313,307,505)	($30,589,565)	-	($343,897,070)
Infrastructure	(27,458,926)	(3,325,646)	-	(30,784,572)
Equipment	(133,061,865)	(16,989,217)	7,624,259	(142,426,823)
Land Improvements	(49,608,149)	(3,579,279)	-	(53,187,428)
Library Books	(35,159,317)	(2,772,814)	1,774,427	(36,157,704)
Intangible	(37,402,152)	(2,184,660)	79,271	(39,507,541)
Total accumulated depreciation	($595,997,914)	($59,441,181)	$9,477,957	($645,961,138)
Other capital assets, net	$1,147,471,034	$97,723,917	($779,063)	$1,244,415,888
Total capital assets, net	$1,337,301,862	$172,033,059	($141,369,914)	$1,367,965,007

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

Community College Foundations

The foundations had the following capital assets as of June 30, 2016:

Non-depreciable capital assets:	
Land	$ 2,666,744
Works of art	126,127
Total nondepreciable capital assets	$ 2,792,871
Depreciable capital assets:	
Buildings	$20,801,368
Equipment	1,959,055
Site improvement	460,411
Total depreciable capital assets	$23,220,834
Less: Accumulated depreciation	(4,314,212)
Depreciable capital assets, net	$18,906,622
Total capital assets, net	$21,699,493

5. ACCOUNTS AND RETAINAGE PAYABLE

Accounts and retainage payable consisted of the following as of June 30, 2016:

	VCCS	Foundations
Vendors payable	$45,812,857	$1,069,573
Students payable	486,302	-
Retainage payable	3,626,785	-
Taxes payable	1,118	-
Total	$49,927,062	$1,069,573

6. COMMITMENTS

At June 30, 2016, the VCCS had future contractual commitments totaling $36,501,292. The System held $3,626,785 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, 2016 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Debt:					
Capital leases	$6,303,763	-	$2,080,351	$4,223,412	$886,660
Notes payable:					
Installment purchases	3,782,323	-	571,967	3,210,356	187,465
Pooled bonds	129,007,146	9,627,715	14,986,289	123,648,572	6,195,000
Other notes payable	4,000,000	4,400,000	4,000,000	4,400,000	4,400,000
Total bonds, notes and capital leases	$143,093,232	$14,027,715	$21,638,607	$135,482,340	$11,669,125
Other liabilities:					
Compensated absences	30,971,018	23,727,321	24,303,395	30,394,944	18,424,310
Pension Obligations	480,219,000	48,454,000	-	528,673,000	-
Federal loan program contributions	4,794,667	-	396,722	4,397,945	-
Total other liabilities	$515,984,685	$72,181,321	$24,700,117	$563,465,889	$18,424,310

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Total long-term liabilities	$659,077,917	$86,209,036	$46,338,724	$698,948,229	$30,093,435

Defeasance of Debt

In the current year, the Commonwealth of Virginia issued General Obligation Refunding bonds, Series 2015B to refund its General Obligation Bonds Series 2009A, of which the VCCS had a share. This refunding obtained a savings of $288,221 with the net present value of $257,518. The 2015B General Obligation Bonds were issued at a premium of $1,462,715 in excess of the face value of the bonds. The premium is reported in the long-term debt section of the financial statements. In prior fiscal years, a portion of the Commonwealth of Virginia Revenue Bonds, of which the VCCS has a share, has been defeased. Details relating to the current and prior years' defeasances are reported in the Comprehensive Annual Financial Report of the Commonwealth.

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, 2016 is $3,115,288.

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, 2016 is $3,369,012.

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, 2016 is $2,080,427.

Student Center for Tidewater Community College Norfolk Campus - The balance is to be repaid in annual installments ranging from $580,000 to $1,095,000 with coupon rates ranging from 3% to 5% payable semiannually. The final installment of $1,095,000 is due September 1, 2028. The outstanding balance at June 30, 2016 is $12,456,996.

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, 2016 is $814,601.

Student Center for Tidewater Community College Virginia Beach Campus – The balance is to be repaid in annual installments ranging from $285,000 to $1,035,000 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, 2016 is $18,896,482.

Student Center for Tidewater Community College Chesapeake Campus - The balance is to be repaid in annual installments ranging from $345,000 to $725,000 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, 2016 is $13,285,795.

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, 2016 is $2,640,751.

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, 2016 is $8,198,589.

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, 2016 is $13,260,102.

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, 2016 is $5,914,285.

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, 2016 is $5,143,603.

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, 2016 is $6,328,340.

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, 2016 is $23,331,779.

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, 2016 is $4,812,522.

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

Other notes payable of $4,400,000 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
2017	6,195,000	$5,079,372	$11,274,372
2018	6,505,000	4,772,960	11,277,960
2019	6,805,000	4,449,735	11,254,735
2020	7,095,000	4,123,596	11,218,598
2021	7,360,000	3,790,135	11,150,135
2022-2026	37,015,000	13,700,448	50,715,448
2027-2031	36,825,000	5,061,506	41,886,506
2032-2036	6,135,000	264,775	6,399,775
Sub Totals	$113,935,000	$41,242,529	$155,177,529
Plus: Bond Premium	9,713,572		9,713,572
Totals	$123,648,572	$41,242,529	$164,891,101

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 $4,806,574, respectively. Rent expense under operating lease agreements amounted to $11,363,211 for the year. A summary of future obligations under lease agreements as of June 30, 2016 follows:

Year Ending June 30	Capital Lease Obligations	Installment Purchase Obligations	Operating Lease Obligations
2017	1,108,443	$220,081	$ 10,745,407
2018	1,108,932	461,184	9,058,049
2019	1,107,492	461,185	8,209,520
2020	1,109,194	461,183	4,798,411
2021	363,670	461,640	3,429,940
2022-2026	-	1,561,780	10,762,067
2027-2031	-	16,377	
Total obligation and gross minimum lease payments	$4,797,731	$3,643,430	$47,003,394
Less: Interest	(574,319)	(433,074)	-
Present value of minimum lease payments	$4,223,412	$3,210,356	$47,003,394

10. OPERATING EXPENSES BY NATURAL AND FUNCTIONAL CLASSIFICATIONS

VCCS operating expenses for the year ended June 30, 2016 were as follows:

Functional Classification	Salaries & Benefits	Utilities	Scholarships	Depreciation	Supplies, Services & Other	Total
	Natural Classification					
Instruction	$ 384,191,426	$ 210,253	$ 689,967	$ 38,809,358	$ 65,045,703	$ 488,946,707
Public Service	16,120,439	1,176	227,042	192,900	47,627,388	64,168,945
Acad. Support	80,857,103	125,815	239,401	6,370,939	24,966,060	112,559,318
Student Services	91,063,638	1,221	553,802	2,601,255	13,289,244	107,509,160
Inst. Support	127,770,493	101,457	1,063,411	7,923,207	55,167,339	192,025,907
O & M of Plant	42,446,488	16,495,463	44,309	3,403,661	54,369,573	116,759,494
Schol. & Fellows.	60,570	-	110,384,218	-	685,784	111,130,572
Aux. Enterprises	5,711,158	564,244	2,035	139,861	9,364,953	15,782,251
Other Expenses	-	-	-	-	175,685	175,685
Total Expenses	$ 748,221,315	$ 17,499,629	$113,204,185	$ 59,441,181	$270,691,729	$1,209,058,039

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 2016-17 provided that the VCCS meets financial and administrative standards outlined in the *Code of Virginia*.

During the year ended June 30, 2016, the Virginia Community College System received the following general fund appropriations in accordance with Chapter 732, 2016 Virginia Acts of Assembly.

Appropriated – Chapter 732 – approved April 10, 2016	$364,429,831
Additions:	
Net central accounts distribution	16,073,737
Other:	
Transfer from SCHEV – VIVA	36,751
Carryover fiscal year 2015 year-end balances	14,116,807
Equipment Trust Fund lease payment	(633,657)
Capital fee transfers	(3,139,785)
Philpott manufacturing	(398,788)
Reversion	(15,703,990)
Adjusted Unrestricted Appropriations	$374,780,906

Other restricted appropriations were $41,960,345 for a total of $416,741,251.

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, 2016. 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, 2016, the VCCS estimates that no material liabilities will result from such audits.

15. RETIREMENT PLANS

<u>Virginia Retirement System – General Information about the Pension Plans</u>

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.

Retirement Plan Provisions By Plan Structure		
Plan 1	**Plan 2**	**Hybrid**
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.	**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.	**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.
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	**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	**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**

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.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of the 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

Retirement Plan Provisions By Plan Structure		
Plan 1	**Plan 2**	**Hybrid**
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 members is 1.70%. **VaLORS:** The retirement multiplier for VaLORS employees is 1.70% or 2.00%.	**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 creditable service earned, purchased or granted on or after January 1, 2013. **VaLORS:** The retirement multiplier for VaLORS employees is 2.00%.	**Service Retirement Multiplier** **<u>Defined Benefit Component:</u>** **VRS:** The retirement multiplier for the defined benefit component is 1.00%. 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. **<u>Defined Contribution Component:</u>** 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** **<u>Defined Benefit Component:</u>** **VRS:** Same as Plan 2. **VaLORS:** Not applicable. **<u>Defined Contribution Component:</u>** 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** **<u>Defined Benefit Component:</u>** **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. **<u>Defined Contribution Component:</u>** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Retirement Plan Provisions By Plan Structure		
Plan 1	**Plan 2**	**Hybrid**
Earliest Reduced Retirement Eligibility **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.	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service. **VaLORS:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **<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	**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**
following one full calendar year (January 1 to December 31) under any of the following circumstances: • 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-	**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	**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.

<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>related disability benefits.</td><td>related disability benefits.</td><td></td></tr>
<tr><td>Purchase of Prior Service
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>Purchase of Prior Service
Same as Plan 1.</td><td>Purchase of Prior Service
<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, 2016 was 12.33% of covered employee compensation for employees in the VRS State Employee Retirement Plan for July 2015, 13.28% for August 2015 and 14.22% for September 2015 through June 2016. For employees in the VaLORS Retirement Plan, the contribution rate was 17.67% of covered employee compensation for July 2015, 18.34% for August 2015 and 19.00% for September 2015 through June 2016. 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, 2016. Additional funding provided by the General Assembly moved the contribution rates to 90% of the actuarial rate by September 2015 and for the remainder of FY 2016. Contributions from the VCCS to the VRS State Employee Retirement Plan were $46.2 million and $40.3 million for the years ended June 30, 2016 and June 30, 2015, respectively. Contributions from the VCCS to the VaLORS Retirement Plan were $977 thousand and $824 thousand for the years ended June 30, 2016 and June 30, 2015, respectively.

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

At June 30, 2016, the VCCS reported a liability of $518.9 million for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability and a liability of $9.8 million for its proportionate share of the VaLORS Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2015 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, 2015 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2015, the VCCS' proportion of the VRS State Employee Retirement Plan was 8.48% as compared to 8.43% at June 30, 2014. At June 30, 2015, the VCCS' proportion of the VaLORS Retirement Plan was 1.38% as compared to 1.26% at June 30, 2014.

For the year ended June 30, 2016, the VCCS recognized pension expense of $36.7 million for the VRS State Employee Retirement Plan and $1.2 million for the VaLORS Retirement Plan. Since there was a change in proportionate share between June 30, 2014 and June 30, 2015, 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, 2016, 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	$ 3,736	$ -
Change in assumptions		
Net difference between projected and actual earnings on pension plan investments		37,326
Changes in proportion and differences between Employer contributions and proportionate share of contributions	12,772	7,940
Employer contributions subsequent to the measurement date	46,129	
Total	$ 62,637	$ 45,266

VRS VaLORS Retirement Plan ($ Thousands)	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Differences between expected and actual experience	$	$ 50
Change in assumptions		
Net difference between projected and actual earnings on pension plan investments		412
Changes in proportion and differences between Employer contributions and proportionate share of contributions	954	177
Employer contributions subsequent to the measurement date	967	
Total	$ 1,921	$ 639

$47.1 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, 2017. 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
2017	($10,665)	$164
2018	(10,994)	122
2019	(13,647)	(50)
2020	6,548	79

Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2014, 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, 2015.

Inflation	2.5 percent

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

* 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, 2014 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, 2014, 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, 2015.

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

* 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, 2014 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, 2015, 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	$ 22,521,130	$ 1,902,051
Plan Fiduciary Net Position	16,398,575	1,191,353
Employers' Net Pension Liability (Asset)	$ 6,122,555	$ 710,698
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.81%	62.64%

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	$745,277	$518,887	$329,039

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	$13,305	$9,786	$6,891

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 2015 Comprehensive Annual Financial Report (CAFR). A copy of the 2015 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2015-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 $50,666,608 as Accrued Payroll Expenses as of June 30, 2016 which represents hours worked before June 30 but paid after July 1. The portion payable to the VRS for pension contributions is estimated at $1,890,942.

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 $6,289,674 and $6,247,993 for years ended June 30, 2016 and 2015, respectively. Contributions to the ORP plan were calculated using the base salary amount of $63,885,355 and $63,044,628 for fiscal years 2016 and 2015. The VCCS total payroll for fiscal years 2016 and 2015 was $574,107,862 and $568,222,972 respectively.

Payables to the Optional Retirement Plan

The VCCS recognized $50,666,608 as Accrued Payroll Expenses as of June 30, 2016 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 $393,364.

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 $1,836,579 for fiscal year 2016.

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 appropriation revenue	$ 1,175,043
General Fund Reversion	(821)
Virginia College Building Authority appropriation revenue	64,941,322
General Obligation Bond appropriation revenue	400,018
Tidewater Community College capital lease agreement	2,014,159
Total	$68,529,721

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, 2016

	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	$ 18,912,850	$ 400,324	$ 11,247,311	$ 1,306,307	$ 727,405	$ 22,872,941	$ 55,467,138
Noncurrent assets:							
Other noncurrent assets	-	21,800,439	10,352,655	15,126,333	14,509,500	127,394,201	189,183,128
Capital assets, net	3,992,854	-	-	1,592,544	26,565	16,087,530	21,699,493
Total noncurrent assets	3,992,854	21,800,439	10,352,655	16,718,877	14,536,065	143,481,731	210,882,621
Total assets	22,905,704	22,200,763	21,599,966	18,025,184	15,263,470	166,354,672	266,349,759
LIABILITIES							
Total current liabilities	21,802	89,325	2,813,458	9,062	119,183	1,957,981	5,010,811
Noncurrent liabilities:							
Long-term liabilities	-	-	-	-	-	9,025,225	9,025,225
Other noncurrent liabilities	-	-	-	-	-	-	-
Total noncurrent liabilities	-	-	-	-	-	9,025,225	9,025,225
Total liabilities	21,802	89,325	2,813,458	9,062	119,183	10,983,206	14,036,036
NET POSITION							
Net investment in capital assets	3,992,854	-	-	1,592,544	26,565	8,056,701	13,668,664
Restricted for:							
Nonexpendable	-	8,175,498	4,146,931	6,981,182	-	58,208,297	77,511,908
Expendable	5,704,423	9,715,327	5,325,448	2,424,046	14,094,312	55,229,392	92,492,948
Unrestricted	13,186,625	4,220,613	9,314,129	7,018,350	1,023,410	33,877,076	68,640,203
Total Net Position	$ 22,883,902	$ 22,111,438	$ 18,786,508	$ 18,016,122	$ 15,144,287	$ 155,371,466	$ 252,313,723

Virginia Community College System Foundations
Statement of Revenue, Expenses, and Changes in Net Position
As of June 30, 2016

	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	$ 1,090,564	$ 649,321	$ 1,410,856	$ 415,646	$ 1,792,760	$ 18,450,044	$ 23,809,191
Total operating expenses	1,139,592	982,771	2,027,015	1,521,041	1,997,233	20,271,382	27,939,034
Operating income (loss)	(49,028)	(333,450)	(616,159)	(1,105,395)	(204,473)	(1,821,338)	(4,129,843)
Nonoperating revenues (expenses):							
Investment Income	(15,635)	-	(84,238)	455,974	58,425	5,378,027	5,792,553
Other nonoperating revenues (expenses)	-	-	-	22,889	-	-	22,889
Net nonoperating revenue	(15,635)	-	(84,238)	478,863	58,425	5,378,027	5,815,442
Income before other revenues, expenses gains and losses	(64,663)	(333,450)	(700,397)	(626,532)	(146,048)	3,556,689	1,685,599
Capital gifts, grants and contracts	47,111	-	-	-	-	-	47,111
Additions to permanent and term endowments	-	487,014	180,017	815,088	444,712	6,030,378	7,957,209
Increase (decrease) in net position	(17,552)	153,564	(520,380)	188,556	298,664	9,587,067	9,689,919
Net Position - beginning of year	22,901,454	21,957,874	19,306,888	17,827,566	14,845,623	145,784,399	242,623,804
Net Position - end of year	$ 22,883,902	$ 22,111,438	$ 18,786,508	$ 18,016,122	$ 15,144,287	$ 155,371,466	$ 252,313,723

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.

21. SUBSEQUENT EVENT

The VCCS plans to participate in the Virginia College Building Authority (VCBA) Educational Facilities Revenue Bonds, Series 2017A issued by the VCBA under its Pooled Bond Program to finance the construction of the parking garage structure at Virginia Western Community College. The total cost of project is estimated at $14.3 million with $13.7 million funded by bond proceeds.

REQUIRED SUPPLEMENTARY INFORMATION

VIRGINIA COMMUNITY COLLEGE SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION

As of June 30, 2016

Schedule of VCCS' Share of Net Pension Liability

Schedule of Employer's Share of Net Pension Liability
VRS State Employee Retirement Plan
For the Years Ended June 30, 2016 and 2015*

	2016	2015
Employer's Proportion of the Net Pension Liability (Asset)	8.48%	8.43%
Employer's Proportionate Share of the Net Pension Liability (Asset)	$518,887,000	$471,710,000
Employer's Covered Payroll	$326,582,151	$325,381,501
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	158.88%	144.97%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.81%	74.28%

Schedule is intended to show information for 10 years. Since 2016 is the second year for this presentation, only one additional year of 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's Share of Net Pension Liability
VaLORS Retirement Plan
For the Years Ended June 30, 2016 and 2015*

	2016	2015
Employer's Proportion of the Net Pension Liability (Asset)	1.38%	1.26%
Employer's Proportionate Share of the Net Pension Liability (Asset)	$9,786,000	$8,509,000
Employer's Covered Payroll	$4,662,097	$4,449,485
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	209.91%	191.24%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.64%	63.05%

Schedule is intended to show information for 10 years. Since 2016 is the second year for this presentation, only one additional year of 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
VRS State Employee Retirement Plan
For the Years Ending June 30

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2016	$46,152,519	$46,152,519		$328,281,989	14.06%
2015	40,267,580	40,267,580		326,582,151	12.33%
2014	28,503,419	28,503,419		325,381,501	8.76%
2013	26,909,705	26,909,705		307,188,417	8.76%
2012	9,189,092	9,189,092		285,725,680	3.22%
2011	5,655,059	5,655,059		265,495,721	2.13%
2010	12,950,917	12,950,917		259,932,640	4.98%
2009	16,417,782	16,417,782		263,527,802	6.23%
2008	15,579,726	15,579,726		253,328,880	6.15%
2007	13,390,171	13,390,171		233,278,243	5.74%

Schedule of Employer Contributions
VaLORS Retirement Plan
For the Years Ending June 30

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2016	$977,198	$977,198		$5,187,256	18.84%
2015	823,793	823,793		4,662,097	17.67%
2014	658,524	658,524		4,449,485	14.80%
2013	611,019	611,019		4,128,506	14.80%
2012	270,231	270,231		3,805,675	7.10%
2011	167,323	167,323		3,268,032	5.12%
2010	357,887	357,887		3,155,689	11.34%
2009	427,825	427,825		3,006,503	14.23%
2008	418,489	418,489		2,638,645	15.86%
2007	367,980	367,980		2,459,759	14.96%

Notes to Required Supplementary Information
For the Year Ended June 30, 2016

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 is not material.

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%

New accounting standards – In March 2016, the GASB issued Statement No. 82, *Pension Issues.* This statement resolved two outstanding issues from GASB Statement No. 68 – the Presentation of Payroll Related Measures and the Classification of Employer-paid Member Contributions. The information included in the Required Supplementary Information reflects the early implementation of GASB Statement No. 82 by the plan.

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 17, 2017

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 components units of the Virginia Community College System, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2016, 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.

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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, 2016, and the respective changes in financial position and cash flows, and, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Correction of 2015 Financial Statements

As discussed in Note 1 of the accompanying financial statements, an adjustment was made to beginning net position to correct a prior period overstatement of Northern Virginia Community College's 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 Schedules of Employer's Share of Net

Pension Liability on pages 57 and 58, the Schedules of Employer Contributions on page 59, and the Notes to Required Supplementary Information on page 60 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 August 17, 2017 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

ZLB/alh