PRELIMINARY OFFICIAL STATEMENT DATED SEPTMEBER 10, 2013

NEW ISSUE – BOOK ENTRY ONLY

Ratings: Fitch:
Moody's:
Standard & Poor's:

*In the opinion of Bond Counsel, under current law and subject to the conditions described herein in the section "Tax Matters", interest on 2013A Bonds is excludable from gross income for federal income tax purpose and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however such interest is taken into account in determining adjusted current earnings for the purposes of computing the federal alternative minimum tax imposed on certain corporations. Bond Counsel is further of the opinion that the 2013A Bonds, income from the 2013A Bonds and any profit made on their sale, are exempt from income taxation by the Commonwealth of Virginia and any of its political subdivisions.See "***TAX MATTERS***" herein.*

$332,710,000*

VIRGINIA COLLEGE BUILDING AUTHORITY

Educational Facilities Revenue Bonds
(21st Century College and Equipment Programs)
Series 2013A

Dated: Date of Delivery **Due: February 1, as shown on inside cover**

This Official Statement has been prepared by the Virginia College Building Authority (the "Authority") to provide information on the Authority's Educational Facilities Revenue Bonds (21st Century College and Equipment Programs) Series 2013A (the "2013A Bonds"). Selected information is presented on this cover page for the convenience of thereader. To make an informed decision regarding the 2013A Bonds, a prospective investor should read this Official Statement in its entirety.

Security	The 2013A Bonds are limited obligations of the Authority payable primarily from the funds anticipated to be appropriated from time to time for such purpose by the General Assembly and are not a debt, or a pledge of the faith and credit, of the Commonwealth. Neither the faith and credit nor the taxing power of the Commonwealth or any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or interest on the 2013A Bonds.
Redemption	See the inside front cover page and **"THE 2013A BONDS - Redemption Provisions"** herein.
Issued Pursuant to	Master Indenture of Trust dated as of December 1, 1996, as amended, and as supplemented by the Twenty-Ninth Supplemental Indenture of Trust to be dated as of September 1, 2013.
Purpose	The 2013A Bond proceeds are being used to (i) finance certain capital projects and acquire equipment at public institutions of higher education in the Commonwealth of Virginia and (ii) pay the costs of issuing the 2013A Bonds.
Interest Payment Dates	August 1, 2014, and thereafter each February 1 and August 1
Denomination	$5,000 or multiples thereof
Closing/ Delivery Date	On or about September 26, 2013*
Registration	Book-entry-only; The Depository Trust Company
Trustee/ Paying Agent	The Bank of New York Mellon Trust Company, National Association
Financial Advisor	FirstSouthwest
Bond Counsel	Kutak Rock LLP
Issuer Contact	Director of Debt Management, Virginia Department of the Treasury (804) 225-2142

The 2013A Bonds will be awarded pursuant to electronic competitive bidding to be held via BiDComp/PARITY® on September 17, 2013*, unless postponed or changed, as set forth in the Notice of Sale contained in Appendix G to in this Preliminary Official Statement.

Dated: ________________

*Preliminary, subject to change

$332,710,000*
VIRGINIA COLLEGE BUILDING AUTHORITY
Educational Facilities Revenue Bonds
(21st Century College and Equipment Programs)
Series 2013A

Dated: Date of Delivery | **(Base CUSIP Number 927781)** | **Due: February 1, as shown below**

February 1	Principal Amount*	Interest Rate	Yield	Price	CUSIP Suffix
2015	$10,910,000				
2016	16,700,000				
2017	17,195,000				
2018	17,890,000				
2019	18,600,000				
2020	19,530,000				
2021	20,505,000				
2022	11,935,000				
2023	12,530,000				
2024	13,155,000				
2025	13,815,000				
2026	14,505,000				
2027	15,230,000				
2028	15,995,000				
2029	16,790,000				
2030	17,630,000				
2031	18,515,000				
2032	19,440,000				
2033	20,410,000				
2034	21,430,000				

REDEMPTION PROVISIONS

The 2013A Bonds maturing on or after February 1, 2024 are subject to optional redemption prior to maturity on or after February 1, 2023 in whole or in part at any time at a redemption price of par plus accrued interest to the redemption date as set forth in "**THE 2013A BONDS – Redemption Provisions**" herein.

*Preliminary, subject to change

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LIEUTENANT GOVERNOR
WILLIAM T. "BILL" BOLLING

ATTORNEY GENERAL
KENNETH T. CUCCINELLI, II

SECRETARY OF FINANCE
RICHARD D. BROWN

STATE TREASURER
MANJU S. GANERIWALA

STATE COMPTROLLER
DAVID A. VON MOLL

DIRECTOR, DEPARTMENT OF PLANNING & BUDGET
DANIEL S. TIMBERLAKE

STATE TAX COMMISSIONER
CRAIG M. BURNS

VIRGINIA COLLEGE BUILDING AUTHORITY

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DIRECTOR OF DEBT MANAGEMENT
EVELYN R. WHITLEY

ASSISTANT SECRETARY TO THE AUTHORITY
ASSISTANT DIRECTOR OF DEBT MANAGEMENT
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JEANINE A. BLACK

FINANCIAL ADVISOR
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NEW YORK, NEW YORK

BOND COUNSEL
KUTAK ROCK, LLP
RICHMOND, VIRGINIA

TRUSTEE/PAYING AGENT
THE BANK OF NEW YORK MELLON TRUST COMPANY, NATIONAL ASSOCIATION
PITTSBURGH, PENNSYLVANIA

No dealer, broker, salesman or other person has been authorized by the Authority or the Commonwealth to give any information or to make any representations with respect to the 2013A Bonds other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of the 2013A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or owners of any of the 2013A Bonds.

The information herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority since the date hereof. Any statement in this Official Statement involving matters of opinion or estimates, whether or not expressly stated, are intended as such and not as representations of fact. No representation is made that any such opinion or estimates will be realized.

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This Official Statement in its entirety, including all appendices, is available by physical delivery from the Authority by arrangement between the Authority and i-Deal LLC by contacting the Authority at (804) 225-2142 or i-Deal LLC at (212) 404-8102 and via the Internet at www.i-dealprospectus.com.

$332,710,000*
VIRGINIA COLLEGE BUILDING AUTHORITY
Educational Facilities Revenue Bonds
(21st Century College and Equipment Programs)
Series 2013A

INTRODUCTION

This introduction contains certain summary information regarding the 2013A Bonds, as herein defined, and is not a complete summary of the 2013A Bonds. Investors should read this entire Official Statement to obtain information necessary to the making of an informed decision.

The purpose of this Official Statement, including the cover pages and the Appendices, which is accessible via the Internet at www.i-dealprospectus.com, is to provide certain information relative to the Virginia College Building Authority (the "Authority") and the issuance of $332,710,000* of its Educational Facilities Revenue Bonds (21st Century College and Equipment Programs), Series 2013A (the "2013A Bonds"). The Authority is issuing the 2013A Bonds to (i) finance certain capital projects and acquire equipment for public institutions of higher education in the Commonwealth of Virginia and (ii) pay the costs of issuing the 2013A Bonds.

The Issuer

The Authority is authorized to issue bonds under the Act (as hereinafter defined). The Authority is a public body corporate and a political subdivision, agency and instrumentality of the Commonwealth of Virginia (the "Commonwealth") created by the Act. The Act generally authorizes the Authority to issue (i) bonds or notes and to use the proceeds thereof to finance capital projects at public institutions of higher education in the Commonwealth and (ii) refunding bonds to refund its previously issued bonds or notes. The Authority currently administers three financing programs, as described more fully in **"THE AUTHORITY"** herein. The Authority has no taxing power. The Authority is located at 101 North 14th Street, James Monroe Building, Third Floor, Richmond, Virginia 23219, its mailing address is P. O. Box 1879, Richmond, Virginia 23218-1879 and it may be reached by telephone at (804) 225-2142 and by facsimile at (804) 225-3187. See **"THE AUTHORITY"** herein.

Authorization

The 2013A Bonds will be issued pursuant to the Constitution of the Commonwealth, the Act, a resolution adopted by the Authority on August 8, 2013 and a resolution adopted by the Treasury Board of the Commonwealth (the "Treasury Board") on August 21, 2013. Issuance of the 2013A Bonds is subject to the approval of the Governor, as required by the Act.

The 2013A Bonds will be issued pursuant to a Master Indenture of Trust, dated as of December 1, 1996 (the "Original Master Indenture"), as amended and supplemented from time to time, including as supplemented by a Twentieth-Ninth Supplemental Indenture of Trust, to be dated as of September 1, 2013 (the "Twenty-Ninth Supplemental Indenture"), between the Authority and The Bank of New York Mellon Trust Company, National Association, as successor trustee (in such capacity, the "Trustee") and paying agent (in such capacity, the "Paying Agent"). Together, the Original Master Indenture, the Supplemental Indenture, and any previous or further supplements are referred to herein as the "Master Indenture." The bonds currently outstanding under the Master Indenture are collectively referred to as the "Prior Bonds." The 2013A Bonds will be the twenty-eighth series of parity bonds issued under the Master Indenture. The 2013A Bonds, the Prior Bonds, and all other Additional Bonds (as hereinafter defined) hereafter issued from time to time under and secured equally and ratably by the Master Indenture are the "Bonds" (as more fully described in **"THE MASTER INDENTURE"** herein).

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*Preliminary, subject to change

The 2013A Bonds

The 2013A Bonds will be issued in the aggregate principal amount of $332,710,000*, will be dated the date of their original issuance and delivery, and will mature on February 1 in the years and amounts set forth on the inside front cover page of this Official Statement. Interest will be payable semi-annually on August 1 and February 1, commencing August 1, 2014. The 2013A Bonds will be issued in registered form and will be held in a book-entry-only system of registration as described in **"THE 2013A BONDS--Book-Entry-Only System"** herein.

Authority Financing Program

The General Assembly has authorized, pursuant to the 21st Century College Program (as hereinafter defined) and other subsequent authorizing legislation, $4,867,576,296 in capital projects for certain public institutions of higher education in the Commonwealth. In 1999, the Authority amended the Master Indenture to provide for the issuance, along with the bonds for the 21st Century College Program, of bonds for the Equipment Program (as hereinafter defined).

The Authority issues revenue bonds under Article X, Section 9(d) of the Virginia Constitution for projects that have been specifically authorized by the General Assembly. Since the Master Indenture's execution and delivery in 1996, the Authority previously has issued twenty-five series of bonds under it for the 21st Century College and Equipment Programs.

The financing structure provided for by the Master Indenture utilizes a single payment agreement between the Authority and the Treasury Board to provide for debt service payments on the Bonds. Payments under the Amended and Restated Payment Agreement (as hereinafter defined) are subject to General Assembly appropriations therefor. See **"THE MASTER INDENTURE"** and **"THE AMENDED AND RESTATED PAYMENT AGREEMENT"** herein.

Security for the 2013A Bonds

THE 2013A BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE PRIMARILY FROM THE FUNDS ANTICIPATED TO BE APPROPRIATED FROM TIME TO TIME FOR SUCH PURPOSE BY THE GENERAL ASSEMBLY AND ARE NOT A DEBT, OR A PLEDGE OF THE FAITH AND CREDIT, OF THE COMMONWEALTH. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2013A BONDS. THE AUTHORITY HAS NO TAXING POWER. SEE **"SOURCES OF PAYMENT AND SECURITY FOR THE 2013A BONDS"** HEREIN.

Appendix A attached hereto contains the comprehensive financial statements of the Commonwealth for its fiscal year ending June 30, 2012. ***Appendices B*** and ***C*** attached hereto contain, respectively, certain financial and demographic/economic information pertaining to the Commonwealth.

THE AUTHORITY

The Authority is authorized to issue bonds, including refunding bonds, under the Virginia College Building Authority Act of 1966, Chapter 3.2, Title 23, Code of Virginia of 1950, as amended (the "Act"). The Authority is a public body corporate and a political subdivision, agency and instrumentality of the Commonwealth created by the Act. The Authority has no taxing power. The Authority is located at 101 North 14th Street, James Monroe Building, Third Floor, Richmond, Virginia 23219 and may be reached by telephone at (804) 225-2142 and by facsimile at (804) 225-3187.

The Act generally authorizes the Authority to issue its (i) bonds or notes and to use the proceeds thereof to finance capital projects and acquire equipment at institutions of higher education in the Commonwealth and (ii) bonds to

*Preliminary, subject to change

refund such bonds and notes. The Authority currently administers three financing programs as summarized below.

21st Century College and Equipment Programs

The General Assembly created the 21st Century College Program (as hereinafter defined) in the 1996 Session and, under such legislation and other subsequent authorizing legislation, has authorized $4,867,576,296 of certain designated capital projects (the "21st Century College Projects") for public institutions of higher education in the Commonwealth to be financed with bonds issued by the Authority under the Master Indenture, as further described hereinafter in **"THE 21st CENTURY COLLEGE AND EQUIPMENT PROGRAMS"** herein. As of this date, the Authority has issued $3,185,415,000 in Bonds for the 21st Century College Projects, including refunding bonds, of which $2,389,545,000 is currently outstanding.

Since 1986, the Authority has operated an equipment program to provide instructional and research equipment to public institutions of higher education. Starting in 1999, the Authority has been authorized annually to finance directly the institutions' purchase of equipment (the "Equipment Program"), and has issued its bonds on a composite basis for the 21st Century College Program and the Equipment Program under the Master Indenture. The 2012 equipment allocation is described in **"THE 21st CENTURY COLLEGE AND EQUIPMENT PROGRAMS"** herein. Since the legislative changes in 1999, $688,160,000 in Bonds allocable to the Equipment Program have been issued. Of that amount, $163,160,000 is currently outstanding.

Pooled Bond Program

The Authority's Public Higher Education Financing Program (the "Pooled Bond Program") began in 1996. The Pooled Bond Program allows the Authority to issue bonds and to use the proceeds to purchase obligations (notes) of public institutions of higher education. Proceeds of the notes are used by the institution to finance or refinance capital projects approved by the General Assembly. Participating institutions pledge their general revenues as security for the debt obligations purchased by the Authority. An additional security mechanism allows the Authority to intercept appropriations from the Commonwealth to the institution in the event the institution fails to pay on its obligations to the Authority. To date $2,705,830,000 has been issued under the Pooled Bond Program of which $1,680,780,000 remains outstanding.

Private College Program

Under the Educational Facilities Authority Act (Chapter 3.3, Title 23, Code of Virginia of 1950, as amended (the "Virginia Code")), the Authority is also authorized to exercise its powers to issue bonds and notes thereunder to finance educational facilities projects through loans to private, nonprofit institutions of higher education within the Commonwealth whose primary purpose is to provide collegiate or graduate education and not to provide religious training or theological education, and to refund outstanding bonds and notes. Such bonds are revenue bonds payable primarily from loan repayments made by the respective private, nonprofit institutions of higher education. As of June 30, 2012, $639,597,000 of such obligations were outstanding under this program.

Authority Members

The Authority consists of the State Treasurer, the State Comptroller, the Director of the Department of Planning and Budget of the Commonwealth, the Executive Director of the State Council of Higher Education for Virginia and seven additional members appointed for four-year terms by the Governor of Virginia and subject to confirmation by the General Assembly. There currently is one vacancy on the Authority board. The officers and members of the Authority are:

Officers:

Anne. C. H. Conner, Chairman
Jefferson S. Cooper, Vice Chairman
Manju S. Ganeriwala, Treasurer
Evelyn R. Whitley, Secretary
Janet A. Aylor, Assistant Secretary

Members:

NAME	TERM	OCCUPATION
Manju S. Ganeriwala	*ex officio*	State Treasurer, Commonwealth of Virginia
David A. Von Moll	*ex officio*	State Comptroller, Commonwealth of Virginia
Daniel S. Timberlake	*ex officio*	Director, Department of Planning and Budget, Commonwealth of Virginia
Peter A. Blake	*ex officio*	Interim Executive Director, State Council of Higher Education for Virginia, Commonwealth of Virginia
Anne C.H. Conner	June 30, 2014	President, Public Finance and Community Investment Suffolk, VA
Jefferson S. Cooper	June 30, 2012*	Owner and Vice President, Cooper Realty, Inc. Norfolk, VA
Joseph S. Testa	June 30, 2013*	Vice President, State Government Relations, American Express McLean, VA
Sylvia Le Torrente	June 30, 2016	President & CEO, Ace Products, LLC Chantilly, VA
William J. Vakos III	June 30, 2014	President, W.J. Vakos & Company Fredericksburg, VA
John R. Vogt	June 30, 2014	Director, Barclays Wealth McLean, Virginia

*Member with expired terms serves until replacement is appointed.

THE 21ST CENTURY COLLEGE AND EQUIPMENT PROGRAMS

The 2013A Bonds are bonds for the 21st Century College and Equipment Programs. Payments of principal and interest on the 2013A Bonds in any fiscal year are payable from appropriations to be made by the General Assembly.

Chapter 912 of the 1996 Virginia Acts of Assembly (Item C-7.10) established a financing program entitled the 21st Century College Trust Fund, since referred to as the 21st Century College Program (the "21st Century College Program"), pursuant to which and to subsequent legislation, the Authority has been authorized to provide financing for 21st Century College Projects at public institutions of higher education in the Commonwealth. See **"THE AUTHORITY – 21st Century College and Equipment Programs"** herein. In previous years, the following Chapters of the Virginia Acts of Assembly in the specified years authorizes the Authority to issue bonds to finance all or any portion of the costs of certain capital projects at specified public institutions of higher education in the Commonwealth:

Chapter Number	Acts of Assembly Year	Amount
912	1996	$ 163,000,000
1072	2000	2,413,000
814	2002	206,392,431
887	2002	174,198,996
1042	2003	71,825,943
4	2004 Special Session I	191,989,765
847	2007	41,000,000
879	2008	450,156,373
1	2008 Special Session I	1,023,593,000
781	2009	378,206,062
874	2010	1,228,864,000
890	2011	51,137,000
3	2012 Special Session 1	137,536,665
806	2013	747,263,061

Since 1986, the Authority has operated an equipment program to provide instructional and research equipment to state supported institutions of higher education. Prior to 1999, the Authority purchased and leased such equipment to such institutions. Since 1999, the Equipment Program contains no requirement for leases, and authorizes bonds issued to finance such equipment, which will be owned by institutions of higher education, which may be sold and issued at the same time with other obligations of the Authority. See **"THE AUTHORITY – 21st Century College and Equipment Programs"** herein.

SOURCES AND USES OF PROCEEDS

The following table sets forth estimates of the sources and uses of the proceeds of the 2013A Bonds.

Sources	
Par Amount of 2013A Bonds	$_________________
Net Original [Issue Premium/Discount]	_________________
Total Sources of Funds	$_________________
Uses	
Construction of 21st Century College Projects	$_________________
Acquisition of Equipment	_________________
Costs of Issuance and Underwriters' Discount	_________________
Total Uses of Funds	$_________________

SOURCES OF PAYMENT AND SECURITY FOR THE 2013A BONDS

THE 2013A BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE PRIMARILY FROM FUNDS APPROPRIATED FROM TIME TO TIME FOR SUCH PURPOSE BY THE GENERAL ASSEMBLY, WHICH IS UNDER NO LEGAL OBLIGATION TO MAKE SUCH APPROPRIATION. THE 2013A BONDS ARE NOT A DEBT OF THE COMMONWEALTH OR OF ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE AUTHORITY. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2013A BONDS. THE AUTHORITY HAS NO TAXING POWER.

The revenues, receipts and funds pledged to the payment of all of the Bonds, including the 2013A Bonds, are as follows: (i) amounts on deposit from time to time in the funds and accounts created under the Master Indenture (except any amounts on deposit in the Rebate Fund); (ii) amounts, if any, appropriated by the General Assembly to the Treasury Board and forwarded by the Treasury Board to the Authority, in accordance with the provisions of the Amended and Restated Payment Agreement (as defined herein) for the payment of debt service on the Bonds; and (iii) other property of any kind from time to time pledged to the payment of the Bonds (together the "Trust Estate"). The General Assembly has no legal obligation to make appropriations for the payment of debt service on the Bonds.

The 2013A Bonds represent the twenty-third series of Bonds issued under the Master Indenture. The Master Indenture authorizes the issuance of Additional Bonds upon the terms and conditions set forth in the Master Indenture. As to the security listed above, the 2013A Bonds will be secured equally and ratably with the outstanding Prior Bonds and any Additional Bonds. See **"THE MASTER INDENTURE"** herein.

Although the Master Indenture permits any series of Bonds to be additionally secured by certain types of credit or liquidity support, **there is no credit or liquidity facility for the 2013A Bonds.** Furthermore, although the Master Indenture permits the creation of a debt service reserve fund to secure any series of Bonds, **there is no debt service reserve fund for the 2013A Bonds.**

Payment Agreement

The Authority and the Treasury Board have entered into an Amended and Restated Payment Agreement that provides, among other things, the procedures for specifying the amount of funds required to pay debt service due or expected to become due on the Bonds (including certain administrative expenses and rebate amounts), requesting General Assembly appropriation of funds sufficient to pay such amounts, and paying such amounts. The Amended and Restated Payment Agreement requires the Authority and the Treasury Board to use their best efforts to have (a) the Governor include, among other things, the amount so specified in each biennial or any supplemental budget of the Commonwealth and (b) the General Assembly appropriate the amount requested by the Governor. Once the amounts for debt service on the Bonds are appropriated by the General Assembly, the Authority and the Treasury Board are required under the Amended and Restated Payment Agreement to process the necessary requisitions and documents for payment to the Trustee of debt service on the Bonds and any other amounts required by the Master Indenture, including certain administrative expenses and rebate amounts. See **"THE AMENDED AND RESTATED PAYMENT AGREEMENT"** herein.

The Commonwealth never has failed to perform its obligations to budget, appropriate and pay pursuant to the Amended and Restated Payment Agreement or any similar agreement whereby the Commonwealth and its officers are bound to exercise their best efforts to budget and appropriate amounts sufficient to pay debt service when due.

Appropriation Procedures

The Amended and Restated Payment Agreement requires the Authority to deliver annually by December 1 to the Governor and the Director of the Department of Planning and Budget of the Commonwealth a statement setting forth the amount of debt service due or expected to become due on the Bonds for the next succeeding fiscal or biennial period. The Amended and Restated Payment Agreement requires the Authority and the Treasury Board, acting as Fiscal Agent on behalf of the Authority, to use its best efforts to have (1) the Governor include such amount in the biennial or any supplemental budget of the Commonwealth, and (2) the General Assembly appropriate such amount.

The General Assembly's current practice is to make a single direct appropriation to the Treasury Board for certain Commonwealth-related debt service obligations, including the Commonwealth's general obligation bonds, all bonds issued by the Authority, and certain other obligations with respect to the Commonwealth. Although there is no legal requirement that debt service on the Authority's bonds be included with other Commonwealth debt obligations in a single appropriation, the Authority currently anticipates that all debt service for Authority bonds would be contained in the same appropriation. The portion of any appropriation consisting of payments under the Amended and Restated Payment Agreement will be assigned directly to the Trustee for the payment of debt service on outstanding Bonds.

To the extent that the payments under the Amended and Restated Payment Agreement included in the Commonwealth's budget are appropriated by the General Assembly and approved by the Governor, the Fiscal Agent is obligated under the Amended and Restated Payment Agreement to pay amounts due under the Master Indenture to the Trustee.

The General Assembly is not required, and is under no legal obligation, to make an appropriation for any amount or payment under the Amended and Restated Payment Agreement or otherwise in respect of any Bonds. The General Assembly, however, has never failed to make an appropriation to the Authority for payment of debt service on the Authority's bonds.

Additional Bonds

The Authority may issue Additional Bonds to undertake additional projects or additional portions of ongoing projects. See **"THE AUTHORITY"** herein. Any Additional Bonds issued by the Authority will be equally and ratably secured and payable pursuant to the Master Indenture with the 2013A Bonds and the outstanding Prior Bonds. See **"THE MASTER INDENTURE"** herein.

Information Pertaining to Commonwealth

Appendix A attached hereto contains the comprehensive financial statements of the Commonwealth for its fiscal year ended June 30, 2012. ***Appendices B*** and ***C*** attached hereto contain, respectively, certain financial and demographic/economic information pertaining to the Commonwealth.

THE 2013A BONDS

General

The 2013A Bonds will be issued as fully registered bonds in book-entry form in the principal amounts set forth on the inside front cover page of this Official Statement. The 2013A Bonds will be dated the date of their original issuance and delivery and will be issued in denominations of $5,000 or any integral multiples thereof and will be registered in the name of The Depository Trust Company, New York, New York ("DTC"), or its nominee, as securities depository. Interest on the 2013A Bonds will be calculated on a 30/360 basis at the rates, and the 2013A Bonds will mature on the dates and in the amounts as set forth on the inside front cover page of this Official Statement. Interest on the 2013A Bonds will be payable on February 1 and August 1 of each year, commencing August 1, 2014. Payments will be made to the bondholders shown as owners on the registration books kept by the Trustee on the 15th day of the month preceding each interest payment date.

Book-Entry-Only System

The description that follows of the procedures and recordkeeping with respect to beneficial ownership interests in the 2013A Bonds, payments of redemption proceeds, distributions, and dividend payments on the 2013A

Bonds to DTC its nominee, Direct and Indirect Participants (as defined below) or Beneficial Owners, confirmation and transfer of beneficial ownership interests in the 2013A Bonds and other bond-related transactions by and between DTC, Direct and Indirect Participants and Beneficial Owners is based solely on information furnished by DTC. None of the Authority, the Commonwealth, the Trustee or the Underwriters assume any responsibility for the accuracy or adequacy of the information included in such description.

DTC will act as securities depository for the 2012B Bonds. The 2012B Bonds will be issued as fully-registered Bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the 2012B Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the 2013A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2013A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2013A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2013A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2013A Bonds, except in the event that use of the book-entry system for the 2013A Bonds is discontinued.

To facilitate subsequent transfers, all 2013A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2013A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2013A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2013A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2013A Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2013A Bonds, such as redemptions, tenders, defaults and proposed amendments to the 2013A Bond documents. For example, Beneficial Owners of the 2013A Bonds may wish to ascertain that the nominee holding the 2013A Bonds for their benefit has agreed to obtain and transmit notices to

Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2013A Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2013A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2013A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2013A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants. THE AUTHORITY AND THE COMMONWEALTH CAN GIVE NO ASSURANCES THAT DIRECT AND INDIRECT PARTICIPANTS WILL PROMPTLY TRANSFER PAYMENT TO BENEFICIAL OWNERS.

DTC may discontinue providing its services as depository with respect to the 2013A Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, 2013A Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, 2013A Bond certificates will be printed and delivered to DTC.

The foregoing information concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable. None of the Authority, the Commonwealth, the Trustee or the Underwriters takes any responsibility for the accuracy thereof.

BECAUSE DTC IS TREATED AS THE OWNER OF THE BONDS FOR SUBSTANTIALLY ALL PURPOSES UNDER THE MASTER INDENTURE, BENEFICIAL OWNERS MAY HAVE A RESTRICTED ABILITY TO INFLUENCE IN A TIMELY FASHION REMEDIAL ACTION OR THE GIVING OR WITHHOLDING OF REQUESTED CONSENTS OR OTHER DIRECTIONS. IN ADDITION, BECAUSE THE IDENTITY OF BENEFICIAL OWNERS IS UNKNOWN TO THE AUTHORITY, THE COMMONWEALTH OR DTC, IT MAY BE DIFFICULT TO TRANSMIT INFORMATION OF POTENTIAL INTEREST TO BENEFICIAL OWNERS IN AN EFFECTIVE AND TIMELY MANNER. BENEFICIAL OWNERS SHOULD MAKE APPROPRIATE ARRANGEMENTS WITH THEIR BROKER OR DEALER REGARDING DISTRIBUTION OF INFORMATION REGARDING THE 2013A BONDS THAT MAY BE TRANSMITTED BY OR THROUGH DTC.

So long as Cede & Co., as nominee for DTC, is the sole bondholder, the Authority and the Trustee shall treat Cede & Co. as the only bondholder for all purposes under the Master Indenture, including receipt of all redemption proceeds, distributions, and dividend payments on the 2013A Bonds, receipt of notices, voting and requesting or directing the Authority and the Trustee to take or not to take, or consenting to, certain actions under the Master Indenture.

The Authority and the Trustee have no responsibility or obligation to the Direct and Indirect Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any Direct or Indirect Participant; (b) the payment by any Direct or Indirect Participant of any amount due to any Beneficial Owner in respect of the redemption proceeds, distributions, and dividend payments on the 2013A Bonds in the sending of any transaction statements; (c) the delivery or timeliness of delivery by DTC or any participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Master Indenture to be given to bondholders; (d) the selection of the Beneficial Owners to receive payments upon any partial redemption of the 2013A Bonds, or (e) other action taken by DTC or Cede & Co. as bondholder, including the effectiveness of any action taken pursuant to an Omnibus Proxy.

The Authority or the Trustee may enter into amendments to the agreement with DTC or successor agreements with a successor securities depository, relating to the book-entry system to be maintained with respect to the 2013A Bonds without the consent of Beneficial Owners or bondholders.

Use of Certain Terms in Other Sections of this Official Statement. In reading this Official Statement it should be understood while the 2013A Bonds are in the book-entry-system, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the 2013A Bonds, but (i) all rights of ownership must be exercised through DTC and the book-entry-only system, and (ii) except as described above, notices that are to be given to registered owners under the Master Indenture will be given only to DTC.

Redemption Provisions

Optional Redemption – 2013A Bonds

The 2013A Bonds issued maturing on or before February 1, 2023*, will not be subject to optional redemption. The 2013A Bonds issued maturing on or after February 1, 2024*, will be subject to optional redemption in whole or in part at any time on and after February 1, 2023*, at par plus interest accrued thereon to the date fixed for redemption.

Selection of 2013A Bonds for Redemption

If less than all of the 2013A Bonds are called for optional redemption, the maturities of the 2013A Bonds to be redeemed will be called in such order as a Board Representative (as defined below) may determine. If less than all of the 2013A Bonds of any maturity are called for optional or mandatory redemption, the 2013A Bonds to be redeemed will be selected by DTC, as hereafter defined, or any successor securities depository pursuant to its rules and procedures or, if the book-entry system is discontinued, will be selected by the Trustee by lot in such manner as the Trustee in its discretion may determine. In either event, each portion of $5,000 principal amount shall be counted as one Bond for such purpose.

* Preliminary, subject to change.

DEBT SERVICE REQUIREMENTS

The following table sets forth the debt service requirements for all Bonds that will be outstanding as of the issuance of the 2013A Bonds on a fiscal year basis through fiscal year 2034.

		2013A Bonds			
Fiscal Year	Outstanding Master Indenture Debt Service(1) (2)(3)	Principal	Interest	Fiscal Year Debt Service	Total Fiscal Year Debt Service
2014	$265,182,023				
2015	269,513,102				
2016	260,972,809				
2017	260,655,239				
2018	238,583,146				
2019	225,451,662				
2020	206,640,332				
2021	204,935,110				
2022	202,867,975				
2023	195,882,949				
2024	186,824,699				
2025	175,583,088				
2026	169,719,230				
2027	159,329,475				
2028	154,757,559				
2029	146,369,382				
2030	121,940,435				
2031	64,799,000				
2032	64,800,800				
2033	25,523,400				
2034					
Total(4)	$3,600,331,365				

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(1) The outstanding Master Indenture debt service reflects the Authority's current expectation to optionally redeem $95,300,000 of the outstanding principal amount of the Authority's Variable Rate Educational Facilities Revenue Bonds (21st Century College and Equipment Programs), Series 2006B and Series 2006C (the "Variable Rate Bonds") in accordance with a pre-determined schedule. HOWEVER, THE AUTHORITY IS UNDER NO LEGAL OBLIGATION TO REDEEM THE VARIABLE RATE BONDS ON SUCH SCHEDULE, AND ANY OPTIONAL REDEMPTION OF THE VARIABLE RATE BONDS IS SUBJECT TO CERTAIN CONDITIONS, INCLUDING THE AVAILABILITY OF APPROPRIATED AMOUNTS FOR SUCH PURPOSE.

(2) Interest on the Variable Rate Bonds is estimated based on the assumed rate of 4.00% per annum.

(3) The fiscal year 2014 row represents all debt service payable from July 1, 2013 through June 30, 2014.

(4) Totals may not add due to rounding.

THE AMENDED AND RESTATED PAYMENT AGREEMENT

In addition to the information presented in **"SOURCES OF PAYMENT AND SECURITY FOR THE 2013A BONDS"** herein, the following summarizes certain provisions of the Amended and Restated Payment Agreement entered into between the Authority and the Treasury Board and dated as of June 1, 1999 (the "Amended and Restated Payment Agreement") which amended, restated and replaced the Payment Agreement dated as of December 1, 1996 between the Authority and the Treasury Board. This summary does not purport to be comprehensive or definitive and is qualified by reference to the Amended and Restated Payment Agreement in its entirety, copies of which may be obtained at the offices of the Treasury Board, the Trustee or the Authority.

The Amended and Restated Payment Agreement requires the Authority to deliver annually by December 1 to the Governor and the Director of the Department of Planning and Budget of the Commonwealth a statement of the amount of principal and interest coming due or expected to be coming due on the Bonds and all other amounts required to be paid under the Master Indenture, including administrative expenses and rebate amounts during the next succeeding fiscal or biennial period, as applicable, and to request that the Governor include in his budget to be delivered to the next session of the General Assembly a provision that there be appropriated such amount for such purpose from legally available funds.

The Authority will use its best efforts to have (i) the Governor include in each biennial or any supplemental budget he presents to the General Assembly the amounts so requested, and (ii) the General Assembly, appropriate and reappropriate, as applicable, such amounts.

The Treasury Board will use its best efforts to have (i) the Governor include in each biennial or supplemental budget he presents to the General Assembly the amounts described above, and (ii) the General Assembly appropriate such amounts.

The Authority will provide to the Treasury Board, by January 1 and July 1 of each year, all required requisitions and documents and take all actions necessary to have paid to the Treasury Board from legally available funds and all amounts due to the Treasury Board under the Amended and Restated Payment Agreement, and to request the Treasury Board to make such payment to the Trustee.

The Treasury Board will use its best efforts to obtain by January 1 and July 1 of each year the appropriate requisitions and documents needed from the Authority to make all payments due under the Master Indenture to the Trustee. The Treasury Board, as Fiscal Agent of the Authority, will receive appropriation by the General Assembly for the payment of principal of, redemption premium, if any, interest on and all other amounts payable with respect to the Bonds, including administrative expenses and rebate amounts, and will transfer such amounts to the Trustee as necessary for the Trustee to make such payments when due.

The Trustee is a third party beneficiary of the Amended and Restated Payment Agreement and is entitled to enforce, on behalf of the holders of the Bonds, all of the obligations and rights of the Authority and the Treasury Board to the same extent as if the Trustee were one of the contracting parties.

THE MASTER INDENTURE

The 2013A Bonds are being issued pursuant to the Master Indenture and the Twenty-Third Supplement Indenture. The 2013A Bonds will be the twenty-six series of Bonds issued under the Master Indenture. The 2013A Bonds will be equally and ratably secured by the Master Indenture with (i) the outstanding Prior Bonds and (ii) any additional bonds that may be issued in the future pursuant to the Master Indenture ("Additional Bonds" and collectively with the outstanding Prior Bonds, the "Bonds"), without preference, priority or distinction on account of the actual time or times of their authentication, delivery or maturity, except as noted in **"SOURCES OF PAYMENT AND SECURITY FOR THE 2013A BONDS"** herein.

THE FOLLOWING, IN ADDITION TO THE INFORMATION PRESENTED IN **"THE 2013A BONDS"** HEREIN SUMMARIZES CERTAIN PROVISIONS OF THE MASTER INDENTURE. THIS SUMMARY DOES NOT PURPORT TO BE COMPREHENSIVE OR DEFINITIVE AND IS QUALIFIED BY REFERENCES TO THE MASTER INDENTURE, INCLUDING ALL SUPPLEMENTAL INDENTURES, IN ITS ENTIRETY. ALL CAPITALIZED TERMS NOT OTHERWISE DEFINED HEREIN SHALL HAVE THE SAME MEANING AS GIVEN TO THOSE TERMS IN THE INDENTURE, COPIES OF WHICH MAY BE OBTAINED AT THE OFFICE OF THE AUTHORITY OR THE TRUSTEE.

The 2013A Bonds are limited obligations of the Authority. Principal, premium, if any, and interest on the 2013A Bonds are payable solely from and secured by appropriations anticipated to be made by the General Assembly and by the funds and accounts held by the Trustee pursuant to the Master Indenture.

Pledge of Revenues and Funds; Parity of Bonds

The Master Indenture constitutes a continuing, irrevocable pledge of the Trust Estate to secure payment of the principal of and premium, if any, and interest on all Bonds which may, from time to time, be executed, authenticated and delivered under the Master Indenture, subject only to the right of the Authority to make application thereof to other purposes as provided herein. All Bonds shall in all respects be equally and ratably secured under the Master Indenture without preference, priority or distinction on account of the actual time or times of their authentication, delivery or maturity, so that all Bonds at any time outstanding under the Master Indenture shall have the same right, lien and preference under and by virtue of the Master Indenture with like effect as if they had all been executed, authenticated and delivered simultaneously, except that a Credit or Liquidity Facility provided for one or more Series of Bonds shall secure or provide liquidity only for the applicable Series of Bonds. **There is no credit or liquidity facility for the 2013A Bonds.**

Establishment of Funds and Cash Flow

The Master Indenture establishes the following Funds:

(1) *Construction Fund*. Moneys deposited in the Construction Fund from the proceeds of the Bonds will be used to pay costs of the Projects or to retire, refund or otherwise defease any indebtedness incurred by the Authority under the 21st Century College and Equipment Programs.

(2) *Bond Fund*. The Trustee shall deposit in the Bond Fund: any amounts transferred from the Construction Fund or the Cost of Issuance Fund; all payments or prepayments received by the Trustee from any appropriations made by the General Assembly under the 21st Century College and Equipment Programs (excluding the Trustee's fees and expenses); proceeds of any condemnation award or insurance recovery that will not be used to repair, reconstruct or restore a Project; and any other amounts authorized to be deposited in the Bond Fund.

(3) *Cost of Issuance Fund*. Moneys deposited in the Cost of Issuance Fund from the proceeds of the Bonds will be used to pay costs incurred with respect to the issuance of the respective Series of Bonds.

(4) *Other Funds and Accounts*. The Authority may establish other funds, accounts and subaccounts as the Authority may deem desirable.

Events of Default and Remedies

The following are Events of Default under the Master Indenture:

(1) If payment by the Authority with respect to any installment of interest on any Bond is not made in full when the same becomes due and payable;

(2) If payment by the Authority with respect to the principal of any Bond is not made in full when the same becomes due and payable, whether at maturity or by proceedings for redemption or otherwise;

(3) If the Authority fails to observe or perform any covenants or agreements on its part under the Master Indenture for a period of 60 days after the date on which written notice of such failure, requiring the same to be remedied, is given to the Authority by the Trustee, or to the Authority and the Trustee by the Holders of at least 25% in aggregate principal amount of Bonds then Outstanding; provided that, if the breach of covenant or agreement is one that can be remedied but cannot be completely remedied within such 60 day period, it will not be an Event of Default so long as the Authority has taken active steps within such 60 day period to remedy the failure and is diligently pursuing such remedy; and

(4) If the Authority institutes proceedings to be adjudicated a bankrupt or insolvent, or consents to the institution of bankruptcy or insolvency proceedings against it, or files a petition or answer or consent seeking reorganization or relief under the Federal Bankruptcy Code or any other similar applicable federal or state law, or consents to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of the Authority or of any substantial part of its property, or makes an assignment for the benefit of creditors, or admits in writing its inability to pay its debts generally as they become due.

Amendments and Supplemental Indentures

The Authority and Trustee may, without consent of or notice to any of the Holders, enter into one or more Supplemental Indentures to:

(1) Cure any ambiguity or formal defect or omission;
(2) Correct or supplement any provision which may be inconsistent with any other provision;
(3) Grant or confer upon the Holders any additional rights, remedies, powers, or authority that may lawfully be granted or conferred upon them;
(4) Secure additional revenues or provide additional security or reserves for payment of the Bonds;
(5) Preserve the excludability of interest on any tax-exempt Bonds from gross income for purposes of federal income taxes;
(6) Modify, amend or supplement the Master Indenture to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect or any state securities (Blue Sky) law;
(7) Modify, amend or supplement the Master Indenture in such a manner as required to permit the Authority to comply with the provisions of the Internal Revenue Code of 1986, as amended (the "Code") relating to the rebate of certain earnings on the proceeds of the Bonds;
(8) Modify, amend or supplement the Master Indenture in such a manner as required by the Rating Agencies to maintain their respective ratings on the Bonds;
(9) Authorize the issuance of and to secure one or more Series of Bonds; and
(10) Modify, amend or supplement the Master Indenture in any manner as will not, in the opinion of the Trustee, prejudice in any material respect the rights of the Holders of the Bonds then Outstanding.

The Holders of not less than a majority in aggregate principal amount of the Bonds may consent to or approve, from time to time, the execution by the Authority and the Trustee of such Supplemental Indentures for the purpose of modifying, altering, amending, adding to or rescinding any of the provisions contained in the Master Indenture except:

(1) Extending the stated maturity of or time for paying the interest on any Bond or reduce the principal amount of or the redemption premium or rate of interest payable on any Bond without the consent of the Holder of such Bond;
(2) Giving preference or priority to any Bond over any other Bond; or
(3) Reducing the percentage of the holders of the aggregate principal amount of Bonds then Outstanding required for any consent to any such Supplemental Indenture.

Defeasance

If the Authority shall pay or cause to be paid from an irrevocable escrow of cash and direct, non-callable obligations of the United States of America, the principal of and premium, if any, and interest on all (or less than all) of such Bonds, then in that case, the right, title and interest of the owners of such Bonds in the security pledged to the payment of the Bonds shall cease.

Bonds will be deemed to have been paid for purposes of the foregoing sentence when there shall have been deposited with a depository either moneys in an amount which, or non-callable, direct obligations of the United States of America, or evidence of ownership of such obligations, the principal and interest on which, shall be sufficient to pay when due the principal, redemption premium, if any, and interest on such Bonds to their maturity or earlier redemption date, and the other requirements of the Master Indenture are met.

Enforceability of Remedies

The remedies available to the Trustee, the Authority or the Owners of the Bonds upon an Event of Default under the Master Indenture are in many respects dependent upon judicial actions, which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, the remedies provided in the Master Indenture may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds and the Master Indenture will be qualified as to the enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Certain actions may be taken and certain consents may be given under the Master Indenture by the Owners of specified percentages of the Bonds. The Authority may issue Additional Bonds. Depending upon the outstanding principal balances of such Additional Bonds, the Owners of such Additional Bonds may be able to take actions or give consents without obtaining the approval of any of the Owners of the Bonds.

SALE AT COMPETITIVE BIDDING

The 2013A Bonds will be awarded pursuant to electronic competitive bidding to be held via PARITY® on Wednesday, September 17, 2013, unless such date is postponed or changed as described in the Notice of Sale contained in Appendix G to this Official Statement. This Official Statement has been deemed final as of its date by the State Treasurer in accordance with the meaning and requirements of Securities and Exchange Commission Rule 15c2-12 (“Rule 15c2-12”), except for the omission of certain pricing and other information permitted to be omitted pursuant to Rule 15c2-12. After the 2013A Bonds have been awarded, the State Treasurer will complete the Official Statement so as to be a “final official statement” within the meaning of Rule 15c2-12 (the “final Official Statement”). The final Official Statement will include, among other matters, the identity of the winning bidders and the managers of the syndicates, if any, submitting the winning bids, the expected selling compensation to underwriters of the 2013A Bonds and other information on the interest rate and offering prices or yields of the 2013A Bonds, as supplied by the winning bidders.

RATINGS

Fitch Ratings ("Fitch"), Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor’s") have assigned the ratings of "__," "__," and "__," respectively, to the 2013A Bonds.

Such ratings reflect only the views of the respective rating agencies and an explanation of the significance of such ratings may be obtained only from the respective rating agency. There can be no assurance given that such ratings will be continued for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agencies if, in their judgment, the circumstances so warrant. Any such downward revision or withdrawal of either of such ratings may have an adverse effect on the liquidity and market price of the 2013A Bonds.

Neither the Authority nor the Commonwealth has undertaken any responsibility after issuance of the 2013A Bonds to assure maintenance of such ratings or to oppose any proposed revision or withdrawal of such ratings.

LEGAL MATTERS

Certain legal matters relating to the authorization and validity of the 2013A Bonds will be subject to the approving opinion of Kutak Rock LLP, Richmond, Virginia, Bond Counsel, which will be furnished at the expense of the Authority upon delivery of the 2013A Bonds (the Bond Opinion"). The Bond Opinion will be limited to matters relating to authorization and validity of the 2013A Bonds and to the tax-exempt status of interest thereon as described **"TAX MATTERS"** herein. Bond Counsel has not been engaged to investigate the financial resources of the Authority or its ability to provide for payment of the 2013A Bonds, and the Bond Opinion will make no statement as to such matters or as to the accuracy or completeness of this Official Statement of any other information that may have been relied on by anyone in making the decision to purchase the 2013A Bonds. The proposed form of the Bond Opinion is set forth in ***Appendix D*** attached hereto.

TAX MATTERS

The Internal Revenue Code of 1986, as amended (the "Code"), contains a number of requirements and restrictions that apply to the 2013A Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of proceeds of the 2013A Bonds and certain other matters. The proceedings of the Authority and the documents relating to the 2013A Bonds include provisions which, if complied with by the Authority and the Institutions, meet the requirements of the Code. Failure to comply with certain of such provisions may cause interest on the 2013A Bonds to become subject to federal income taxation retroactive to the date of issuance of the 2013A Bonds.

Opinion of Bond Counsel

Assuming compliance by the Authority and the Institutions with the document provisions, in the opinion of Kutak Rock LLP, Bond Counsel, under existing statutes, interest on the 2013A is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however such interest is taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations. Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the 2013A Bonds.

In rendering its opinion, Bond Counsel will rely without independent investigation on certain representations of and compliance with covenants by the Authority and the Institutions, including, without limitation, representations, covenants and certifications as to the use of the proceeds of the 2013A Bonds, compliance with the arbitrage reporting and rebate requirements, and other material factual matters. The inaccuracy of such representations and certifications and the failure to comply with such covenants may cause interest on the 2013A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2013A Bonds.

In the opinion of Bond Counsel, under existing statutes, the 2013A Bonds, income from the 2013A Bonds including any profit made on their sale, are exempt from taxation by the Commonwealth and any of its political subdivisions.

Other Tax Consequences

Ownership of tax-exempt obligations such as the 2013A Bonds may result in collateral tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S Corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the 2013A Bonds should consult with their tax advisor as to the applicability and impact of any collateral income tax consequences.

From time to time, there are legislative proposals in the Congress of the United States and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the 2013A Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, of implemented or concluded in a particular manner, could adversely affect the market value of the 2013A Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the 2013A Bonds or the market value thereof would be impacted thereby. Purchasers of the 2013A Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial regulatory authorities as of the date of issuance and delivery of the 2013A Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending

Original Issue Premium

Any 2013A Bonds purchased, whether upon issuance or otherwise, for an amount (excluding any amount attributable to accrued interest) in excess of their principal amount will be treated for federal income tax purposes as having amortizable bond premium. A holder's basis in such a 2013A Bond must be reduced by the amount of the premium which accrues while such 2013A Bond is held by the holder. No deduction for such amount will be allowed, but it generally will offset interest on such 2013A Bonds while so held. Purchasers of such 2013A Bonds should consult their own tax advisors as to the calculation, accrual and treatment of amortizable bond premium and the federal, state and local tax consequences of holding such 2013A Bonds.

Original Issue Discount

The initial public offering prices of the 2013A Bonds maturing in 2026 (the "OID Bonds") will be less than their stated principal amounts. In the opinion of Bond Counsel, under current law, the difference between the stated principal amount and the initial offering price of each maturity of OID.

Bonds to the public (excluding bond houses and brokers) at which a substantial amount of such maturity of such Bond is sold will constitute original issue discount ("OID"). The offering prices set forth on the inside cover of this Official Statement for the OID Bonds are expected to be the initial offering prices to the public at which a substantial amount of each maturity OID Bonds are sold.

Under the Code, for purposes of determining a holder's adjusted basis in an OID Bond, OID treated as having accrued while the holder holds the OID Bond will be added to the holder's basis. OID will accrue on a constant yield-to-maturity method. The adjusted basis will be used to determine taxable gain or loss upon the sale or other disposition (including redemption or payment at maturity) of an OID Bond.

Prospective purchasers of OID Bonds should consult their own tax advisors as to the calculation of accrued OIS and the state and local tax consequences of owning or disposing of such OID Bonds.

Market Discount

A purchaser (other than a person who purchases a 2013A Bond upon issuance at the issue price) who buys a 2013A Bond at a discount from its principal amount will be subject to the market discount rules of the Code. In general, the market discount rules of the Code treat principal payments and gain on disposition of a debt instrument as ordinary income to the extent of accrued market discount. Each potential investor should consult his tax advisor concerning the application of the market discount rules to the 2013A Bonds.

Information Reporting and Backup Withholding

As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the 2013A Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations, thereby resulting in receipt by the Bondholder of an Internal Revenue Service Form 1099 form the payor reporting the payment of such interest.

Unless the Bondholder is one of a limited class of exempt recipients, any Bondholder who has not provided the payor with a completed Internal Revenue Service Form W-9 "Request for Taxpayer Identification Number and Certification" may be subject to "backup withholding" which means that the payor is required to deduct and withhold the then applicable back up withholding percentage, currently 28%, of the interest payment. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the Bondholder's federal income tax.

For the foregoing purposes, the "payor" generally refers to the entity from whom a recipient receives payments of interest or who collects such payments on behalf of the recipient. Beneficial Owners of the 2013A Bonds will receive payment from DTC participants as described in herein.

If a Bondholder purchases 2013A Bonds through a brokerage account and has executed a Form W-9 in connection with establishing or maintaining such account, as generally would be expected, no backup withholding should occur.

Neither information reporting nor backup withholding affects or alters the excludability of interest on the 2013A Bonds from gross income for federal income tax purposes.

CERTIFICATES CONCERNING OFFICIAL STATEMENT

Concurrently with the delivery of the 2013A Bonds, an officer of the Authority will certify that, to the best of his or her knowledge, this Official Statement (except for the statements and information contained in the last paragraph in the section "PROVISION FOR CONTINUING DISCLOSURE", in the section "LITIGATION", in the section "TAX EXEMPTION", in the section "FINANCIAL ADVISOR", in the section "LEGALITY FOR INVESTMENT AND SECURITY FOR PUBLIC DEPOSITS", in the subsection "THE 2012B BONDS – Book-Entry-Only System", in Appendix A, Appendix B, and Appendix C to which the Authority expresses no comment and in Appendix E insofar as such pertains to the continuing disclosure obligations of the Commonwealth) did not as of its date, and does not as of the date of delivery of the 2013A Bonds, contain any untrue statement of a material fact or omit to state a material fact which should be included herein for the purpose for which this Official Statement is to be used, or which is necessary in order to make the statements contained herein, in the light of the circumstances under which they were made, not misleading. Such certificate will also state, however, that such officer of the Authority did not independently verify the information in this Official Statement from the sources other than the Authority and its officers but that he or she has no reason to believe that such information contains any untrue statement of a material fact or omits to state a material fact which should be included herein for the purposes for which this Official Statement is to be used, or which is necessary in order to make the statements contained herein, in the light of the circumstances under which they were made, not misleading.

PROVISION FOR CONTINUING DISCLOSURE

Rule 15c2-12 prohibits an underwriter from purchasing or selling municipal securities such as the 2013A Bonds, unless it has determined that the issuer of such securities and/or other obligated persons for whom financial operating data is presented in the Official Statement have committed to provide to the Municipal Securities Rulemaking Board ("MSRB") (i) on an annual basis, certain financial information and operating data ("Annual Reports"), and, if available, audited financial statements, and (ii) notice of various events described in Rule 15c2-12, if material ("Event Notices").

Authority Continuing Disclosure. The Authority will covenant, by executing a Continuing Disclosure Agreement for the benefit of the holders of the 2013A Bonds (the "Authority Disclosure Agreement"), the form of which is set forth in ***Appendix E*** attached hereto, to provide to the MSRB via the MSRB's Electronic Municipal Market Access System ("EMMA") annually, not later than May 1 of each year, commencing May 1, 2014, Annual Reports and such annual financial statements of the Authority as may be required by Rule 15c2-12.

The Authority also has covenanted to provide Event Notices with respect to the 2013A Bonds to the MSRB via EMMA. All filings made pursuant to Rule 15c2-12 under the Authority Disclosure Agreement shall be made solely by transmitting such filings to the MSRB via EMMA, as described in 1934 Act Release No. 59062. As of the date of this Official Statement, the Authority has complied with its other undertakings regarding Rule 15c2-12.

Commonwealth Continuing Disclosure. The Commonwealth will covenant, by executing a Continuing Disclosure Agreement prior to issuance of the 2013A Bonds (the "Commonwealth Disclosure Agreement"), to provide to the MSRB via EMMA, annually, not later than January 31 of each year commencing January 31, 2014, Annual Reports and such annual financial statements of the Commonwealth as may be required by Rule 15c2-12. All filings made pursuant to Rule 15c2-12 under the Continuing Disclosure Agreement shall be made solely by transmitting such filings to the MSRB via EMMA, as described in 1934 Act Release No. 59062. In addition, the Commonwealth will covenant to provide to the Authority notice of any changes in the ratings of the

Commonwealth's general obligation bonds. These covenants have been made in order to assist the underwriters of the 2013A Bonds in complying with Rule 15c2-12. The form of the Commonwealth Disclosure Agreement is set forth in ***Appendix E*** attached hereto. As of the date of this Official Statement, the Commonwealth has complied with its other undertakings regarding Rule 15c2-12.

FINANCIAL ADVISOR

First Southwest Company is employed as Financial Advisor to the Authority in connection with the issuance of the Series 2013A Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Series 2013A Bonds is contingent upon the issuance and delivery of the Series 2013A Bonds. First Southwest Company has agreed, in its Financial Advisory contract, not to bid for the 2013A Bonds, either independently or as a member of a syndicate organized to submit a bid for the 2013A Bonds. First Southwest Company, in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Series 2013A Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the Authority has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the Authority and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

LITIGATION

There is no litigation now pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the 2013A Bonds, or in any way contesting or affecting the validity of the 2013A Bonds, any proceeding of the Authority taken with respect to the issuance or sale thereof, or the existence or powers of the Authority or the title of any officer of the Authority with respect to his office. See **"COMMONWEALTH OF VIRGINIA -- FINANCIAL AND OTHER INFORMATION -- Litigation"** in ***Appendix B*** attached hereto for a description of litigation involving the Commonwealth.

LEGALITY FOR INVESTMENT AND SECURITY FOR PUBLIC DEPOSITS

The 2013A Bonds are securities in which all public officers and public bodies of the Commonwealth and its political subdivisions, all insurance companies and associations, all savings banks and savings institutions, including savings and loan associations, commercial banks and trust companies, beneficial and benevolent associations, administrators, guardians, executors, trustees and other fiduciaries in the Commonwealth may properly and legally invest funds under their control. No representation is made as to the eligibility of the 2013A Bonds for investment or for any other purpose under the laws of any other state.

The 2013A Bonds are securities that may be deposited with and received by any state or municipal officer or any agency or political subdivision of the Commonwealth for any purpose for which the deposit of bonds or obligations of the Commonwealth is now or may hereafter be authorized by law.

MISCELLANEOUS

The references, excerpts and summaries of all documents referred to herein do not purport to be complete statements of all matters of fact relating to the 2013A Bonds, the security for the payment of the 2013A Bonds and the rights and obligations of the registered Owners thereof. Copies of the documents referred to herein are available for inspection at the corporate trust office of The Bank of New York Mellon Trust Company, National Association, 919 East Main Street, Suite 1602, Richmond, Virginia 23219.

The information contained in this Official Statement has been compiled from official and other sources deemed to be reliable, and while not guaranteed as to completeness or accuracy, is believed by the Authority to be correct as of this date.

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. This Official Statement has been duly approved, executed and delivered by the Authority.

Audited financial statements of the Commonwealth for the fiscal year ended June 30, 2012 are included as ***Appendix A*** attached hereto. These financial statements, along with the related Notes to Financial Statements, are intended to provide a broad overview of the financial position and operating results of the Commonwealth's various funds and account groups.

This Official Statement has been authorized by the Authority for use in connection with the sale of the 2013A Bonds. Its purpose is to supply information to prospective buyers of the 2013A Bonds. The Authority and the Department of the Treasury of the Commonwealth of Virginia have prepared financial and other information contained in this Official Statement from their records, except where other sources are noted. The information is not intended to indicate future or continuing trends in the financial or economic position of the Authority or the Commonwealth.

VIRGINIA COLLEGE BUILDING AUTHORITY

By: ____
Anne. C.H. Conner, *Chairman*

APPENDIX A

COMMONWEALTH OF VIRGINIA

FINANCIAL STATEMENTS OF THE COMMONWEALTH
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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FINANCIAL SECTION

Independent Auditor's Report
Management's Discussion and Analysis
Basic Financial Statements
Required Supplementary Information
Combining and Individual Fund Statements

Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

December 14, 2012

The Honorable Robert F. McDonnell
Governor of Virginia

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Virginia, as of and for the year ended June 30, 2012, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth of Virginia's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain components units of the Commonwealth discussed in Note 1.B., which represent 33.20 percent, 23.54 percent, and 11.61 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. 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 certain component units discussed in Note 1.B. is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Virginia as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule, funding progress for defined benefit pension plans, schedule of employer contributions for defined benefit pension plans, funding progress for other post-employment benefit plans, schedule of employer contributions for other post-employment benefit plans, and claims development information on pages 27 through 37 and 174 through 188 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth of Virginia's basic financial statements. The supplementary information, such as the combining and individual fund financial statements and schedules, and other information, such as the introductory and statistical sections, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described previously, and the reports of the other auditors, the combining and individual fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

In accordance with Government Auditing Standards, our report dated December 14, 2012, on our consideration of the Commonwealth'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 is issued under separate cover in the Commonwealth of Virginia Single Audit Report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

WALTER J. KUCHARSKI
AUDITOR OF PUBLIC ACCOUNTS

Management's Discussion and Analysis
(Unaudited)

The following is a discussion and analysis of the Commonwealth of Virginia's (the Commonwealth) financial performance, including an overview and analysis of the financial activities of the Commonwealth for the fiscal year ended June 30, 2012. Readers should consider this information in conjunction with the transmittal letter, which is located in the Introductory Section of this report, and the Commonwealth's financial statements, including the notes to the financial statements, which are located after this analysis.

Financial Highlights

Government-wide Highlights

The primary government's assets exceeded its liabilities at June 30, 2012, by $19.7 billion. Net assets of governmental activities increased by $1.4 billion and net assets of business-type activities increased by $234.8 million. Component units reported an increase in net assets of $438.0 million from June 30, 2011.

Fund Highlights

At the end of the fiscal year, the Commonwealth's governmental funds reported a combined ending fund balance of $4.4 billion, an increase of $1.0 billion in comparison with the prior year. Of this total fund balance, $251.0 million represents nonspendable fund balance, $1.6 billion represents restricted fund balance, $3.4 billion represents committed fund balance, and $11.8 million represents assigned fund balance. These amounts are offset by a negative $820.9 million unassigned fund balance. The Enterprise Funds reported net assets at June 30, 2012, of $359.0 million, an increase of $237.7 million during the year which is primarily attributable to the Unemployment Compensation Fund. See page 33 for additional information.

The General Fund recognized higher fund assets, liabilities, revenues, and expenditures when compared to fiscal year 2011. See page 34 for additional information.

Long-term Debt

The Commonwealth's total debt rose during the fiscal year to $36.1 billion, an increase of $2.4 billion, or 7.1 percent. During the fiscal year, the Commonwealth issued new debt in the amount of $1.8 billion for the primary government and $5.5 billion for the component units. These debt issuances increased the debt balances to $11.7 billion for the primary government and $24.4 billion for component units.

Overview of the Financial Statements

This discussion and analysis is an introduction to the Commonwealth's basic financial statements, which include three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. The report also contains additional required supplementary information and other information.

Government-wide Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Commonwealth's finances in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the Commonwealth's financial position which helps readers determine whether the Commonwealth's financial position has improved or deteriorated during the fiscal year. These statements include all non-fiduciary financial activity on the full accrual basis of accounting. This means that all revenue and expenditures are reflected in the financial statements even if the related cash has not been received or paid as of June 30.

The Statement of Net Assets (pages 40 and 41) presents information on all of the Commonwealth's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may indicate whether the financial position of the Commonwealth is improving or deteriorating.

The Statement of Activities (pages 42 through 44) presents information showing how the Commonwealth's net assets changed during fiscal year 2012. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both the Statement of Net Assets and Statement of Activities report three separate activities. These activities are described as follows:

Governmental Activities – account for functions of the Commonwealth that are primarily supported by taxes and intergovernmental revenues. The majority of the Commonwealth's basic services, such as education, individual and family services, transportation, resources and economic development, administration of justice, and general government, fall within this category.

Business-type Activities – account for functions that are intended to recover all or a significant portion of their costs through user fees and charges. The major business-type activities of the Commonwealth include the State Lottery, Virginia College Savings Plan, and Unemployment Compensation Fund.

Discretely Presented Component Units – account for functions of legally separate entities for which the Commonwealth is financially accountable. The Commonwealth has 27 non-higher education component units and 22 higher education institutions that are reported as discretely presented component units. Information regarding the individual financial statements of the component units is presented in the notes to the financial statements.

This report includes two schedules (pages 48 and 52) that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities on the appropriate government-wide statements (full accrual accounting). The following indicates some of the reporting differences between the government-wide financial statements and the fund financial statements.

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Long-term liabilities, unless due and payable, are not included in the fund financial statements. These liabilities are only included in the government-wide statements.
- Internal service funds are reported as governmental activities in the government-wide statements, but are reported as proprietary funds in the fund financial statements.
- Other long-term assets that are not available to pay for current period expenditures are deferred in the governmental fund statements, but not deferred in the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but are reported as expenditures in the fund financial statements.
- Bond proceeds provide current financial resources on the fund financial statements, but are recorded as long-term liabilities in the government-wide financial statements.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the Commonwealth's funds can be divided into three categories: governmental, proprietary, and fiduciary. Each of these categories uses different accounting approaches. Fund financial statements begin on page 46 and provide detailed information about the major individual funds.

- **Governmental funds** – Most of the basic services provided by the Commonwealth are reported in the governmental funds. These statements provide a detailed, short-term view of the functions reported as governmental activities in the government-wide financial statements. The government-wide financial statements are reported using the full accrual basis of accounting, but the governmental fund financial statements are reported using the modified accrual basis of accounting. This allows the reader to focus on assets that can be readily converted to cash and determine whether there are adequate resources to meet the Commonwealth's current needs.

  Because the focus of governmental funds is more limited than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This comparison can help readers better understand the long-term impact of the Commonwealth's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

  The Commonwealth reports 12 individual governmental funds. Information is presented separately in the governmental fund statements for the General, Commonwealth Transportation, Federal Trust, and Literary funds, which are all considered major funds. Data from the other 8 governmental funds are aggregated into a single column on the fund statements. Individual fund data for these nonmajor governmental funds is provided in the combining financial statements immediately following the required supplementary information.

- **Proprietary funds** – The Commonwealth maintains two different types of proprietary funds, enterprise and internal service. These funds report activities that operate more like those of private-sector business and use the full accrual basis of accounting. Enterprise funds report activities that charge fees for supplies or services to the general public like the State Lottery. Enterprise funds are reported as business-type activities on the government-wide financial statements.

  The enterprise funds use the full accrual basis of accounting and the only differences between amounts reported on the government-wide statements and the enterprise fund statements are due to internal service fund activity (see reconciliations on pages 54 and 56). Internal service funds report activities that charge fees for supplies and services to other Commonwealth agencies, like Fleet Management. Internal service funds are reported as governmental activities in the government-wide statements because these types of services predominantly benefit governments rather than business-type functions.

  The Commonwealth reports 22 individual proprietary funds. Information is presented separately in the proprietary fund statements for the State Lottery Department, Virginia College Savings Plan, and Unemployment Compensation Funds, all of which are considered major funds. Data from the other enterprise funds are aggregated into a single column on the fund statements. All internal service funds are aggregated into a single column on the fund statements. Individual fund data for all nonmajor proprietary funds is provided in the combining financial statements immediately following the required supplementary information.

- **Fiduciary funds** – These funds are used to account for resources held for the benefit of parties outside the government and use the full accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because the resources of these funds are restricted and cannot be used to finance the Commonwealth's operations. The Commonwealth's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets beginning on page 64.

  The Commonwealth's fiduciary funds are the:

  - Private Purpose Trusts, which reports the activities for 7 separate funds and accounts for transactions of trust arrangements in which the principal and income benefit individuals, private organizations, or other governments;
  - Pension and Other Employee Benefit Trusts, which reports the activities of 12 separate pension and other employment retirement plans for employees;
  - Investment Trust, which accounts for the activities of the external investment pool; and,
  - Agency, which accounts for assets held on behalf of others in 20 separate funds.

  Individual fund data for all fiduciary funds is provided in the combining financial statements immediately following the required supplementary information.

- **Component Units** – The government-wide financial statements report information for all component units aggregated in a single column. Information is provided separately in the component unit fund statements for the Virginia Housing Development Authority, Virginia Public School Authority, University of Virginia, Virginia Polytechnic Institute and State University, and Virginia Commonwealth University, all of which are considered major component units. Data from the other component units are aggregated into a single column on the fund statements. Individual fund data for all nonmajor component units is provided in the combining financial statements immediately following the required supplementary information.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the component unit fund financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes budgetary comparison schedules reconciling the statutory and generally accepted accounting principles fund balances at June 30. It also includes information concerning the Commonwealth's funding progress for pension and other postemployment benefits, as well as trend information for Commonwealth-managed risk pools.

Other Information

The combining statements referred to earlier in connection with nonmajor funds and component units can be found beginning on page 189 of this report. The individual fund information is aggregated into a single total on the combining financial statements, which carries forward to the fund financial statements.

Government-wide Financial Analysis

The primary government's assets exceeded its liabilities by $19.7 billion during the fiscal year. The net assets of the governmental activities increased $1.4 billion or 7.8 percent, primarily due to increases in current and other assets offset by increases in long-term liabilities. The asset increase is primarily due to unspent bond proceeds, and the long-term liabilities are discussed further on page 36. Business-type activities had an increase of $234.8 million or 193.9 percent, primarily due to an increase for the Unemployment Compensation Fund. The government-wide beginning balance was restated for the correction of prior year errors to arrive at a restated beginning balance of $18.1 billion.

Figure 11
Net Assets as of June 30, 2012 and 2011
(Dollars in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2012	2011 as restated	2012	2011	2012	2011 as restated
Current and other assets	$ 10,607,730	$ 8,809,085	$ 3,161,983	$ 3,149,480	$ 13,769,713	$ 11,958,565
Capital assets	24,015,151	22,452,549	34,359	36,256	24,049,510	22,488,805
Total assets	34,622,881	31,261,634	3,196,342	3,185,736	37,819,223	34,447,370
Long-term liabilities outstanding	9,319,463	8,059,198	2,434,493	2,484,784	11,753,956	10,543,982
Other liabilities	5,980,535	5,273,348	405,905	579,825	6,386,440	5,853,173
Total liabilities	15,299,998	13,332,546	2,840,398	3,064,609	18,140,396	16,397,155
Net assets:						
Invested in capital assets, net of related debt	19,891,265	18,353,426	33,910	35,338	19,925,175	18,388,764
Restricted	1,647,731	1,171,700	178,916	15,730	1,826,647	1,187,430
Unrestricted	(2,216,113)	(1,596,038)	143,118	70,059	(2,072,995)	(1,525,979)
Total net assets	$ 19,322,883	$ 17,929,088	$ 355,944	$ 121,127	$ 19,678,827	$ 18,050,215

The largest portion of the primary government's net assets reflects its investment in capital assets (e.g., land, buildings, equipment, infrastructure, construction-in-progress, and intangible assets including water rights, easements and software), less any related outstanding debt used to acquire those assets. These assets are recorded net of depreciation in the financial statements. The primary government uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the primary government's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities (**Figure 11**). The investment in capital assets amount exceeds total net assets due to a negative unrestricted net asset amount unrelated to capital assets.

An additional portion of the primary government's net assets represents restricted net assets. These resources are subject to external restrictions or constitutional provisions specifying how they may be used. The remaining balance of ($2.1 billion) is unrestricted net assets (**Figure 11**).

Approximately 52.4 percent of the primary government's total revenue came from taxes. While the primary government's expenses cover many services, the largest expenses are for education and individual and family services. General revenues normally fund governmental activities. For fiscal year 2012, governmental program and general revenues exceeded governmental expenses by $725.3 million. Program revenues exceeded expenses from business-type activities by $892.6 million. The following condensed financial information (**Figure 12**) was derived from the Government-wide Statement of Activities and provides detail regarding the change in net assets (see page 42).

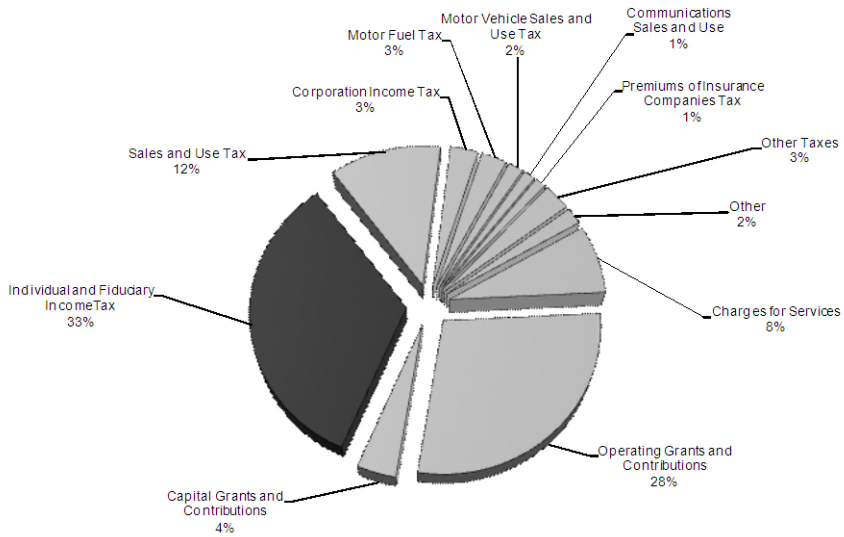
Figure 12
Changes in Net Assets for the Fiscal Years Ended June 30, 2012 and 2011
(Dollars in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2012	2011 as restated	2012	2011	2012	2011 as restated
Revenues:						
Program Revenues:						
Charges for Services	$ 2,442,024	$ 2,352,638	$ 3,652,941	$ 3,601,117	$ 6,094,965	$ 5,953,755
Operating Grants and Contributions	9,178,384	9,950,314	447	575	9,178,831	9,950,889
Capital Grants and Contributions	1,266,700	1,324,192	-	-	1,266,700	1,324,192
General Revenues:						
Taxes:						
Individual and Fiduciary Income	10,813,550	10,050,404	-	-	10,813,550	10,050,404
Sales and Use	3,885,137	3,706,197	-	-	3,885,137	3,706,197
Corporation Income	978,690	851,630	-	-	978,690	851,630
Motor Fuel	900,199	903,108	-	-	900,199	903,108
Motor Vehicle Sales and Use	538,126	495,437	-	-	538,126	495,437
Communications Sales and Use	422,807	443,188	-	-	422,807	443,188
Deeds, Contracts, Wills, and Suits	370,620	335,526	-	-	370,620	335,526
Premiums of Insurance Companies	390,950	406,113	-	-	390,950	406,113
Alcoholic Beverage Sales	120,989	114,202	-	-	120,989	114,202
Tobacco Products	195,554	175,365	-	-	195,554	175,365
Estate	1,493	1,787	-	-	1,493	1,787
Public Service Corporations	114,972	113,260	-	-	114,972	113,260
Beer and Beverage Excise	43,659	43,873	-	-	43,659	43,873
Wine and Spirits/ABC Liter	24,297	22,924	-	-	24,297	22,924
Bank Stock	18,729	24,580	-	-	18,729	24,580
Other Taxes	73,613	76,592	9,141	9,141	82,754	85,733
Unrestricted Grants and Contributions	49,203	48,314	-	-	49,203	48,314
Investment Earnings	84,094	63,040	1,248	1,062	85,342	64,102
Miscellaneous	465,189	285,486	357	253	465,546	285,739
Total Revenues	32,378,979	31,788,170	3,664,134	3,612,148	36,043,113	35,400,318
Expenses:						
General Government	2,877,588	2,838,981	-	-	2,877,588	2,838,981
Education	9,181,575	9,086,399	-	-	9,181,575	9,086,399
Transportation	3,030,002	2,817,764	-	-	3,030,002	2,817,764
Resources and Economic Development	984,557	1,002,189	-	-	984,557	1,002,189
Individual and Family Services	12,712,219	12,663,265	-	-	12,712,219	12,663,265
Administration of Justice	2,639,166	2,632,736	-	-	2,639,166	2,632,736
Interest and Charges on Long-term Debt	228,580	228,207	-	-	228,580	228,207
State Lottery	-	-	1,121,043	1,030,374	1,121,043	1,030,374
Virginia College Savings Plan	-	-	96,158	243,271	96,158	243,271
Unemployment Compensation	-	-	639,824	661,739	639,824	661,739
Alcoholic Beverage Control	-	-	507,180	479,393	507,180	479,393
Risk Management	-	-	13,169	8,360	13,169	8,360
Local Choice Health Care	-	-	266,719	229,545	266,719	229,545
Virginia Industries for the Blind	-	-	32,091	28,148	32,091	28,148
Consolidated Laboratory	-	-	6,964	6,642	6,964	6,642
eVA Procurement System	-	-	19,370	17,199	19,370	17,199
Department of Environmental Quality Title V	-	-	10,939	10,173	10,939	10,173
Wireless E-911	-	-	40,761	38,415	40,761	38,415
Museum and Library Gift Shops	-	-	6,146	6,697	6,146	6,697
Behavioral Health Canteen and Work Activity	-	-	450	13	450	13
Total Expenses	31,653,687	31,269,541	2,760,814	2,759,969	34,414,501	34,029,510
Excess before transfers	725,292	518,629	903,320	852,179	1,628,612	1,370,808
Transfers	668,503	614,637	(668,503)	(614,637)	-	-
Increase in net assets	1,393,795	1,133,266	234,817	237,542	1,628,612	1,370,808
Net assets (deficit), July 1, as restated	17,929,088	16,795,822	121,127	(116,415)	18,050,215	16,679,407
Net assets, June 30	$ 19,322,883	$ 17,929,088	$ 355,944	$ 121,127	$ 19,678,827	$ 18,050,215

Governmental Activities Revenues

Figure 13 is a graphical representation of the Statement of Activities revenues for governmental activities. Governmental activities revenues increased by $590.8 million, or 1.9 percent. The net increase is mainly attributable to increases in the General Fund, which are discussed on page 34.

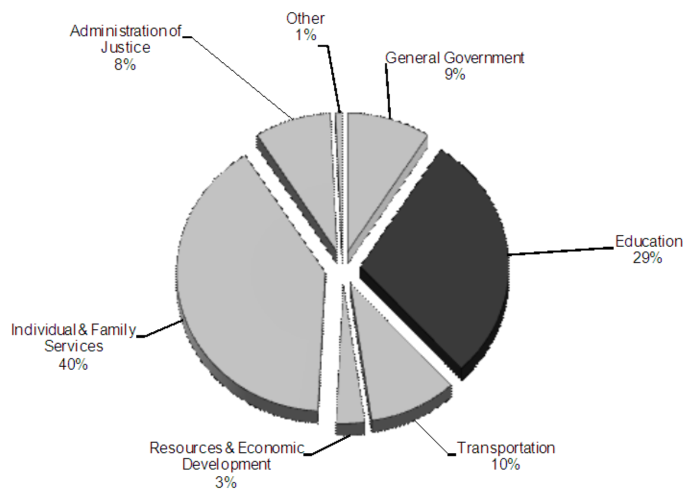
Figure 13
Revenues by Source – Governmental Activities
Fiscal Year 2012



Governmental Activities Expenses

Figure 14 is a graphical representation of the Statement of Activities expenses for governmental activities. Governmental activities expenses increased by $384.1 million or 1.2 percent. This change is primarily attributable to increases in all expense types with the exception of Resources and Economic Development. See pages 34 and 35 for additional information.

Figure 14
Expenses by Type – Governmental Activities
Fiscal Year 2012



Net Assets of Business-type Activities

Net assets of business-type activities increased by $234.8 million during the fiscal year. As shown in **Figure 15**, highlights of the changes in net assets for the major enterprise funds were as follows:

- Lottery sales were $1.6 billion, an increase of $133.3 million over the prior year. Net income was $497.3 million, an increase of $43.5 million (9.6 percent) from fiscal year 2011. Sales of scratch games increased by $85.3 million (11.3 percent) and online sales increased by $48.0 million (6.6 percent). This is offset by an increase of $90.1 million (8.8 percent) in total expenses, primarily attributable to the cost of prizes and claims.

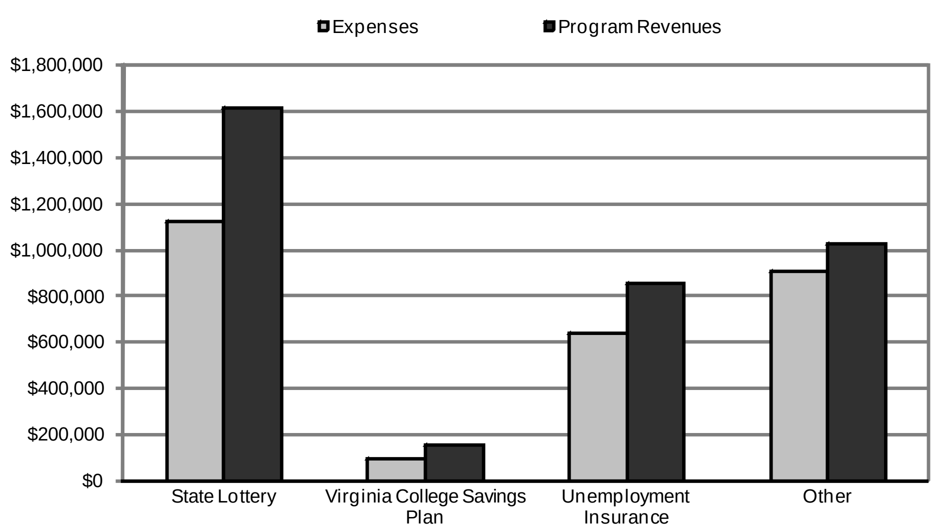
- Virginia College Savings Plan's net assets increased by $63.3 million (863.4 percent). This change is primarily attributable to decreases in investment income and tuition benefits expense.

- Unemployment Compensation Fund net assets increased by $202.6 million during fiscal year 2012, primarily as a result of an increase in the Employer Contribution rate for the Virginia Unemployment Trust Fund. Other factors adding to the fund were that it received a one-time $68.0 million Federal Unemployment Tax credit and operating expenses decreased by $21.9 million. These factors combined give the Trust Fund the large increase.

  The Trust Fund became insolvent in October 2009, which required obtaining Federal repayable advances under Title XII of the Social Security Act totaling $804.1 million during fiscal years 2010, 2011 and 2012. The advances enabled the Fund to continue benefit payments to claimants, and the Fund repaid the outstanding advance of $445.8 million during fiscal year 2012. Additionally, the Fund received approval for a maximum of $63.0 million in short-term Commonwealth Treasury Loans to meet cash flow needs and anticipates additional Federal advances in fiscal year 2013. See Note 37, "Subsequent Events," for additional information.

  Over the one year period July 1, 2011 to June 30, 2012, the unemployment rate declined from 6.5 percent to 6.0 percent. Additionally, there were approximately 26,650 fewer initial unemployment claims filed than in the previous year. These declines were offset by increases in the average weekly benefit amounts from $271.75 to $280.60 and the average benefit duration from 14.8 weeks to 16.0 weeks in fiscal year 2012. These multiple influences led to a decrease in the total benefit payments of $23.8 million over the prior year.

Figure 15
Business-type Activities
Program Revenues and Expenses
For the Fiscal Year Ended June 30, 2012
(Dollars in Thousands)



Fund Statements Financial Analysis

As of the end of the fiscal year, the primary government's governmental funds reported combined ending fund balances of $4.4 billion, including a negative unassigned fund balance of $820.9 million indicating that restricted and committed amounts exceed the available modified accrual basis fund balance. The remainder of fund balance is nonspendable, restricted or committed to indicate that it is not available for new spending.

General Fund Highlights

At the end of the fiscal year, the General Fund reported a combined ending fund balance of $512.4 million, an increase of $571.1 million in comparison with the prior year. Of this total fund balance, $117.9 million represents nonspendable fund balance, $729.3 million represents restricted fund balance, and $486.1 million represents committed fund balance. These amounts are offset by a negative $820.9 million unassigned fund balance.

Fiscal year 2012 General Fund revenues were 5.9 percent or $971.6 million higher than fiscal year 2011 revenues. This revenue change results from increases of $1.0 billion primarily attributable to individual and fiduciary income taxes ($664.0 million), sales and use tax ($129.3 million), and corporation income taxes ($123.1 million) offset by decreases of $68.5 million primarily attributable to premiums of insurance companies ($28.3 million) and communication sales and use tax ($17.5 million).

Fiscal year 2012 expenditures increased by $864.4 million as compared to fiscal year 2011. This was primarily attributable to increases in individual and family services expenditures, education, and resources and economic development expenditures of $625.5 million, $211.6 million, and $49.1 million, respectively, offset by decreases to general government expenditures of $37.8 million. Net other financing sources and uses decreased by $52.1 million which is primarily due to higher transfers out to nongeneral funds.

Budget Highlights

The General Fund began the year with an original revenue budget that was $903.0 million or 5.7 percent higher than the final fiscal year 2011 revenue budget. Additionally, the final revenue budget was slightly higher ($167.3 million or 1.0 percent) than the original budget. The change between the original and final budget was primarily attributable to increases in the final budget for individual and fiduciary income taxes of $196.8 million offset by a decrease in the final budget for sales and use taxes of $58.5 million. Total actual General Fund revenues were greater than final budgeted revenues by $242.6 million.

Total final budget expenditures were less than original budget expenditures by $14.9 million or 0.1 percent. This decrease was primarily attributable to general government expenditures of $137.6 million and individual and family services expenditures of $66.4 million offset by increases in education expenditures of $95.0 million, administration of justice expenditures of $58.9 million and resources and economic development expenditures of $32.1 million.

The Commonwealth spent less than planned so actual expenditures were $495.9 million or 2.9 percent lower than final budget expenditures.

Budget Outlook

In order to mitigate the effects of difficult economic conditions over the past several years, the Commonwealth adopted several temporary budget solutions such as, accelerated sales taxes, temporary pension funding strategy modifications (discussed further on the next page) and the continued receipt of additional federal funding. As a result of the Commonwealth's improving economy, these temporary budget solutions are being phased-out.

The economic indicators for fiscal year 2012 reflect a growing economy. Rising employment levels, faster income growth, higher consumer confidence, and the continued upward trends in the housing market drove growth in withholding, sales, and recordation taxes. During fiscal year 2012, the two General Fund revenue sources most closely tied to current economic activity – retail sales taxes and payroll withholding – experienced growth rates exceeding the annual estimate by $55.5 million (1.8 percent) and $33.7 million (0.3 percent), respectively. There is planned growth in the adopted budget for the 2012-2014 biennium (fiscal years 2013 and 2014). Based on the most recent General Fund revenue estimate, fiscal year 2013 revenue is projected to increase 2.9 percent over the fiscal year 2012 revenue collections.

While this revenue growth is expected to continue during the 2012-2014 biennium, pressures on the economic recovery persist due to the effect of federal budget uncertainties. In response to this uncertainty, the Commonwealth created the Federal Action Contingency Trust Fund and deposited $30.0 million to assist in mitigating the potential effect of federal budget uncertainties on the Virginia economy. In addition the Governor instructed Cabinet Secretaries to prepare and submit plans for 4.0 percent reductions in General Fund spending for the fiscal year 2014. The Governor will release his final amendments to the 2012-2014 biennial budget on December 17, 2012.

Pension Funding

Effective for fiscal year 2012, the Commonwealth has approved a VRS contribution rate that is lower than the certified rate. VRS will receive contributions computed using the lower rate from all participating funds. In certain instances, the General Fund will receive the monetary differential between the certified and approved contribution rates. Additional information on all plans and the impact of funding rates on the Commonwealth's liability can be found in Note 14, "Retirement and Pension Systems."

Major Special Revenue Fund Highlights

The Commonwealth Transportation Fund ended the fiscal year with a fund balance of $2.7 billion, an increase of $312.1 million from the prior year. Approximately $2.9 billion is contractually committed for various highway, public transportation, and rail preservation projects (see Note 19). The increase in fund balance was primarily due to the issuance of capital projects revenue bonds in the amount of $897.6 million. Additionally, revenues and expenditures increased $22.3 million, or 0.6 percent and $603.8 million, or 15.5 percent, respectively. This increased activity is primarily due to expenditures for highway maintenance, acquisition and construction.

The Federal Trust Fund balance, as restated, increased by $66.0 million, or 195.8 percent. A decrease in Federal Grants and Contracts revenue of approximately $790.7 million, or 8.2 percent, was offset by a decrease in total expenditures of approximately $863.0 million, or 8.9 percent. The decrease in Federal Grants and Contracts revenue was primarily due to the receipt of $635.2 million in American Recovery and Reinvestment Act revenue which was $947.5 million less than the previous fiscal year. Also contributing to the overall reduction were decreases of $56.5 million for Medicaid funding and $139.2 million for unemployment insurance. These decreases were offset by increases in food and home energy assistance programs of $179.9 million and education grants of $98.8 million.

The Literary Fund's fund balance decreased by $22.0 million, or 18.4 percent, in fiscal year 2012 from fiscal year 2011. The decrease is the result of net disbursements exceeding net receipts by $33.7 million, offset by a cash transfer in of $11.3 million from the State Lottery representing unclaimed prizes.

Capital Asset and Long-term Debt

Capital Assets. The primary government's investment in capital assets for its governmental and business-type activities as of June 30, 2012, amounts to $24.0 billion (net of accumulated depreciation totaling $13.6 billion). This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, construction-in-progress, and intangible assets including water rights, easements, and software. Infrastructure assets are items that are normally immovable such as roads, bridges, drainage systems, and other similar assets. As noted on page 30, increases in current and other assets coupled with increases in capital assets resulted in an increase in net assets of the governmental activities of $1.4 billion or 7.8 percent. The increase in the primary government's investment in capital assets was primarily attributable to increases in infrastructure and buildings of $940.5 million and $263.0 million, respectively. These increases are primarily attributable to transportation. The primary government reports equipment with a value of $50,000 or greater and an expected useful life of two or more years. The primary government capitalizes all land, buildings, infrastructure, and intangible assets that have a cost or value greater than $100,000 and an expected useful life of two or more years. Additional information on the primary government's capital assets can be found in Note 12, "Capital Assets."

Figure 16
Capital Assets as of June 30, 2012
(Net of Depreciation)
(Dollars in Thousands)

	Governmental Activities	Business-type Activities	Total
Land	$ 2,612,758	$ 1,977	$ 2,614,735
Buildings	2,382,526	12,789	2,395,315
Equipment	469,082	17,238	486,320
Water Rights/Easements	48,449	-	48,449
Infrastructure	14,746,302	-	14,746,302
Software	210,282	1,621	211,903
Construction-in-Progress	3,545,752	734	3,546,486
Total	$ 24,015,151	$ 34,359	$ 24,049,510

Long-term Debt. The Commonwealth is prohibited from issuing general obligation bonds for operating purposes. At the end of the current fiscal year, the Commonwealth had total debt outstanding of $36.1 billion, including total tax-supported debt of $14.2 billion and total debt not supported by taxes of $21.9 billion. Bonds backed by the full faith and credit of the government and tax-supported total $1.8 billion. Debt is considered tax-supported if Commonwealth tax revenues are used or pledged for debt service payments. An additional $801.4 million is considered moral obligation debt which is not tax-supported. The Commonwealth has no direct or indirect pledge of tax revenues to fund reserve deficiencies. However, in some cases, the Commonwealth has made a moral obligation pledge to consider funding deficiencies in debt service reserves that may occur. The remainder of the Commonwealth's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

During fiscal year 2012, the Commonwealth issued $7.3 billion of new debt for various projects. $1.8 billion of the new debt was for the primary government and $5.5 billion for the component units. Additional information on the Commonwealth's outstanding debt can be found on page 145 in Note 25, "Long-Term Liabilities," as well as in the section entitled "Debt Schedules." The Commonwealth maintains a "triple A" bond rating for general obligation debt from the three rating agencies: Moody's Investors Service; Standard & Poor's Ratings Group, a division of The McGraw Hill Companies, Inc.; and Fitch, Inc.

State statutes limit the amount of general obligation debt the Commonwealth may issue for each specific type of debt. The 9(a) bonds, which may be issued to fund the defense of the Commonwealth; to meet casual deficits in revenue or in anticipation of the collection of revenues; or to redeem previous debt obligations, and are limited to 30 percent of 1.15 times the annual tax revenues for fiscal year 2012. The 9(b) bonds, which have been authorized by the citizens of Virginia through bond referenda to finance capital projects, are limited to 1.15 times the average of selected tax revenues for fiscal years 2010, 2011, and 2012. The 9(c) bonds, which have been issued to finance capital projects that will generate revenue upon their completion, are limited to 1.15 times the average of selected tax revenues for fiscal years 2010, 2011, and 2012. The current debt limitation for the Commonwealth is $5.1 billion, $15.2 billion, and $15.1 billion, respectively, for the 9(a), 9(b), and 9(c) general obligation bond issues. These limits significantly exceed the Commonwealth's outstanding general obligation debt. Currently, there is no 9(a) debt outstanding.

Figure 17
Outstanding Debt as of June 30, 2012
General Obligation Bonds
(Dollars in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
General obligation bonds				
9(b)	$ 831,148	$ -	$ 831,148	$ -
9(c)	42,593	-	42,593	906,474
Total	$ 873,741	$ -	$ 873,741	$ 906,474

Economic Factors and Review

In fiscal year 2012, the nation continued its slow recovery from what is considered the worst financial and economic downturn since the "Great Depression" of the 1930s. Economic data show that the upward trend continues to be better in the Commonwealth than at the national level. During the fiscal year, the Commonwealth's nonfarm employment growth rate improved slightly for the second year in a row, increasing by 1.6 percent as compared to 1.5 percent at the national level. The Commonwealth's personal income in current dollars also continued to increase, but only by 4.1 percent during the fiscal year. Unemployment in the Commonwealth and at the national level continued to decline during the fiscal year, reaching 6.0 percent and 8.5 percent, respectively. Total taxable sales in the Commonwealth experienced an increase of 4.7 percent over fiscal year 2011. Economic indicators show that the housing market in the Commonwealth and at the national level experienced increases of 10.6 percent and 19.7 percent, respectively, during fiscal year 2012. Following a small decline in 2011, fiscal year 2012 saw housing prices experience a very slight increase of 0.4 percent in the Commonwealth. However, this is better than the national level, which also improved, but which was still a negative 0.6 percent. Overall, the Commonwealth has continued to perform better than the nation in many areas of growth. This continuing positive trend is a good sign of the economic recovery. For a more in-depth discussion on the Commonwealth's economy see "Economic Review" beginning on page 8.

In August 2011, Moody's revised the Commonwealth's credit outlook to negative due to the Commonwealth's reliance on federal employment and procurement and uncertainties surrounding the federal budget. In response to this uncertainty, the Commonwealth created the Federal Action Contingency Trust Fund and deposited $30.0 million to assist in mitigating the potential effect on the economy of the Commonwealth. Additionally, the Governor instructed Cabinet Secretaries to prepare and submit plans for 4.0 percent reductions in General Fund spending for the fiscal year 2014.

Requests for Information

This financial report is designed to provide a general overview of the Commonwealth's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the State Comptroller's Office, Commonwealth of Virginia, P. O. Box 1971, Richmond, Virginia 23218. This report is also available for download at www.doa.virginia.gov.

The Commonwealth's component units issue their own separate financial statements. Contact information regarding each component unit is provided in Note 1.B.

Government-wide Financial Statements

Statement of Net Assets

June 30, 2012
(Dollars in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash and Cash Equivalents (Notes 1 and 6)	$ 3,872,045	$ 544,898	$ 4,416,943	$ 2,076,738
Investments (Notes 1 and 6)	1,824,323	2,136,193	3,960,516	10,913,135
Receivables, Net (Notes 1 and 7)	3,051,910	489,435	3,541,345	13,023,564
Contributions Receivable, Net (Notes 1 and 8)	-	-	-	326,150
Internal Balances (Note 1)	62,338	(62,338)	-	-
Due from Primary Government (Note 9)	-	-	-	21,848
Due from Component Units (Note 9)	12,884	-	12,884	115,559
Due from External Parties (Fiduciary Funds) (Note 9)	1,117	-	1,117	-
Inventory (Note 1)	152,549	51,727	204,276	96,516
Prepaid Items (Note 1)	93,947	1,898	95,845	106,932
Other Assets (Notes 1 and 10)	6,858	170	7,028	169,481
Loans Receivable from Primary Government (Notes 1 and 9)	-	-	-	161,170
Loans Receivable from Component Units (Notes 1 and 9)	5,090	-	5,090	-
Restricted Cash and Cash Equivalents (Notes 6 and 11)	1,455,058	-	1,455,058	2,313,108
Restricted Investments (Notes 6 and 11)	69,611	-	69,611	3,953,485
Other Restricted Assets (Note 11)	-	-	-	319,024
Nondepreciable Capital Assets (Notes 1 and 12)	6,206,959	2,711	6,209,670	2,734,279
Depreciable Capital Assets, Net (Notes 1 and 12)	17,808,192	31,648	17,839,840	12,162,284
Total Assets	34,622,881	3,196,342	37,819,223	48,493,273
Deferred Outflows (Note 13)	-	-	-	113,415
Total Assets and Deferred Outflows	34,622,881	3,196,342	37,819,223	48,606,688
Liabilities				
Accounts Payable (Notes 1 and 23)	995,491	43,776	1,039,267	978,823
Amounts Due to Other Governments	721,845	11,022	732,867	82,031
Due to Primary Government (Note 9)	-	-	-	12,884
Due to Component Units (Note 9)	21,848	-	21,848	115,559
Due to External Parties (Fiduciary Funds) (Note 9)	17,966	481	18,447	9,814
Unearned Revenue (Note 1)	164,098	4,611	168,709	335,954
Obligations Under Securities Lending Program (Notes 1 and 6)	1,264,193	209,245	1,473,438	52,629
Other Liabilities (Notes 1, 13, and 24)	1,915,619	87,274	2,002,893	1,276,735
Loans Payable to Primary Government (Notes 1 and 9)	-	-	-	5,090
Loans Payable to Component Units (Notes 1 and 9)	161,170	-	161,170	-
Claims Payable (Notes 1 and 22):				
Due Within One Year	185,243	33,836	219,079	48,221
Due in More Than One Year	533,062	15,660	548,722	35,494
Long-term Liabilities (Notes 1, 20, 21, and 25):				
Due Within One Year	656,914	233,584	890,498	1,481,220
Due in More Than One Year	8,662,549	2,200,909	10,863,458	22,876,469
Total Liabilities	15,299,998	2,840,398	18,140,396	27,310,923

The accompanying notes are an integral part of this financial statement.

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Net Assets				
Invested in Capital Assets, Net of Related Debt	19,891,265	33,910	19,925,175	8,666,344
Restricted For:				
Nonexpendable:				
Higher Education	-	-	-	2,679,448
Permanent Funds	28,000	-	28,000	-
Other	-	-	-	154,085
Expendable:				
Agriculture and Forestry	1,104	-	1,104	-
Bond Indenture	-	-	-	2,279,519
Capital Projects/Construction/Capital Acquisition	202,477	-	202,477	1,636,357
Debt Service	78,969	-	78,969	84,265
Economic and Technological Development	1,056	-	1,056	-
Educational and Training Programs	7,133	-	7,133	-
Environmental Quality and Natural Resource Preservation	11,719	-	11,719	-
Gifts and Grants	144,389	-	144,389	99,320
Health and Public Safety	121,720	-	121,720	-
Higher Education	-	-	-	4,404,386
Literary Fund	114,539	-	114,539	-
Lottery Proceeds Fund	35,131	-	35,131	-
Permanent Funds	1,366	-	1,366	-
Revenue Stabilization Fund	680,907	-	680,907	-
Transportation Activities	204,681	-	204,681	-
Unemployment Compensation Trust Fund	-	178,916	178,916	-
Virginia Pooled Investment Program	-	-	-	7,449
Virginia Water Supply Assistance Grant Fund	13,231	-	13,231	-
Other	1,309	-	1,309	13,778
Unrestricted	(2,216,113)	143,118	(2,072,995)	1,270,814
Total Net Assets	$ 19,322,883	$ 355,944	$ 19,678,827	$ 21,295,765

Statement of Activities

For the Fiscal Year Ended June 30, 2012
(Dollars in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	$ 2,877,588	$ 254,840	$ 163,656	$ 19,556
Education	9,181,575	397,436	1,230,669	286
Transportation	3,030,002	644,740	47,170	1,226,315
Resources and Economic Development	984,557	393,297	227,493	20,344
Individual and Family Services	12,712,219	429,034	7,470,703	199
Administration of Justice	2,639,166	322,677	38,693	-
Interest and Charges on Long-term Debt	228,580	-	-	-
Total Governmental Activities	31,653,687	2,442,024	9,178,384	1,266,700
Business-type Activities				
State Lottery	1,121,043	1,616,400	-	-
Virginia College Savings Plan	96,158	160,062	-	-
Unemployment Compensation	639,824	852,756	-	-
Alcoholic Beverage Control	507,180	632,671	447	-
Risk Management	13,169	5,019	-	-
Local Choice Health Care	266,719	259,135	-	-
Virginia Industries for the Blind	32,091	31,842	-	-
Consolidated Laboratory	6,964	8,472	-	-
eVA Procurement System	19,370	16,346	-	-
Department of Environmental Quality Title V	10,939	7,875	-	-
Wireless E-911	40,761	55,229	-	-
Museum and Library Gift Shops	6,146	6,661	-	-
Behavioral Health Canteen and Work Activity	450	473	-	-
Total Business-type Activities	2,760,814	3,652,941	447	-
Total Primary Government	$ 34,414,501	$ 6,094,965	$ 9,178,831	$ 1,266,700
Component Units				
Virginia Housing Development Authority	$ 620,290	$ 533,820	$ 156,225	$ -
Virginia Public School Authority	149,111	141,610	5,030	-
Higher Education:				
Major	6,803,884	4,989,845	1,260,957	174,796
Nonmajor	4,974,252	2,144,976	937,513	369,685
Other Nonmajor	956,632	661,266	64,198	82,089
Total Component Units	$ 13,504,169	$ 8,471,517	$ 2,423,923	$ 626,570

The accompanying notes are an integral part of this financial statement.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (2,439,536)	$ -	$ (2,439,536)	$ -
(7,553,184)	-	(7,553,184)	-
(1,111,777)	-	(1,111,777)	-
(343,423)	-	(343,423)	-
(4,812,283)	-	(4,812,283)	-
(2,277,796)	-	(2,277,796)	-
(228,580)	-	(228,580)	-
(18,766,579)	-	(18,766,579)	-
-	495,357	495,357	-
-	63,904	63,904	-
-	212,932	212,932	-
-	125,938	125,938	-
-	(8,150)	(8,150)	-
-	(7,584)	(7,584)	-
-	(249)	(249)	-
-	1,508	1,508	-
-	(3,024)	(3,024)	-
-	(3,064)	(3,064)	-
-	14,468	14,468	-
-	515	515	-
-	23	23	-
-	892,574	892,574	-
(18,766,579)	892,574	(17,874,005)	-
-	-	-	69,755
-	-	-	(2,471)
-	-	-	(378,286)
-	-	-	(1,522,078)
-	-	-	(149,079)
-	-	-	(1,982,159)

Continued on next page

Statement of Activities *(Continued from previous page)*

For the Fiscal Year Ended June 30, 2012
(Dollars in Thousands)

	Net (Expense) Revenue and Changes in Net Assets			
	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
General Revenues				
Taxes				
Individual and Fiduciary Income	10,813,550	-	10,813,550	-
Sales and Use	3,885,137	-	3,885,137	-
Corporation Income	978,690	-	978,690	-
Motor Fuel	900,199	-	900,199	-
Motor Vehicle Sales and Use	538,126	-	538,126	-
Communications Sales and Use	422,807	-	422,807	-
Deeds, Contracts, Wills, and Suits	370,620	-	370,620	-
Premiums of Insurance Companies	390,950	-	390,950	-
Alcoholic Beverage Sales	120,989	-	120,989	-
Tobacco Products	195,554	-	195,554	-
Estate	1,493	-	1,493	-
Public Service Corporations	114,972	-	114,972	-
Beer and Beverage Excise	43,659	-	43,659	-
Wine and Spirits/ABC Liter	24,297	-	24,297	-
Bank Stock	18,729	-	18,729	-
Other Taxes	73,613	9,141	82,754	-
Operating Appropriations from Primary Government	-	-	-	1,757,572
Unrestricted Grants and Contributions	49,203	-	49,203	80,187
Investment Earnings	84,094	1,248	85,342	240,579
Miscellaneous	465,189	357	465,546	88,584
Transfers	668,503	(668,503)	-	-
Contributions to Permanent and Term Endowments	-	-	-	253,247
Total General Revenues, Transfers, and Contributions	20,160,374	(657,757)	19,502,617	2,420,169
Change in Net Assets	1,393,795	234,817	1,628,612	438,010
Net Assets, July 1, as restated (Note 2)	17,929,088	121,127	18,050,215	20,857,755
Net Assets, June 30	$ 19,322,883	$ 355,944	$ 19,678,827	$ 21,295,765

The accompanying notes are an integral part of this financial statement.

Governmental Funds

General Fund

The General Fund accounts for transactions related to resources received and used for those services traditionally provided by a state government, which are not accounted for in any other fund.

Special Revenue Funds

Special Revenue Funds account for specific revenue sources that are restricted or committed to finance particular functions and activities of the Commonwealth.

The Commonwealth Transportation Fund accounts for the revenues and expenditures associated with highway operations, maintenance, construction, and other transportation related activities. Funding for these programs is provided from highway user taxes, fees, and funds received from the federal government.

The Federal Trust Fund accounts for all federal dollars received by the Commonwealth except those received by the Commonwealth Transportation Fund, the Unemployment Compensation Fund, and institutions of higher education. The entire fund is restricted pursuant to federal regulations.

The Literary Fund accounts for revenues from fines, forfeitures, and proceeds from unclaimed property used primarily to support public education in the Commonwealth. This fund provides low interest loans to school divisions for construction, renovations, and expansion of school buildings. The entire fund is constitutionally restricted for public schools.

Nonmajor Governmental Funds include those Special Revenue, Debt Service, Capital Projects, and Permanent Funds listed on page 191 in the Combining and Individual Fund Statements and Schedules section of this report.

Balance Sheet – Governmental Funds

June 30, 2012
(Dollars in Thousands)

			Special Revenue	
	General	Commonwealth Transportation	Federal Trust	Literary
Assets				
Cash and Cash Equivalents (Notes 1 and 6)	$ 792,901	$ 2,009,738	$ 133,169	$ 24,843
Investments (Notes 1 and 6)	1,766,537	11,425	446	332
Receivables, Net (Notes 1 and 7)	1,625,026	248,683	799,272	261,625
Due from Other Funds (Note 9)	37,229	20,924	1,869	-
Due from External Parties (Fiduciary Funds) (Note 9)	-	-	-	-
Interfund Receivable (Note 9)	-	-	-	-
Inventory (Note 1)	45,502	64,191	14,326	-
Prepaid Items (Note 1)	72,400	6,603	1,531	-
Other Assets (Notes 1 and 10)	2,060	427	2,379	-
Loans Receivable from Component Units (Notes 1 and 9)	-	-	-	-
Restricted Cash and Cash Equivalents (Notes 6 and 11)	-	1,211,399	-	-
Total Assets	$ 4,341,655	$ 3,573,390	$ 952,992	$ 286,800
Liabilities and Fund Balances				
Accounts Payable (Notes 1 and 23)	$ 256,102	$ 345,316	$ 145,875	$ 24
Amounts Due to Other Governments	381,635	79	212,504	-
Due to Other Funds (Note 9)	45,447	18,207	8,635	-
Due to Component Units (Note 9)	7,886	-	4,496	-
Due to External Parties (Fiduciary Funds) (Note 9)	11,982	2,347	1,221	-
Interfund Payable (Note 9)	13,152	-	14,949	-
Deferred Revenue (Note 1)	837,475	24,024	95,054	16,957
Unearned Revenue (Note 1)	20	47,608	2,455	-
Deferred Taxes (Note 1)	452,442	-	-	-
Obligations Under Securities Lending Program (Notes 1 and 6)	817,135	380,963	14,867	11,067
Other Liabilities (Notes 1 and 24)	1,005,243	8,160	353,116	-
Loans Payable to Component Units (Notes 1 and 9)	-	-	-	161,170
Long-term Liabilities Due Within One Year (Notes 1, 20, and 25)	777	92	86	-
Total Liabilities	3,829,296	826,796	853,258	189,218
Fund Balances (Note 3):				
Nonspendable	117,902	70,794	15,857	-
Restricted	729,269	236,262	83,877	97,582
Committed	486,051	2,439,538	-	-
Assigned	-	-	-	-
Unassigned	(820,863)	-	-	-
Total Fund Balances	512,359	2,746,594	99,734	97,582
Total Liabilities and Fund Balances	$ 4,341,655	$ 3,573,390	$ 952,992	$ 286,800

The accompanying notes are an integral part of this financial statement.

Nonmajor Governmental Funds	Total Governmental Funds
$ 800,558	$ 3,761,209
115,067	1,893,807
104,341	3,038,947
8,392	68,414
984	984
92,442	92,442
5,626	129,645
12,905	93,439
1,987	6,853
5,090	5,090
-	1,211,399
$ 1,147,392	$ 10,302,229
$ 77,218	$ 824,535
356	594,574
13,641	85,930
196	12,578
2,180	17,730
-	28,101
37,875	1,011,385
4,428	54,511
-	452,442
35,923	1,259,955
2,286	1,368,805
-	161,170
142	1,097
174,245	5,872,813
46,428	250,981
431,352	1,578,342
483,552	3,409,141
11,815	11,815
-	(820,863)
973,147	4,429,416
$ 1,147,392	$ 10,302,229

Reconciliation of the Balance Sheet – Governmental Funds to the Government-wide Statement of Net Assets

June 30, 2012
(Dollars in Thousands)

Total fund balances - governmental funds (see Balance Sheet - Governmental Funds)	$	4,429,416
When capital assets (land, buildings, equipment, construction-in-progress, intangible assets, and/or infrastructure) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the Statement of Net Assets includes those capital assets among the assets of the primary government as a whole.		
Nondepreciable Capital Assets		6,195,732
Depreciable Capital Assets		17,748,475
Long-term liabilities applicable to the primary government's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Assets.		
Tax Note		(40,639)
Pension Liability		(1,640,916)
OPEB Liability		(400,174)
Capital Lease		(63,223)
Installment Purchases		(86,242)
Compensated Absences		(308,605)
Uninsured Employer's Fund		(27,647)
Regional Jails		(2,748)
Bonds		(6,577,190)
Notes		(9,050)
Accrued Interest Payable		(88,631)
Other Obligations		(82,976)
Pollution Remediation Liability		(5,171)
Internal service funds are used by the primary government to charge costs to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the Statement of Net Assets.		(484,286)
Other long-term payables are not due and payable in the current period and, therefore, are not reported in the funds.		(244,921)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		1,011,679
Net assets of governmental activities (see Government-wide Statement of Net Assets)	$	19,322,883

The accompanying notes are an integral part of this financial statement.

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

For the Fiscal Year Ended June 30, 2012
(Dollars in Thousands)

	General	Special Revenue: Commonwealth Transportation	Special Revenue: Federal Trust	Special Revenue: Literary
Revenues				
Taxes	$ 16,547,454	$ 2,108,090	$ -	$ -
Rights and Privileges	70,420	536,627	-	311
Institutional Revenue	37,809	-	-	-
Interest, Dividends, Rents, and Other Investment Income	101,089	30,776	1,382	14,555
Federal Grants and Contracts	-	1,105,544	8,827,161	-
Other (Note 26)	585,358	90,402	122,100	142,871
Total Revenues	17,342,130	3,871,439	8,950,643	157,737
Expenditures				
Current:				
General Government	2,104,872	2,182	138,401	67
Education	7,136,301	2,404	1,382,955	191,405
Transportation	462	4,451,872	16,040	-
Resources and Economic Development	354,658	9,327	214,312	-
Individual and Family Services	5,082,650	-	7,075,558	-
Administration of Justice	2,287,036	9,357	36,129	-
Capital Outlay	6,761	13,461	12,608	-
Debt Service:				
Principal Retirement	-	-	-	-
Interest and Charges	-	-	-	-
Total Expenditures	16,972,740	4,488,603	8,876,003	191,472
Revenues Over (Under) Expenditures	369,390	(617,164)	74,640	(33,735)
Other Financing Sources (Uses)				
Transfers In (Note 30)	813,443	204,098	12,473	11,699
Transfers Out (Note 30)	(616,134)	(308,756)	(21,121)	-
Notes Issued	1,957	-	-	-
Insurance Recoveries	118	2,065	14	-
Capital Leases Initiated	128	1,008	-	-
Bonds Issued	-	897,590	-	-
Premium on Debt Issuance	-	131,945	-	-
Refunding Bonds Issued	-	-	-	-
Sale of Capital Assets	2,234	1,278	6	-
Payment to Refunded Bond Escrow Agents	-	-	-	-
Total Other Financing Sources (Uses)	201,746	929,228	(8,628)	11,699
Net Change in Fund Balances	571,136	312,064	66,012	(22,036)
Fund Balance (Deficit), July 1, as restated (Note 2)	(58,777)	2,434,530	33,722	119,618
Fund Balance, June 30	$ 512,359	$ 2,746,594	$ 99,734	$ 97,582

The accompanying notes are an integral part of this financial statement.

Nonmajor Governmental Funds	Total Governmental Funds
$ 92,435	$ 18,747,979
313,487	920,845
347,396	385,205
16,256	164,058
-	9,932,705
396,212	1,336,943
1,165,786	31,487,735
76,515	2,322,037
20,193	8,733,258
5,365	4,473,739
291,242	869,539
524,116	12,682,324
89,505	2,422,027
297,417	330,247
422,792	422,792
261,880	261,880
1,989,025	32,517,843
(823,239)	(1,030,108)
727,646	1,769,359
(150,723)	(1,096,734)
8,255	10,212
961	3,158
-	1,136
298,500	1,196,090
85,423	217,368
319,373	319,373
-	3,518
(373,490)	(373,490)
915,945	2,049,990
92,706	1,019,882
880,441	3,409,534
$ 973,147	$ 4,429,416

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Government-wide Statement of Activities

For the Fiscal Year Ended June 30, 2012
(Dollars in Thousands)

Net Change in fund balances - total government funds (See Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds)	$	1,019,882
When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year.		
Nondepreciable Capital Assets Constructed/Acquired		1,915,167
Nondepreciable Capital Assets Disposed		(73,807)
Depreciable Capital Assets Acquired		726,340
Depreciable Capital Assets Disposed		(219,440)
Depreciation Expense		(802,072)
Debt proceeds provide current financial resources to governmental funds by issuing debt, which increases long-term debt in the Statement of Net Assets.		
Debt Issuance		(1,196,090)
Capital Lease Proceeds		(1,136)
Bond Premiums		(217,368)
Refunding Bonds Issued		(319,373)
Installment Purchase Proceeds		(10,212)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Assets.		
Debt Service Fund Repayment of Debt Principal		422,792
Repayment of Debt Principal in Other Funds:		
Installment Purchases		22,539
Regional Jails		2,636
Payment to Refunded Bond Escrow Agent is an expenditure in the governmental funds, but the refunding reduces long-term debt in the Statement of Net Assets.		373,490
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		321,685
Increases/decreases of expenses associated with long-term debt reported in the Statement of Activities do not require the use of, or provide, current financial resources and, therefore, are not reported in the governmental funds.		
Increase in Pension Liability		(249,888)
Increase in OPEB Liability		(102,876)
Increase in Other Long-term Liabilities		(1,262)
Decrease in Interest Expense, Amortization of Deferrals on Long-term Debt and accrued interest liability		28,461
Increase in Compensated Absences		(3,707)
Increase in Other Liabilities		(17,928)
Net Decrease in Due to Component Units for Capital and Other Projects resulting from appropriation reductions or amounts due to Federal Governments for interest and rebate repayments, which are not reported as expenditures in the fund statements.		5,092
The net revenue (expenses) of certain activities of internal service funds is reported within governmental activities.		(229,130)
Change in net assets of governmental activities (See Government-wide Statement of Activities)	$	1,393,795

The accompanying notes are an integral part of this financial statement.

Proprietary Funds

The Proprietary Funds account for operations that are financed and operated in a manner similar to private business enterprises. It is the intent that the cost of providing such goods or services will be recovered through user charges.

Major Enterprise Funds

The State Lottery accounts for all receipts and expenses from the operations of the State Lottery.

The Virginia College Savings Plan administers the Virginia Prepaid Education Program. The plan offers contracts, for actuarially determined amounts, guaranteeing full future tuition and mandatory fee payments at Virginia's higher education institutions and differing payouts at private or out-of-state institutions. The fund accounts for the actuarially determined contributions and payments for approved expenses.

The Unemployment Compensation Fund administers the temporary partial income replacement payments to unemployed covered workers.

Nonmajor Enterprise Funds include those operations of state agencies which are listed on page 203 in the Combining and Individual Fund Statements and Schedules section of this report.

Internal Service Funds include those operations of state agencies which are listed on page 219 in the Combining and Individual Fund Statements and Schedules section of this report.

Statement of Net Assets – Proprietary Funds

June 30, 2012
(Dollars in Thousands)

	Business-type Activities Enterprise Funds			
	State Lottery	Virginia College Savings Plan	Unemployment Compensation	Nonmajor
Assets				
Current Assets:				
Cash and Cash Equivalents (Notes 1 and 6)	$ 230,245	$ 57,477	$ 76,573	$ 180,603
Investments (Notes 1 and 6)	41,929	-	-	16
Receivables, Net (Notes 1 and 7)	52,827	67,874	147,536	33,101
Due from Other Funds (Note 9)	-	-	635	9,086
Due From External Parties (Fiduciary Funds) (Note 9)	-	-	-	-
Due From Component Units (Note 9)	-	-	-	-
Inventory (Note 1)	-	-	-	51,727
Prepaid Items (Note 1)	231	11	-	1,656
Other Assets (Notes 1 and 10)	1	-	-	169
Total Current Assets	325,233	125,362	224,744	276,358
Noncurrent Assets:				
Investments (Notes 1 and 6)	158,810	1,935,438	-	-
Receivables, Net (Notes 1 and 7)	-	188,097	-	-
Nondepreciable Capital Assets (Notes 1 and 12)	-	381	-	2,330
Depreciable Capital Assets, Net (Notes 1 and 12)	7,888	3,191	-	20,569
Total Noncurrent Assets	166,698	2,127,107	-	22,899
Total Assets	491,931	2,252,469	224,744	299,257
Liabilities				
Current Liabilities:				
Accounts Payable (Notes 1 and 23)	8,734	1,874	153	33,015
Amounts Due to Other Governments	-	-	8,847	2,175
Due to Other Funds (Note 9)	23,095	33	2,113	15,268
Due to External Parties (Fiduciary Funds) (Note 9)	92	34	-	355
Interfund Payable (Note 9)	-	-	-	28,489
Unearned Revenue (Note 1)	2,838	-	-	1,773
Obligations Under Securities Lending Program (Notes 1 and 6)	208,705	-	-	540
Other Liabilities (Notes 1 and 24)	52,132	60	34,715	367
Claims Payable Due Within One Year (Notes 1 and 22)	-	-	-	33,836
Long-term Liabilities Due Within One Year (Notes 1, 20, and 25)	36,771	193,106	-	3,707
Total Current Liabilities	332,367	195,107	45,828	119,525
Noncurrent Liabilities:				
Interfund Payable (Note 9)	-	-	-	-
Claims Payable Due in More Than One Year (Notes 1 and 22)	-	-	-	15,660
Long-term Liabilities Due in More Than One Year (Notes 1, 20, and 25)	169,354	1,986,714	-	44,841
Total Noncurrent Liabilities	169,354	1,986,714	-	60,501
Total Liabilities	501,721	2,181,821	45,828	180,026
Net Assets				
Invested in Capital Assets, Net of Related Debt	7,888	3,123	-	22,899
Restricted for Unemployment Compensation	-	-	178,916	-
Unrestricted	(17,678)	67,525	-	96,332
Total Net Assets (Deficit) (Note 4)	$ (9,790)	$ 70,648	$ 178,916	$ 119,231

Some amounts reported for business-type activities in the Statement of Net Assets are different because certain internal service fund assets and liabilities are included in business-type activities.
Net assets of business-type activities

The accompanying notes are an integral part of this financial statement.

	Governmental Activities
Total	Internal Service Funds
$ 544,898	$ 354,495
41,945	127
301,338	12,963
9,721	50,154
-	133
-	12,198
51,727	22,904
1,898	508
170	7,189
951,697	460,671
2,094,248	-
188,097	-
2,711	11,227
31,648	59,717
2,316,704	70,944
3,268,401	531,615
43,776	66,285
11,022	2,196
40,509	1,850
481	236
28,489	28,852
4,611	109,881
209,245	4,238
87,274	5,104
33,836	185,243
233,584	7,375
692,827	411,260
-	7,000
15,660	533,062
2,200,909	67,640
2,216,569	607,702
2,909,396	1,018,962
33,910	45,433
178,916	-
146,179	(532,780)
$ 359,005	$ (487,347)
(3,061)	
$ 355,944	

Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds

For the Fiscal Year Ended June 30, 2012
(Dollars in Thousands)

	Business-type Activities Enterprise Funds			
	State Lottery	Virginia College Savings Plan	Unemployment Compensation	Nonmajor
Operating Revenues				
Charges for Sales and Services	$ 1,616,002	$ 143,290	$ 784,191	$ 1,006,568
Interest, Dividends, Rents, and Other Investment Income	-	16,754	486	-
Other (Note 26)	-	18	-	17,409
Total Operating Revenues	1,616,002	160,062	784,677	1,023,977
Operating Expenses				
Cost of Sales and Services	115,576	-	-	362,993
Prizes and Claims (Note 27)	950,628	-	637,955	261,814
Tuition Benefits Expense	-	78,425	-	-
Personal Services	22,847	7,726	-	113,294
Contractual Services	25,489	6,895	1,869	61,505
Supplies and Materials	705	56	-	27,297
Depreciation	3,406	306	-	2,406
Rent, Insurance, and Other Related Charges	1,619	103	-	28,843
Interest Expense	-	-	-	-
Non-recurring Cost Estimate Payments to Providers	-	-	-	39,514
Other (Note 28)	-	2,451	-	3,763
Total Operating Expenses	1,120,270	95,962	639,824	901,429
Operating Income (Loss)	495,732	64,100	144,853	122,548
Nonoperating Revenues (Expenses)				
Interest, Dividends, Rents, and Other Investment Income	1,646	-	-	193
Other (Note 29)	(41)	(106)	68,079	9,195
Total Nonoperating Revenues (Expenses)	1,605	(106)	68,079	9,388
Income (Loss) Before Transfers	497,337	63,994	212,932	131,936
Transfers In (Note 30)	-	-	-	2,102
Transfers Out (Note 30)	(499,251)	(679)	(10,361)	(160,314)
Change in Net Assets	(1,914)	63,315	202,571	(26,276)
Total Net Assets (Deficit), July 1	(7,876)	7,333	(23,655)	145,507
Total Net Assets (Deficit), June 30 (Note 4)	$ (9,790)	$ 70,648	$ 178,916	$ 119,231

Some amounts reported for business-type activies in the Statement of Activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities.
Change in Net Assets of business-type activities

The accompanying notes are an integral part of this financial statement.

	Governmental Activities
Total	Internal Service Funds
$ 3,550,051	$ 1,600,298
17,240	-
17,427	1
3,584,718	1,600,299
478,569	65,767
1,850,397	1,219,077
78,425	-
143,867	51,840
95,758	376,184
28,058	10,798
6,118	11,071
30,565	78,854
-	39
39,514	-
6,214	12,325
2,757,485	1,825,955
827,233	(225,656)
1,839	337
77,127	(2,568)
78,966	(2,231)
906,199	(227,887)
2,102	445
(670,605)	(4,567)
237,696	(232,009)
121,309	(255,338)
$ 359,005	$ (487,347)
(2,879)	
$ 234,817	

Statement of Cash Flows – Proprietary Funds

For the Fiscal Year Ended June 30, 2012
(Dollars in Thousands)

	Business-type Activities Enterprise Funds			
	State Lottery	Virginia College Savings Plan	Unemployment Compensation	Nonmajor
Cash Flows from Operating Activities				
Receipts for Sales and Services	$ 1,608,604	$ 155,785	$ 783,916	$ 1,004,562
Receipts from Investments	-	-	486	-
Internal Activity-Receipts from Other Funds	-	-	5,196	9,015
Internal Activity-Payments to Other Funds	-	(384)	-	(2,376)
Payments to Suppliers for Goods and Services	(115,576)	(1,114)	-	(416,974)
Payments for Contractual Services	(16,678)	(5,057)	-	(60,614)
Payments for Prizes, Claims, and Loss Control (Note 33)	(994,554)	-	(639,541)	(244,227)
Payments for Tuition Benefits	-	(118,342)	-	-
Payments to Employees	(21,057)	(7,077)	-	(105,722)
Payments to Providers for Non-recurring Cost Estimates	-	-	-	(42,367)
Other Operating Revenue (Note 33)	-	-	-	3,087
Other Operating Expense (Note 33)	-	(2,006)	-	(1,840)
Net Cash Provided by (Used for) Operating Activities	460,739	21,805	150,057	142,544
Cash Flows from Noncapital Financing Activities				
Transfers In From Other Funds	-	-	-	2,096
Transfers Out to Other Funds	(485,291)	(679)	(12,599)	(332,739)
Other Noncapital Financing Receipt Activities (Note 33)	328	-	325,373	212,802
Other Noncapital Financing Disbursement Activities (Note 33)	-	-	(445,818)	(29,468)
Net Cash Provided by (Used for) Noncapital Financing Activities	(484,963)	(679)	(133,044)	(147,309)
Cash Flows from Capital and Related Financing Activities				
Acquisition of Capital Assets	(1,891)	(291)	-	(2,097)
Payment of Principal and Interest on Bonds and Notes	-	(575)	-	-
Proceeds from Sale of Bonds and Notes	-	-	-	-
Proceeds from Sale of Capital Assets	63	-	-	-
Other Capital and Related Financing Disbursement Activities (Note 33)	-	-	-	-
Net Cash Provided By (Used for) Capital and Related Financing Activities	(1,828)	(866)	-	(2,097)
Cash Flows from Investing Activities				
Purchase of Investments	(9,587)	(774,700)	-	-
Proceeds from Sales or Maturities of Investments	42,510	661,831	-	-
Investment Income on Cash, Cash Equivalents, and Investments	1,277	60,741	-	-
Net Cash Provided by (Used for) Investing Activities	34,200	(52,128)	-	-
Net Increase (Decrease) in Cash and Cash Equivalents	8,148	(31,868)	17,013	(6,862)
Cash and Cash Equivalents, July 1	19,652	89,345	59,560	187,111
Cash and Cash Equivalents, June 30	$ 27,800	$ 57,477	$ 76,573	$ 180,249
Reconciliation of Cash and Cash Equivalents				
Per the Statement of Net Assets:				
Cash and Cash Equivalents	$ 230,245	$ 57,477	$ 76,573	$ 180,603
Cash and Travel Advances	1	-	-	169
Less:				
Securities Lending Cash Equivalents	(202,446)	-	-	(523)
Cash and Cash Equivalents per the Statement of Cash Flows	$ 27,800	$ 57,477	$ 76,573	$ 180,249

The accompanying notes are an integral part of this financial statement.

	Governmental Activities
Total	Internal Service Funds
$ 3,552,867	$ 567,338
486	-
14,211	1,031,453
(2,760)	(9,976)
(533,664)	(167,038)
(82,349)	(358,582)
(1,878,322)	(1,058,674)
(118,342)	-
(133,856)	(45,208)
(42,367)	-
3,087	-
(3,846)	(10,199)
775,145	(50,886)
2,096	445
(831,308)	(4,567)
538,503	17,791
(475,286)	(9,545)
(765,995)	4,124
(4,279)	(24,375)
(575)	(6,868)
-	2,863
63	536
-	(632)
(4,791)	(28,476)
(784,287)	-
704,341	-
62,018	195
(17,928)	195
(13,569)	(75,043)
355,668	425,432
$ 342,099	$ 350,389
$ 544,898	$ 354,495
170	5
(202,969)	(4,111)
$ 342,099	$ 350,389

Continued on next page

Statement of Cash Flows – Proprietary Funds *(Continued from previous page)*

For the Fiscal Year Ended June 30, 2012
(Dollars in Thousands)

	Business-type Activities Enterprise Funds			
	State Lottery	Virginia College Savings Plan	Unemployment Compensation	Nonmajor
Reconciliation of Operating Income				
To Net Cash Provided by (Used for)				
Operating Activities:				
Operating Income (Loss)	$ 495,732	$ 64,100	$ 144,853	$ 122,548
Adjustments to Reconcile Operating				
Income to Net Cash Provided by (Used for)				
Operating Activities:				
Depreciation	3,406	306	-	2,406
Interest, Dividends, Rents, and Other Investment Income	(10,995)	(16,276)	-	-
Miscellaneous Nonoperating Income	-	-	6,305	-
Other Expenses	-	-	2,238	-
Change in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(7,026)	12,035	(10,067)	839
(Increase) Decrease in Due From Other Funds	-	-	185	(8,226)
(Increase) Decrease in Due From External Parties (Fiduciary Funds)	-	-	-	-
(Increase) Decrease in Due From Component Units	-	-	-	-
(Increase) Decrease in Other Assets	-	-	-	-
(Increase) Decrease in Inventory	-	-	-	87
(Increase) Decrease in Prepaid Items	301	(11)	-	358
Increase (Decrease) in Accounts Payable	(469)	1,409	(9)	5,154
Increase (Decrease) in Amounts Due to Other Governments	-	-	1,023	(3,224)
Increase (Decrease) in Due to Other Funds	(85)	(19)	(602)	1,315
Increase (Decrease) in Due to External Parties (Fiduciary Funds)	(181)	(65)	-	(161)
Increase (Decrease) in Unearned Revenue	(371)	-	-	(145)
Increase (Decrease) in Other Liabilities	294	(8)	6,131	65
Increase (Decrease) in Claims Payable: Due Within One Year	-	-	-	9,250
Increase (Decrease) in Claims Payable: Due in More Than One Year	-	-	-	3,035
Increase (Decrease) in Long-term Liabilities: Due Within One Year	(5,704)	14,381	-	(33)
Increase (Decrease) in Long-term Liabilities: Due in More Than One Year	(14,163)	(54,047)	-	9,276
Net Cash Provided by (Used for) Operating Activities	$ 460,739	$ 21,805	$ 150,057	$ 142,544
Noncash Investing, Capital, and Financing Activities:				
The following transactions occurred prior to the statement of net assets date:				
Trade-ins of Used Equipment on New Equipment	$ -	$ -	$ -	$ -
Installment Purchases Used to Finance Capital Assets	-	-	-	-
Change in Fair Value of Investments	-	(43,987)	-	-
Total Noncash, Investing, Capital, and Financing Activities	$ -	$ (43,987)	$ -	$ -

The accompanying notes are an integral part of this financial statement.

	Governmental Activities
Total	Internal Service Funds
$ 827,233	$ (225,656)
6,118	11,071
(27,271)	-
6,305	201
2,238	-
(4,219)	(433)
(8,041)	(9,241)
-	(4)
-	(23)
-	6,411
87	(5,287)
648	81
6,085	13,579
(2,201)	1,045
609	316
(407)	(477)
(516)	1,288
6,482	(84)
9,250	27,575
3,035	121,062
8,644	120
(58,934)	7,570
$ 775,145	$ (50,886)
$ -	$ 41
-	6,777
(43,987)	-
$ (43,987)	$ 6,818

Fiduciary Funds

Private Purpose Trust Funds

Private Purpose Trust Funds are trust arrangements that benefit individuals, private organizations, or other governments.

Pension and Other Employee Benefit Trust Funds

Pension and Other Employee Benefit Trust Funds reflect the activities of the retirement systems and postemployment benefits administered by the Virginia Retirement System or the Department of Accounts.

Investment Trust Fund

Investment Trust Fund reflects the external portion of the Local Government Investment Pool sponsored by the Commonwealth.

Agency Funds

Agency Funds report those funds for which the Commonwealth acts solely in a custodial capacity.

A listing of all Fiduciary Funds is located on pages 228-229 in the Combining and Individual Fund Statements and Schedules section of this report. Combining financial statements for all Fiduciary Funds begin on page 230.

Statement of Fiduciary Net Assets – Fiduciary Funds

June 30, 2012
(Dollars in Thousands)

	Private Purpose Trust Funds	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund	Agency Funds
Assets				
Cash and Cash Equivalents (Notes 1 and 6)	$ 113,891	$ 313,202	$ 1,018,553	$ 300,603
Investments (Notes 1 and 6):				
Bonds and Mortgage Securities	63,536	18,811,319	81,225	-
Stocks	275,192	18,594,068	-	-
Fixed Income Commingled Funds	-	891,098	-	-
Index and Pooled Funds	618,176	5,304,829	-	-
Real Estate	1,466	3,784,232	-	-
Private Equity	-	5,888,743	-	-
Mutual and Money Market Funds	916,037	-	-	-
Short-term Investments	-	179,663	1,351,251	72,715
Other	325,990	2,163,429	-	334,425
Total Investments	2,200,397	55,617,381	1,432,476	407,140
Receivables, Net (Notes 1 and 7):				
Accounts	13	-	-	77,376
Contributions	-	143,529	-	-
Interest and Dividends	1,670	207,190	859	-
Security Transactions	-	1,162,237	-	-
Other Receivables	-	11,604	-	-
Total Receivables	1,683	1,524,560	859	77,376
Due from Other Funds (Note 9)	-	13,923	-	-
Due from Internal Parties (Governmental Funds and Business-type Activities) (Note 9)	-	18,447	-	-
Due from Component Units (Note 9)	-	9,814	-	-
Prepaid Items (Note 1)	213	-	-	-
Other Assets (Notes 1 and 10)	-	-	-	58
Furniture and Equipment (Note 1)	-	29,262	-	-
Total Assets	2,316,184	57,526,589	2,451,888	785,177
Liabilities				
Accounts Payable and Accrued Expenses (Notes 1 and 23)	514	39,342	-	4,731
Amounts Due to Other Governments	-	-	-	247,514
Due to Other Funds (Note 9)	13	13,910	-	-
Due to Internal Parties (Governmental Funds and Business-type Activities) (Note 9)	19	114	-	984
Obligations Under Securities Lending Program (Notes 1 and 6)	1,299	2,171,803	-	2,635
Other Liabilities (Notes 1 and 24)	1,145	150,319	-	528,718
Retirement Benefits Payable	-	267,763	-	-
Refunds Payable	-	4,749	-	-
Compensated Absences Payable (Notes 1 and 20)	260	2,038	-	-
Insurance Premiums and Claims Payable	83	45,502	-	595
Payable for Security Transactions	-	1,511,993	-	-
Pension Liability	1,127	10,145	-	-
Other Postemployment Benefits (OPEB) Liability	386	3,473	-	-
Total Liabilities	4,846	4,221,151	-	785,177
Net Assets Held in Trust for Pension/ Other Employment Benefits, Pool Participants, and Other Purposes	$ 2,311,338	$ 53,305,438	$ 2,451,888	$ -

The accompanying notes are an integral part of this financial statement.

Statement of Changes in Fiduciary Net Assets – Fiduciary Funds

For the Fiscal Year Ended June 30, 2012
(Dollars in Thousands)

	Private Purpose Trust Funds	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund
Additions:			
Investment Income:			
Interest, Dividends, and Other Investment Income	$ 21,379	$ 957,758	$ 3,337
Distributions to Shareholders from Net Investment Income	-	-	(3,337)
Total Investment Income	21,379	957,758	-
Less Investment Expenses	3,423	310,853	-
Net Investment Income	17,956	646,905	-
Proceeds from Unclaimed Property	16,124	-	-
Contributions:			
Participants	281,383	-	-
Member	-	792,287	-
Employer	-	1,135,255	-
Total Contributions	281,383	1,927,542	-
Shares Sold	-	-	3,787,827
Reinvested Distributions	-	-	3,321
Other Revenue (Note 26)	-	4,568	-
Total Additions	315,463	2,579,015	3,791,148
Deductions:			
Loan Servicing Payments	319	-	-
Educational Expense Benefits	108,327	-	-
Retirement Benefits	-	3,402,360	-
Refunds to Former Members	-	88,945	-
Retiree Health Insurance Credits	-	131,102	-
Insurance Premiums and Claims	28,438	151,433	-
Trust Payments	1,899	-	-
Administrative Expenses	5,602	30,496	-
Other Expenses (Note 28)	-	1,406	-
Shares Redeemed	10,187	-	4,126,507
Long-term Disability Benefits	-	28,444	-
Total Deductions	154,772	3,834,186	4,126,507
Transfers:			
Transfers In	-	110	-
Transfers Out	-	(110)	-
Total Transfers	-	-	-
Net Increase (Decrease)	160,691	(1,255,171)	(335,359)
Net Assets Held in Trust for Pension/ Other Employment Benefits, Pool Participants, and Other Purposes			
July 1	2,150,647	54,560,609	2,787,247
June 30	$ 2,311,338	$ 53,305,438	$ 2,451,888

The accompanying notes are an integral part of this financial statement.

Component Units

Component Units are organizations that are legally separate from the primary government. Each discrete component unit serves or benefits those outside of the primary government.

The Virginia Housing Development Authority provides investment in and stimulates construction of low to moderate income housing for the citizens of the Commonwealth.

The Virginia Public School Authority provides financing to cities and counties for capital construction of primary and secondary schools.

The Higher Education Institutions account for the resources received and used in the operation of the Commonwealth's institutions of higher education and medical teaching hospitals. Higher education institutions included in this section are:

University of Virginia, including the University of Virginia College at Wise, and the University of Virginia Medical Center
Virginia Polytechnic Institute and State University
Virginia Commonwealth University, including the Virginia Commonwealth University Health System Authority

Nonmajor Component Units include those listed on pages 252-253 in the Combining and Individual Fund Statements and Schedules section of this report.

Statement of Net Assets – Component Units

June 30, 2012
(Dollars in Thousands)

	Virginia Housing Development Authority	Virginia Public School Authority	University of Virginia
Assets			
Cash and Cash Equivalents (Notes 1 and 6)	$ 3,677	$ 15,744	$ 465,403
Investments (Notes 1 and 6)	72,379	3,320,225	5,450,073
Receivables, Net (Notes 1 and 7)	7,776,515	65,934	358,867
Contributions Receivable, Net (Note 8)	-	-	95,772
Due from Primary Government (Note 9)	-	-	7,037
Due from Component Units (Note 9)	-	-	13,763
Inventory (Note 1)	-	-	25,359
Prepaid Items (Note 1)	-	-	21,686
Other Assets (Notes 1 and 10)	31,651	-	21,157
Loans Receivable from Primary Government (Notes 1 and 9)	-	161,170	-
Restricted Cash and Cash Equivalents (Notes 6 and 11)	677,984	81,913	43,367
Restricted Investments (Notes 6 and 11)	125,048	5,343	623,706
Other Restricted Assets (Note 11)	69,058	-	10,376
Nondepreciable Capital Assets (Notes 1 and 12)	3,545	-	501,607
Depreciable Capital Assets, Net (Notes 1 and 12)	21,897	-	2,751,723
Total Assets	8,781,754	3,650,329	10,389,896
Deferred Outflows (Note 13)	-	-	35,053
Total Assets and Deferred Outflows	8,781,754	3,650,329	10,424,949
Liabilities			
Accounts Payable (Notes 1 and 23)	15,411	282	259,973
Amounts Due to Other Governments	-	75,610	-
Due to Primary Government (Note 9)	-	-	213
Due to Component Units (Note 9)	-	-	-
Due to External Parties (Fiduciary Funds) (Note 9)	-	-	2,951
Unearned Revenue (Note 1)	-	-	89,706
Obligations Under Securities Lending Program (Notes 1 and 6)	-	-	14,034
Other Liabilities (Notes 1, 13, and 24)	89,335	59,169	593,108
Loans Payable to Primary Government (Notes 1 and 9)	-	-	-
Claims Payable (Notes 1 and 22):			
Due Within One Year	-	-	-
Due in More Than One Year	-	-	-
Long-term Liabilities (Notes 1, 20, and 25):			
Due Within One Year	433,535	255,953	142,774
Due in More Than One Year	5,838,325	3,283,301	1,809,302
Total Liabilities	6,376,606	3,674,315	2,912,061
Net Assets			
Invested in Capital Assets, Net of Related Debt	36,610	-	1,817,457
Restricted For:			
Nonexpendable:			
Higher Education	-	-	1,045,851
Other	-	-	-
Expendable:			
Bond Indenture	2,279,519	-	-
Capital Projects/Construction/Capital Acquisition	-	-	-
Debt Service	-	-	-
Gifts and Grants	-	-	-
Higher Education	-	-	2,881,209
Virginia Pooled Investment Program	-	-	-
Other	-	-	-
Unrestricted	89,019	(23,986)	1,768,371
Total Net Assets (Deficit) (Note 4)	$ 2,405,148	$ (23,986)	$ 7,512,888

The accompanying notes are an integral part of this financial statement.

Virginia Polytechnic Institute and State University	Virginia Commonwealth University	Nonmajor Component Units	Total
$ 252,220	$ 316,490	$ 1,023,204	$ 2,076,738
194,208	1,141,552	734,698	10,913,135
107,656	321,748	4,392,844	13,023,564
79,500	32,809	118,069	326,150
128	131	14,552	21,848
14,641	8,918	78,237	115,559
21,728	21,624	27,805	96,516
16,271	6,941	62,034	106,932
5,654	18,278	92,741	169,481
-	-	-	161,170
255,079	152,968	1,101,797	2,313,108
599,271	452,261	2,147,856	3,953,485
11,510	19,060	209,020	319,024
421,991	251,050	1,556,086	2,734,279
1,203,358	1,244,343	6,940,963	12,162,284
3,183,215	3,988,173	18,499,906	48,493,273
-	78,362	-	113,415
3,183,215	4,066,535	18,499,906	48,606,688
148,555	168,043	386,559	978,823
-	-	6,421	82,031
2,553	2,883	7,235	12,884
-	-	115,559	115,559
1,207	2,038	3,618	9,814
52,447	34,650	159,151	335,954
-	-	38,595	52,629
62,101	234,017	239,005	1,276,735
-	-	5,090	5,090
-	48,221	-	48,221
-	35,494	-	35,494
52,843	77,036	519,079	1,481,220
913,605	977,235	10,054,701	22,876,469
1,233,311	1,579,617	11,535,013	27,310,923
970,752	780,136	5,061,389	8,666,344
388,317	256,292	988,988	2,679,448
-	-	154,085	154,085
-	-	-	2,279,519
-	-	1,636,357	1,636,357
-	-	84,265	84,265
-	-	99,320	99,320
470,297	279,024	773,856	4,404,386
-	-	7,449	7,449
-	-	13,778	13,778
120,538	1,171,466	(1,854,594)	1,270,814
$ 1,949,904	$ 2,486,918	$ 6,964,893	$ 21,295,765

Statement of Activities – Component Units

For the Fiscal Year Ended June 30, 2012
(Dollars in Thousands)

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses) Revenue
Virginia Housing Development Authority	$ 620,290	$ 533,820	$ 156,225	$ -	$ 69,755
Virginia Public School Authority	149,111	141,610	5,030	-	(2,471)
Higher Education:					
University of Virginia	3,026,775	2,158,472	638,749	66,327	(163,227)
Virginia Polytechnic Institute & State University	1,214,374	606,075	346,735	70,583	(190,981)
Virginia Commonwealth University	2,562,735	2,225,298	275,473	37,886	(24,078)
Total Higher Education	6,803,884	4,989,845	1,260,957	174,796	(378,286)
Nonmajor Component Units:					
Higher Education	4,974,252	2,144,976	937,513	369,685	(1,522,078)
Other	956,632	661,266	64,198	82,089	(149,079)
Total Nonmajor Component Units	5,930,884	2,806,242	1,001,711	451,774	(1,671,157)
Total Component Units	$ 13,504,169	$ 8,471,517	$ 2,423,923	$ 626,570	$ (1,982,159)

The accompanying notes are an integral part of this financial statement.

General Revenues					
Operating Appropriations from Primary Government	Unrestricted Grants and Contributions	Investment Earnings	Miscellaneous		Contributions to Permanent / Term Endowments
$ -	$ -	$ 17,150	$ 60		$ -
-	-	186	382		-
145,300	22,444	148,718	5,711		73,234
219,375	3,767	674	21,556		18,962
177,675	2,356	25,066	843		43,840
542,350	28,567	174,458	28,110		136,036
1,124,543	34,573	5,703	56,837		55,837
90,679	17,047	43,082	3,195		61,374
1,215,222	51,620	48,785	60,032		117,211
$ 1,757,572	$ 80,187	$ 240,579	$ 88,584		$ 253,247

Continued on next page

Statement of Activities – Component Units *(Continued from previous page)*

For the Fiscal Year Ended June 30, 2012
(Dollars in Thousands)

	Changes in Net Assets	Net Assets July 1	Net Assets (Deficit) June 30 (Note 4)
Virginia Housing Development Authority	$ 86,965	$ 2,318,183	$ 2,405,148
Virginia Public School Authority	(1,903)	(22,083)	(23,986)
Higher Education:			
University of Virginia	232,180	7,280,708	7,512,888
Virginia Polytechnic Institute & State University	73,353	1,876,551	1,949,904
Virginia Commonwealth University	225,702	2,261,216	2,486,918
Total Higher Education	531,235	11,418,475	11,949,710
Nonmajor Component Units:			
Higher Education	(244,585)	3,777,375	3,532,790
Other	66,298	3,365,805	3,432,103
Total Nonmajor Component Units	(178,287)	7,143,180	6,964,893
Total Component Units	$ 438,010	$ 20,857,755	$ 21,295,765

The accompanying notes are an integral part of this financial statement.

Index to the Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying financial statements have been prepared in conformance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB).

B. Reporting Entity

For financial reporting purposes, the Commonwealth of Virginia's (the Commonwealth's) reporting entity consists of (1) the primary government, (2) component unit organizations for which the primary government is financially accountable (blended component units), and (3) other component unit organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and they are financially accountable to the primary government (discrete component units). The funds of all agencies, boards, commissions, foundations, and authorities that have been identified as part of the primary government or a component unit have been included. GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* (GASB Statement No. 39) requires the inclusion of numerous organizations that raise and hold funds for the direct benefit of the primary government.

Section 2100 of the GASB *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification) describes the criteria for determining which organizations, functions, and activities should be considered part of the Commonwealth for financial reporting purposes. The basic criteria include appointing a voting majority of an organization's governing body, and the Commonwealth's ability to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Commonwealth.

(1) Primary Government – A primary government consists of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, and departments are, for financial reporting purposes, part of the primary government.

(2) Blended Component Units – Though legally separate entities, these component units are, in substance, part of the primary government's operations. The blended component unit serves or benefits the primary government almost exclusively. Financial information from these units is combined with that of the primary government. The Commonwealth's only blended component unit is:

Virginia Public Building Authority (VPBA) (nonmajor governmental fund) – The Authority was created as a body politic and corporate and is fiscally independent. A government instrumentality, the Authority finances the acquisition and construction of buildings for the use of the Commonwealth and other approved purposes. The Governor appoints the seven-member board, and the primary government is able to impose its will on the Authority. The Auditor of Public Accounts audits the Authority, and a separate report is issued from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218-1879.

(3) Discrete Component Units – Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These discrete component units serve or benefit those outside of the primary government.

GASB Statement No. 39 generally requires any organization that raises and holds economic resources for the direct benefit of the reporting entity to be reported as a component unit, even if the reporting entity is not financially accountable for the organization. The entities are included in the Commonwealth's reporting entity as non-profit charitable organizations and exist solely to support the Commonwealth's higher education institutions and certain state agencies. The higher education institution non-profit organizations are included in the applicable higher education institution's column in the accompanying financial statements. In all instances where separate disclosure of these non-profit organizations is required in the accompanying footnotes, the entities' totals are aggregated and disclosed as "foundations."

Discretely presented component units are:

Higher Education Institutions – The Commonwealth's higher education institutions are granted broad corporate powers by state statutes. The Governor appoints the members of each institution's board of trustees. In addition to the annual appropriations to support the institutions' operations, the Commonwealth provides funding for, and construction of, major academic plant facilities for the institutions. Institutions reported Operating Appropriations from Primary Government of approximately $1.7 billion and Program Revenue Capital Grants and Contributions of approximately $3.1 million from the primary government. Institutions paid the Commonwealth approximately $106.5 million. Therefore, there is a financial benefit/burden to the primary government. The bonds issued to finance the construction of these facilities are obligations of the Commonwealth. The major higher education institutions are: University of Virginia, including the University of Virginia Medical Center and the University of Virginia's College at Wise; Virginia Polytechnic Institute and State University; and Virginia Commonwealth University, including the Virginia Commonwealth University Health System Authority. The nonmajor higher education institutions are: the College of William & Mary, including Richard Bland College and the Virginia Institute of Marine Science; Virginia Military Institute; Virginia State University; Norfolk State University; University of Mary Washington; James Madison University; Radford University; Old Dominion University; George Mason University; Virginia Community College System; Christopher Newport University; and Longwood University. The Southwest Virginia Higher Education Center, Roanoke Higher Education Authority, Institute for Advanced Learning and Research, Southern Virginia Higher Education Center, and New College Institute are also included as nonmajor higher education institutions. The colleges and universities are funded through state appropriations, tuition, federal grants, and private donations and grants. As previously noted, certain foundations are considered component units of the higher education institutions, and are included in the accompanying financial statements as well as the higher education institutions' individually published financial statements. The Auditor of Public Accounts (APA) does not audit the Roanoke Higher Education Authority, the Institute for Advanced Learning and Research, and the component units of the higher education institutions, including foundations, but relies on the reports issued by other auditors to render his opinion.

The APA audits the colleges and universities, and individual reports are issued under separate cover. Complete financial statements for each institution may be obtained from their respective administrative offices. The addresses for these institutions may be obtained from the Department of Accounts, 101 North 14th Street, Richmond, Virginia 23219-3638.

Innovation and Entrepreneurship Investment Authority (IEIA) (nonmajor) – The Authority is granted corporate powers by the *Code of Virginia*. The Authority serves to facilitate the marketing, organization, and development of scientific research and technology by the state's institutions of higher education and private industry in the Commonwealth. In addition, the Authority serves to promote the economic development of the Commonwealth by attracting and retaining high technology jobs and businesses in Virginia. The Governor and General Assembly appoint the 15-member board, and there is a financial benefit/burden to the primary government. The Authority's combined financial statements include the accounts of the Center for Innovative Technology (CIT) after elimination of all significant intercompany balances and transactions. CIT is a non-stock, not-for-profit corporation, which acts as the operating arm of the Authority. The address for the administrative offices of the Authority is CIT Building, Suite 600, 2214 Rock Hill Road, Herndon, Virginia 20170-4228. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia College Building Authority (VCBA) (nonmajor) – The Authority was created as a public body corporate, a political subdivision, and an agency and instrumentality of the Commonwealth. The Governor appoints a majority of the board and members serve at his pleasure. Therefore, the primary government is able to impose its will on the Authority. The Authority finances certain capital projects and equipment purchases of state-supported colleges and universities. The Auditor of Public Accounts audits the Authority, and a separate report is issued from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218-1879.

Only the activity of the Authority that relates to the financing of capital projects and equipment purchases by state-supported colleges and universities is included in the financial statements. The state-supported colleges and universities reported revenue from the Authority of $461.5 million as Program Revenue Capital Grants and Contributions for the 21st Century Program and $71.1 million as Program Revenue Operating Grants and Contributions for equipment. The Authority reported approximately $27.2 million in payments from the state-supported colleges and universities for debt service costs and approximately $13.6 million in interest on Build America Bonds. The Authority assists private institutions of higher education in the financing and refinancing of a broad range of facilities. The Authority is authorized to issue obligations and lend the proceeds to private institutions; however, such financings or refinancings are not obligations of the primary government nor the Authority, but are payable solely from the revenues pledged by the respective private institution. This indebtedness, totaling $639.6 million, is not included in the financial statements.

Virginia Housing Development Authority (VHDA) (major) – The Authority was created as a political subdivision and instrumentality of the Commonwealth and is granted both politic and corporate powers by the *Code of Virginia*. The Governor appoints a majority of the Authority's board members and the remaining board members are ex-officio. The Commonwealth may make grants to the Authority including, but not limited to, reserve funds, which is a potential financial benefit/burden to the primary government. The Commonwealth is not legally obligated by the debt of the Authority. The Authority was created in the public interest to provide investment in and stimulate construction of low to moderate income housing which benefits the citizens of the Commonwealth. The administrative offices of the Authority are located at 601 South Belvidere Street, Richmond, Virginia 23220. KPMG, LLP audits the Authority, and a separate report is issued.

Virginia Public School Authority (VPSA) (major) – The Authority was created as a public body corporate, and an agency and instrumentality of the Commonwealth to finance capital projects of city and county school boards. The Governor appoints the board members, who serve at his pleasure. Therefore, the primary government is able to impose its will on the Authority. The Auditor of Public Accounts audits the Authority, and a separate report is issued from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218-1879.

Virginia Economic Development Partnership (VEDP) (nonmajor) – The Partnership was created as a body corporate and operates to encourage, stimulate, and support the development and expansion of commerce in the Commonwealth. The Governor appoints the 15-member board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 901 East Byrd Street, Post Office Box 798, Richmond, Virginia 23218-0798. The Auditor of Public Accounts audits the Partnership, and a separate report is issued.

Virginia Outdoors Foundation (nonmajor) – The Foundation was created as a body politic and is administratively assigned to the Department of Conservation and Recreation (part of primary government) and charged with promoting preservation through the acceptance of donated conservation easements and raising funds for the purchase of preservation land. The Governor appoints the seven-member board of trustees, and the primary government can impose its will on the Foundation. The administrative offices of the Foundation are located at 39 Garret St, Suite 200, Warrenton, VA 20186. Dixon Hughes Goodman, LLP, audits the Foundation, and a separate report is issued.

Virginia Port Authority (VPA) (nonmajor) – The Authority was established as a corporate body and operates to serve the citizens and promote commerce through the harbors and ports of Virginia. The Governor appoints a majority of the 12-member board, and the primary government is able to impose its will on the Authority. There is also a financial benefit/burden to the primary government. The administrative offices of the Authority are located at 600 World Trade Center, Norfolk, Virginia 23510. CliftonLarsonAllen audits the Authority, and a separate report is issued.

Virginia Resources Authority (VRA) (nonmajor) – The Authority was created as a public body corporate and a political subdivision of the Commonwealth to provide financing of infrastructure projects for water supply, wastewater, storm water, solid waste treatment, airports, public safety, brownfields remediation and redevelopment, and recycling. The Governor appoints the 11-member board and the Executive Director of the Authority. The primary government is able to impose its will on the Authority, and there is a financial benefit/burden to the primary government. The Commonwealth does not guarantee any bonds issued by the Virginia Resources Authority. The administrative offices of the Authority are located at 1111 East Main Street, Suite 1920, Richmond, Virginia 23219. CliftonLarsonAllen, audits the Authority, and a separate report is issued.

Virginia Tourism Authority (nonmajor) – The Authority was created as a public body corporate and as a political subdivision of the Commonwealth. The Authority encourages, stimulates, and promotes tourism and film production industries of the Commonwealth. The Governor appoints all of the board members, and there is a financial benefit/burden to the primary government. The administrative offices are located at 901 East Byrd Street, 19th Floor, Richmond, Virginia 23218-0798. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia Foundation for Healthy Youth (nonmajor) – The Foundation was created as a body corporate and as a political subdivision of the Commonwealth. The Foundation was established to determine the appropriate recipients of monies in the Virginia Tobacco Settlement Fund and to distribute monies in this fund for such efforts as restricting the use of tobacco products by minors and the enforcement of laws restricting the distribution of tobacco products to minors. The Governor appoints the majority of the board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 701 East Franklin Street, Suite 501, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Foundation, and a separate report is issued.

Tobacco Indemnification and Community Revitalization Commission (nonmajor) – The Commission was created as a body corporate and as a political subdivision of the Commonwealth. The Commission was established to determine the appropriate recipients of the monies in the Tobacco Indemnification and Community Revitalization Fund. This fund is to provide payments to tobacco farmers as compensation for the adverse economic effects resulting from loss of investment in specialized tobacco equipment and barns, and lost tobacco production opportunities. It also provides monies to revitalize tobacco dependent communities. The Governor appoints the majority of the board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 701 East Franklin Street, Suite 501, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Commission, and a separate report is issued.

Hampton Roads Sanitation District Commission (nonmajor) – The Commission was established as a political subdivision of the Commonwealth and a government instrumentality. The Commission, which is the governing board of the district, was granted corporate powers by the *Code of Virginia*. The Governor appoints the Commission members, who serve at his pleasure. Therefore, the primary government is able to impose its will on the Commission. The Commonwealth is not obligated by the debt of the Commission. The Commission was established to benefit the inhabitants of the district and operates a sewage system for 17 localities in the Chesapeake Bay area. The address for the administrative offices of the Commission is 1436 Air Rail Avenue, Virginia Beach, Virginia 23455. KPMG, LLP, audits the Commission, and a separate report is issued.

Virginia Biotechnology Research Partnership Authority (nonmajor) – The Authority is a legally separate, political subdivision of the Commonwealth created by the General Assembly to assist in the development of a biotechnology research park. The Governor appoints the board members of the Authority, and there is a potential financial benefit/burden to the primary government. The administrative offices of the Authority are located at 800 East Leigh Street, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

The Authority issued two series of revenue bonds for specific customers, the 2002 series and the 2006 series. The 2002 series variable rate revenue bonds were for a facility built specifically for the United Network for Organ Sharing. The 2006 Series variable rate revenue bonds were for the Virginia Blood Services project. The bonds are secured by a letter of credit and are payable solely from the payments made by the borrower under the loan agreement. Neither of these bonds constitutes a debt or pledge of the Authority or the Commonwealth. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

Virginia Small Business Financing Authority (SBFA) (nonmajor) – The Virginia Small Business Financing Act of 1984 (Chapter 28, Title 9, *Code of Virginia*) established the Authority as a public body corporate and a political subdivision of the Commonwealth. The Governor appoints the 11-member board, and the primary government is able to impose its will on the Authority. The Authority was created to assist small businesses in the Commonwealth in obtaining financing for new businesses or the expansion of existing businesses. The Authority can provide financial assistance to small businesses by providing loans, guarantees, insurance, and other assistance, thereby encouraging the investment of private capital in small businesses in the Commonwealth. The Authority can loan money to local governments as defined by the *Code of Virginia* for economic development purposes. The Authority also guarantees loans made to small businesses by banks. The administrative offices of the Authority are located at 1220 Bank Street, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

The Authority has issued Industrial Development Revenue Bonds to provide financial assistance to private sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private sector entity served by the bond issuance. Neither the Small Business Financing Authority nor the Commonwealth is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities on the accompanying financial statements.

Virginia School for the Deaf and Blind Foundation (nonmajor) – The Foundation operates as a non-private educational and fundraising organization solely in connection with, and exclusively for the benefit of the Virginia School for the Deaf and Blind (School) (part of primary government). The Foundation uses a December 31 calendar year-end. The administrative offices are located at Post Office Box 2069, Staunton, Virginia 24402.

Science Museum of Virginia Foundation (nonmajor) – The Foundation is a non-stock, non-profit corporation established to implement and fund programs, projects, and operations that are authorized and approved by the trustees of the Science Museum of Virginia (part of primary government). The administrative offices of the Foundation are located at 2500 West Broad Street, Richmond, Virginia, 23220. Cherry, Bekaert, & Holland, LLP, audits the Foundation, and a separate report is issued.

Virginia Commercial Space Flight Authority (VCSFA) (nonmajor) – The Authority is a legally separate, political subdivision of the Commonwealth created by the General Assembly to facilitate and coordinate scientific and technological research and development and to promote the industrial and economic development of the Commonwealth. There is a potential financial benefit/burden to the primary government. The Commonwealth provided $26 million in bond offerings through the Virginia Public Building Authority (VPBA) to the VCSFA in fiscal year 2009. A third party provides 75.0 percent of the debt service payments to the VCSFA annually. The administrative offices of the Authority are located at 4111 Monarch Way, Suite 201, Norfolk, Virginia 23508. Dixon Hughes Goodman, LLP audits the Authority, and a separate report is issued.

Danville Science Center, Inc. (nonmajor) – The Center is non-profit corporation formed for the purpose of implementing and funding those programs, projects and operations which are authorized and approved by the trustees of the Science Museum of Virginia (part of primary government). The administrative offices of the Center are located at 677 Craghead Street, Post Office Box 167, Danville, Virginia 24541. Dixon Hughes Goodman, LLP, audits the Center, and a separate report is issued.

Virginia Museum of Fine Arts Foundation (nonmajor) – The Foundation operates as a non-profit corporation under the laws of Virginia to fund exhibitions, programs, and capital asset expansion to ensure that the Virginia Museum of Fine Arts (part of primary government) has the space and resources for art to help improve the quality of life for many. The administrative offices of the Foundation are located at 201 North Boulevard, Richmond, Virginia 23220. Dixon Hughes Goodman, LLP, audits the Foundation, and a separate report is issued.

A. L. Philpott Manufacturing Extension Partnership (nonmajor) – The Partnership has the mission to foster economic growth by enhancing the competitiveness of Virginia's manufacturers. The Partnership provides manufacturing firms with fee-based technology consulting services, access to business modernization resources, and support for interfirm collaboration. Further, the Partnership provides direct assistance to increase sales, decrease costs, and improve quality, productivity, and competitiveness. The Partnership has a 23-member board of trustees. The board consists of the presidents of two public four-year institutions of higher education; three community college presidents; the director of Virginia's Center for Innovative Technology; Virginia's Secretary of Commerce and Trade; and 15 citizen members, representing manufacturing industries, appointed by the Governor. There is also a financial benefit/burden to the primary government. The administrative office is located at 32 Bridge Street, Suite 200, Martinsville, VA 24112. The Auditor of Public Accounts audits the Partnership, and a separate report is issued.

Virginia Horse Center Foundation (nonmajor) – The Foundation operates the Virginia Horse Center for the benefit of the equine and tourism industries. The Foundation is a discrete component unit of the Commonwealth due to the limited ability of the Foundation to incur additional debt without the Commonwealth's approval. In addition, the Governor appoints one member of the Foundation's board of directors, and this member must approve any changes to the Foundation's by-laws or conveyance of property. The address for the administrative offices of the Foundation is 487 Maury River Road, Lexington, Virginia 24450. The accounting firm of Raetz and Hawkins, P.C., audits the Foundation, and a separate report is issued.

Virginia University Research Partnership (nonmajor) – The Partnership was created as a non-profit, non-stock corporation to receive grant monies appropriated by the General Assembly and to oversee the administration of those grant payments for use by a non-profit, public benefit research institute that conducts research and development for government agencies, commercial businesses, foundations, and other organizations as well as commercializes technology. Due to the primary government being the sole source of funding, it is able to impose its will on the Partnership. The administrative offices are located at 901 East Byrd Street, Post Office Box 798, Richmond, Virginia 23218-0798.

Fort Monroe Authority (nonmajor) – The Authority is a legally separate, political subdivision of the Commonwealth created by the General Assembly to assist in formulating a reuse plan for Fort Monroe. The Governor appoints a majority of the 18-member board and there is a potential financial benefit/burden to the primary government. The administrative offices of the Authority are located at Old Quarters #1, 151 Bernard Road, Fort Monroe, Virginia 23651. Cherry, Bekaert, & Holland, LLP, audits the Authority, and a separate report is issued.

Assistive Technology Loan Fund Authority (nonmajor) – The Authority was created as a political subdivision and public body corporate by the *Code of Virginia*. The Governor appoints the board of directors as directed by the *Code*. The Authority manages a fund to provide loans to individuals to acquire assistive technology, other equipment, or other authorized purposes designed to help disabled individuals become more independent. The administrative offices are located at 1602 Rolling Hills Drive, Suite 107, Henrico, Virginia 23229. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia National Defense Industrial Authority (nonmajor) – The Authority was created as a public body corporate and as a political subdivision of the Commonwealth. The Authority fosters and promotes business, technology, transportation, education, economic development and other efforts in support of the mission, execution, and transformation of the United States military and national defense activities located in the Commonwealth. The Governor appoints a majority of the 16-member board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 901 East Byrd Street, Post Office Box 798, Richmond, Virginia 23218-0798. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia Sesquicentennial of the American Civil War Foundation (nonmajor) – The Foundation was established to prepare for and commemorate the sesquicentennial of Virginia's participation in the American Civil War. The Foundation was formed under the Virginia Nonstock Corporation Act. The economic resources received or held by the Foundation are entirely or almost entirely for the direct benefit of the primary government. The administrative offices are located at 910 Capitol Street, Richmond, Virginia 23219. Brown, Edwards & Company, LLP, audits the Foundation, and a separate report is issued.

Virginia Land Conservation Foundation (nonmajor) – The Foundation was created as a body politic and corporate to serve the Department of Conservation and Recreation (part of primary government) by acquiring interests in preservation land and providing grants to other entities to acquire interests in preservation land. The Governor appoints the 18-member board, and the primary government can impose its will on the Foundation. The administrative offices of the Foundation are located at 203 Governor Street, Suite 420, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Foundation as part of the Department of Conservation and Recreation (part of primary government) and discloses its existence in that report.

Virginia Arts Foundation (nonmajor) – The Foundation was created as a body politic and corporate to serve the Virginia Commission for the Arts (part of primary government) by promoting the arts in the Commonwealth. The Governor appoints the board of trustees for the Virginia Commission for the Arts, which also serves as the board for the Virginia Arts Foundation. The Director of the Virginia Commission for the Arts serves as the board chairman. In addition, the primary government can impose its will on the Foundation. The administrative offices of the Foundation are located at 223 Governor Street, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Foundation as part of the Virginia Commission for the Arts.

Library of Virginia Foundation (nonmajor) – The Foundation was created as a private, non-profit 501 (c) (3) corporation supporting the Library of Virginia. The Foundation was established upon receipt of a major bequest. The articles of incorporation stipulate that the Foundation shall at all times be operated solely in connection with, and exclusively for the benefit of, the Library of Virginia. The Foundation is governed by a separate board of directors, and promotes and supports the Library of Virginia in all activities. The administrative offices of the Foundation are located at 800 East Broad Street, Richmond, Virginia 23219. Frank Barcalow, CPA, PLLC, audits the Foundation, and a separate report is issued.

(4) Related Organizations – Organizations for which the primary government appoints a majority of the board, but is not financially accountable, are related organizations. Related organizations are:

Tobacco Settlement Financing Corporation – The Corporation was created by the Tobacco Settlement Financing Corporation Act, Chapters 482 and 488 of the Acts of the General Assembly during the 2002 General Assembly Session. The Corporation is a public body corporate entity and an independent instrumentality of the Commonwealth, managed by a six-member board, including the State Treasurer. The Corporation purchased all of the future tobacco settlement revenue allocated to the Tobacco Indemnification and Community Revitalization Commission, a discrete component unit of the Commonwealth. Neither the Commonwealth's nor the Virginia Foundation for Healthy Youth's (component unit) tobacco revenue was securitized. The administrative offices of the Corporation are located at 101 N. 14th Street, 3rd Floor, Post Office Box 1879 Richmond, Virginia 23218-1879. CliftonLarsonAllen audits the Corporation, and a separate report is issued.

Virginia Recreational Facilities Authority – The Authority was created as a political subdivision and instrumentality of the Commonwealth and given separate corporate powers by the *Code of Virginia*. The Governor appoints the 13-member board of directors. The Authority operates educational programs, tourism, and commerce in the Roanoke Valley. The address for the administrative offices of the Authority is 5204 Bernard Drive SW, Post Office Box 29800, Roanoke, Virginia 24018. Robinson, Farmer, Cox Associates audits the Authority, and a separate report is issued.

Jamestown-Yorktown Foundation, Inc. – The non-profit corporation was created by the *Code of Virginia* to assist the Jamestown-Yorktown Foundation (Foundation). The corporation board consists of five members selected from the Foundation's board of trustees. Several Commonwealth officials serve as ex-officio members of the Foundation's board, and the Governor appoints 12 members. The Corporation's basic activities consist of soliciting and collecting contributions, purchasing artifacts, sponsoring events and exhibits, and overseeing investments. The administrative offices of the Corporation are located at 2207 Colonial Parkway, Post Office Box 3605, Williamsburg, Virginia 23187. Keiter Certified Public Accountants audits the Corporation, and a separate report is issued.

Jamestown-Yorktown Educational Trust – The Trust was created as a non-profit corporation by the *Code of Virginia* to assist the Jamestown-Yorktown Foundation (Foundation). The Trust board consists of six members selected from the Foundation's board of trustees. Several Commonwealth officials serve as ex-officio members of the Foundation's board, and the Governor appoints 12 members. The Trust operates the Jamestown Settlement and Yorktown Victory Centers' gift shops and café. The address for the administrative offices of the Trust is 2207 Colonial Parkway, Post Office Box 3605, Williamsburg, Virginia 23187. Keiter Certified Public Accountants audits the Trust, and a separate report is issued.

Virginia Birth-Related Neurological Injury Compensation Program – The Program was created to provide a no-fault alternative for birth-related neurological injuries. The Governor appoints the seven-member board. The administrative offices of the Program are located at 7501 Boulders View Drive, Suite 210, Richmond, Virginia 23225. KPMG, LLP, audits the Program, and a separate report is issued.

Chesapeake Bay Bridge and Tunnel Commission – The Commission was created to establish policy and administer operations of the Chesapeake Bay Bridge Tunnel District. Any of the 11 members of the Commission appointed or reappointed on or after July 1, 1998, shall be appointed by the Governor, subject to confirmation by each house of the General Assembly. The administrative offices of the Commission are located at 32386 Lankford Highway, Cape Charles, Virginia 23310. KPMG, LLP, audits the Commission, and a separate report is issued.

C. Government-wide and Fund Financial Statements

The Government-wide Financial Statements, the Statement of Net Assets and the Statement of Activities, report information on all nonfiduciary activities of the primary government and component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Also, the primary government activity is reported separately from the legally separate component units for which the Commonwealth is financially accountable.

The Statement of Activities demonstrates the degree to which direct expenses of a specific function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. In addition, to the extent that indirect costs are allocated to the various functions, the program expenses will include both direct and indirect costs. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit, as well as investment income generated by operations. Program revenues also include grants, contributions, and investment income that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Taxes and other items properly excluded from program revenues are reported as general revenues.

Fund equity is restricted when constraints are placed on them that are imposed by external parties or constitutional provisions. When both restricted and unrestricted resources are available for use, the Commonwealth's policy is to use the restricted resources first. Some institutions of higher education may follow a different policy. When committed, assigned, and unassigned resources are available for use, the Commonwealth's policy is to use the committed resources first, assigned resources next, and unassigned resources last.

Separate financial statements are provided for governmental funds, proprietary funds, fiduciary funds, and component units. However, fiduciary funds are not included in the government-wide statements. Major governmental funds, enterprise funds, and component units are reported as separate columns in the fund financial statements, with nonmajor funds being aggregated into a single column.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the primary government considers revenues to be available if they are collected within 60 days of the end of the current fiscal year (or one year for Medicaid). Significant revenues subject to accrual include federal grants and income and sales taxes. Income tax revenues for tax underpayments are only recognized to the extent of the primary government's estimated refunds for tax overpayments received. Revenues that the primary government earns by incurring obligations are recognized in the same period as when the obligations are recognized.

Expenditures generally are recorded when a liability is incurred, as under full accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when the payment is due.

The primary government reports the following major governmental funds:

General Fund – Accounts for the transactions related to resources received and used for those services traditionally provided by a state government, and which are not accounted for in any other fund. These services include general government, legislative and judicial activities, public safety, health and mental health programs, resources and economic development, licensing and regulation, and primary and secondary education.

Commonwealth Transportation Special Revenue Fund – Accounts for the revenues and expenditures associated with highway operations, maintenance, construction, and other transportation related activities. Funding for these programs is received from highway user taxes, fees, and funds received from the federal government.

Federal Trust Special Revenue Fund – Accounts for all federal dollars received by the Commonwealth except those received by the Commonwealth Transportation Fund, the Unemployment Compensation Fund, and institutions of higher education.

Literary Fund Special Revenue Fund – Accounts for revenues from fines, forfeitures, and proceeds from unclaimed property used primarily to support public education in the Commonwealth. This fund provides low interest loans to school divisions for construction, renovations, and expansion of school buildings.

Proprietary Funds, Fiduciary Funds, and Component Units Financial Statements – The financial statements of the proprietary funds, fiduciary funds, and component units are reported using the economic resources measurement focus and the full accrual basis of accounting. As with the government-wide statements, revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds have no measurement focus since they only report assets and liabilities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating.

GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, provides governments two options for reporting their enterprise funds (including component units reporting as business-type activities). All enterprise funds reported herein, with the exception of the State Lottery (major enterprise fund), Behavioral Health Local Funds (nonmajor enterprise fund), the Virginia Biotechnology Research Partnership Authority (nonmajor component unit), the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University – major component unit), and the Innovation and Entrepreneurship Investment Authority (nonmajor component unit) apply all applicable GASB pronouncements and all FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. The State Lottery (major enterprise fund), Behavioral Health Local Funds (nonmajor enterprise fund), the Virginia Biotechnology Research Partnership Authority (nonmajor component unit), the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University – major component unit), and the Innovation and Entrepreneurship Investment Authority (nonmajor component unit) apply all of these pronouncements, and also apply all FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

Foundations' (component units) financial statements are prepared using the economic resources measurement focus and the full accrual basis of accounting. The financial statements are prepared under FASB rather than GASB standards. In some instances, activities of the foundations (component units) are reported separately within the footnotes because of the different reporting standards. Also, some foundations (component units) have a December 31st or March 31st year-end rather than a fiscal year-end. Foundations (component units) with different year-ends are included in these financial statements for the year ending December 31, 2011, or March 31, 2012. Significant intrafund activity/balances between each higher education institution and their foundations have been eliminated. However, Old Dominion University (nonmajor component unit) reported the following intrafund balances that could not be eliminated because of differing year-ends: institution liabilities of $68.9 million, and foundation assets of $60.8 million and liabilities of $2.9 million. Longwood University (nonmajor component unit) reported the following intrafund balances that could not be eliminated because of differing year-ends: institution expenses of $2.8 million and assets of $0.4 million, and foundation assets of $0.3 million, liabilities of $0.2 million, and revenues of $2.9 million.

The primary government reports the following major enterprise funds:

State Lottery Fund – Accounts for all receipts and expenses of the State Lottery.

Virginia College Savings Plan Fund – Administers the Virginia Prepaid Education Program.

Unemployment Compensation Fund – Accounts for receipts from employers and expenses incurred to provide benefits to eligible unemployed workers.

Additionally, the primary government reports the following fund types:

Governmental Fund Types:

Special Revenue Funds – Account for transactions related to resources received and used for restricted, committed, or specific purposes.

Debt Service Funds – Account for transactions related to resources retained and used for the payment of interest and principal on long-term obligations.

Capital Project Funds – Account for transactions related to resources received and used for the acquisition, construction, or improvement of capital facilities not reported in the other governmental or proprietary funds. The primary resource for these funds is the proceeds of bond issues and energy performance contracts. Principal uses are for construction and improvement of state office buildings, correctional and mental health facilities, and parks.

Permanent Funds – Account for transactions of the Commonwealth Health Research Fund and the Behavioral Health Endowment Funds whose principal must remain intact and whose income is used to benefit the Commonwealth's citizens and mental health patients.

Proprietary Fund Types:

Enterprise Funds – Account for transactions related to resources received and used for financing self-supporting activities of the primary government that offer products and services on a user-charge basis to external users.

Internal Service Funds – Account for transactions related to the financing and sale of goods or services provided by the agencies of the primary government to other agencies and institutions of the Commonwealth. Activities include the provision of information technology, manufacturing activities, insurance programs, fleet services, facilities and property management, engineering and payroll services.

Fiduciary Fund Types:

Private Purpose Trust Funds – Account for transactions of all other trust arrangements in which the principal and income benefit individuals, private organizations, or other governments. These trusts include those for escheat property, educational savings plan, and others.

Pension and Other Employee Benefit Trust Funds – Account for transactions of the Commonwealth administered retirement systems and other employment benefits.

Investment Trust Fund – Accounts for the external portion of the Local Government Investment Pool that is sponsored by the Commonwealth.

Agency Funds – Account for amounts held in trust by the primary government for others. Agency funds include those funds established to account for the collection of taxes and fees for distribution to localities and other states, employee benefits, deposits of insurance carriers, child support collections and other miscellaneous accounts.

E. Budgetary Process

Budgetary amounts shown in the Required Supplementary Information and Combining and Individual Fund Statements and Schedules Sections represent the total of the original budgeted amounts and all supplemental appropriations. The Commonwealth's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be reappropriated for expenditure in the following fiscal year. The Governor, as required by the *Code of Virginia*, submits a budget composed of all proposed expenditures for the Commonwealth, and of estimated revenues and borrowing for a biennium, to the General Assembly. Budgets are adopted for the General and Special Revenue Funds, except for the Literary – Special Revenue (major). Formal budgetary integration is not employed for the Capital Projects (nonmajor), Debt Service (nonmajor), Permanent Funds (nonmajor), and the Literary – Special Revenue (major) because effective budgetary control is alternatively achieved through the General Fund and the remaining Special Revenue Funds.

The budget is prepared on a biennial basis; however, the budgets of the General and Special Revenue Funds contain separate appropriations for each year within the biennial budget, as approved by the General Assembly and signed into law by the Governor. For management control purposes, the budget is controlled at the program level. The Governor may transfer an appropriation within a state agency or from one state agency to another, provided that total fund appropriations, as contained within the budget, are not exceeded. Increases in General Fund appropriations must be approved by the General Assembly.

Appropriations for programs funded from Special Revenue Funds may allow expenditures in excess of the original appropriations to the extent that revenues of the funds exceed original budget estimates and such additional expenditures are approved by the Governor through supplemental appropriations.

F. Cash, Cash Equivalents, and Investments

Cash

In order to maximize the Commonwealth's earning potential, the majority of the primary government's cash balances are pooled together in the general account for investment purposes. The amounts required for operations are liquidated as needed. Since all amounts not required for operations are held in investment securities, it is possible that the cash balances could be negative due to timing differences in liquidating the investments.

As of June 30, 2012, the General Fund had a negative cash balance of $3.5 billion. In order to properly reflect the general account position, this negative cash balance has been eliminated in the accompanying statements and offset against the primary government's cash equivalents and investments (see Note 6).

Cash Equivalents

Cash equivalents are investments with an original maturity of 90 days or less.

Investments

Investments are principally comprised of monies held by component units, Pension and Other Employee Benefit Trust Funds, and monies held by the State Treasurer in both the general account and other fiduciary accounts.

Governmental and proprietary funds, both primary government and component units, report investments in money market and in the Commonwealth sponsored investment pools at amortized cost which approximates fair value. All other investments are reported at fair value, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Investments administered by the Virginia Retirement System (the System) are reported at fair value. The cost of investments sold is the average cost of the aggregate holding of the specific investment sold. Investments in affiliated organizations are accounted for on the equity method of accounting and the System's share of their earnings (losses) for the period is included in investment income using the equity method.

Investments of higher education institutions (component units) are reported at fair value, except for money market investments and investments in the Commonwealth sponsored investment pools, which are reported at amortized cost.

Derivatives

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes (see Note 13).

G. Receivables

Receivables in the governmental funds consist primarily of the accrual of taxes, as well as receivables of the primary government's Medicaid program. Receivables in the proprietary funds consist primarily of tuition contribution receivables and unemployment compensation. Receivables of fiduciary funds are primarily the accrual of security transactions and interest earnings in the Pension and Other Employee Benefit Trust Funds. Receivables of the component units consist primarily of mortgage receivables, loan receivables, patient receivables, and student receivables. Receivables are recorded net of allowances for doubtful accounts (see Note 7).

H. Contributions Receivable, Net

Contributions Receivable reported by the foundations (component units) represents pledges or unconditional promises to give that have been discounted (see Note 8).

I. Internal Balances

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities (see Note 9).

J. Inventory

Inventories consist of materials and supplies and are reported as expenditures when consumed. These assets are classified as nonspendable fund balance. Inventories exceeding $1.0 million of the General and the Special Revenue Funds are maintained at cost using the first-in, first-out (FIFO) methodology, except for the following:

- Department of State Police (VSP)
- Virginia Department of Transportation (VDOT)
- Department of Health (VDH)
- Department for the Blind and Vision Impaired (DBVI)

VSP inventories are recorded in the General (major) and Other Special Revenue (nonmajor) Funds using the average cost methodology and are maintained at cost. VDOT inventories are recorded in the Commonwealth Transportation Fund (major) using the FIFO and average cost methodologies and are maintained at either cost or average cost. VDH inventories are recorded in the General (major), Health and Social Services Special Revenue (nonmajor), and Federal Trust (major) Funds. These inventories are maintained at cost based on either FIFO or the average cost methodology. DBVI inventories are maintained at cost or average cost based on the FIFO methodology and are recorded in the General (major) Fund.

In addition to inventories maintained as stated above, the following agencies reported donated inventory balances on hand at June 30, 2012:

- Department of Health (VDH)
- Department of Corrections (DOC)
- Department of Behavioral Health and Developmental Services (DBHDS)
- Department of Juvenile Justice (DJJ)

Inventories maintained by Correctional Enterprises (internal service fund) are stated at the lower of cost or market using FIFO. Inventories maintained by the Virginia Museum of Fine Arts (nonmajor enterprise fund), the Science Museum of Virginia (nonmajor enterprise fund), and the Consolidated Laboratory (nonmajor enterprise fund) are stated at cost using FIFO. Inventories maintained by the internal service funds except for Correctional Enterprises are stated at cost using FIFO.

Inventories maintained by the Department of Alcoholic Beverage Control (nonmajor enterprise fund) are stated at average cost using FIFO.

The Virginia Industries for the Blind (nonmajor enterprise fund) maintains inventories at cost using the average cost methodology.

Institutions of higher education (component units) use several methods for inventory valuations, including cost using FIFO, the lower of cost or market using FIFO, or weighted average methods. Inventories maintained by the Virginia Horse Center Foundation (nonmajor component unit) are stated at the lower of cost or market using FIFO. Inventories maintained by the Virginia Port Authority (nonmajor component unit) and the Danville Science Center (nonmajor component unit) are reported using the moving average unit cost methodology. Inventories at the gift shop run by the Library of Virginia Foundation are stated at net realizable value.

K. Prepaid Items

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

L. Interfund Loans Receivable/Payable

Loans Receivable/Payable represents working capital advances from one fund to another (see Note 9).

M. Other Assets

Other Assets include those balances of a miscellaneous nature that are not specifically classified elsewhere (see Note 10).

N. Capital Assets

Capital assets of governmental funds are recorded as expenditures at the time of purchase and capitalized in the governmental activities column of the Government-wide Statement of Net Assets. Capital assets of the other funds and component units are capitalized in the fund in which they are utilized. All depreciable capital assets are depreciated on the straight-line basis over their useful lives (see Note 12).

Capital assets are stated at historical cost or, in some instances, estimated historical cost. Donated capital assets from entities external to the reporting entity are stated at fair market value at the time of donation. Asset transfers or donations from within the reporting entity are recorded at the carrying value of the transferring entity as required by GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. The primary government capitalizes all equipment that has a cost or value greater than $50,000 and expected useful life of greater than two years. The primary government capitalizes all land, water rights/easements, buildings, infrastructure, and software that have a cost or value greater than $100,000 and an expected useful life of greater than two years. Selected agencies, business-type entities, and component units utilize a capitalization limit lower or higher than the primary government's established thresholds for various reasons. Accordingly, reported capital assets may include some items that cost less than those thresholds. Infrastructure, including highways, bridges, and rights-of-way, is capitalized using the historical approach and includes any assets acquired prior to fiscal year 1980.

The primary government's capitalization policy regarding works of art/historical treasures is that capitalization is encouraged, but not required, for works of art/historical treasures that meet the following conditions:

- The collection is held for public exhibition, education, or research in furtherance of public service, rather than financial gain;
- The collection is protected, kept unencumbered, cared for and preserved; and,
- The collection is subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for the collection.

The primary government capitalizes construction-in-progress when project expenditures, including construction of intangible assets, exceed $100,000. Interest incurred during construction is not capitalized in governmental funds. Interest incurred during the construction of proprietary fund assets is included in the capitalized value of the asset. Expenditures are classified as construction-in-progress if:

(1) They extend the asset life, improve productivity, or improve the quality of service; and,

(2) They fall into the planning, acquisition, construction, improvement, renovation, repair, replacement, relocation, or demolition phase of the asset life.

The estimated lives of capital assets are as follows:

	Years
Buildings	10–75
Equipment	2–50
Infrastructure	5–50
Software	5–35

Selected agencies, business-type entities, and component units may utilize estimated lives and policies that differ from the above for various reasons.

O. Accounts Payable

Accounts payable represent amounts, including salaries and wages, owed for goods and services received prior to year-end. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, accounts payable also includes payments for Nonexchange transactions that met eligibility requirements prior to year-end (see Note 23).

P. Unearned and Deferred Revenue

Unearned revenue represents monies received or revenues accrued but not earned as of June 30, 2012. Deferred revenue represents revenues accrued but not available to finance expenditures of the current fiscal period. The majority of unearned revenue is reported by higher education institutions (component unit), where it is primarily composed of revenue for student tuition accrued in advance of the semester and advance payments on grants and contracts. In the General Fund (major), deferred revenue represents receivables that will be collected after August 31, 2012. In the special revenue funds, unearned revenue is composed primarily of prepaid toll revenue and contributions from localities and private sectors for highway construction projects recorded in the Commonwealth Transportation Fund (major). In the enterprise funds, a majority of unearned revenue represents on-line ticket monies received by the State Lottery (major) for which corresponding drawings have not been held. In the internal service funds, it represents primarily unearned premiums for the Risk Management Fund and in the Virginia Information Technologies Agency internal service fund, unearned revenue relates to the transfer and purchase of assets for transition agencies and advanced customer receipts. Additionally, in the Property Management Fund, unearned revenue relates to prepaid rent and work orders. Unearned revenues in the other component units consist primarily of the deferral of fees related to various activities.

Q. Deferred Taxes

Deferred taxes represent the deferral of income taxes related to the period January through June 2012. This amount is the estimate to be refunded (overpayments by taxpayers) reduced by the estimate to be received (underpayments from taxpayers) that will be finalized when income tax returns are filed in subsequent years. Individual income tax estimated overpayments total $866,494,431 and estimated underpayments total $422,164,422. This results in deferred taxes of $444,330,009.

Corporate income tax estimated overpayments total $61,059,340 and estimated underpayments total $52,947,060. This results in deferred taxes of $8,112,280.

R. Obligations Under Securities Lending Program

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, liabilities resulting from these transactions have been recorded as obligations under securities lending transactions.

S. Other Liabilities

Other liabilities represent amounts owed for various governmental and proprietary activities. Some of these amounts will be paid shortly after fiscal year-end (see Note 24).

T. Claims Payable

Claims payable, reported in the proprietary funds of the primary government, represent both health and liability insurance claims payable at June 30, 2012. This includes both actual claims submitted, as well as actuarially determined claims incurred but not reported. Claims relating to the primary government's liability insurance programs are reported in the Risk Management – internal service fund and the Risk Management – nonmajor enterprise fund. Also, health insurance claims are reported in the Health Care – internal service fund and the Local Choice Health Care – nonmajor enterprise fund (see Notes 22.A. and 22.B.). Claims payable reported by the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University – major component unit) represents estimated malpractice, workers' compensation, and medical claims payable amounts.

U. Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities column. The governmental fund statements reflect the portion of long-term liabilities that will be paid from expendable resources that represent payments to employees for separations that occurred prior to June 30. The proprietary fund statements and discrete component unit statements reflect total long-term liabilities and distinguish between those portions payable within one year and those payable in future years (see Note 25).

Bond premiums and discounts, as well as significant issuance costs, are deferred and amortized over the life of the bond. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Expenditures for principal and interest payments for governmental fund general obligation bonds and revenue bonds are recognized in the Debt Service Fund (nonmajor) when due. In these fund statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures (see Note 25).

V. Nonspendable Fund Balances

Nonspendable fund balances indicate that portion of fund balance that cannot be spent because it is either not in spendable form or is legally or contractually required to be maintained intact.

W. Restricted Fund Balances

Restricted fund balances are amounts that have constraints placed on the use of resources that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

X. Committed Fund Balances

Committed fund balances are amounts that have constraints placed on the use of resources that are imposed by the formal action of the government's highest level of decision-making authority. The highest level of decision authority for the Commonwealth is the General Assembly and the Governor.

Y. Assigned Fund Balances

Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.

Z. Unassigned Fund Balances

Unassigned fund balance is the amount of fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the General Fund.

AA. Cash Management Improvement Act

The Commonwealth calculates the Cash Management Improvement Act (CMIA) interest liability to the federal government in accordance with the interest calculation and exchange provisions of the Federal Cash Management Improvement Act of 1990. The CMIA interest rate of exchange is based by law on the average of the bond equivalent rates of 13-week Treasury Bills auctioned during the annual reporting period as calculated by the Financial Management Service (FMS). The Commonwealth does not have a CMIA interest amount due for the current year. The Commonwealth's interest liability is subject to review and final confirmation by FMS of the U.S. Treasury.

BB. Investment Income

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, all investment income reported in the accompanying financial statements include changes in the fair value of investments and the amount reported may be negative. Additionally, the Commonwealth's policy is to record all unrealized gains or losses for the Treasurer's Portfolio in the General Fund.

CC. Intrafund Eliminations

Eliminations have been incorporated into the report to eliminate intrafund transactions within the related fund type. These eliminations prevent overstatement of financial activity.

DD. Interfund Activity

Generally, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are 1) activities between funds reported as governmental activities and funds reported as business-type activities, and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions.

In the fund financial statements, transfers represent the movement of resources between funds. For example, transfers are recorded when a fund receives revenue and subsequently disburses the resources to another fund for expenditure.

2. RESTATEMENT OF BEGINNING BALANCES

The government-wide beginning balance restatements resulted from the following:

Governmental Activities

Capital Asset balances were restated by $33.8 million regarding the understatement of capital assets due primarily to errors by the Department of Transportation and the Department of State Police.

Fund Statements

The Federal (major special revenue) and Other (nonmajor special revenue) funds have been restated by $6.1 million due to new Federal reporting guidance for the Equitable Sharing Program. Prior to the May 2012 Federal guidance, the equitable sharing amounts were reported in the Other (nonmajor special revenue) fund.

Beginning Balance Restatement

(Dollars in Thousands)

	Balance as of June 30, 2011	Change in Reporting	Correction of Prior Year Errors	Balance June 30, 2011 as restated
Government-wide Activities:				
Primary Government:				
Governmental Activities	$ 17,895,251	$ -	$ 33,837	$ 17,929,088
Business-type Activities	121,127	-	-	121,127
Total Primary Government	$ 18,016,378	$ -	$ 33,837	$ 18,050,215
Component Units	$ 20,857,755	$ -	$ -	$ 20,857,755
Fund Statements - Governmental Funds				
Major Governmental Funds:				
General	$ (58,777)	$ -	$ -	$ (58,777)
Special Revenue Funds:				
Commonwealth Transportation	2,434,530	-	-	2,434,530
Federal Trust	27,631	6,091	-	33,722
Literary	119,618	-	-	119,618
Total Major Governmental Funds	2,523,002	6,091	-	2,529,093
Nonmajor Governmental Funds				
Special Revenue Funds:				
Health and Social Services Fund	162,159	-	-	162,159
Other Special Revenue Fund	481,437	(6,091)	-	475,346
Total Special Revenue	643,596	(6,091)	-	637,505
Debt Service Funds:				
Primary Government	67,825	-	-	67,825
Virginia Public Building Authority	-	-	-	-
Total Debt Service	67,825	-	-	67,825
Capital Project Funds:				
Primary Government	49,780	-	-	49,780
Virginia Public Building Authority	95,131	-	-	95,131
Total Capital Projects	144,911	-	-	144,911
Permanent Funds:				
Commonwealth Health Research Fund	29,950	-	-	29,950
Behavioral Health Endowment Funds	250	-	-	250
Total Permanent Funds	30,200	-	-	30,200
Total Nonmajor Governmental Funds	886,532	(6,091)	-	880,441
Total Governmental Funds	$ 3,409,534	$ -	$ -	$ 3,409,534

3. FUND BALANCE CLASSIFICATIONS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* improves the reporting of fund balance so that classifications are more easily understood and can be applied consistently between information reported in the government-wide financial statements and the governmental fund financial statements. The governmental fund balance classifications defined in GASB Statement 54 are: Nonspendable, Restricted, Committed, Assigned, and Unassigned.

Nonspendable fund balance includes inventories, prepaid items, and the principal of a permanent fund. These funds are not available for expenditure in the current or following period.

Restricted fund balances include amounts that have constraints placed on the use of resources by the *Constitution of Virginia* or a party external to the Commonwealth.

Committed fund balances include amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the General Assembly and Governor. The distinction between restricted and committed fund balances is the source and strength of the constraints placed on them.

Assigned fund balances are those that the government intends to use for a specific purpose, but for which the use is not legislatively mandated. The assignments are identified by Commonwealth management pursuant to the authority granted by the General Assembly and Governor. The following schedule includes committed and assigned amounts that share the same purpose and title. The distinction between these classifications results from whether there is a statutory restriction on certain amounts contained within the fund.

Unassigned funds are the residual classification for the General Fund. A negative amount indicates that restricted and committed amounts exceed the available modified accrual basis fund balance.

The governmental fund balance classifications and amounts at June 30, 2012, are shown in the following table.

Governmental Fund Balance Classifications

(Dollars in Thousands)

	General Fund	Commonwealth Transportation	Federal Trust	Literary	Nonmajor Governmental	Total
Nonspendable						
Inventory	$ 45,502	$ 64,191	$ 14,326	$ -	$ 5,523	$ 129,542
Prepaid Items	72,400	6,603	1,531	-	12,905	93,439
Permanent Funds	-	-	-	-	28,000	28,000
Total Nonspendable	117,902	70,794	15,857	-	46,428	250,981
Restricted						
Agriculture and Forestry	-	-	-	-	1,104	1,104
Capital Projects/Construction/Capital Acquisition	-	-	-	-	202,471	202,471
Debt Service	-	-	-	-	78,969	78,969
Economic and Technological Development	-	-	-	-	1,056	1,056
Educational and Training Programs	-	-	-	-	7,133	7,133
Environmental Quality and Natural Resource Preservation	-	-	-	-	11,719	11,719
Gifts and Grants	-	31,581	83,877	-	2,065	117,523
Government Operations:						
Legislative Services	-	-	-	-	14	14
Administrative Services	-	-	-	-	1,295	1,295
Health and Public Safety	-	-	-	-	125,526	125,526
Literary Fund	-	-	-	97,582	-	97,582
Lottery Proceeds Fund	35,131	-	-	-	-	35,131
Revenue Stabilization Fund	680,907	-	-	-	-	680,907
Transportation Activities	-	204,681	-	-	-	204,681
Virginia Water Supply Assistance Grant Fund	13,231	-	-	-	-	13,231
Total Restricted	729,269	236,262	83,877	97,582	431,352	1,578,342
Committed						
3% Bonus for State Employees	77,200	-	-	-	-	77,200
Agriculture and Forestry	-	-	-	-	20,268	20,268
Amount Required for Mandatory Reappropriation	97,972	-	-	-	-	97,972
Amount Required for Reappropriation of 2012 Unexpended Balances for Capital Outlay	7,034	-	-	-	-	7,034
Capital Projects/Construction/Capital Acquisition	656	-	-	-	849	1,505
Central Capital Planning Fund	2,024	-	-	-	-	2,024
Communications Sales and Use Tax	4,806	-	-	-	-	4,806
Contract and Debt Administration	-	16,111	-	-	12	16,123
Economic and Technological Development	11,730	-	-	-	16,259	27,989
Educational and Training Programs	691	3,725	-	-	4,914	9,330
Environmental Quality and Natural Resource Preservation	2,550	-	-	-	101,433	103,983
Federal Action Contingency Trust Fund	30,000	-	-	-	-	30,000
Government Operations:						
Legislative Services	-	-	-	-	440	440
Administrative Services	191	-	-	-	35,584	35,775
Governor's Opportunity Fund	41,621	-	-	-	-	41,621
Health and Public Safety	35,649	1,655	-	-	180,066	217,370
Natural Disaster Sum Sufficient	29,934	-	-	-	-	29,934
Regulatory Oversight	-	-	-	-	116,663	116,663
Transportation Activities	-	2,418,047	-	-	7,064	2,425,111
Transportation Trust Fund	20,924	-	-	-	-	20,924
Virginia Health Care Fund	68,537	-	-	-	-	68,537
Virginia Water Quality Improvement Fund	54,532	-	-	-	-	54,532
Total Committed	486,051	2,439,538	-	-	483,552	3,409,141
Assigned						
Educational and Training Programs	-	-	-	-	3,613	3,613
Environmental Quality and Natural Resource Preservation	-	-	-	-	1,089	1,089
Government Operations:						
Administrative Services	-	-	-	-	1,554	1,554
Health and Public Safety	-	-	-	-	5,559	5,559
Total Assigned	-	-	-	-	11,815	11,815
Unassigned	(820,863)	-	-	-	-	(820,863)
Total Fund Balance	$ 512,359	$ 2,746,594	$ 99,734	$ 97,582	$ 973,147	$ 4,429,416

4. DEFICIT FUND BALANCES/NET ASSETS

The State Lottery (major enterprise fund), the Department of Alcoholic Beverage Control (nonmajor enterprise fund), and the Payroll Service Bureau (internal service fund) ended the year with deficit net assets of $9.8 million, $28.9 million and $688,907, respectively. This was solely attributable to the net pension obligation resulting from GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* and the net other postemployment benefits (OPEB) obligation resulting from GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* Since the Commonwealth is the employer, the agencies do not report this liability in their individually published financial statements.

The Department of Environmental Quality's Title V and Air Pollution Permit Fund (nonmajor enterprise fund) ended the year with deficit net assets of $3.7 million. The deficit was the result of expenses being greater than revenue over the past few years and the net pension obligation resulting from GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* and the net other postemployment benefits (OPEB) obligation resulting from GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

The Virginia Information Technologies Agency (internal service fund) ended the year with a deficit net assets balance of $28.0 million. The deficit was a result of operating expenses exceeding revenues in previous years.

The Property Management Fund (internal service fund) ended the year with a deficit net assets balance of $19.3 million. This deficit was the result of the purchase of a leasehold interest in a state-owned building in fiscal year 2006. Also, the Property Management Fund incurred additional capital lease liabilities due to transfers of leases from other state agencies in fiscal year 2009. Additionally, in fiscal year 2012, the Property Management Fund entered into three energy leases where the asset is reported in the governmental fund.

The Risk Management Fund (internal service fund) ended the year with a deficit net assets balance of $511.6 million. The deficit was the result of the Worker's Compensation Program having estimated claims payable exceeding the available equity in the fund. Claims are paid on a pay-as-you-go basis. To the extent that claims exceed current resources, they will ultimately become a liability of the fund from which the claim originated.

The Virginia Public School Authority (major component unit) ended the year with a deficit net assets balance of $24.0 million. This deficit is the result of an accrued credit against future debt service payments on Local School Bonds due from the localities subsequent to June 30.

The Virginia Economic Development Partnership (nonmajor component unit) ended the year with a deficit net assets balance of $1.5 million. This deficit occurs because the partnership's Statement of Net Assets reflects $5.0 million in non-current liabilities related to compensated absences, net pension obligation, and net other postemployment benefit obligation. The Partnership is funded mainly by state appropriations, which show current funding only.

The Virginia National Defense Industrial Authority (nonmajor component unit) ended the year with a deficit net assets balance of $43,582. This deficit occurs because the authority's Statement of Net Assets reflects $122,014 in non-current liabilities related to compensated absences, net pension obligation, and net other postemployment benefit obligation.

The Virginia College Building Authority (nonmajor component unit) ended the year with a deficit net assets balance of $2.4 billion. This deficit occurred because the Authority issued bonds for the 21st Century College and Equipment programs subject to future appropriations from the General Fund of the Commonwealth without any other security.

5. REVENUE STABILIZATION FUND

In accordance with Article X, Section 8 of the *Constitution of Virginia*, the amount estimated as required for deposit to the Revenue Stabilization Fund must be appropriated for that purpose by the General Assembly. During fiscal year 2012, no withdrawal or deposit other than interest earnings were required for the Revenue Stabilization Fund.

Under the provisions of Article X, Section 8 of the *Constitution of Virginia*, a deposit of $132.7 million is required during fiscal year 2013 based on fiscal year 2011 revenue collections. Additionally, a deposit of $244.6 million is required during fiscal year 2014 based on fiscal year 2012 revenue collections.

Section 2.2-1829(b) of the *Code of Virginia* requires an additional deposit into the fund when specific criteria have been met. No such deposit is required since the specified criteria were not met for fiscal year 2012.

The Revenue Stabilization Fund has principal and interest on deposit of $303.6 million. This balance, along with the constitutionally required deposits of $132.7 million and $244.6 million discussed above (totaling $680.9 million), are restricted as a part of General Fund balance. Pursuant to the constitutional amendment of Article X, Section 8, effective January 1, 2011, the amount on deposit cannot exceed 15 percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years. This is an increase of the previous limit of 10 percent.

6. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2012, the carrying amount of cash for the primary government was $3,246,440,531 and the bank balance was $309,476,833. The carrying amount of cash for component units was $1,400,699,950 and the bank balance was $729,239,898. Cash equivalents are investments with an original maturity of 90 days or less. Cash and cash equivalents for foundations (component units) totaled $332,792,971 as of year-end. A portion of this amount and some balances during the year exceeded Federal Deposit Insurance Corporation (FDIC) insurance coverage. Foundation investments are disclosed in the Interest Rate Risk section of this note.

For purposes of this note, primary government includes governmental, business-type activities, and fiduciary funds. The deposits of the primary government and the component units, excluding foundations (component units), are secured in accordance with the provisions of the Virginia Security for Public Deposits Act, Section 2.2-4400 of the *Code of Virginia*. The act requires any public depository that receives or holds public deposits to pledge collateral to the Treasury Board to cover public deposits in excess of Federal deposit insurance. The required collateral percentage is determined by the Treasury Board and ranges from 50 percent to 100 percent for financial institutions choosing the pooled method of collateralization, and from 105 percent to 130 percent for financial institutions choosing the dedicated method of collateralization. As stated in Note 1.BB., unrealized gains or losses for the Treasurer's Portfolio are recorded in the General Fund.

Certain deposits are held by trustees in accordance with the Trust Subsidiary Act, Section 6.1-32.8 et seq. of the *Code of Virginia*. The act requires that cash held by trustees while awaiting investment or distribution is not to be used by an affiliate bank of the trustee in the conduct of its business unless the affiliate bank delivers securities to the trust department as collateral that is at least equal to the fair value of the trust funds held on deposit in excess of amounts insured by the FDIC.

The Commonwealth is authorized, in accordance with the guidelines set forth in Section 2.2-4500 et seq. of the *Code of Virginia*, to invest public funds in the following:

- U.S. Treasury and agency securities
- Corporate debt securities
- Asset–backed securities
- Mortgage–backed securities
- Municipal securities
- AAA rated obligations of foreign governments
- Bankers' acceptances and bank notes
- Negotiable certificates of deposit
- Repurchase agreements
- Money market funds

Permitted investments include agency mortgage-backed securities, corporate or private label mortgage-backed securities, and asset-backed securities which by definition usually expose the investor to prepayment risk.

At June 30, 2012, the Treasurer of Virginia held no investment, with the exception of securities lending, that was out of compliance or in default as to principal or interest.

Prepayment risk, or the prepayment option granted the borrower, can create uncertainty concerning cash flows, can affect the price of the security causing negative convexity, and can expose the investor to reinvestment risk. Similarly, many agency and corporate securities are callable after some predetermined date at a predetermined price. The call options in regular agency debentures and some corporate securities can be open ended and may significantly impact cash flows, security pricing, and reinvestment risks of these securities.

Public funds held by the Commonwealth, public officers, municipal corporations, political subdivisions, and any other public body of the Commonwealth shall be held in trust for the citizens of the Commonwealth. Any investment of such funds pursuant to the provisions of this chapter shall be made solely in the interest of the citizens of the Commonwealth and with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

Certain investments held in trust by the Treasurer of Virginia in accordance with bond indentures and resolutions may have more restrictive investment policies. Investment policies of institutions of higher education (component units) are established by the institutions' governing boards.

The Board of Trustees of the Virginia Retirement System (the System) (part of primary government) has full power to invest and reinvest the trust funds in accordance with Section 51.1–124.30 of the *Code of Virginia*, as amended. This section requires the Board to discharge its duties solely in the interest of the beneficiaries and to invest the assets with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Board must also diversify such investments so as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so. The System does not have investment policies that place specific restrictions on investments related to custodial risk, interest rate risk, credit risk, or foreign currency risk. The System investment portfolio is intended to be managed through diversification and prudent judgment, rather than through specific policy restrictions.

The information presented for the external investment pool was obtained from audited financial statements. Copies of the Local Government Investment Pool (LGIP) report may be obtained by writing the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218. Participation in this pool is voluntary.

Custodial Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Commonwealth may not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Policies related to credit risk pertaining to the Commonwealth's securities lending program are found in the securities lending section of this note.

As of June 30, 2012, the primary government had $1,722,246,212 of cash equivalents and investments that were exposed to custodial risk as uninsured and uncollateralized. The System had $1,721,883,000 of this amount that consisted of various types of debt and equity securities that were held by counterparties' trust departments or agents, but not in the System's name. Common and preferred stocks represented $1,708,638,000 of the total. The remainder was for various types of debt securities. The component units had $26,241,097 of cash equivalents and investments that were exposed to custodial risk as uninsured and uncollateralized. Corporate bonds represented $7,760,254 and agency mortgage-backed securities represented $5,392,903 of the total, and the remainder was for various types of debt and equity securities.

As of June 30, 2012, the investments of the Pension and Other Employee Benefit Trust Funds were approximately 77.0 percent of the primary government investments, and 99.0 percent of those that were exposed to custodial risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Commonwealth has elected the Segmented Time Distribution method of disclosure.

The State Treasurer's guidelines limit the following maximum durations for any single security of the following investment types:

Security Type	Maximum Duration
Corporate Security	15 years
Asset-Backed Securities	5 years
Sovereign Government Obligations (excluding U.S.)	5 years
Negotiable Certificates of Deposit and Negotiable Bank Notes	5 years

The State Treasurer's guidelines further describe target durations for the overall general account portfolio of 1.7 years.

The System manages the risk within the portfolio using the effective duration or option-adjusted methodology. It is widely used in the management of fixed income portfolios in that it quantifies, to a much greater degree, the risk of interest rate changes. The methodology takes into account optionality on bonds and scales the risk of price changes on bonds depending upon the degree of change in rates and the slope of the yield curve. All of the System's fixed income portfolios are managed in accordance with the System's investment guidelines, most of which are specific as to the degree of interest rate risk that can be taken.

At June 30, 2012, the Commonwealth had the following investments and maturities:

Primary Government Investments

(Dollars in Thousands)

Investment Type	Fair Value	Investment Maturities (in years): Less Than 1	1-5	6-10	More Than 10
Debt Securities					
U. S. Treasury and Agency Securities	$ 4,371,791	$ 756,387	$ 2,418,559	$ 613,812	$ 583,033
Corporate Notes	614,908	608,455	3,245	1,413	1,795
Corporate Bonds	728,468	44,465	396,967	215,251	71,785
Corporate and Other Credit	12,575,866	3,372,579	2,984,621	2,115,190	4,103,476
Corporate Mortgage-Backed Securities	80,209	-	198	646	79,365
Commercial Paper	2,052,137	2,052,137	-	-	-
Negotiable Certificates of Deposit	2,740,357	2,739,650	707	-	-
Repurchase Agreements	2,871,363	2,871,363	-	-	-
Municipal Securities	138,175	26,042	23,000	28,969	60,164
Asset-Backed Securities	267,501	117,236	58,282	33,787	58,196
Agency Mortgage-Backed Securities	2,713,163	40,555	2,358,166	91,152	223,290
Agency Unsecured Bonds and Notes	1,987,008	1,084,079	832,516	53,013	17,400
Mutual and Money Market Funds (Includes SNAP)	1,746,287	1,746,287	-	-	-
The Boston Company Polled Employee Trust Fund	97,617	97,617	-	-	-
Guaranteed Investment Contracts	414,876	-	414,876	-	-
Fixed Income and Commingled Funds	1,307,162	-	290,086	1,017,037	39
Investments held by broker-dealers under securities loans					
U. S. Government and Agency Securities	675	-	442	233	-
Corporate Notes	43,571	610	17,469	21,959	3,533
Corporate Bonds	16,976	4,676	9,506	2,794	-
Other	650,194	181,553	326,565	50,575	91,501
Total	$ 35,418,304	$ 15,743,691	$ 10,135,205	$ 4,245,831	$ 5,293,577

Component Unit Investments

(Dollars in Thousands)

Investment Type	Fair Value	Investment Maturities (in years): Less Than 1	1-5	6-10	More Than 10
Debt Securities					
U. S. Treasury and Agency Securities	$ 969,040	$ 390,469	$ 184,812	$ 30,644	$ 363,115
Corporate Notes	110,445	34,575	63,083	9,916	2,871
Corporate Bonds	295,890	47,238	156,920	85,483	6,249
Corporate Mortgage-Backed Securities	14,914	-	-	450	14,464
Commercial Paper	656,299	656,299	-	-	-
Negotiable Certificates of Deposit	92,111	87,801	4,310	-	-
Repurchase Agreements	76,116	76,116	-	-	-
Municipal Securities	3,621,803	28,756	103,887	112,311	3,376,849
Asset-Backed Securities	193,896	27,803	96,308	19,354	50,431
Agency Unsecured Bonds and Notes	68,619	50,684	17,935	-	-
Agency Mortgage-Backed Securities	393,856	219,900	48,197	16,804	108,955
Mutual and Money Market Funds (Includes SNAP)	955,112	837,561	9,310	73,802	34,439
Guaranteed Investment Contracts	69,860	1,971	14,354	12,467	41,068
Fixed Income and Commingled Funds	26,913	1,600	11,527	13,786	-
Other	49,865	49,721	104	40	-
Total	$ 7,594,739	$ 2,510,494	$ 710,747	$ 375,057	$ 3,998,441

Foundation Investments

(Dollars in Thousands)

Investment Type		Fair Value
U.S. Treasury and Agency Securities	$	835,795
Common & Preferred Stocks		745,879
Corporate Notes		11,071
Corporate Bonds		157,747
Negotiable Certificates of Deposit		3,737
Municipal Securities		3,797
Repurchase Agreements		26,120
Asset Backed Securities		11,541
Agency Mortgage Backed		6,021
Mutual Funds		426,241
Real Estate		503,367
Index Funds		13,237
Fixed Income and Commingled Funds		904
Equity Index and Pooled Funds		453
Others		5,955,791
Total	$	8,701,701

Note: Foundations represent FASB reporting entities defined in Note 1.B. A portion of these amounts are reported at cost rather than fair value because fair value was not available or readily determinable.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State Treasurer of the Commonwealth places emphasis on securities of high credit quality and marketability. At the time of purchase, the following limitations are in place:

- Bankers acceptances: P-1, Moody's and A-1, S&P
- Negotiable CDs and bank notes:
  - maturities of one year or less: P-1, Moody's and A-1, S&P
  - maturities over one year: Aa, Moody's and AA, S&P
- Commercial paper: P-1, Moody's and A-1, S&P
- Corporate Notes and Bonds: A3/A- or equivalent by two nationally recognized rating agencies, one of which must be Moody's or S&P. However, each external investment manager may invest up to ten percent of their portfolio in Baa2/BBB rated bonds which, at a minimum, must be rated Baa2/BBB by two nationally recognized rating agencies, one of which must be either Moody's or S&P.
- Municipal Bonds: A3/A- or equivalent by two nationally recognized rating agencies, one of which must be Moody's or S&P
- Asset-backed securities: AAA by two nationally recognized rating agencies, one of which must be Moody's or S&P
- Dollar denominated obligations of sovereign governments: Aaa, Moody's and AAA, S&P
- Commercial Mortgage-Backed Securities (CMBS) and Collateralized Mortgage Obligations (CMOs): AAA by two nationally recognized rating agencies, one of which must be Moody's or S&P

The following tables present the credit ratings for the majority of the investments of the primary government and component units as of June 30, 2012. The ratings presented below are using Standard & Poor's (S&P) and Moody's Investors Service (Moody's) rating scales. Within the primary government, the investments presented in the table represented 84.2 percent of the total debt securities, 12.8 percent of which were invested in corporate unrated investments. Within the component units, the investments presented in the table represented 86.5 percent of the total debt securities, 43.8 percent of which were invested in unrated Municipal Securities.

Credit risk for derivative instruments held by the Commonwealth results from counterparty risk assumed by the Commonwealth. This is essentially the risk that the borrower will be unable to meet its obligation. Information regarding the Commonwealth's credit risk related to derivatives is found in Note 13, "Derivatives."

Policies related to credit risk pertaining to the Commonwealth's securities lending program are found in the Securities Lending section of this note.

Credit Rating - Primary Government
(Dollars in Thousands)

Investment	Amount	Rating Agency	Rating	Percent of Portfolio
Corporates and Other Credit	$ 4,554,115	Moody's	NR	12.86%
U. S. Treasury and Agency Securities	4,371,791	N/A	N/A	12.34%
Corporates and Other Credit	2,871,657	Moody's	Aaa	8.11%
Negotiable Certificates of Deposit	2,143,814	Moody's	P-1	6.05%
Agency Mortgage Backed Securities	2,004,208	Moody's	Aaa	5.66%
Agency Unsecured Bonds and Notes	1,861,680	Standard & Poor's	AA+	5.26%
Mutual and Money Market Funds (Includes SNAP)	1,636,677	Standard & Poor's	AAA	4.62%
Commercial Paper	1,584,292	Moody's	P-1	4.47%
Repurchase Agreements	1,294,000	Standard & Poor's	AA+	3.65%
Repurchase Agreements	1,018,586	Standard & Poor's	A-1	2.88%
Corporates and Other Credit	640,121	Moody's	Baa3	1.81%
Fixed Income and Commingled Funds	615,092	Moody's	Baa	1.74%
Corporates and Other Credit	533,450	Moody's	Baa1	1.51%
Corporates and Other Credit	526,904	Moody's	Baa2	1.49%
Corporates and Other Credit	478,238	Moody's	Ba3	1.35%
Corporates and Other Credit	471,932	Moody's	B1	1.33%
Corporates and Other Credit	438,380	Moody's	B2	1.24%
Agency Mortgage Backed Securities	432,068	Moody's	NR	1.22%
Fixed Income and Commingled Funds	416,064	N/A	N/A	1.17%
Guaranteed Investment Contracts	414,876	N/A	N/A	1.17%
Commercial Paper	407,871	Standard & Poor's	A-1	1.15%
Corporates and Other Credit	379,981	Moody's	B3	1.07%
Negotiable Certificates of Deposit	375,131	Standard & Poor's	A-1	1.06%
Corporate Notes	356,229	Moody's	Aa2	1.01%

Credit Rating - Component Units
(Dollars in Thousands)

Investment	Amount	Rating Agency	Rating	Percent of Portfolio
Municipal Securities	$ 3,330,534	N/A	N/A	43.78%
U. S. Treasury and Agency Securities	885,112	N/A	N/A	11.63%
Mutual and Money Market Funds (Includes SNAP)	589,207	Standard & Poor's	AAA	7.75%
Commercial Paper	341,866	Moody's	P-1	4.49%
Mutual and Money Market Funds (Includes SNAP)	332,444	N/A	N/A	4.37%
Agency Mortgage Backed Securities	250,932	Moody's	Aaa	3.30%
Commercial Paper	249,919	N/A	N/A	3.29%
Agency Mortgage Backed Securities	114,225	Standard & Poor's	AA+	1.50%
Asset Backed Securities	108,161	Moody's	Aaa	1.42%
Negotiable Certificates of Deposit	85,000	Moody's	P-1	1.12%
U. S. Treasury and Agency Securities	83,929	Standard & Poor's	AA+	1.10%
Repurchase Agreements	76,116	N/A	N/A	1.00%
Guaranteed Investment Contracts	65,077	Moody's	Aa3	0.86%
Agency Unsecured Bonds and Notes	63,995	Moody's	Aaa	0.84%

Concentration of Credit Risk

Concentration of credit risk is related to the risk of loss that may be attributed to the magnitude of a government's investment in a single issuer. The Commonwealth holds no investment in the securities of a single issuer that is more than five percent of the total market value of its investments. In addition, the Treasury and the System have individual investment policies limiting the amounts that may be invested in any single issuer.

It is the State Treasurer's policy that each portfolio will be diversified with no more than four percent of the value of the fund invested in the securities of any single issuer. This limitation shall not apply to the U.S. Government, or agency thereof, or U.S. Government sponsored corporation securities and fully insured and/or collateralized certificates of deposit. Certain portfolios are limited to amounts less than four percent of the value of the fund invested in the securities of any single issuer.

The System investment guidelines for each specific portfolio also limit investments in any corporate entity to no more than five percent of the market value of the account for both the internally and externally managed portfolios. There is no concentration of investments in any one organization that represents five percent or more of plan net assets available for benefits.

Foreign Currency Risk

Primary Government

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. All primary government investments exposed to foreign currency risk were part of the System portfolio at June 30, 2012.

The System's currency risk exposure, or exchange rate risk, primarily exists in the international and global equity investment holdings. From time to time, the System's external managers may hedge their portfolios' foreign currency exposures with currency forward contracts. This will depend upon their views about a specific foreign currency relative to the U.S. dollar. The System's exposure to foreign currency risk is highlighted in the following table.

Component Units

All component unit investments exposed to foreign currency risk were part of the College of William and Mary (nonmajor), James Madison University (nonmajor), and the Virginia Economic Development Partnership (nonmajor) portfolios at June 30, 2012.

Foreign Currency Exposures by Asset Class - Primary Government
(Dollars in Thousands)

Currency	Cash & Cash Equivalents	Equity	Fixed Income	Private Equity	Real Estate	International Funds	Total
U.S. Dollar	$ -	$ -	$ -	$ -	$ -	$ 891,258	$ 891,258
British Pound Sterling	7,264	752,272	(117,234)	1,400	7,455	-	651,157
Euro Currency Unit	26,338	769,322	(484,721)	27,391	-	-	338,330
Hong Kong Dollar	2,876	585,221	-	-	-	-	588,097
Japanese Yen	15,737	603,815	(94,942)	-	(227)	-	524,383
South Korean Won	1,462	445,922	2,187	-	-	-	449,571
Canadian Dollar	3,110	349,688	163,280	-	-	-	516,078
Brazil Real	1,688	239,425	71,682	-	-	-	312,795
Swedish Krona	939	107,282	164,830	819	-	-	273,870
New Taiwan Dollar	3,713	242,076	-	-	-	-	245,789
Indian Rupee	1,011	172,429	414	-	-	-	173,854
South African Comm Rand	411	137,733	32,864	-	-	-	171,008
Norwegian Krone	2,285	43,025	301,789	-	-	-	347,099
Mexican New Peso	5,479	60,290	86,317	-	-	-	152,086
New Turkish Lira	994	86,752	31,726	-	-	-	119,472
Australian Dollar	1,586	240,823	(380,133)	-	-	-	(137,724)
Thailand Baht	309	102,200	21,358	-	-	-	123,867
Singapore Dollar	1,029	56,174	11,767	-	-	-	68,970
Malaysian Ringgit	863	33,507	48,347	-	-	-	82,717
Indonesian Rupian	566	39,890	40,541	-	-	-	80,997
New Zealand Dollar	214	798	(107,679)	-	-	-	(106,667)
Polish Zloty	470	34,295	34,048	-	-	-	68,813
Russian Ruble	13	307	32,802	-	-	-	33,122
Philippines Peso	1,323	21,374	(2,106)	-	-	-	20,591
Danish Krone	403	33,241	-	-	-	-	33,644
Israeli Shekel	317	7,661	-	-	-	-	7,978
Egyptian Pound	514	9,097	-	-	-	-	9,611
Columbian Peso	-	-	13,715	-	-	-	13,715
Uruguayan Peso	-	-	7,484	-	-	-	7,484
Nigerian Naira	-	-	7,227	-	-	-	7,227
Turkish Lira	7,189	-	-	-	-	-	7,189
UAE Dirham	138	3,862	-	-	-	-	4,000
Hungarian Forint	133	1,975	13,753	-	-	-	15,861
Chinese Yuan Renminbi	-	68	5,939	-	-	-	6,007
Czech Koruna	387	11,638	-	-	-	-	12,025
Omani Rial	-	1,962	-	-	-	-	1,962
Peruvian Nuevo Sol	-	-	14,819	-	-	-	14,819
Moroccan Dirham	1	-	-	-	-	-	1
Argentina Peso	487	-	-	-	-	-	487
Chilean Peso	-	6,474	193	-	-	-	6,667
Swiss Franc	12,201	207,862	(53,758)	-	-	-	166,305
Total	$ 101,450	$ 5,408,460	$ (133,491)	$ 29,610	$ 7,228	$ 891,258	$ 6,304,515

Foreign Currency Exposures by Asset Class - Component Units
(Dollars in Thousands)

Currency	Cash & Cash Equivalents	Equity	Fixed Income	Private Equity	Real Estate	International Funds	Total
British Pound Sterling	$ 1,065	$ -	$ -	$ -	$ -	$ -	$ 1,065
Euro Currency Unit	1,800	-	-	-	-	-	1,800
Total	$ 2,865	$ -	$ -	$ -	$ -	$ -	$ 2,865

Securities Lending

The State Treasury's securities lending program is managed by Deutsche Bank AG, New York (Deutsche Bank), under a contract dated March 31, 2006 and Novation Agreement dated November 23, 2009. The enabling legislation for the securities lending program is Section 2.2-4506 of Chapter 45 of the *Code of Virginia*, as amended. No violations of legal or contractual provisions were noted during the year. The general account participated in a securities lending program for the entire year.

All securities lending loans are on an open-ended or one-day basis and may be terminated by Treasury with a 24-hour notice or are term loans with the right of substitution. While all securities may be recalled on a daily basis, securities are often on loan for much longer periods. Generally cash reinvestments security maturities do not match the maturities of loans. Per the contract with Deutsche Bank, all cash collateral reinvestment securities attributable to loans made on the Commonwealth's behalf shall be maintained by Deutsche Bank, and Treasury cannot pledge or sell such collateral absent a default.

The State Treasury's contract with Deutsche Bank provides for loss indemnification against insolvency default with respect to lending transactions and in the case of reverse transactions as defined in the applicable Agency Securities Lending and Repurchase Agreement. Additionally, Deutsche Bank AG is liable for any losses experienced from reinvestment of cash collateral in investments not authorized by the provisions of the investment guidelines for the Commonwealth of Virginia agreed upon by both parties and made a part of the Agency Securities Lending and Repurchase Agreement. There were no realized losses resulting from default or recoveries of prior period losses during this reporting period.

When securities are loaned, the collateral received is at least 100.0 percent of fair value of the securities loaned and must be maintained at 100.0 percent or greater. There are no stated restrictions on the amount of securities that may be loaned, but the basic composition of the general account portfolio effectively restricts the maximum percentage of the portfolio that may be loaned. During the past fiscal year, 24.5 percent of the general account securities were on loan.

During the past year, a combination of U.S. Treasury, agency, agency mortgage and corporate securities have been loaned, with the majority of the loaned securities being U.S. Treasury and agency securities. At June 30, 2012, all collateral received was in the form of cash.

Securities loaned for the Treasurer's cash collateral reinvestment pool, which consisted of 86.5 percent general account funds and 13.5 percent State Lottery funds as of June 30, 2012, had a carrying value of $1,372,764,688 and a fair value of $1,486,209,404. The fair value of the collateral received was $1,515,962,463 providing for coverage of 102.0 percent. As a result, the State Treasury assumes no credit risk on securities loaned. The carrying value of the cash collateral reinvestment pool received was $1,516,055,107 and the fair value of the investments purchased with the cash collateral was $1,513,991,572. As of June 30, 2012, the Treasurer's cash collateral reinvestment pool had an unrealized loss of $1,970,891, and is recorded in the General Fund as stated in Note 1.BB. This amount is included in the total Treasurer's Portfolio discussed earlier in this note.

Current cash collateral reinvestment guidelines allow for a maximum maturity of up to nine months on floating rate investments and up to six months on fixed rate investments. Term repurchase agreements are limited to 60 days. At June 30, 2012, the cash collateral reinvestment portfolio had a weighted average maturity of 4 days using the next interest reset date as the maturity date for floating rate securities. Using the expected maturity date, the weighted average maturity was 117 days and using the final maturity date, which assumes no pay downs on any asset-backed or mortgage-backed securities, the weighted average maturity was 1.1 years.

Treasury's current cash reinvestment guidelines allow for investment in government securities, bank obligations, commercial paper, corporate bonds and notes, indemnified repurchase agreements, and U.S. government money market funds. Each type of reinvestment security has to meet predetermined minimum credit criteria. At June 30, 2012, the majority of cash collateral reinvestments were in indemnified repurchase agreements, and asset-backed (including mortgage-backed) floating rate securities.

At June 30, 2012, $13.2 million or 0.87 percent of the total par value of the cash collateral reinvestment portfolio was out of compliance with Treasury's current cash collateral reinvestment guidelines due to various security ratings downgrades during the past few years and adoption of more restrictive reinvestment guidelines. Included in the $13.2 million of out of compliance securities is a $9.3 million asset-backed security that Treasury has reason to believe is other than temporarily impaired. Treasury has written off $3.8 million of this security as of June 30, 2012. This security is not in default and is making principal and interest payments. Approximately 86.5 percent of these out of compliance securities are part of the general account portion of the securities lending program and the other 13.5 percent is the State Lottery's portion of the securities lending program. The Commonwealth regularly evaluates these positions to determine the most beneficial course of action going forward.

Under authorization of the Board, the Virginia Retirement System (the System) lends its fixed income and equity securities to various broker-dealers on a temporary basis. This program is administered through an agreement with the System's custodial agent bank. All security loan agreements are collateralized by cash, securities, or an irrevocable letter of credit issued by a major bank, and have a market value equal to at least 102 percent of the market value for domestic securities and 105 percent for international securities. Securities received as collateral cannot be pledged or sold by the System unless the borrower defaults. Contracts require the lending agents to indemnify the System if the borrowers fail to return the securities lent. All securities loans can be terminated on demand by either the System or the borrowers. The majority of loans are open loans, meaning the rebate is set daily. This results in a maturity of one or two days on average, although securities are often on loan for longer periods. The maturity of loans generally does not match the maturity of collateral investments, which averages 43 days. At year-end, the System has no credit risk exposure to borrowers because the amounts it owes the borrowers exceeded the amounts the borrowers owe the System. All securities are marked to market daily and carried at market value. The market value of securities on loan at June 30, 2012 was $3,913,126,000. The June 30, 2012 balance was composed of corporate and other bonds of $59,324,000 and common and preferred stocks of $3,853,802,000. The value of collateral (cash and non-cash) at June 30, 2012, was $4,074,754,000.

At June 30, 2012, the invested cash collateral had a market value of $2,161,444,000 and was composed of commercial paper of $677,683,000, certificates of deposit of $713,178,000, floating rate notes of $600,691,000, asset backed securities of $11,538,000, interest bearing notes of $49,477,000, and repurchase agreements of $108,877,000. As of June 30, 2012, the System's cash collateral reinvestment pool had an unrealized loss of $14.0 million.

A foundation of the University of Virginia (major component unit) reports an obligation under securities lending of approximately $14.0 million. Since this foundation follows FASB rather than GASB reporting requirements, disclosures can be found in the individually published financial statements of the foundation.

7. RECEIVABLES

The following schedule (dollars in thousands) details the accounts, loans, interest, taxes, prepaid tuition contributions, security transactions, and other receivables presented in the major funds, aggregated nonmajor funds by type, internal service funds, fiduciary funds, major component units, and aggregated nonmajor component units, as of June 30, 2012:

	Accounts Receivable	Loans / Mortgage Receivable	Interest Receivable	Taxes Receivable	Prepaid Tuition Contributions Receivable
Primary Government:					
General	$ 900,216	$ 288	$ 356,253	$ 1,759,438	$ -
Major Special Revenue Funds:					
Commonwealth Transportation	92,420	35,152	-	141,275	-
Federal Trust	816,495	228	-	-	-
Literary	216,148	236,239	19,861	-	-
Nonmajor Governmental Funds	178,797	-	10,367	6,842	-
Major Enterprise Funds:					
State Lottery	52,827	-	-	-	-
Virginia College Savings Plan	8,115	-	3,060	-	244,796
Unemployment Compensation	183,386	11,676	-	-	-
Nonmajor Enterprise Funds	33,887	-	-	-	-
Internal Service Funds	13,381	-	-	-	-
Private Purpose Trust Funds	-	13	1,670	-	-
Pension and Other Employee Benefit Trust (1)	143,529	-	207,190	-	-
Investment Trust Fund	-	-	859	-	-
Agency Funds	389	-	-	121,287	-
Total Primary Government (2)	$ 2,639,590	$ 283,596	$ 599,260	$ 2,028,842	$ 244,796
Discrete Component Units:					
Virginia Housing Development Authority (3)	$ -	$ 7,887,323	$ 37,497	$ -	$ -
Virginia Public School Authority	-	-	65,934	-	-
University of Virginia (4)	648,449	47,896	1,300	-	-
Virginia Polytechnic Institute and State University	65,616	43,713	1,375	-	-
Virginia Commonwealth University (5)	394,797	27,708	385	-	-
Nonmajor Component Units (6)	202,728	4,010,326	57,143	4,889	-
Total Component Units	$ 1,311,590	$ 12,016,966	$ 163,634	$ 4,889	$ -

Note (1): Other Receivables of the Pension and Other Employee Benefit Trust Fund of $11,604 (dollars in thousands) are made up $2,714 (dollars in thousands) in pending investment transactions, including $1,602 (dollars in thousands) in securities lending, and $1,112 (dollars in thousands) in other investment receivable; as well as $8,890 (dollars in thousands) in other receivables related to benefit plans.

Note (2): Fiduciary net receivables in the amount of $1,604,478 (dollars in thousands) are not included in the Government-wide Statement of Net Assets.

Note (3): The Virginia Housing Development Authority reports $7,639,491 (dollars in thousands) as Restricted Loans Receivable, $36,096 (dollars in thousands) as Restricted Interest Receivable, and $4,572 (dollars in thousands) as Restricted Other Receivables.

Note (4): Other Receivables of the University of Virginia of $46,446 (dollars in thousands) are made up of the FICA receivable of $24,700 (dollars in thousands), pledges receivable of $20,656 (dollars in thousands) and foundation other receivables of $1,090 (dollars in thousands).

Note (5): Other Receivables of the Virginia Commonwealth University of $110,005 (dollars in thousands) are made up of sponsors accounts receivable of $22,297 (dollars in thousands) and the following amounts reported by the Virginia Commonwealth University Health System Authority (blended component unit of Virginia Commonwealth University) of premium receivables of $47,861 (dollars in thousands), FICA receivable of $32,873 (dollars in thousands), and third-party settlements and non-patient receivables of $6,974 (dollars in thousands).

Note (6): Other Receivables of the nonmajor component units are primarily comprised of $58,933 (dollars in thousands) reported by foundations representing FASB reporting entities defined in Note 1.B. and $36,740 (dollars in thousands) reported by the Virginia Biotechnology Research Park Authority.

Security Transactions	Other Receivables	Allowance for Doubtful Accounts	Net Accounts Receivable	Amounts to be Collected Greater than One Year
$ -	$ -	$ (1,391,169)	$ 1,625,026	$ 287,571
-	-	(20,164)	248,683	27,173
-	-	(17,451)	799,272	33
-	-	(210,623)	261,625	202,397
-	26	(91,691)	104,341	605
-	-	-	52,827	-
-	-	-	255,971	188,097
-	-	(47,526)	147,536	-
-	-	(786)	33,101	-
-	-	(418)	12,963	-
-	-	-	1,683	-
1,162,237	11,604	-	1,524,560	-
-	-	-	859	-
-	-	(44,300)	77,376	3,806
$ 1,162,237	$ 11,630	$ (1,824,128)	$ 5,145,823	$ 709,682
$ -	$ 11,033	$ (159,338)	$ 7,776,515	$ 7,553,829
-	-	-	65,934	-
-	46,446	(385,224)	358,867	40,056
-	41	(3,089)	107,656	40,792
-	110,005	(211,147)	321,748	56,739
-	135,980	(18,222)	4,392,844	3,888,915
$ -	$ 303,505	$ (777,020)	$ 13,023,564	$ 11,580,331

8. CONTRIBUTIONS RECEIVABLE, NET

The following schedule details the contributions receivable for foundations[1] included with the major component units, and aggregated nonmajor component units, as of June 30, 2012:

(Dollars in Thousands)

	Due in Less Than One Year	Due Between One and Five Years	Due in More Than Five Years	Subtotal	Present Value Discount (2)	Allowance for Doubtful Accounts	Contributions Receivable, Net
Discrete Component Units:							
University of Virginia	$ 41,555	$ 45,337	$ 24,540	$ 111,432	$ (6,492)	$ (9,168)	$ 95,772
Virginia Polytechnic Institute & State University	31,044	38,591	13,044	82,679	(1,653)	(1,526)	79,500
Virginia Commonwealth University	11,012	18,691	6,689	36,392	(1,539)	(2,044)	32,809
Nonmajor Component Units	43,002	56,831	32,114	131,947	(7,287)	(6,591)	118,069
Total Component Units	$ 126,613	$ 159,450	$ 76,387	$ 362,450	$ (16,971)	$ (19,329)	$ 326,150

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.
Note (2): The discount rate used to determine present value ranges from 0.15 percent to 8.00 percent.

9. INTERFUND AND INTER-ENTITY ASSETS/LIABILITIES

Due from/to Other Funds

Due from Other Funds are amounts to be received from one fund by another fund for goods sold or services rendered. Due to Other Funds are amounts owed by one fund to another fund for goods purchased or services obtained.

The following line items are included in the category "Due from Other Funds":

- Due from Other Funds
- Due from Internal Parties (Governmental Funds and Business-type Activities)
- Due from External Parties (Fiduciary Funds)

The following line items are included in the category "Due to Other Funds":

- Due to Other Funds
- Due to Internal Parties (Governmental Funds and Business-type Activities)
- Due to External Parties (Fiduciary Funds)

The following schedule shows the Due from/to Other Funds as of June 30, 2012.

Schedule of Due from/to Other Funds

June 30, 2012

(Dollars in Thousands)

Due From	Amount	Due To	Amount
Primary Government		**Primary Government**	
General Fund	$ 37,229	Major Special Revenue Funds:	
		Federal Trust	$ 659
		Major Enterprise Funds:	
		State Lottery	22,972
		Nonmajor Enterprise Funds	12,114
		Internal Service Funds	1,484
Major Special Revenue Funds:			
Commonwealth Transportation	20,924	General Fund	20,924
Federal Trust	1,869	Major Enterprise Funds:	
		Unemployment Compensation	1,869
Nonmajor Governmental Funds	8,392	Major Special Revenue Funds:	
		Commonwealth Transportation	4,989
		Federal Trust	2,218
		Nonmajor Governmental Funds	200
		Major Enterprise Funds:	
		Unemployment Compensation	244
		Nonmajor Enterprise Funds	741
Major Enterprise Funds:			
Unemployment Compensation	635	General Fund	400
		Major Special Revenue Funds:	
		Commonwealth Transportation	28
		Federal Trust	64
		Nonmajor Governmental Funds	115
		Major Enterprise Funds:	
		State Lottery	2
		Nonmajor Enterprise Funds	20
		Internal Service Funds	6
Nonmajor Enterprise Funds	9,086	General Fund	316
		Major Special Revenue Funds:	
		Commonwealth Transportation	252
		Federal Trust	389
		Nonmajor Governmental Funds	8,108
		Nonmajor Enterprise Funds	5
		Internal Service Funds	16
Internal Service Funds	50,154	General Fund	23,807
		Major Special Revenue Funds:	
		Commonwealth Transportation	12,938
		Federal Trust	5,305
		Nonmajor Governmental Funds	5,218
		Major Enterprise Funds:	
		State Lottery	121
		Virginia College Savings Plan	33
		Nonmajor Enterprise Funds	2,388
		Internal Service Funds	344
Pension and Other Employee Benefit Trust	13,923	Private Purpose Trust	13
		Pension and Other Employee Benefit Trust	13,910
Total Primary Government	$ 142,212	Total Primary Government	$ 142,212

Schedule of Due from/to Internal/External Parties
June 30, 2012

(Dollars in Thousands)

Due From	Amount	Due To	Amount
Primary Government		**Primary Government**	
Nonmajor Governmental Funds	$ 984	Agency	$ 984
Internal Service Funds	133	Private Purpose Trust	19
		Pension and Other Employee Benefit Trust	114
Pension and Other Employee Benefit Trust	18,447	General Fund	11,982
		Major Special Revenue Funds:	
		Commonwealth Transportation	2,347
		Federal Trust	1,221
		Nonmajor Governmental Funds	2,180
		Major Enterprise Funds:	
		State Lottery	92
		Virginia College Savings Plan	34
		Nonmajor Enterprise Funds	355
		Internal Service Funds	236
Total Primary Government	$ 19,564	Total Primary Government	$ 19,564

Interfund Receivables/Payables

Interfund Receivables/Payables are loans made by one fund to another.

The following schedule shows the Interfund Receivables/Payables for the primary government as of June 30, 2012. There were no Interfund Receivables/Payables for the component units as of June 30, 2012.

Interfund Receivables/Payables
June 30, 2012

(Dollars in Thousands)

Receivable From:	Amount	Payable To:	Amount
Primary Government		**Primary Government**	
Nonmajor Governmental Funds	$ 92,442	General Fund	$ 13,152
		Major Special Revenue Funds:	
		Federal Trust	14,949
		Nonmajor Enterprise Funds	28,489
		Internal Service Funds	35,852
Total	$ 92,442	**Total**	$ 92,442

Note: The loan payable to the General Fund will not be repaid within one year.

Due from/to Primary Government and Component Units

Included in this category is activity between the Commonwealth and its component units, as well as activity between component units.

The following due from primary government amounts represent General Fund (major governmental fund) appropriation available amounts that are due from the General Fund: University of Virginia (major component unit) - $6.9 million and nonmajor component units - $2.3 million. The General Fund reports the entire amount of $9.2 million in the government-wide financial statements.

The following due from primary government amounts represent amounts due from the General Fund (major governmental fund) related to interest/rebate allocations: University of Virginia (major component unit) - $0.1 million, Virginia Polytechnic Institute and State University (major component unit) - $0.1 million, Virginia Commonwealth University (major component unit) - $0.1 million, and nonmajor component units - $5.4 million. In addition, a due from primary government amount due from the Federal Trust Special Revenue Fund (major governmental fund) to the Virginia College Building Authority (nonmajor component unit) of $4.5 million is for interest on Build America Bonds (BABs).

A $0.2 million due from primary government amount represents an amount due from a nonmajor governmental fund related to the Department of the Treasury's reimbursement programs primarily to nonmajor component units.

A $2.2 million due from primary government amount represents an amount due from the General Fund (major governmental fund) to the Virginia Land Conservation Foundation (nonmajor component unit).

A $12.2 million due from component units in the Health Care Fund (internal service fund) represents amounts due from the following: University of Virginia (major component unit) - $0.2 million, Virginia Polytechnic Institute and State University (major component unit) - $2.6 million, Virginia Commonwealth University (major component unit) - $2.9 million, and nonmajor component units - $6.5 million.

A $0.7 million due from component units represents monies owed for administrative and project expenses from the Science Museum of Virginia Foundation (nonmajor component unit) to a nonmajor governmental fund. The entire nonmajor governmental amount is reported in the government-wide financial statements.

The following due from component units amounts represent amounts due from the Virginia College Building Authority (nonmajor component unit) related to the Department of the Treasury's reimbursement programs: University of Virginia (major component unit) - $13.8 million, Virginia Polytechnic Institute and State University (major component unit) - $14.6 million, Virginia Commonwealth University (major component unit) - $8.9 million, and nonmajor component units - $72.8 million. There is a due to component units of $3.8 million from the Virginia Commercial Space Flight Authority (nonmajor component unit) to a foundation of the Old Dominion University (nonmajor component unit). There is a $0.2 million due to component units from the Virginia Economic Development Partnership (nonmajor component unit) to the Virginia National Defense Industrial Authority (nonmajor component unit). There is a $0.1 million due to component units from the Tobacco Indemnification and Community Revitalization Commission (nonmajor component unit) to the Virginia Economic Development Partnership (nonmajor component unit). There is a $1.4 million due to component units from the Virginia Land Conservation Foundation (nonmajor component unit) to the Virginia Outdoors Foundation (nonmajor component unit).

Due from/to Component Units and Fiduciary Funds

A $9.8 million due from component units in the Pension and Other Employee Benefit Trust Funds (fiduciary funds) represents amounts due from the following: University of Virginia (major component unit) - $3.0 million, Virginia Polytechnic Institute and State University (major component unit) - $1.2 million, Virginia Commonwealth University (major component unit) - $2.0 million, and nonmajor component units - $3.6 million.

Loans Receivable/Payable Between Primary Government and Component Units

The Virginia Community College System (nonmajor component unit) loan of $5.1 million was used primarily to advance fund federally-funded grant programs.

The $161.2 million in loans receivable from primary government represents loans from the Virginia Public School Authority (VPSA) to the Literary Special Revenue Fund (major governmental fund). The VPSA makes grants to local school divisions to finance the purchase of educational technology equipment. The VPSA makes these grants using the proceeds of notes issued for that purpose which will be repaid from appropriations to be made by the Virginia General Assembly from the Literary Special Revenue Fund (major governmental fund).

10. OTHER ASSETS

The following table summarizes Other Assets as of June 30, 2012:

(Dollars in Thousands)

	Cash and Travel Advances	Unamortized Bond Issuance Expense	Other Assets	Total Other Assets
Primary Government:				
General	$ 2,060	$ -	$ -	$ 2,060
Major Special Revenue Funds:				
Commonwealth Transportation	427	-	-	427
Federal Trust	2,379	-	-	2,379
Nonmajor Governmental Funds	917	-	1,070	1,987
Major Enterprise Funds:				
State Lottery	1	-	-	1
Nonmajor Enterprise Funds	169	-	-	169
Internal Service Funds (1)	5	-	7,184	7,189
Agency Funds (2)	-	-	58	58
Total Primary Government (2)	$ 5,958	$ -	$ 8,312	$ 14,270
Discrete Component Units:				
Virginia Housing Development Authority	$ -	$ 4,306	$ 27,345	$ 31,651
University of Virginia	1,759	448	18,950	21,157
Virginia Polytechnic Institute and State University	-	1,717	3,937	5,654
Virginia Commonwealth University	469	5,674	12,135	18,278
Nonmajor Component Units	7,251	66,776	18,714	92,741
Total Component Units	$ 9,479	$ 78,921	$ 81,081	$ 169,481

Note (1): The $7,184 (dollars in thousands) shown above represents a Virginia Information Technologies Agency interfund asset due from various governmental funds that will not be received within 60 days. This amount is reclassified to an internal balance on the Government-wide Statement of Net Assets.

Note (2): Other Assets of the Agency Funds represent prepaid expenses and advances to third party agents. The $58 (dollars in thousands) shown above is not included in the Government-wide Statement of Net Assets.

11. RESTRICTED ASSETS

Restricted assets represent monies or other resources that must be used for specific legal or contractual requirements. The Commonwealth Transportation Fund (major special revenue) and Debt Service and Capital Projects (nonmajor governmental funds) reported $1.5 billion in restricted assets related to bond agreements.

The Virginia Housing Development Authority (major component unit) reported restricted assets totaling $872.1 million. The Virginia Public School Authority (major component unit) reported restricted assets of $87.3 million. Both major component units' assets are restricted for debt service under a bond indenture agreement or other agreements.

The Virginia Port Authority (nonmajor component unit) reported restricted assets of $121.7 million primarily for debt service under bond agreements, construction and other project funds.

The Virginia Resources Authority (nonmajor component unit) reported restricted assets of $620.8 million. Of this amount, $613.4 million is restricted for loans to local governments, bond indentures, or federal and state regulations for various revolving funds, and $7.4 million is restricted for the Operating Reserve Fund for the Virginia Pooled Financing Program.

The Tobacco Indemnification and Community Revitalization Commission (nonmajor component unit) reported restricted assets of $298.3 million to be used for financial aid to tobacco growers and to foster community economic growth.

The Hampton Roads Sanitation District Commission (nonmajor component unit) reported restricted assets of $88.4 million. Of this amount, $15.7 million is for debt service and $72.7 million is revenue bond construction funds.

The Virginia Small Business Financing Authority (nonmajor component unit) reported restricted assets of $29.2 million for gifts and grants.

The higher education institutions (component units) reported restricted assets totaling approximately $4.2 billion primarily for endowment and other contractual obligations. Included in this amount is approximately $3.2 billion of foundations' restricted assets. The two museum foundations, the Virginia Museum of Fine Arts Foundation (nonmajor component unit) and the Science Museum of Virginia Foundation (nonmajor component unit) had restricted assets of $215.7 million and $14.9 million, respectively, primarily for donor-imposed restricted endowments.

The remaining $4.9 million is spread among the Virginia Outdoors Foundation (nonmajor component unit), the Virginia Horse Center Foundation (nonmajor component unit), the Fort Monroe Authority (nonmajor component unit), the Virginia Arts Foundation (nonmajor component unit), the Library of Virginia Foundation (nonmajor component unit) and the Danville Science Center (nonmajor component unit).

12. CAPITAL ASSETS

The following schedule presents the changes in the Capital Assets:

Schedule of Changes in Capital Assets

Governmental Activities

(Dollars in Thousands)

	Balance July 1, as restated (1)	Increases	Decreases	Balance June 30
Nondepreciable Capital Assets:				
Land	$ 2,530,915	$ 132,492	$ (50,649)	$ 2,612,758
Water Rights and/or Easements	32,281	16,168	-	48,449
Construction-in-Progress	3,384,206	1,777,239	(1,615,693)	3,545,752
Total Nondepreciable Capital Assets	5,947,402	1,925,899	(1,666,342)	6,206,959
Depreciable Capital Assets:				
Buildings (2)	3,214,762	339,351	(11,436)	3,542,677
Equipment	894,156	137,497	(17,038)	1,014,615
Infrastructure	24,859,253	1,817,117	(224,971)	26,451,399
Software	332,128	42,509	-	374,637
Total Capital Assets being Depreciated	29,300,299	2,336,474	(253,445)	31,383,328
Less Accumulated Depreciation for:				
Buildings	1,090,483	77,082	(7,414)	1,160,151
Equipment	509,760	50,130	(14,357)	545,533
Infrastructure	11,053,411	663,073	(11,387)	11,705,097
Software	141,498	22,857	-	164,355
Total Accumulated Depreciation	12,795,152	813,142	(33,158)	13,575,136
Total Depreciable Capital Assets, Net	16,505,147	1,523,332	(220,287)	17,808,192
Total Capital Assets, Net	$ 22,452,549	$ 3,449,231	$ (1,886,629)	$ 24,015,151

Note (1): Beginning balances have been restated by $33,837 (dollars in thousands) due to the correction of prior year errors, as discussed in Note 2. Additionally, there have been reclassifications in the beginning balances of certain line items above.

Note (2): Includes temporarily impaired assets with a carrying value of $12.1 million.

Depreciation Expense Charged to Functions of the Primary Government
June 30, 2012

(Dollars in Thousands)

Governmental Activities:		
General Government	$	14,182
Education		9,575
Transportation		681,408
Resources and Economic Development		16,879
Individual and Family Services		41,812
Administration of Justice		38,215
Capital Assets held by the Internal Service Funds are charged to various functions		11,071
Total	$	813,142

Schedule of Changes in Capital Assets
Business-type Activities

(Dollars in Thousands)

	Balance July 1	Increases	Decreases	Balance June 30
Nondepreciable Capital Assets:				
Land	$ 1,977	$ -	$ -	$ 1,977
Construction-in-Progress	4,558	1,162	(4,986)	734
Total Nondepreciable Capital Assets	6,535	1,162	(4,986)	2,711
Depreciable Capital Assets:				
Buildings	19,269	4,986	-	24,255
Equipment	66,451	2,835	(8,107)	61,179
Software	2,209	287	(78)	2,418
Total Capital Assets being Depreciated	87,929	8,108	(8,185)	87,852
Less Accumulated Depreciation for:				
Buildings	11,223	243	-	11,466
Equipment	46,444	5,541	(8,044)	43,941
Software	541	334	(78)	797
Total Accumulated Depreciation	58,208	6,118	(8,122)	56,204
Total Depreciable Capital Assets, Net	29,721	1,990	(63)	31,648
Total Capital Assets, Net	$ 36,256	$ 3,152	$ (5,049)	$ 34,359

Schedule of Changes in Capital Assets
Component Units

(Dollars in Thousands)

	Balance July 1 as restated (1)	Increases	Decreases	Subtotal June 30	Foundations (2)	Total June 30
Nondepreciable Capital Assets:						
Land	$ 513,761	$ 26,178	$ (4,856)	$ 535,083	$ 267,090	$ 802,173
Construction-in-Progress	1,683,835	1,313,844	(1,277,856)	1,719,823	114,037	1,833,860
Inexhaustible Works of Art/Historical Treasures	75,306	1,229	(12)	76,523	18,823	95,346
Livestock	665	168	-	833	2,067	2,900
Total Nondepreciable Capital Assets	2,273,567	1,341,419	(1,282,724)	2,332,262	402,017	2,734,279
Depreciable Capital Assets:						
Buildings	10,967,459	1,007,531	(53,873)	11,921,117	978,890	12,900,007
Infrastructure	2,570,292	198,962	(1,234)	2,768,020	5,040	2,773,060
Equipment	2,720,166	259,513	(168,267)	2,811,412	123,298	2,934,710
Improvements Other Than Buildings	389,744	46,887	(4,564)	432,067	65,241	497,308
Library Books	753,350	31,125	(11,685)	772,790	-	772,790
Software	337,116	40,841	(476)	377,481	-	377,481
Other Intangible Assets	2,000	-	-	2,000	-	2,000
Total Capital Assets being Depreciated	17,740,127	1,584,859	(240,099)	19,084,887	1,172,469	20,257,356
Less Accumulated Depreciation for:						
Buildings	3,297,473	323,853	(31,568)	3,589,758	221,512	3,811,270
Infrastructure	1,181,355	76,866	(965)	1,257,256	2,550	1,259,806
Equipment	1,711,275	222,754	(136,145)	1,797,884	81,030	1,878,914
Improvements Other Than Buildings	227,479	18,248	(3,460)	242,267	34,144	276,411
Library Books	613,358	34,346	(11,630)	636,074	-	636,074
Software	200,868	31,093	(431)	231,530	-	231,530
Other Intangible Assets	933	134	-	1,067	-	1,067
Total Accumulated Depreciation	7,232,741	707,294	(184,199)	7,755,836	339,236	8,095,072
Total Depreciable Capital Assets, Net	10,507,386	877,565	(55,900)	11,329,051	833,233	12,162,284
Total Capital Assets, Net	$ 12,780,953	$ 2,218,984	$ (1,338,624)	$ 13,661,313	$ 1,235,250	$ 14,896,563

Note (1): Beginning balances have been restated by $22,372 (dollars in thousands) for the College of William and Mary (nonmajor) due to the reporting of capital assets by the institution rather than by its foundation, and by $29,953 (dollars in thousands) for George Mason University (nonmajor) due to a change in the elimination of an intrafund capital lease with its foundation. Additionally, there have been reclassifications in the beginning balances of certain line items above.

Note (2): Foundations represent FASB reporting entities defined in Note 1.B. Since foundations follow FASB rather than GASB reporting requirements, no amounts are reported in the software and other intangible assets categories for foundations.

13. DERIVATIVES

The Government Accounting Standards Board (GASB) issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* which requires additional reporting and disclosures for derivative instruments.

Primary Government

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates or financial indexes. They include futures, forwards, options, and swap contracts. Some traditional securities, such as structured notes, can have derivative-like characteristics. In this case, the return may be linked to one or more indexes and asset-backed securities, such as collateralized mortgage obligations (CMOs), which are sensitive to changes in interest rates and pre-payments. Futures, forwards, options and swaps generally are not recorded on the financial statements, whereas structured notes and asset-backed investments generally are recorded.

The Virginia Retirement System (the System) is a party, both directly and indirectly, to various derivative financial investments that may or may not appear on the financial statements and that are used in the normal course of business to enhance returns on investments and manage risk exposure to changes in value resulting from fluctuations in market conditions. These investments may involve, to varying degrees, elements of credit and market risk in excess of amounts recognized on the financial statements.

At June 30, 2012, the System had four types of derivative financial instruments: futures, currency forwards, options and swaps. Futures, currency forwards and options contracts provide the System with the opportunity to build passive benchmark positions, manage portfolio duration in relation to various benchmarks, adjust portfolio yield curve exposure and gain market exposure to various indexes in a more efficient way and at lower transaction costs. Credit risks depend on whether the contracts are exchange-traded or exercised over-the-counter. Market risks arise from adverse changes in market prices, interest rates and foreign exchange rates.

Futures Contracts

Futures contracts are contracts to deliver or receive securities at a specified future date and at a specified price or yield. Futures contracts are traded on organized exchanges (exchange-traded) and require an initial margin (collateral) in the form of cash or marketable securities. The net change in the futures contract value is settled daily, in cash, with the exchanges. The net gains or losses resulting from the daily settlements are included in the System's financial statements. Holders of futures contracts look to the exchange for performance under the contract and not to the entity holding the offsetting futures position. Accordingly, the amount at risk posed by nonperformance of counterparties to futures contracts is minimal. The notional value of the System's investment in futures contracts at June 30, 2012 and 2011 is shown in the following table.

Futures Contracts
as of June 30
(Dollars in Thousands)

	2012	2011
Cash & Cash Equivalent Derivatives Futures:		
Short	$ (143,472)	$ (52,582)
Equity Derivatives Futures:		
Long	474,687	1,226,545
Short	-	(69,000)
Fixed Income Derivatives Futures:		
Long	17,818	632,094
Short	(66,863)	(416,406)
Total Futures	$ 282,170	$ 1,320,651

Currency Forwards

Currency forwards represent foreign exchange contracts and are used by the System to effect settlements and to protect the base currency ($US) value of portfolio assets denominated in foreign currencies against fluctuations in the exchange rates of those currencies. A forward foreign currency exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated price. The credit risk of currency contracts that are exchange-traded lies with the clearinghouse of the exchange where the contracts are traded. The credit risk of currency contracts traded over-the-counter lies with the counterparty, and exposure usually is equal to the unrealized profit on in-the-money contracts. The market risk in foreign currency contracts is related to adverse movements in currency exchange rates. Information on the System's currency forwards contracts at June 30, 2012 and 2011 is shown in the following table.

Currency Forwards
as of June 30

(Dollars in Thousands)

Currency	Cost	Pending Foreign Exchange Purchases	Pending Foreign Exchange Sales	Market Value 2012	Market Value 2011
Australian Dollar	$ (588,418)	$ 159,569	$ (761,777)	$ (602,208)	$ (436,820)
Brazil Real	(9,259)	19,904	(29,080)	(9,176)	(11,989)
British Pound Sterling	(786,044)	255,922	(1,042,461)	(786,539)	(736,914)
Canadian Dollar	(91,712)	337,004	(427,131)	(90,127)	(349,740)
Chilean Peso	78	5,540	(5,347)	193	(3,863)
Chinese Yuan Renminbi	5,826	14,472	(8,533)	5,939	2,498
Columbian Peso	(709)	4,221	(4,856)	(635)	1,006
Czech Koruna	-	-	-	-	(4,271)
Danish Krone	(22,045)	8,813	(31,107)	(22,294)	(53,979)
Euro Currency Unit	(2,204,043)	441,595	(2,671,728)	(2,230,133)	(2,474,116)
Hong Kong Dollar	(82,076)	4,548	(86,634)	(82,086)	(119,335)
Hungarian Forint	10,527	13,214	(1,886)	11,328	950
Indian Rupee	585	3,971	(3,557)	414	1,010
Indonesian Rupian	9,472	9,580	-	9,580	333
Israeli Shekel	(14,420)	1,174	(15,559)	(14,385)	(19,628)
Japanese Yen	(874,105)	100,422	(975,697)	(875,275)	(941,104)
Kazakhstan Tenge	-	-	-	-	7,950
Malaysian Ringgit	31,239	31,333	(228)	31,105	26,587
Mexican New Peso	(19,048)	9,813	(30,243)	(20,430)	(801)
New Taiwan Dollar	-	-	-	-	(4,189)
New Turkish Lira	8,217	12,842	(4,482)	8,360	4,019
New Zealand Dollar	(107,187)	77,883	(190,827)	(112,944)	60,015
Norwegian Krone	265,789	317,799	(50,629)	267,170	88,031
Peruvian Nuevo Sol	255	1,019	(761)	258	(563)
Philippines Peso	(2,622)	3,656	(6,267)	(2,611)	9,644
Polish Zloty	2,885	11,338	(8,342)	2,996	14,337
Russian Ruble (New)	9,343	9,724	(175)	9,549	15,083
Singapore Dollar	(19,902)	9,543	(29,475)	(19,932)	(34,984)
South African Comm Rand	(22,785)	21,544	(44,457)	(22,913)	(5,912)
South Korean Won	2,224	2,760	(573)	2,187	1,520
Swedish Krona	107,058	237,518	(127,162)	110,356	134,369
Swiss Franc	(258,357)	134,714	(395,685)	(260,971)	(529,151)
Thailand Baht	5,006	5,124	(129)	4,995	11,911
U.S. Dollar	4,646,227	6,858,273	(2,212,046)	4,646,227	5,333,172
Total Forwards Subject to Foreign Currency Risk				$ (42,002)	$ (14,924)

Options Contracts

Options may be either exchange-traded or negotiated directly between two counterparties over-the-counter. Options grant the holder the right, but not the obligation, to purchase (call) or sell (put) a financial instrument at a specified price and within a specified period of time from the writer of the option. As a purchaser of options, the System typically pays a premium at the outset. This premium is reflected as an asset on the financial statements. The System then retains the right, but not the obligation, to exercise the options and purchase the underlying financial instrument. Should the option not be exercised, it expires worthless and the premium is recorded as a loss.

A writer of options assumes the obligation to deliver or receive the underlying financial instrument on exercise of the option. Certain option contracts may involve cash settlements based on specified indexes such as stock indexes. As a writer of options, the System receives a premium at the outset.

This premium is reflected as a liability on the financial statements, and the System bears the risk of an unfavorable change in the price of the financial instrument underlying the option. Information on the System's options balances at June 30, 2012 and 2011 is shown in the following table.

Options Contracts
as of June 30
(Dollars in Thousands)

	2012	2011
Cash and Cash Equivalent Options:		
Put	$ -	$ 40
Equity Options:		
Call	-	(182)
Put	-	(95)
Fixed Income Options:		
Call	-	87
Put	-	144
Sw aptions:		
Call	(978)	(5,557)
Put	(118)	601
Total Options	$ (1,096)	$ (4,962)

Swap Agreements

Swaps are negotiated contracts between two counterparties for the exchange of payments at certain intervals over a predetermined timeframe. The payments are based on a notional principal amount and calculated using either fixed or floating interest rates or total returns from certain instruments or indices. Swaps are used to manage risk and enhance returns. To reduce the risk of counterparty nonperformance, the System generally requires collateral on any material gains from these transactions. During fiscal year 2012, the System entered into credit defaults, inflation, interest rate and total return swaps. Information on the System's swap balances at June 30, 2012 and 2011 is shown in the following table.

Swap Agreements
as of June 30

(Dollars in Thousands)

Counterparty	Notional Amount	VRS Rate	Counterparty Rate	Maturity Date	Buying/ Selling Protection	Pay/ Receive Rate	Market Value 2012	Market Value 2011
Credit Default Swaps:								
Credit Suisse Group AG	$ 38,452			6/20/2017	Buying	1.000%	$ 2,738	-
Credit Suisse Group AG	12,533			6/20/2016	Selling	1.000%	100	-
Credit Suisse Group AG	12,000			6/20/2017	Selling	1.000%	(72)	-
Credit Suisse Group AG	8,000			12/20/2016	Buying	1.000%	157	-
Credit Suisse Group AG	6,250			12/20/2016	Buying	1.000%	(49)	-
Credit Suisse Group AG	5,900			12/20/2016	Selling	1.000%	(14)	-
Credit Suisse Group AG	5,000			12/20/2016	Buying	1.000%	(121)	-
Credit Suisse Group AG	5,000			12/20/2016	Buying	1.000%	(68)	-
Credit Suisse Group AG	5,000			12/20/2016	Buying	1.000%	81	-
Credit Suisse Group AG	4,575			9/20/2017	Selling	1.000%	(121)	-
Credit Suisse Group AG	4,050			12/20/2016	Buying	5.000%	(375)	-
Credit Suisse Group AG	4,050			12/20/2016	Buying	1.000%	305	-
Credit Suisse Group AG	3,700			6/20/2017	Selling	1.000%	(61)	-
Credit Suisse Group AG	2,500			12/20/2016	Selling	1.000%	(3)	-
Credit Suisse Group AG	2,094			9/20/2017	Selling	5.000%	(143)	-
Credit Suisse Group AG	1,500			12/20/2016	Selling	5.000%	(65)	-
Credit Suisse Group AG	800			12/20/2016	Selling	1.000%	(1)	-
Credit Suisse Group AG	500			12/20/2012	Selling	1.000%	1	-
Credit Suisse Group AG	475			6/20/2017	Buying	1.000%	31	-
Credit Suisse Group AG	200			12/20/2016	Selling	1.000%	(5)	-
Credit Suisse AG	2,500			6/20/2016	Buying	5.000%	-	(223)
Credit Suisse AG	7,000			6/20/2016	Buying	5.000%	-	(917)
Credit Suisse AG	15,948			6/20/2016	Buying	1.000%	-	1,211
Credit Suisse AG	35,000			6/20/2016	Selling	1.000%	-	131
Deutsche Bank AG	10,000			12/20/2012	Selling	5.000%	163	-
Deutsche Bank AG	9,300			6/20/2017	Selling	5.000%	902	-
Deutsche Bank AG	6,500			12/20/2012	Selling	1.000%	(14)	-
Deutsche Bank AG	6,500			12/20/2012	Selling	5.000%	132	-
Deutsche Bank AG	6,000			12/20/2016	Selling	1.000%	56	-
Deutsche Bank AG	5,800			12/20/2016	Selling	1.000%	(100)	-
Deutsche Bank AG	5,800			12/20/2016	Selling	1.000%	(60)	-
Deutsche Bank AG	5,000			6/20/2017	Selling	1.000%	(261)	-
Deutsche Bank AG	5,000			12/20/2012	Selling	1.000%	2	-
Deutsche Bank AG	5,000			12/20/2012	Selling	1.000%	4	-
Deutsche Bank AG	5,000			12/20/2016	Buying	1.000%	260	-
Deutsche Bank AG	5,000			12/20/2016	Buying	1.000%	81	-
Deutsche Bank AG	4,000			12/20/2016	Selling	1.000%	(28)	-
Deutsche Bank AG	4,000			12/20/2012	Selling	1.000%	9	-
Deutsche Bank AG	3,800			6/20/2021	Selling	1.000%	(253)	-
Deutsche Bank AG	3,426			3/20/2014	Selling	5.000%	(40)	-
Deutsche Bank AG	3,150			12/20/2016	Buying	1.000%	42	-
Deutsche Bank AG	2,300			9/20/2013	Selling	1.000%	9	-
Deutsche Bank AG	1,500			12/20/2013	Selling	5.000%	(4)	-
Deutsche Bank AG	1,200			12/20/2016	Selling	1.000%	(1)	-
Deutsche Bank AG	600			12/20/2012	Selling	1.000%	2	-
Deutsche Bank AG	500			12/20/2012	Selling	1.000%	2	-
Deutsche Bank AG	200			12/20/2012	Selling	1.000%	-	-
Deutsche Bank AG/London	6,800			6/20/2021	Selling	1.000%	-	(295)
Deutsche Bank AG/London	7,750			6/20/2016	Selling	5.000%	-	1,015
Deutsche Bank AG/London	200			9/20/2015	Selling	1.000%	-	3
Deutsche Bank AG/London	500			6/20/2021	Selling	1.000%	-	(19)
Deutsche Bank AG/London	2,000			3/20/2015	Selling	1.000%	-	(13)
Deutsche Bank AG/London	2,100			9/20/2014	Selling	5.000%	-	269
Deutsche Bank AG/London	2,300			6/20/2015	Selling	1.000%	-	(35)
Deutsche Bank AG/London	3,600			12/20/2015	Selling	1.000%	-	80
Deutsche Bank AG/London	5,000			6/20/2015	Selling	1.000%	-	(21)
Deutsche Bank AG/London	2,180			6/20/2018	Selling	1.000%	-	(93)
Goldman Sachs Group Inc/The	11,100			6/20/2017	Selling	1.000%	(67)	-
Goldman Sachs Group Inc/The	7,750			6/20/2017	Selling	5.000%	752	-
Goldman Sachs Group Inc/The	6,726			12/20/2016	Buying	1.000%	370	-
Goldman Sachs Group Inc/The	6,600			3/20/2013	Selling	5.000%	169	-
Goldman Sachs Group Inc/The	6,000			12/20/2016	Selling	1.000%	(7)	-
Goldman Sachs Group Inc/The	5,800			12/20/2016	Buying	Variable Rate	398	-
Goldman Sachs Group Inc/The	5,800			12/20/2016	Buying	Variable Rate	459	-
Goldman Sachs Group Inc/The	5,400			12/20/2016	Buying	1.000%	108	-
Goldman Sachs Group Inc/The	5,275			6/20/2017	Selling	0.250%	(182)	-
Goldman Sachs Group Inc/The	5,000			12/20/2016	Buying	1.000%	174	-
Goldman Sachs Group Inc/The	4,375			6/20/2013	Selling	1.000%	(75)	-
Goldman Sachs Group Inc/The	4,000			12/20/2016	Selling	1.000%	(195)	-
Goldman Sachs Group Inc/The	3,950			9/20/2017	Selling	1.000%	(349)	-
Goldman Sachs Group Inc/The	3,200			12/20/2016	Selling	1.000%	(26)	-
Goldman Sachs Group Inc/The	3,160			3/20/2014	Selling	5.000%	91	-
Goldman Sachs Group Inc/The	3,150			12/20/2016	Buying	1.000%	1	-
Goldman Sachs Group Inc/The	2,900			12/20/2016	Selling	5.000%	(229)	-
Goldman Sachs Group Inc/The	2,650			6/20/2017	Selling	1.000%	(132)	-
Goldman Sachs Group Inc/The	2,500			12/20/2016	Buying	1.000%	165	-
Goldman Sachs Group Inc/The	2,500			12/20/2016	Selling	5.000%	(28)	-
Goldman Sachs Group Inc/The	2,000			9/20/2017	Buying	1.000%	21	-
Goldman Sachs Group Inc/The	2,000			9/20/2017	Buying	1.000%	36	-
Goldman Sachs Group Inc/The	2,000			12/20/2016	Selling	1.000%	(206)	-

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Swap Agreements
as of June 30
(Continued from previous page)

(Dollars in Thousands)

Counterparty	Notional Amount	VRS Rate	Counterparty Rate	Maturity Date	Buying/ Selling Protection	Pay/ Receive Rate	Market Value 2012	Market Value 2011
Credit Default Swaps *(continued)*:								
Goldman Sachs Group Inc/The	1,800			12/20/2016	Selling	1.000%	(348)	-
Goldman Sachs Group Inc/The	1,777			3/20/2017	Buying	3.000%	119	-
Goldman Sachs Group Inc/The	1,600			3/20/2014	Selling	5.000%	46	-
Goldman Sachs Group Inc/The	1,500			12/20/2012	Selling	1.000%	1	-
Goldman Sachs Group Inc/The	1,500			3/20/2014	Selling	5.000%	60	-
Goldman Sachs Group Inc/The	1,400			9/20/2016	Selling	5.000%	46	-
Goldman Sachs Group Inc/The	1,300			12/20/2013	Selling	5.000%	37	-
Goldman Sachs Group Inc/The	1,269			9/20/2017	Buying	1.000%	72	-
Goldman Sachs Group Inc/The	1,269			9/20/2017	Buying	1.000%	72	-
Goldman Sachs Group Inc/The	1,000			9/20/2017	Buying	1.000%	75	-
Goldman Sachs Group Inc/The	1,000			9/20/2017	Buying	1.000%	38	-
Goldman Sachs Group Inc/The	952			12/20/2016	Selling	1.000%	(197)	-
Goldman Sachs Group Inc/The	900			6/20/2017	Selling	5.000%	(25)	-
Goldman Sachs Group Inc/The	800			12/20/2012	Selling	1.000%	2	-
Goldman Sachs Group Inc/The	800			12/20/2012	Selling	1.000%	2	-
Goldman Sachs Group Inc/The	300			12/20/2012	Selling	1.000%	-	-
Goldman Sachs Bank USA/New York NY	544			6/20/2016	Selling	1.000%	-	(2)
Goldman Sachs Bank USA/New York NY	1,200			6/20/2012	Buying	Variable Rate	-	(1)
Goldman Sachs Bank USA/New York NY	3,600			6/20/2016	Selling	1.000%	-	(60)
Goldman Sachs Bank USA/New York NY	3,827			6/20/2016	Selling	1.000%	-	(10)
Goldman Sachs Bank USA/New York NY	5,401			6/20/2016	Selling	1.000%	-	(14)
Goldman Sachs Bank USA/New York NY	15,560			6/20/2016	Buying	1.000%	-	(58)
Goldman Sachs International	500			3/20/2016	Selling	1.000%	-	(16)
Goldman Sachs International	1,100			6/20/2016	Selling	1.000%	-	10
UBS AG	7,350			6/20/2017	Buying	1.000%	(42)	-
UBS AG	6,000			6/20/2021	Selling	1.000%	(502)	-
UBS AG	1,850			9/20/2016	Selling	1.000%	(339)	-
UBS AG	1,600			6/20/2015	Selling	5.000%	49	-
UBS AG	200			12/20/2012	Selling	1.000%	-	-
UBS AG/London	11,850			6/20/2021	Selling	1.000%	-	(775)
UBS AG/Stamford CT	1,850			9/20/2016	Selling	1.000%	-	(182)
UBS AG/Stamford CT	4,475			12/20/2013	Buying	1.800%	-	(115)
Totals-Credit Default Swaps	504,943						3,632	(130)
Inflation Swaps:								
Merrill Lynch Capital Services	10,000	US CPI Urban Consumer NSA	3.2700%	7/5/2021			-	(19)
Total Inflation Swaps	10,000						-	(19)
Interest Rate Swaps:								
Credit Suisse Group AG	45,000	1.08875%	3-month USD LIBOR	2/14/2017			(384)	-
Credit Suisse Group AG	21,873	Brazil Cetip Interbank Deposit	8.97%	1/2/2015			246	-
Credit Suisse Group AG	18,680	Brazil Cetip Interbank Deposit	7.98%	1/2/2014			18	-
Credit Suisse Group AG	11,274	3-month Malaysia Interbank Fixing	3.33%	1/20/2017			68	-
Credit Suisse Group AG	10,077	3-month Malaysia Interbank Fixing	3.39%	5/9/2017			85	-
Credit Suisse Group AG	6,800	2.75%	3-month USD LIBOR	6/20/2042			(366)	-
Credit Suisse Group AG	6,703	Mexico Interbank 28 day Index	6.35%	4/11/2022			264	-
Credit Suisse Group AG	3,873	Mexico Interbank 28 day Index	6.20%	6/7/2022			98	-
Goldman Sachs Group Inc	25,000	1.26%	3-month USD LIBOR	10/3/2016			456	-
Goldman Sachs Group Inc	25,000	1.25%	3-month USD LIBOR	10/3/2016			456	-
Goldman Sachs Bank USA/New York NY	500	4.09%	3-month LIBOR	5/24/2041			-	(2)
Goldman Sachs Bank USA/New York NY	1,700	2.0975%	3-month LIBOR	5/23/2016			-	(11)
Goldman Sachs Bank USA/New York NY	2,900	3-month LIBOR	3.41%	3/18/2021			-	50
Goldman Sachs Bank USA/New York NY	3,300	2.40%	3-month USD LIBOR	3/8/2016			-	(78)
Goldman Sachs Bank USA/New York NY	4,500	3.37%	3-month USD LIBOR	10/5/2040			-	541
Goldman Sachs Bank USA/New York NY	6,000	4.2825%	3-month USD LIBOR	4/19/2041			-	(231)
Goldman Sachs Bank USA/New York NY	6,800	2.18%	3-month USD LIBOR	1/13/2016			-	(110)
Goldman Sachs Bank USA/New York NY	7,200	3-month USD LIBOR	3.3%	5/6/2021			-	43
Goldman Sachs Bank USA/New York NY	10,000	3-month USD LIBOR	3.32%	5/23/2021			-	76
Goldman Sachs Bank USA/New York NY	11,000	0.66%	3-month USD LIBOR	6/29/2013			-	3
Goldman Sachs Bank USA/New York NY	18,500	0.66%	3-month USD LIBOR	6/29/2013			-	6
Goldman Sachs Bank USA/New York NY	22,000	0.85%	3-month USD LIBOR	1/25/2013			-	(114)
Goldman Sachs Bank USA/New York NY	30,100	0.89%	3-month USD LIBOR	3/3/2013			-	(169)
UBS AG	71,713	Brazil Cetip Interbank Deposit	7.96%	1/2/2014			51	-
UBS AG	59,452	Brazil Cetip Interbank Deposit	10.77%	1/2/2014			2,264	-
UBS AG	29,793	Mexico Interbank 28 day Index	5.80%	6/8/2016			788	-
UBS AG	18,331	Brazil Cetip Interbank Deposit	9.84%	7/1/2013			438	-
UBS AG	16,944	Brazil Cetip Interbank Deposit	9.76%	7/1/2013			386	-
UBS AG	7,431	Brazil Cetip Interbank Deposit	8.25%	1/2/2014			32	-
UBS AG	5,758	Mexico Interbank 28 day Index	5.60%	9/6/2016			108	-
UBS AG	5,072	Mexico Interbank 28 day Index	6.75%	9/2/2022			336	-
UBS AG	3,567	Brazil Cetip Interbank Deposit	11.83%	1/2/2013			104	-
UBS AG/Stamford CT	12,378	JIBA3M INDEX	8.45%	3/31/2021			-	235
UBS AG/Stamford CT	47,212	6.75%	JIBA3M INDEX	3/31/2013			-	(290)
UBS AG/Stamford CT	38,970	0.00%	3-month USD LIBOR	2/15/2025			-	(3,013)
Total Interest Rate Swaps	615,401						5,448	(3,064)

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Swap Agreements

as of June 30

(Continued from previous page)

(Dollars in Thousands)

Counterparty	Notional Amount	VRS Rate	Counterparty Rate	Maturity Date	Buying/ Selling Protection	Pay/ Receive Rate	Market Value 2012	Market Value 2011
Blackrock Advisors UK Ltd	61,900	1-month LIBOR +22 bps	BRCLYS Fixed Rate MBS	9/30/11			-	-
Credit Suisse AG	97,748	1-month LIBOR -16 bps	MSCI Daily EAFE Canada	8/31/11			-	(1,286)
Deutsche Bank AG/London	7,003	1-month LIBOR	IOS FN30 450.10	1/12/2041			-	47
Goldman Sachs Group Inc	704,400	0.47%	MSCI AC World Index IMI	4/2/2013			(340)	-
Goldman Sachs Bank USA/New York NY	145	1-month LIBOR	FL US Tbill	1/12/2040			-	1
Goldman Sachs Bank USA/New York NY	726	1-month LIBOR	IOS FN30 450.09	1/12/2040			-	-
Goldman Sachs Bank USA/New York NY	2,813	1-month LIBOR	IOS FN30 600.08	1/12/2039			-	-
Goldman Sachs International	237,298	3-month LIBOR + 55 bps	MSCI AC World Index IMI	3/31/12			-	(26)
UBS AG/Stamford CT	43,600	1-month LIBOR + 15 bps	BRCLYS Fixed Rate MBS	7/31/11			-	31
UBS AG/Stamford CT	61,800	3-month LIBOR + 26 bps	BRCLYS Fixed Rate MBS	12/31/11			-	-
UBS AG/Stamford CT	277,212	1-month LIBOR - 14 bps	MSCI Daily EAFE Canada USD	11/30/2011			-	(4,018)
Total Return Swaps	1,494,645						(340)	(5,251)
Total Swaps	$ 2,624,989						$ 8,740	$ (8,464)

Additional information is available in the System's separately issued financial statements which may be obtained from the Virginia Retirement System at P.O. Box 2500, Richmond, Virginia 23218-2500.

Component Units

Investment Derivative Instruments

The Virginia Housing Development Authority (major) had a forward sales contract investment derivative with a $63,300,000 notional value and a fair value of $636,387 as of June 30, 2012. This amount is reported as part of investment earnings and other liabilities.

Hedging Derivative Instruments

At June 30, 2012, the University of Virginia (UVA) (major) had two fixed-payer interest rate swaps totaling $100,000,000 in notional amount. The swaps are used as cash flow hedges by UVA in order to provide a cash flow hedge against changes in interest rates on $78,639,000 of the variable rate Series 2003A Bonds maturing in June 2034 and $21,361,000 of outstanding commercial paper which may have various maturities of no greater than 270 days each. UVA pays fixed rates of 4.154 percent and 4.066 percent and the underlying index for the swaps is the Securities Industry and Financial Markets Municipal Swap Index (SIFMA). The floating rate on June 30, 2012, was 0.16 percent. The payments are settled monthly at the first of each month. The swaps were entered into in January 2007 and February 2007 and both swaps mature June 1, 2038. The swaps were entered into at a zero market value and no payments were made or received when they were initiated. At June 30, 2012, the negative market value of the swaps of $35,053,051 is included in other liabilities in the accompanying financial statements. For the year ended June 30, 2012, the change in fair value of UVA's swaps was an increase of $23,930,321 to the prior year's deferred outflows amount of $11,122,730 resulting in deferred outflows as of June 30, 2012 of $35,053,051 included in the accompanying financial statements.

The fair value was determined by using the quoted SIFMA index curve at the time of market valuation. UVA would be exposed to the credit risk of its swap counterparties any time the swaps had a positive market value. At June 30, 2012, UVA had no credit risk related to its swaps. As of June 30, 2012, UVA's swap counterparties were rated A- from Standard & Poor's or A3 by Moody's. To mitigate credit risk, UVA limits market value exposure and requires the posting of collateral based on the credit rating of the counterparty. All counterparties, or their guarantors, are required to have at least an A-/A3 rating by Standard & Poor's and Moody's, respectively. As of June 30, 2012, no collateral was required to be posted by the counterparties.

Interest rate risk is the risk that an unexpected change in interest rates will negatively affect the collective value of a hedge and a hedged item. When viewed collectively, the hedges and the hedged item are subject to interest rate risk in that a change in interest rate will impact the collective market value of both the hedge and hedged item. Conversely, the collective effect of the hedges and the hedged item serve to reduce cash flow variability caused by changes in interest rates. Basis risk arises when different indexes are used in connection with a derivative resulting in the hedge and hedged item not experiencing price changes in entirely opposite directions from each other. UVA's swaps are deemed to be effective hedges of its variable rate debt with an amount of basis risk that is within the guidelines for establishing hedge effectiveness. Termination risk arises when the unscheduled termination of a derivative could have an adverse effect on UVA's strategy or could lead to potentially significant unscheduled payments. UVA's derivative contracts use the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an additional termination event. That is, the swap may be terminated by either party if the counterparty's credit rating falls below BBB/Baa2 in the case of Standard & Poor's and Moody's, respectively. UVA or the counterparty may also terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination the swap has a negative market value, UVA would be liable to the counterparty for a payment equal to the swap's market value.

In December 2005, Virginia Commonwealth University (VCU) (major) entered into an interest rate swap agreement in anticipation of the issuance of General Revenue Pledge Bonds, Series 2006A and Series 2006B, which carry variable interest rates. The swap has a notional amount of $67,875,000 as of year-end, which declines over time to $4,835,000 at the termination date of November 1, 2030. VCU pays a fixed rate of 3.436 percent and the counterparty pays 67.0 percent of the London Interbank Offered Rate (LIBOR) (0.16 percent as of June 30, 2012). The payments are settled monthly at the first of each month. In December 2005, the Medical College of Virginia Hospitals (MCVH) which is a division of the Virginia Commonwealth University Health System Authority (a blended component unit of VCU), entered into an interest rate swap agreement in conjunction with the issuance of its Series 2005 tax-exempt bonds. The swap has a notional amount of $71,800,000 as of year-end, which declines over time to $8,000,000 at the maturity date of July 1, 2030. MCVH pays a fixed rate of 3.499 percent and the counterparty pays 67.0 percent of LIBOR (0.16 percent as of June 30, 2012). The payments are settled monthly at the first of each month. In June 2007, the MCVH entered into two interest rate swap agreements in anticipation of the issuance of the Series 2008 tax-exempt bonds. The swaps have a combined notional amount of $122,500,000 as of year-end, which declines over time to $15,700,000 at the termination date of July 1, 2037. MCVH pays a fixed rate of 3.84 percent and the counterparty pays 67.0 percent of LIBOR (0.16 percent as of June 30, 2012). The payments are settled monthly at the first of each month. At June 30, 2012, the negative fair market value of VCU's swap of $14,280,784 and MCVH's swaps of $64,081,370 are included in other liabilities in the accompanying financial statements. For the year ended June 30, 2012, the change in fair value of VCU's swap was an increase of $6,489,536 to the prior year's deferred outflows amount of $7,791,248 and the change in MCVH's swaps was an increase of $32,276,211 to the prior year's deferred outflows amount of $31,805,159 resulting in deferred outflows as of June 30, 2012 of $78,362,154 included in the accompanying financial statements.

The fair value of VCU's derivative was calculated by Deutshe Bank using undisclosed proprietary methods. The fair values of MCVH's derivatives were calculated by Wells Fargo and Bank of America using undisclosed proprietary pricing models.

VCU and MCVH use interest rate swap agreements to limit exposure to rising interest rates on its variable rate debt. VCU and MCVH are exposed to interest rate risk on the interest rate swaps. On the pay-fixed, receive-variable interest rate swaps, as the LIBOR index decreases, VCU and MCVH's net payments on the swaps increase.

The following schedule shows debt service requirements of UVA, VCU, and MCVH bonds payable debt of $361,409,000 and UVA's short-term debt (commercial paper) of $21,361,000 and net receipts/payments on associated derivative instruments. These amounts assume that current variable and reference rates on the hedging instruments will remain the same for their terms. As these rates vary, net receipt/payments on the hedging instruments will vary. Additional information is available in the individually published financial statements of the higher education institution.

Maturity	Principal	Variable Interest	Derivative Instruments, Net	Total
2013	$ 5,305,000	$ 566,992	$ 12,999,430	$ 18,871,422
2014	5,605,000	560,348	12,850,299	19,015,647
2015	5,810,000	553,472	12,692,613	19,056,085
2016	6,040,000	546,336	12,528,167	19,114,503
2017	6,265,000	538,943	12,340,314	19,144,257
2018-2022	35,220,000	2,573,876	58,627,303	96,421,179
2023-2027	64,875,000	2,241,343	51,859,219	118,975,562
2028-2032	67,795,000	1,722,993	40,350,031	109,868,024
2033-2037	148,794,000	683,853	14,718,926	164,196,779
2038-2042	37,061,000	34,178	1,687,519	38,782,697
Total	$ 382,770,000	$ 10,022,334	$ 230,653,821	$ 623,446,155

Various foundations of higher education institutions and the Virginia Museum of Fine Arts Foundation (nonmajor) have derivative instruments. The foundations follow FASB rather than GASB reporting requirements. Disclosures for the foundations' derivatives can be found in the individually published financial statements of the foundations.

14. RETIREMENT AND PENSION SYSTEMS

A separately issued financial report that includes financial statements and required supplemental information for each of the individual plans discussed below is publicly available. Copies may be obtained by writing to Virginia Retirement System, P. O. Box 2500, Richmond, Virginia 23218-2500.

A. Administration

The Virginia Retirement System (the System) is an independent agency of the Commonwealth that administers two defined benefit pension plans, VRS Plan 1 and VRS Plan 2, other employee benefit plans, and other funds for Commonwealth employees, teachers, political subdivision employees, and other qualifying employees. The Board of Trustees is responsible for the general administration and operation of the plans. The Board consists of five members appointed by the Governor and four members appointed by the Joint Rules Committee, all subject to confirmation by the General Assembly. The Board of Trustees appoints a director to serve as the chief administrative officer of the System and a chief investment officer to direct, manage and administer the investment of the System's funds. The Board of Trustees has appointed BNY Mellon as the custodian of designated assets of the System.

The System administers four pension trust funds: the Virginia Retirement System (VRS); State Police Officers' Retirement System (SPORS); Virginia Law Officers' Retirement System (VaLORS); and the Judicial Retirement System (JRS). In addition to the pension plans, the System administers four Other Employee Benefit Plans: Group Life

Insurance Fund; Retiree Health Insurance Credit Fund; the Virginia Sickness and Disability Program (VSDP); and the Line of Duty Act Trust Fund.

B. Summary of Significant Accounting Policies (Virginia Retirement System)

Basis of Accounting

The financial statements of the pension and other employee benefit trust funds are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Employee and employer contributions are recognized when due, pursuant to formal commitments, as well as statutory or contractual requirements. Investment income is recognized as earned by the plans. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Method Used to Value Investments

Investments are reported at fair value as determined by the System's master custodian, BNY Mellon, from its Global Pricing System. This pricing system assigns a price source, based on asset type and the vendor pricing products to which the master custodian subscribes, for every security held immediately following its acquisition. Prices supplied by these sources are monitored on a daily basis by the master custodian.

When a pricing source is unable to provide a price, quotes are sought from major investment brokers and market-making dealers; or internal calculations are applied if feasible. As a last resort, the master custodian will contact investment managers for a price. The master custodian prices commingled funds, partnerships, and real estate assets from statements received from the funds, partnerships, or investment managers.

The pricing sources utilized by the master custodian provide daily prices for equity securities, corporate, government and mortgage-backed fixed income securities, private placement securities, futures and options on futures, open-ended funds, and foreign exchange rates. Depending on the vendor, collateralized mortgage obligations (CMOs), adjustable rate mortgages (ARMs) and asset-backed securities are priced daily, weekly or twice a month and at month-end. Municipal fixed income securities and options on Treasury/Government National Mortgage Association securities are priced at month-end.

The System's investment guidelines for each specific portfolio limits investments in any corporate entity to no more than 5.0 percent of the market value of the account for both the internally and externally managed portfolios. There is no concentration of investments in any one organization that represents 5.0 percent or more of plan net assets available for benefits.

C. Plan Description

Retirement Plans

The Virginia Retirement System is a qualified governmental retirement plan that provides defined benefit coverage for state employees, public school board employees, employees of participating political subdivisions and other qualifying employees. VRS is a mixed-agent and cost-sharing, multiple-employer retirement plan, which administers two defined benefit plans, the VRS Plan 1 and the VRS Plan 2. The plan's accumulated assets may legally be used to pay all plan benefits provided to any of the plan members, retirees, and beneficiaries. Contributions for fiscal year 2012 were $1.7 billion with a reserve balance available for benefits of $50.3 billion. At June 30, 2012, the VRS had 834 contributing employers.

Single-employer Retirement Plans

The Commonwealth also administers Plan 1 and Plan 2 for the following single-employer retirement plans:

- State Police Officers' Retirement System (SPORS)
- Virginia Law Officers' Retirement System (VaLORS)
- Judicial Retirement System (JRS)

All full-time, salaried permanent employees of VRS participating employers are automatically covered under VRS, SPORS, VaLORS or JRS with the following exceptions: (1) certain full-time faculty and administrative staff of public colleges and universities; and (2) eligible classified employees of the two state teaching hospitals. These employees have the option to elect not to participate in the Virginia Retirement System. Benefit provisions and all other requirements are established by Title 51.1 of the *Code of Virginia*, as amended.

Benefits vest for all plans after five years of service credit. Vested VRS members in the VRS Plan 1 are eligible for an unreduced retirement benefit at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit as elected by the employer. Vested VRS members in the VRS Plan 2 are eligible for an unreduced retirement benefit at normal social security retirement age with at least five years of service credit or when age and service credit equal 90. Vested SPORS and VaLORS members in both the VRS Plan 1 and the VRS Plan 2 are eligible for an unreduced benefit at age 60 with at least five years of hazardous duty service credit or age 50 with at least 25 years of total service credit.

Annual retirement benefits are payable monthly for life in an amount equal to 1.7 percent of eligible members' average final compensation (AFC) for each year of service credit. AFC is the average of the member's 36 consecutive months of highest creditable compensation for members under the VRS Plan 1. Under the VRS Plan 2, member's AFC is the average of the member's 60 consecutive months of highest creditable compensation. The benefit for members of SPORS is calculated using a 1.85 percent multiplier. Members of SPORS also are eligible for a hazardous duty supplement, paid monthly, until they reach full Social Security retirement age.

Members of VaLORS hired before July 1, 2001, were allowed to make a one-time election to increase the multiplier from 1.7 to 2.0 percent instead of receiving a monthly hazardous duty supplement. VaLORS members who elected to retain the 1.7 percent multiplier are eligible for the supplement until age 65. Members of VaLORS hired after June 20, 2001, have their benefit computed using the 2.0 percent multiplier and are not eligible for the supplement.

Members of JRS receive weighted years of service credit for each year of actual service under JRS. VRS, SPORS, VaLORS, and JRS also provide death and disability benefits. A cost-of-living adjustment, based on changes in the Consumer Price Index and limited to 5.0 percent per year for VRS Plan 1 and 6.0 percent for VRS Plan 2, is granted on July 1 of the second calendar year after retirement and is effective each July 1 thereafter.

Benefits for all vested members are actuarially reduced if they retire before becoming eligible for an unreduced retirement benefit, provided they meet age requirements for a reduced retirement benefit.

As required by Title 51.1 of the *Code of Virginia*, as amended, members contribute 5.0 percent of their annual compensation to the defined benefits plans. Employers may assume the 5.0 percent member contribution. If a member leaves covered employment, the accumulated contributions plus earned interest may be refunded to the member. Each participating employer is required by state statute to contribute the remaining amounts necessary to fund the retirement plans using the entry age normal actuarial cost method adopted by the Board of Trustees. Contributions for fiscal year 2012 were $16.6 million, $21.9 million, and $42.2 million, and reserved balances available for benefits were $575.5 million, $354.3 million, and $894.9 million, for SPORS, JRS, and VaLORS, respectively. State statute may be amended only by the General Assembly. When funding rates are lower than required, the Commonwealth incurs a Net Pension Obligation liability which is reported in the accompanying financial statements as a component of Long-term Liabilities Due in More than One Year.

D. Funding Policy

The funding policy of the retirement plans provides for periodic employer contributions at actuarially determined rates, which will remain relatively level over time as a percentage of payroll and will accumulate sufficient assets to meet the cost of all basic benefits when due. Contribution rates are developed using the entry age normal cost method for both normal cost and amortization of the unfunded actuarial accrued liability. Gains and losses are reflected in the unfunded actuarial accrued liability that is being amortized as a level percentage of payroll within 30 years or less.

The System's actuary, Cavanaugh MacDonald Consulting, LLC, computed the amount of contributions to be provided by state agency employers, state police and other Virginia law employers. The contribution rates for fiscal year 2012 were based on the actuary's valuation as of June 30, 2009. Employer contributions by the Commonwealth to VRS, SPORS, VaLORS, and JRS were 2.08 percent, 7.73 percent, 5.07 percent, and 28.65 percent, respectively, for the first nine months and 6.58 percent, 21.16 percent, 13.09 percent, and 42.58 percent, respectively, for the last three months of covered payrolls. These rates were lower than the actuary's recommended rates to VRS, SPORS, VaLORS, and JRS of 8.46 percent, 25.56 percent, 15.93 percent, 46.79 percent, respectively.

In addition to determining contribution requirements, the actuarial computations present an estimate of the discounted present value of the prospective accrued liability contributions that employers will have to pay in the future so that such contributions, together with the assets on hand, the normal contributions to be made in the future by employers and members and the income earned by investing funds, will be sufficient to provide all benefits to be paid to present members in the future as well as the annuitants and their designated beneficiaries.

E. Annual Pension Cost and Net Pension Obligation

The following table (dollars in thousands) shows the Commonwealth's annual pension cost and net pension obligation to the VRS, SPORS, JRS, and VaLORS for the current and prior years.

	VRS			SPORS		
	2012	2011	2010	2012	2011	2010
Annual required contribution	$ 423,268	$ 383,620	$ 360,232	$ 38,178	$ 34,402	$ 32,341
Interest on net pension obligation	108,029	85,192	71,709	11,265	9,285	8,075
Adjustment to annual required contribution	(114,626)	(90,255)	(75,995)	(11,928)	(9,831)	(8,550)
Annual pension cost	416,671	378,557	355,946	37,515	33,856	31,866
Contributions made	(117,296)	(73,874)	(176,189)	(11,441)	(7,460)	(15,730)
Increase in net pension obligation	299,375	304,683	179,757	26,074	26,396	16,136
Net pension obligation, beginning of year	1,440,626	1,135,943	956,186	150,194	123,798	107,662
Net pension obligation, end of year	$ 1,740,001	$ 1,440,626	$ 1,135,943	$ 176,268	$ 150,194	$ 123,798
Percentage of annual pension cost contributed	28.2%	19.5%	49.5%	30.5%	22.0%	49.4%

	JRS			VaLORS		
	2012	2011	2010	2012	2011	2010
Annual required contribution	$ 35,804	$ 34,907	$ 29,483	$ 86,052	$ 79,596	$ 80,603
Interest on net pension obligation	7,720	6,427	5,520	29,037	24,469	21,446
Adjustment to annual required contribution	(8,174)	(6,806)	(5,845)	(30,746)	(25,910)	(22,708)
Annual pension cost	35,350	34,528	29,158	84,343	78,155	79,341
Contributions made	(18,907)	(17,303)	(17,065)	(24,481)	(17,255)	(39,027)
Increase in net pension obligation	16,443	17,225	12,093	59,862	60,900	40,314
Net pension obligation, beginning of year	102,923	85,698	73,605	387,160	326,260	285,946
Net pension obligation, end of year	$ 119,366	$ 102,923	$ 85,698	$ 447,022	$ 387,160	$ 326,260
Percentage of annual pension cost contributed	53.5%	50.1%	58.5%	29.0%	22.1%	49.2%

The amounts in the previous table include governmental and component unit activity for which the Commonwealth is considered the employer. It does not include the VRS liability for the Virginia Economic Development Partnership (nonmajor component unit), the Virginia Tourism Authority (nonmajor component unit), the Fort Monroe Authority (nonmajor component unit), and the Virginia National Defense Industrial Authority (nonmajor component unit) of $3.5 million, $1.9 million, $397,295, and $90,844, respectively. The table also excludes the non-VRS pension liability of $109.4 million for all other component units and includes the fiduciary pension liability of $11.3 million.

The contribution rates were determined during the actuarial valuation conducted as of June 30, 2009.

These valuations were prepared using the entry age normal cost method. The actuarial assumptions included (a) 7.0 percent investment rate of return, per year compounded annually; (b) projected salary increases ranging from 3.5 percent to 6.2 percent, including a 2.5 percent inflation component; and (c) 2.5 percent per year COLA. Valuation techniques were applied to smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining open amortization period at June 30, 2012, was 20 years. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

F. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2011, per the most recent actuarial valuation, was as follows:

(Dollars in Millions)

Actuarial Valuation Date June 30	Actuarial Value of Assets [a]	Actuarial Accrued Liability (AAL) Entry Age [b]	Unfunded AAL (UAAL) [b-a]	Funded Ratio [a/b]	Covered Payroll [c]	UAAL as a Percentage of Covered Payroll [b-a]/[c]
Virginia Retirement System (VRS)						
2011	$ 52,559	$ 75,185	$ 22,626	69.9%	$ 14,709	153.8%
State Police Officers' Retirement System (SPORS)						
2011	$ 617	$ 986	$ 369	62.6%	$ 100	370.3%
Virginia Law Officers' Retirement System (VaLORS)						
2011	$ 926	$ 1,683	$ 757	55.0%	$ 356	212.5%
Judicial Retirement System (JRS)						
2011	$ 371	$ 569	$ 198	65.2%	$ 59	336.8%

Actuarial valuations of ongoing plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plans and the annual contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information following the notes to the financial statements presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

G. Defined Contribution Plan for Political Appointees

Officers appointed by the Governor, officers elected by popular vote or the General Assembly, and executive branch chief deputies and confidential assistants may participate in the deferred contribution plan for Political Appointees, rather than the VRS. This optional retirement plan is authorized by the *Code of Virginia* and offered through the ING Institutional Plan Services (ING). This is a defined contribution plan where the retirement benefits are based upon the Commonwealth's (2.08 percent for the first nine months and 6.58 percent for the last three months) and the employee's (5.0 percent) contributions, plus interest and dividends. The Commonwealth pays the required employee contributions. During the year ended June 30, 2012, the total contributions to this plan were $1,054,525.

The summary of significant accounting policies for the plan is in accordance with those discussed in Note 14. B.

H. Defined Contribution Plan for Public School Superintendents

The Public School Superintendent Plan is a defined contribution pension plan that provides optional postemployment benefits for school superintendents. This plan is authorized by the *Code of Virginia*. The Board of Trustees of the System manages the investments of the fund as custodian. School boards may elect to offer this plan as an option to the standard VRS plan that is available for school board members. Contributions are provided by the school board for credit to the member. At June 30, 2012, there were two participants in this plan. Total contributions to the plan for fiscal year 2012 were $41,925.

I. Virginia Supplemental Retirement Plan

The Virginia Supplemental Retirement Plan is a defined contribution pension plan established by the Department of Education to provide an optional postemployment benefit plan for turnaround specialists in the public school system. This plan is utilized as an incentive to attract highly skilled teachers for participating public schools pursuant to the *Code of Virginia* by Title 51.1-617. The Board of Trustees of the System manages the investments of the fund as custodian. School boards may elect to offer this plan as an option to the standard VRS plan that is available for school board members. Contributions are provided by the school boards for credit to the members. At June 30, 2012, there were two participants in this plan. There were no contributions to the plan for fiscal year 2012.

J. Higher Education Fund (Component Unit)

The Commonwealth's colleges and universities participate in the defined benefit retirement plan administered by VRS. In addition, full-time faculty and certain administrative staff of the Commonwealth's colleges and universities may participate in optional retirement plans as authorized by the *Code of Virginia* rather than the VRS defined benefit retirement plan. These optional retirement plans are defined contribution plans offered through Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) Insurance Companies, Variable Annuity Life Insurance Company (VALIC), Fidelity Investments, Inc., and Vanguard. There are two defined contribution plans. Plan 1 is for employees hired prior to July 1, 2010, and retirement benefits received are based upon the employer's 10.4 percent contributions, plus interest and dividends. Plan 2 is for employees hired on or after July 1, 2010, and retirement benefits received are based upon the employer's 8.5 percent not to exceed 8.9 percent contribution and the employee's 5.0 percent contribution, plus interest and dividends. For Plan 2, the employer contributions for fiscal year 2012 were 8.5 percent except the employer contributions for the University of Virginia (major) were 8.9 percent. During the year ended June 30, 2012, the total contributions to these plans were:

	Plan 1	Plan 2		
	Employer	Employer	Employee	Total
TIAA-CREF	$ 75,070,050	$ 6,149,903	$ 3,584,910	$ 84,804,863
VALIC	984,660	75,480	44,520	1,104,660
Fidelity Investments	34,589,004	5,233,898	3,032,215	42,855,117
Vanguard	1,158,792	144,833	81,150	1,384,775
Total	$ 111,802,506	$ 11,604,114	$ 6,742,795	$ 130,149,415

University of Virginia Medical Center (part of the University of Virginia – major) employees hired after July 1, 1999, cannot participate in Plan 1 or Plan 2 noted above but have the option of participating in the Medical Center's Optional Retirement Plan. This is a defined contribution plan offered through TIAA-CREF, Fidelity Investments, Inc., and Vanguard. Under this plan, the employer contributions are 4.0 percent if hired on or after September 30, 2002, and 8.0 percent if hired prior to September 30, 2002. There are no employee contributions under this plan. During the year ended June 30, 2012, the total employer contributions to this plan were $12.2 million. The Medical Center also has a plan to cover their physicians who work for Community Medicine, LLC. These UVA employees participate in a Defined Contribution plan with retirement benefits based on tax-deferred accumulations. Vesting in the plan is 100.0 percent after 12 months of community service. All Community Medicine employees were hired after July 1, 2010. The current employer paid contribution is 11.9 percent of salaries paid. The total employer contributions to this plan for 2012 were $150,563.

The Virginia Commonwealth University Health System Authority (Authority) (a blended component unit of the Virginia Commonwealth University – major) contributes to the VRS. The System issues a separate stand-alone report that is publicly available as previously discussed. Effective July 1, 1997, the Authority established the Virginia Commonwealth University Health System Authority Defined Contribution Plan (the plan). All employees, excluding house staff, working at least 20 hours per week in a benefit eligible position are eligible to participate in the plan. Per the plan document as approved by the Authority's Board of Directors, the Authority contributes up to 10.0 percent of the participant's salary to the plan not to exceed the lesser of (a) the amount in accordance with Internal Revenue Code 415(d), or (b) 100.0 percent of the participant's compensation for such limitation year. Total contributions for the year ended June 30, 2012, were approximately $17.1 million. The Authority has the right at any time, and without the consent of any party, to terminate the plan in its entirety. The Authority's Board of Directors must approve any changes to the provisions of the plan, including the contribution requirements, in writing. The Authority has also established the Virginia Commonwealth University Health System Authority Health Care Providers Defined Contribution Plan (the HCP plan). All persons hired as a health care provider on or after July 1, 1993, and prior to July 1, 1997, and working at least 35 hours of service per week were eligible to participate in the HCP plan. At June 30, 2012, there were five actively employed participants in the HCP plan. Total contributions to the HCP plan for the year ended June 30, 2012, were approximately $32,000.

Previously, the MCV Associated Physicians (MCVAP) (a component unit of the Authority) sponsored the MCVAP 403(b) Retirement Fund (the 403(b) Plan), a defined contribution plan which covered substantially all non-medical employees of MCVAP. As of January 1, 2002, no additional contributions were made to this plan.

The Authority and MCVAP also sponsor the VCUHS Savings Plan (VCUHS 457(b) Plan), a savings plan that represents employee contributions and employees may also receive a 2.0 percent matching contribution in their VCUHS 401(a) Plan based on their 457(b) contribution.

MCVAP also sponsors the VCUHS 401(a) Retirement Plan, a defined contribution plan which covers all non-medical employees of MCVP. This plan became effective on January 1, 2002, and replaced the MCVAP 403 (b) plan for all non-medical staff. The contributions to the VCUHS 401(a) for the period ended June 30, 2012, were approximately $3.1 million.

MCVAP also sponsors the MCVAP 401(a) Retirement Plan (the 401(a) plan), a noncontributory, defined contribution plan which covers substantially all full-time eligible clinical providers of MCVAP, the MCVAP 403(b) Salary Deferral Plan, a salary deferral plan that represents physician contributions, and the MCVAP 403(b) Supplemental Plan, a noncontributory defined contribution plan for highly compensated employees. Contributions to the 401(a) plan, as determined annually at the discretion of the board of directors were approximately $11.3 million for the year ended June 30, 2012.

VA Premier (a component unit of the Authority) adopted a 401(k) plan sponsored by Fidelity Investments. Employees become eligible to participate in the plan after completing one year of service, during which the employee completes 1,000 hours of service. There is no minimum service or age requirement to be in the 401(k) plan. Employees may contribute 1.0 percent to 15.0 percent of their compensation. VA Premier will match 50.0 percent of the employees' contributions up to 4.0 percent of the employees' compensation. Matching will occur based on the bi-weekly pay periods. In addition, VA Premier contributes 3.0 percent of the employee's compensation after each bi-weekly payroll effective when the employee begins employment. Employees are fully vested after four years of service in which the employees have at least 1,000 hours of service each year. The total expense to VA Premier in fiscal year 2012 was approximately $1.2 million.

Effective January 1, 1997, James Madison University (nonmajor) established a Supplemental Retirement Plan for tenured faculty members. The plan was designed to provide flexibility in the allocation of faculty positions. The plan is a qualified plan within the meaning of section 401(c) of the Internal Revenue Code of 1986 (the Code) and is a governmental plan within the meaning of section 414(d) of the Code. Since it is a governmental plan, the plan is not subject to the Employee Retirement Income Security Act of 1974 as amended. Since inception, 199 faculty members have elected to enroll in the plan. As of June 30, 2012, 69 participants remain, including 16 new participants who retired under this plan during fiscal year 2012. In order to satisfy IRS requirements, a trust fund has been established as a means to make the payments to the plan participants. The University prepaid approximately $1.9 million of the fiscal year 2013 plan contribution in 2012.

The Center for Innovative Technology (CIT) is a blended component unit of the Innovation and Entrepreneurship Investment Authority (nonmajor). The CIT has a defined contribution retirement plan covering substantially all employees. Under the plan, contributions are fixed at a percentage of each employee's compensation to pay premiums for individual retirement annuity contracts written by TIAA-CREF. Contributions for the plan totaled $476,745 in fiscal year 2012.

K. Other Component Units

Note 1.B. outlines the component units included in the Commonwealth's reporting entity. The Virginia Public Building Authority (blended - primary government), the Virginia Public School Authority (major), the Virginia College Building Authority (nonmajor), the Virginia University Research Partnership (nonmajor), and the Virginia School for the Deaf and Blind Foundation (nonmajor) have no employees. The Virginia Economic Development Partnership, the Small Business Financing Authority, the Hampton Roads Sanitation District Commission, the Virginia Biotechnology Research Partnership Authority, the A. L. Philpott Manufacturing Extension Partnership, the Virginia Tourism Authority, the Tobacco Indemnification and Community Revitalization Commission, the Virginia Foundation for Healthy Youth, the Virginia Land Conservation Foundation, the Virginia Arts Foundation, the Virginia National Defense Industrial Authority, and the Library of Virginia Foundation (all nonmajor) contribute solely to the VRS, a mixed-agent and cost-sharing multiple-employer retirement plan. The System issues a separate stand-alone report that is publicly available as previously discussed.

Full-time employees of the Virginia Housing Development Authority (major) participate in a defined contribution employees' retirement savings plan administered by the Authority. This is a noncontributory plan where the Authority incurs employment retirement savings expense equal to between 8.0 and 11.0 percent of full-time employees' compensation. Total retirement savings expense under this plan was $2.7 million in fiscal year 2012.

The Virginia Outdoors Foundation (nonmajor) maintains a 401(k) contribution plan and provides an employer contribution to all eligible employees of 2.0 percent of their salary. Employees can contribute to the plan up to the IRS limit and the Foundation will match up to 4.0 percent of an employees' contribution.

The Virginia Port Authority (nonmajor) contributes to the VRS. The Authority also sponsors two single-employer noncontributory defined benefit pension plans. The Virginia Port Authority Pension Plans are administered by the Authority and provide retirement, disability, and death benefits to plan members and beneficiaries. Benefit provisions and obligations are established and may be amended by the board of commissioners of the Authority.

The components of annual pension cost and prepaid pension obligation for the first single-employer noncontributory defined benefit pension plan are as follows:

Trend Information

	2012	2011	2010
Service cost - benefits earned during the year	$ 3,386,700	$ 3,589,900	$ 2,834,000
Interest cost on projected benefit obligation	5,248,100	4,886,100	4,762,200
Expected return on assets	(5,017,000)	(4,212,000)	(3,535,600)
Net amortization and deferral	2,283,500	3,589,200	3,205,400
FAS88 Special Termination Benefits	1,150,500	-	-
Annual pension cost	7,051,800	7,853,200	7,266,000
Contributions made	(2,583,300)	-	(7,920,000)
Increase (Decrease) in prepaid pension obligation	4,468,500	7,853,200	(654,000)
Prepaid pension obligation, beginning of year	(393,600)	(8,246,800)	(7,592,800)
Prepaid pension obligation, end of year	$ 4,074,900	$ (393,600)	$ (8,246,800)

Costs have been computed in accordance with the aggregate cost method. Changes in plan provisions and actuarial assumptions, and actuarial gains and losses are not separately amortized under this method. Rather the impact is spread through the nominal cost component over the future working lifetime of participants. The actuarial present value of accumulated plan benefits is determined by an actuary using end of year benefit information as of September 30, 2011, 2010 and 2009, respectively, and is determined by applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money and the probability of payment.

The following table sets forth the plan's funded status and the related amounts recorded in the Authority's balance sheets at June 30, 2012, 2011, and 2010.

Trend Information

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
2012	$ 7,051,800	37 %	$ 4,074,900
2011	$ 7,853,200	- %	$ (393,600)
2010	$ 7,266,000	109 %	$ (8,246,800)

In November 2001, the second plan was amended to provide benefits to sworn police officers that more closely resemble the new retirement benefits provided to members of the Virginia Law Officers Retirement System. The effect of those changes is included in the accompanying pension data.

The components of annual pension cost and prepaid pension obligation for the second single-employer noncontributory defined benefit pension plan are shown in the following schedule.

Trend Information

	2012	2011	2010
Service cost - benefits earned during the year	$ 965,081	$ 1,101,909	$ 1,111,163
Interest cost on projected benefit obligation	72,381	82,643	83,337
Expected return on assets	(134,104)	(109,452)	(135,251)
Net amortization and deferral	215,428	171,448	208,410
Annual pension cost	1,118,786	1,246,548	1,267,659
Contributions made	(1,523,156)	(1,575,234)	(923,681)
Increase (Decrease) in pension obligation	(404,370)	(328,686)	343,978
Pension obligation, beginning of year	(1,788,052)	(1,459,366)	(1,803,344)
Prepaid pension obligation, end of year	$ (2,192,422)	$ (1,788,052)	$ (1,459,366)

The annual pension cost for the current year was determined as part of the July 2012 actuarial valuation using the aggregate actuarial cost method, which does not identify and separately amortize unfunded actuarial liabilities. Because of this, information about the funded status and funding progress is presented using the entry age actuarial cost method. The information presented is intended to serve as a surrogate for the funded status and funding progress of the plan. Actual value of assets was determined using market value. The discount rate used in determining the actuarial liability was based on a 7.5 percent discount rate and a 4.0 percent future compensation level was used for future years.

The following table sets forth the plan's funded status and the related amounts recorded in the Authority's balance sheets at June 30, 2012, 2011, and 2010.

Trend Information

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
2012	$ 1,118,786	136 %	$ (2,192,422)
2011	$ 1,246,548	126 %	$ (1,788,052)
2010	$ 1,267,659	73 %	$ (1,459,366)

The Authority also sponsors two noncontributory supplemental plans covering certain key employees. The plans had assets of $2,685,854 and an accrued liability of $3,677,082. No contributions were made to the plans for the year ended June 30, 2012.

As of January 1, 2005, the Virginia Resources Authority (nonmajor) began mandatory participation for all new employees and optional participation for then-current employees who chose to enroll in the VRS. For the year ended June 30, 2012, the Authority's annual pension cost of $161,044 was equal to the Authority's required and actual contributions.

The Assistive Technology Loan Fund Authority (nonmajor) sponsors a Simple Employee Plan (SEP) for all of its employees. The Authority contributes 5.0 percent of each employee's wages, which is paid into their account managed by the Virginia Retirement System each pay period.

Employees of the Virginia Museum of Fine Arts Foundation (nonmajor) who are age 21 or older are eligible to participate in the Employee's Savings Plan (the plan), a 401(k) defined contribution profit sharing plan. Under the plan, the Foundation may make a discretionary contribution. For the plan years ended June 30, 2012 and 2011, the Foundation contributed 8.4 percent of employees' gross income to the plan. In addition, contributions made by an employee up to 3.0 percent are matched 100.0 percent and contributions between 3.0 and 5.0 percent of the employee's gross income are matched 50.0 percent by the Foundation. Employees may contribute up to 100.0 percent of gross income each year as long as it is within the IRS limitation. Contributions paid to the plan by the Foundation on behalf of its employees were $138,130 for the fiscal year ended June 30, 2012. Also, the Foundation entered into a supplemental retirement agreement to pay a key employee of the Museum upon retirement the difference between the amount accrued under the VRS defined benefit plan, based on salary, and the amount based on the supplemental salary. The plan vested on July 31, 2011. Therefore, the Foundation accrued a $49,745 liability related to this agreement for the year ended June 30, 2012. Contributions made to the plan were $9,458 in 2012 and $12,611 in 2011.

The Science Museum of Virginia Foundation (nonmajor) has a 403(b) defined contribution pension plan through the Teachers Insurance and Annuity Association (TIAA) and the College Retirement Equities Fund (CREF) Retirement Plan for employees meeting age and service requirements. The Foundation contributes an amount not to exceed 3.0 percent of the regular salary of each participant. The Foundation's employer contributions totaled $15,464 in 2012.

15. OTHER EMPLOYMENT BENEFITS

In addition to the pension plans, the Commonwealth participates in two other employment benefit plans, Group Life Insurance and the Virginia Sickness and Disability Program, which are administered by the Virginia Retirement System (the System). The System administers a third other employment benefit plan, the Volunteer Firefighters' and Rescue Squad Workers' Fund, in which the Commonwealth does not participate, but may provide funding. The significant accounting policies for all three plans are the same as those described in Note 14 for pension plans. A separately issued financial report that includes financial statements for the Group Life Insurance and Virginia Sickness and Disability Program is publicly available. Copies may be obtained by writing to the Virginia Retirement System, P. O. Box 2500, Richmond, Virginia 23218-2500.

Group Life Insurance

The Group Life Insurance Plan was established for Commonwealth employees, teachers, employees of political subdivisions participating in the VRS, state police officers, other state law enforcement and correctional officers, judges, and other qualifying employees. The program provides life insurance for natural death coverage equal to a member's annual compensation rounded to the next highest $1,000 and then doubled. Accidental death coverage is double the natural death benefit. The program also provides coverage for accidental dismemberment and accidental blindness, a safety belt benefit, a repatriation benefit, a felonious assault benefit and an accelerated death benefit for terminal conditions. Approximately 357,945 members participate in the program at June 30, 2012.

Participating employers and their covered employees are required by Title 51.1 of the *Code of Virginia*, as amended, to contribute to the cost of group life insurance benefits. Employers may assume the employees' contributions.

An optional Group Life Insurance Fund was established for members covered under the group life program as a supplement to that plan. Members may purchase optional life insurance coverage for themselves, their spouses and/or their dependent children. The optional program provides natural death coverage equal to one, two, three or four times the member's annual compensation rounded to the next highest $1,000, up to a maximum of $700,000. Spouse coverage is available for up to one-half of the member's optional insurance amount. Minor children who are at least 15 days old can be insured for $10,000, $20,000 or $30,000, depending on the option chosen by the member. An additional accidental death and dismemberment benefit is payable for death or bodily injuries. Approximately 65,605 members were covered under this program at June 30, 2012.

Optional group life insurance coverage ends for members when they retire or terminate their employment, or when their basic coverage ends. Optional life insurance amounts begin to reduce by 25 percent based on the retiree's age, beginning with the retiree's normal retirement age under his or her plan ending at age 80. Retirees may elect to continue coverage within 31 days of retirement. Spouse coverage terminates should a couple divorce or when the member leaves employment. Children's coverage ends with the termination of the member's coverage or when the child marries or turns 21 years of age (25 years of age for full-time college students).

Employers of members who elect optional life insurance coverage deduct the premiums from the members' paychecks, as required by Title 51.1 of the *Code of Virginia*, as amended. Premiums are based on the member's age and determined by the Board of Trustees. Because optional life insurance is an insured product, the carrier bills each employer directly, and the employer makes the contribution payments to the carrier. Any differences and adjustments are settled between the employer and the carrier.

Virginia Sickness and Disability Program

The System administers the Virginia Sickness and Disability Program (VSDP) to provide income protection in the event of a disability for eligible state employees hired on or after January 1, 1999. State agencies are required by Title 51.1 of the *Code of Virginia* to contribute to the cost of providing long-term disability benefits and administering the program.

VSDP benefits include sick, family and personal leave and short-term and long-term disability benefits. After a seven-calendar day waiting period following the first day of disability, eligible employees receive short-term disability benefits from 60.0 percent to 100.0 percent of their compensation. After 125 work days of short-term disability, eligible employees receive long-term disability benefits equal to 60.0 percent of their compensation. If the employee's condition becomes catastrophic, income replacement increases to 80.0 percent until the condition is no longer catastrophic. Long-term disability benefits continue until employees return to work, retire or reach age 65 (age 60 for state police officers and other state law enforcement and correctional officers) or die.

Full-time permanent salaried state employees, including state police officers and other Virginia law and correctional officers, are automatically enrolled in the VSDP. Part-time permanent salaried state employees who work at least 20 hours a week and accrue leave also are automatically enrolled. Teaching, administrative and research faculty of Virginia public colleges and universities who elect VRS as their retirement plan must make an irrevocable election to participate in either the VSDP or the institution's disability program. If there is no institution program, the faculty member is covered under VSDP.

Eligible state employees and state police officers employed before January 1, 1999, had the option to elect to participate in the VSDP or remain under the Commonwealth's existing sick leave program and retain their eligibility for disability retirement benefits under VRS and SPORS. (Members of VaLORS have been automatically enrolled in the VSDP since October 1, 1999, when VaLORS was created.) Eligible employees enrolled in the VSDP are not eligible for disability retirement benefits under VRS, SPORS, or VaLORS. Employees hired or rehired on or after July 1, 2009, must satisfy eligibility periods before becoming eligible for non-work related short-term disability coverage and certain income replacement levels. Approximately 76,349 members were covered under the program at June 30, 2012.

Volunteer Firefighters' and Rescue Squad Workers' Fund

Volunteer firefighters and rescue squad workers may participate in an optional employment benefit plan. This optional plan is authorized by the *Code of Virginia*. The Board of Trustees of the System manages the investments of the fund as custodian. Members of the plan contribute $30 per quarter. The Commonwealth will contribute an amount determined by the Board and appropriated by the General Assembly, if such funds are appropriated, for a period not to exceed 20 years. For fiscal year 2012, there were no monies appropriated for administration of the program. At June 30, 2012, there were 1,631 workers participating in the fund.

16. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. Virginia Retirement System (The System) Administered Plans

The Government Accounting Standards Board (GASB) issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which requires additional reporting and disclosures for OPEB plans. The statement became effective for System-administered OPEB plans beginning with the fiscal year ended June 30, 2007. The assets and actuarial accrued liabilities for the following other postemployment benefits were determined through an actuarial valuation performed as of June 30, 2011, by Millman, Inc. for the long-term care component of the Disability Insurance Trust Fund and by Cavanaugh Macdonald Consulting, LLC, and are presented in the Required Supplemental Schedule of Funding Progress for Other Postemployment Benefit Plans. The significant accounting policies for all four plans are the same as those described in Note 14 for pension plans and a separately issued report is available as previously discussed.

Group Life Insurance Benefits

Employees who retire or terminate from service after age 50 with at least ten years of service credit or at age 55 with at least five years of service credit (age 50 for vested state police officers, other state law enforcement and correctional officers and hazardous duty employees of participating political subdivisions), or who retire because of disability, are entitled to postemployment group life insurance benefits. Employees enrolled in JRS who retire or terminate from service after age 60 with at least 30 years of service credit or at age 65 with at least five years of service credit are entitled to postemployment group life insurance benefits. At retirement or termination, accidental death benefits cease and natural death coverage reduces at a rate equal to 25.0 percent on January 1 of the first full calendar year following retirement or termination and on January 1 of each year thereafter, until it reaches 25.0 percent of its original value. These group life insurance benefit provisions and requirements are established by Title 51.1 of the *Code of Virginia*. There were approximately 143,657 retirees in the Basic Group Life Insurance Program and 2,307 retirees were covered under the Optional Group Life Insurance Program in fiscal year 2012.

Since 1960, when the group life insurance program was established, a portion of the premium contributions collected during members' active careers has been placed in an advance premium deposit reserve. This reserve was established to pre-fund death benefits to members after retirement.

Employers providing life insurance benefits are part of a cost-sharing pool. Therefore, separate measurements of assets and actuarial accrued liabilities are not made for individual employers participating in the program.

Retiree Health Insurance Credit Program

The Retiree Health Insurance Credit Program was established on January 1, 1990, to provide benefits for retired state employees, state police officers, other state law enforcement and correctional officers and judges who have at least 15 years of service credit under the retirement plans. The program provides a credit reimbursement of $4 per month per year of service credit against the monthly health insurance premiums of eligible retirees.

A similar program was established on July 1, 1993, to provide a health insurance credit for retired teachers and employees of participating political subdivisions with at least 15 years of service credit under the retirement plans. Retired teachers are eligible for a monthly credit of $4 per month per year of service credit. Local government retirees may receive a maximum credit of $1.50 per month per year of service with a maximum monthly credit of $45.

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 of the *Code of Virginia*. The amount required to fund all credits is financed by the employers based on contribution rates determined by the System's actuary. Approximately 99,836 retired members were covered under this program at June 30, 2012. The Retiree Health Insurance Credit Program is an agent, multiple-employer defined benefit OPEB plan.

Disability Insurance Trust Fund

The Commonwealth provides OPEB disability insurance benefits, in accordance with state statutes, to eligible retired and terminated employees. State agencies are required by Title 51.1 of the *Code of Virginia* to contribute to the cost of providing long-term disability benefits and administering the program. There were approximately 2,722 former members receiving benefits from the program during fiscal year 2012. The Disability Insurance Trust Fund is a single-employer defined benefit OPEB plan.

Line of Duty Death and Disability

The Commonwealth provides death and health benefits to the beneficiaries of certain law enforcement and rescue personnel disabled or killed in the line of duty. A trust fund has been established to account for this activity. Benefit provisions and eligibility requirements are established by Title 9.1 Chapter 4 of the *Code of Virginia*. The significant accounting policies for this plan are the same as those described in Note 14 for pension plans. There were approximately 778 retirees and 758 other participants in the program in fiscal year 2012. The Line of Duty Death and Disability Program is a cost-sharing, multiple-employer defined benefit OPEB plan. The employer contribution rate was determined by the System's actuary using the anticipated costs and the number of covered individuals associated with all of the covered employers. Additionally, the Department of Accounts provides certain administrative support in claims administration.

B. Pre-Medicare Retiree Healthcare

The Commonwealth provides a healthcare plan established by Title 2.2, Chapter 28 of the *Code of Virginia* for retirees who are not yet eligible to participate in Medicare. For a retiree to participate in the Plan, the participant must be eligible for a monthly annuity from the VRS or a periodic benefit from one of the qualified Optional Retirement Plan (ORP) vendors, and:

- be receiving (not deferring) the annuity or periodic benefit immediately upon retirement;
- have his or her last employer before retirement be the state;
- be eligible for coverage as an active employee in the State Health Benefits Program until his or her retirement date (not including Extended Coverage); and,
- have submitted within 31 days of his or her retirement date an Enrollment Form to his or her Benefits Administrator to enroll.

This fund is reported as part of the Commonwealth's Healthcare Internal Service Fund. The significant accounting policies for this plan are the same as those described in Note 14 for pension plans. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan and is administered by the Department of Human Resource Management. There were approximately 8,232 retirees in the program in fiscal year 2012.

C. Annual OPEB Cost and Net OPEB Obligation

The Government Accounting Standards Board (GASB) issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which required additional reporting and disclosures for OPEB plans beginning with the fiscal year ending June 30, 2008. The Commonwealth calculated an OPEB liability as of June 30, 2012 for each of the five OPEB plans. The Retiree Health Insurance Credit Fund, Disability Insurance Trust Fund, and Pre-Medicare Retiree Healthcare OPEB liabilities were $137.6 million, $146.9 million, and $582.2 million, respectively. These amounts are reported in the accompanying financial statements as a component of Long-Term Liabilities Due in More than One year. There is no liability for the Group Life Insurance Fund or Line of Duty Death and Disability.

The following table (dollars in thousands) shows the Commonwealth's annual OPEB cost and net OPEB obligation (asset) for the current and prior years.

	Group Life Insurance Fund			Retiree Health Insurance Credit Fund		
	2012	2011	2010	2012	2011	2010
Annual required contribution	$ 15,483	$ 13,360	$ 28,887	$ 65,412	$ 58,785	$ 66,510
Interest on net OPEB obligation	-	-	-	5,934	1,922	165
Adjustment to annual required contribution	-	-	-	(5,341)	(1,728)	(143)
Annual OPEB cost	15,483	13,360	28,887	66,005	58,979	66,532
Contributions made	(15,483)	(13,360)	(28,887)	(7,667)	(5,383)	(43,094)
Increase in net OPEB obligation	-	-	-	58,338	53,596	23,438
Net OPEB obligation (asset), beginning of year	-	-	-	79,230	25,634	2,196
Net OPEB obligation (asset), end of year	$ -	$ -	$ -	$ 137,568	$ 79,230	$ 25,634
Percentage of annual OPEB cost contributed	100.0%	100.0%	100.0%	11.6%	9.1%	64.8%

	Disability Insurance Trust Fund			Line of Duty Death and Disability		
	2012	2011	2010	2012 (2)	2011 (1)	2010
Annual required contribution	$ 37,578	$ 33,643	$ 78,117	$ 2,901	$ -	$ 16,901
Interest on net OPEB obligation	8,204	5,650	2,080	-	-	386
Adjustment to annual required contribution	(7,387)	(5,082)	(1,808)	-	(15,607)	(367)
Annual OPEB cost	38,395	34,211	78,389	2,901	(15,607)	16,920
Contributions made	(1,092)	-	(30,771)	(2,901)	-	(9,084)
Increase in net OPEB obligation	37,303	34,211	47,618	-	(15,607)	7,836
Net OPEB obligation (asset), beginning of year	109,590	75,379	27,761	-	15,607	7,771
Net OPEB obligation (asset), end of year	$ 146,893	$ 109,590	$ 75,379	$ -	$ -	$ 15,607
Percentage of annual OPEB cost contributed	2.8%	0.0%	39.3%	100.0%	0.0%	53.7%

	Pre-Medicare Retiree Healthcare		
	2012	2011	2010
Annual required contribution	$ 172,532	$ 166,637	$ 136,426
Interest on net OPEB obligation	19,149	13,304	9,751
Adjustment to annual required contribution	(19,268)	(13,356)	(9,265)
Annual OPEB cost	172,413	166,585	136,912
Contributions made	(36,600)	(29,583)	(23,780)
Increase in net OPEB obligation	135,813	137,002	113,132
Net OPEB obligation (asset), beginning of year	446,410	309,408	196,276
Net OPEB obligation (asset), end of year	$ 582,223	$ 446,410	$ 309,408
Percentage of annual OPEB cost contributed	21.2%	17.8%	17.4%

(1) Line of Duty Death and Disability became a cost sharing plan effective July 1, 2010. Accordingly, the net OPEB obligation at the beginning of the transition period has been reduced to zero. Fiscal year 2011 activity was funded with a $10.7 million loan that will be repaid in future periods with contributions received. This amount is reflected as both a receivable and a contribution in the accompanying statements.

(2) During fiscal year 2012, the required annual contributions of $2.9 million were paid by the Commonwealth. Additionally, the loan increased to $13.9 million that will be repaid in future periods with contributions received. This amount is reflected as both a receivable and a contribution in the accompanying statements.

The amounts in the previous table include Governmental and Component Unit activity for which the Commonwealth is considered the employer. It does not include the OPEB liability for the Virginia Economic Development Partnership (nonmajor component unit), the Virginia Tourism Authority (nonmajor component unit), Fort Monroe Authority (nonmajor component unit), Virginia Outdoors Foundation (nonmajor component unit) and the Virginia National Defense Industrial Authority (nonmajor component unit) of $1,197,123, $659,765, $135,637, $42,533, and $31,170, respectively. The table also excludes non-Commonwealth sponsored OPEB liabilities of $25.5 million for all other component units and includes the fiduciary OPEB liability of $3.9 million.

The annual required contributions for the current year were determined during the actuarial valuations conducted as of June 30, 2009, as that is the most recent report that reflects the current funding policies. Employer contributions by the Commonwealth for Group Life Insurance, Retiree Health Insurance Credit and Disability Insurance were 0.28 percent, 0.10 percent, and less than 0.01 percent, respectively, of covered payrolls for the period of July 1, 2011 through June 15, 2012 and 1.02 percent, 0.99 percent, and 0.66 percent, respectively for the last half of June 2012. The valuations were prepared using the entry age normal cost method for all plans except for the Disability Insurance trust fund and the Line of Duty Act trust fund for which the Projected Unit Credit actuarial cost method was used. The Pre-Medicare Retiree Healthcare plan uses a 4.30 percent investment rate of return, per year compounded annually, which approximates the projected rate of return on the Treasurer's Portfolio. The Group Life Insurance, Retiree Health Insurance Credit and Disability Insurance use a 7.0 percent investment rate of return, per year compounded annually. The Line of Duty Act trust fund uses a 4.75 percent rate of return compounded annually. The actuarial assumptions for all but the Pre-Medicare Retiree Healthcare plan included a projected salary increase of 3.0 percent, including a 2.5 percent inflation component. Valuation techniques were applied to smooth the effects of short-term volatility in the market value of investments over a five year period. The remaining open amortization period at June 30, 2012, was 30 years. The actuarial assumptions for the Pre-Medicare Retiree Healthcare plan as to current claim cost, projected increases in health insurance costs, mortality, turnover, retirement, disability and discount rate include (a) projected salary increases ranging from 3.75 percent to 5.6 percent, including a 2.5 percent inflation component; and, (b) assumption that there is no liability associated with those retirees eligible for Medicare, as costs for members aged 65 and older are not subsidized by the active population (no implicit subsidy), participants pay 100.0 percent of the costs, and the liability associated with the health insurance credit is measured and held by the Virginia Retirement System. Initial healthcare costs trend rates used were 10.0 percent, 11.0 percent, and 6.0 percent for medical, pharmacy, and dental benefits, respectively. The ultimate trend rates used were 5.0 percent, 5.0 percent, and 4.0 percent for medical, pharmacy, and dental benefits, respectively. The remaining open amortization period at June 30, 2012 was 30 years.

D. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2011, per the most recent actuarial valuation, was as follows:

(Dollars in Millions)

Actuarial Valuation Date June 30	Actuarial Value of Assets [a]	Actuarial Accrued Liability (AAL) [b]	Unfunded AAL (UAAL) [b-a]	Funded Ratio [a/b]	Covered Payroll [c]	UAAL as a Percentage of Covered Payroll [b-a]/[c]
			Group Life Insurance Fund			
2011	$ 852	$ 2,359	$ 1,507	36.1%	$ 16,543	9.1%
			Retiree Health Insurance Credit Fund			
2011	$ 213	$ 2,195	$ 1,982	9.7%	$ 14,111	14.0%
			Disability Insurance Trust Fund			
2011	$ 369	$ 296	$ (73)	124.6%	$ 3,372	(2.2%)
			Line of Duty Death and Disability			
2011	$ -	$ 399	$ 399	-	N/A	-
			Pre-Medicare Retiree Healthcare			
2011	$ -	$ 1,269	$ 1,269	-	$ 3,566	35.6%

Actuarial valuations of ongoing plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future and reflect a long-term perspective. Amounts determined regarding the funded status of the plans and the annual contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing costs between the employer and plan members to that point. The schedule of funding progress presented as required supplementary information following the notes to the financial statements presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

E. Higher Education Fund (Component Unit)

The University of Virginia (major) has a Retiree Health Plan that covers employees who retire before becoming eligible for Medicare until they reach age 65 and can then participate in the Commonwealth's Medicare Supplement Plan. Additional information on this plan can be found in the individually published financial statements of the University.

F. Other Component Units

The Virginia Housing Development Authority (major) has a Retiree Health Care Plan, a single-employer defined benefit plan which is administered through the Virginia Housing Development Authority Retiree Health Care Plan Trust, an irrevocable trust to be used solely for providing benefits to eligible participants. Effective January 1, 2006, eligible retirees must be at least 55 years of age with 15 years of service or at least 55 years of age with 10 years of service if employed by the Authority prior to such date. For the year ended June 30, 2012, the Authority's Annual OPEB cost was $503,912; the percentage of Annual OPEB Cost Contributed was 195.0 percent; and the ending Net OPEB asset was $559,731.

Hampton Roads Sanitation District Commission (nonmajor) provides other postemployment benefits for its employees through a single employer defined benefit plan. The plan was established and may be amended by the Commission. The plan furnishes health and dental benefits for life for all employees with at least 15 years of service and who also qualify for an unreduced retirement benefit through the VRS. The plan allows the retiree at their expense to cover their spouse and dependents under the district's health care provider. Contribution requirements are actuarially determined and funding is subject to approval by the Commission. The current rate is 6.0 percent of annual covered payroll. For 2012, the Commission's annual OPEB cost was $2.2 million; the percentage of annual OPEB cost contributed was 100.0 percent.

The Virginia Port Authority (VPA) (nonmajor) offers post retirement medical and dental benefits to employees who retire under either VRS or the VPA pension plan. For employees and their spouses, who are participants in the VPA medical plan, not participants under the state health care plan VRS, benefit provisions and obligations are established and may be amended by the board of commissioners of the Authority. For the year ended June 30, 2012, the Authority's annual OPEB cost was $45,670; contribution towards OPEB cost was $19,040; the percentage of annual OPEB cost contributed was 41.7 percent; and the ending net OPEB obligation was $185,386.

17. DEFERRED COMPENSATION PLANS

The Commonwealth offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457(b). The Virginia Retirement System (the System) administers the deferred compensation plan, pursuant to the Government Employees Deferred Compensation Plan Act, Section 51.1, Chapter 6 et seq. of the *Code of Virginia*. The System contracts with private corporations or institutions subject to the standards set forth in the *Code* to provide investment products as well as any other goods and services related to the administration of the deferred compensation plan. The Department of Accounts is responsible for the accounting, reconciliation, payment to the plan through payroll deductions, and timely transfer of withheld funds to the trustee designated by the System for investment. The plan provides a number of investment options and is designed so that each participant retains investment control of his/her individual account. The plan, available to all state employees, permits them to defer a portion of their salary until future years. The deferred compensation is held in trust for the exclusive benefit of plan participants and their beneficiaries and is not available to employees until termination, retirement, death, unforeseeable emergency, or an in-service distribution at age 70 ½ or later. Since the System has no fiduciary relationship with plan participants, plan assets of $1.5 billion are not included in the financial statements.

In addition, the Commonwealth provides a cash match under Internal Revenue Code Section 401(a) for employees participating in the deferred compensation plan. The match amount for an employee was established at 50.0 percent of the voluntary contributions to the deferred compensation plan. During the current fiscal year, the maximum match was $20 per pay period or $40 per month. The fair value of assets in the cash match savings plan at June 30, 2012, was $259.6 million, which is also excluded from the financial statements.

Most employees of the Commonwealth's colleges and universities may participate in the Commonwealth's deferred compensation plan in accordance with Internal Revenue Code Section 457(b) and/or the institution's deferred compensation plan in accordance with Internal Revenue Code Section 403(b). Under either plan, the institution's cash match under the Internal Revenue Code Section 401(a) during fiscal year 2012 was a maximum match up to $20 per pay period or $40 per month. This employer match is for either plan but not both plans. Employer contributions under these plans were approximately $12.0 million for fiscal year 2012.

The deferred compensation plan for the University of Virginia Medical Center (part of the University of Virginia – major component unit) employees hired on or after September 30, 2002 allows employee contributions up to 4.0 percent of their salary and the employer match is 50.0 percent of the 4.0 percent deferral not to exceed 2.0 percent of the employees' salary. Employer contributions under this plan were approximately $1.6 million for fiscal year 2012.

The Virginia Housing Development Authority (major component unit) and the Virginia Resource Authority (nonmajor component unit) have deferred compensation plans available to all employees created in accordance with Internal Revenue Section 457. The plans permit participants to defer a portion of their salary or wage until future years. The deferred compensation is not available to employees until termination, retirement, or death. The assets of the plans are in irrevocable trusts with an external trustee and, accordingly, no assets or liabilities are reflected in the financial statements.

The Virginia Port Authority (VPA) (nonmajor component unit) offers three deferred compensation plans and two matching savings plans under Internal Revenue Code Sections 457 and 401(a), respectively. Employees who maintain status under VRS are covered under the deferred compensation plan administered by the System as discussed above. The VPA deferred compensation plan covers all employees hired after July 1, 1997, and those employees electing coverage under the authority's deferred compensation plan. The VPA also offers a matching savings plan that covers substantially all employees. The matching savings plan requires the VPA to match contributions in an amount equal to half of the first 6.0 percent of the participant's base pay contributed to the plan. VPA's total contribution to the matching savings plan was $152,346 for the fiscal year ended June 30, 2012. Further, the right to modify, alter, amend, or terminate the deferred compensation plan and matching savings plan rests with the VPA Board of Commissioners.

The third deferred compensation plan and second matching savings plan covers substantially all non-union employees with 90 days or more of service. The matching savings plan requires the VPA to match employee contributions in an amount equal to half of the first 3.0 percent of the participant's base pay contributed to the deferred compensation plan. VPA's total contribution to the matching savings plan was $316,041 for the fiscal year ended June 30, 2012.

18. STATE NON-ARBITRAGE POOL

The Commonwealth sponsors the Virginia State Non-Arbitrage Program (SNAP) for use by the Commonwealth and local governments to invest bond proceeds. The Commonwealth's responsibility is limited to hiring service providers to manage SNAP. The investment manager and the custodian have the fiduciary responsibility for SNAP.

The SNAP fund is a class of the PFM Funds Prime Series, a money market mutual fund registered with the Securities and Exchange Commission. PFM Funds is a diversified, open-end management investment company organized as a Virginia business trust. Shares of the SNAP fund are solely available to investors participating in the SNAP program. The PFM Funds Board of Trustees has overall responsibility for supervising the SNAP fund's business and affairs, including the oversight of organizations providing investment advisory, administration, and distribution services to the SNAP fund. PFM Asset Management LLC serves as the investment adviser of the SNAP fund. The SNAP individual investment portfolios are the responsibility of the SNAP investment manager and the governments investing proceeds in the portfolios. These investments are held solely in the SNAP participants' names. Since the Commonwealth has no fiduciary relationship with local governmental entities participating in the plan, these assets of $2.3 billion are not included in the financial statements.

19. COMMITMENTS

A. Construction Projects

Primary Government

Highway Projects

At June 30, 2012, the Department of Transportation had contractual commitments of approximately $2.7 billion for construction of various highway projects. Funding for these expenditures is expected to be provided as follows: (1) federal funds – approximately 30.0 percent or $810.0 million, (2) state funds – approximately 69.0 percent or $1.9 billion, and (3) Proceeds from Bonds – approximately 1.0 percent or $14.0 million.

Mass Transit Projects

At June 30, 2012, the Department of Rail and Public Transportation (part of Primary Government) had contractual commitments of approximately $174.8 million for various public transportation, rail preservation, and rail enhancement projects. Funding of the future expenditures is expected to be as follows: (1) State Funds – approximately 87.8 percent or $153.5 million, and (2) Federal Funds – approximately 12.2 percent or $21.3 million.

Wastewater Treatment Projects

At June 30, 2012, the Department of Environmental Quality was committed to grant contracts with localities to reimburse a portion of construction costs for nutrient reduction facilities at wastewater treatment plants totaling $84.9 million provided by bond proceeds and the Water Quality Improvement Fund.

Component Units

Port Projects

At June 30, 2012, the Virginia Port Authority (nonmajor) was committed to construction contracts totaling $88.0 million.

Wallops Island Project

At June 30, 2012, the Virginia Commercial Space Flight Authority (nonmajor) was committed to construction programs totaling $117.4 million.

Higher Education Institutions

Colleges and universities had contractual commitments as of June 30, 2012, of approximately $824.0 million primarily for construction contracts. Higher education foundations' commitments total approximately $114.6 million and are primarily for construction contracts.

B. Operating Leases

The Commonwealth has entered into numerous agreements to lease land, buildings, and equipment. Most of the operating leases contain the provision that the Commonwealth may renew the operating leases at the expiration date of the lease on a month-to-month basis. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases of a similar nature. Rental expense for the primary government under these operating leases for the year ended June 30, 2012, was $64.7 million for governmental activities (including internal service funds) and $22.2 million for business-type activities. Rental expense for the discrete component units (excluding foundations) for the year ended June 30, 2012, was $120.5 million. The Commonwealth has, as of June 30, 2012, the following minimum rental payments due under the above leases (dollars in thousands):

	Primary Government		
	Governmental Activities	Business-type Activities	Component Units (1)
2013	$ 60,269	$ 20,643	$ 105,434
2014	48,029	15,917	96,922
2015	42,217	12,667	92,416
2016	32,963	9,459	83,062
2017	25,419	4,910	77,431
2018-2022	42,502	3,109	363,068
2023-2027	5,836	-	373,200
2028-2032	607	-	237,185
2033-2037	553	-	1,116
2038-2042	208	-	1,122
2043-2047	22	-	823
2048-2052	16	-	329
Total	$ 258,641	$ 66,705	$ 1,432,108

Note (1): The above amounts exclude operating lease obligations of foundations.

	Foundations (2)
2013	$ 2,612
2014	2,134
2015	1,858
2016	1,728
2017	1,375
Thereafter	4,635
Total	$ 14,342

Note (2): Foundations represent FASB reporting entities defined in Note 1.B. Rental expense for the year ended June 30, 2012, was approximately $3.1 million.

Lease agreements are for various terms and contain nonappropriation clauses indicating that continuation of the lease is subject to funding by the General Assembly.

C. Investment Commitments – Virginia Retirement System

The Virginia Retirement System extends investment commitments in the normal course of business, which, at June 30, 2012, amounted to $3.4 billion.

D. Tobacco Grants

The Tobacco Indemnification and Community Revitalization Commission (nonmajor component unit) had $218.8 million in grant award commitments not reflected in the accompanying financial statements since eligibility requirements were not met as of June 30, 2012, in accordance with GASB Statement No. 33.

The Virginia Foundation for Healthy Youth (nonmajor component unit) had $13.0 million in grant commitments and outstanding contracts not reflected in these statements since eligibility requirements were not met as of June 30, 2012, in accordance with GASB Statement No. 33.

E. Other Commitments

Primary Government

At June 30, 2012, the Department of Motor Vehicles had contractual commitments of approximately $36.3 million for security technology services.

At June 30, 2012, the Department of Correctional Education had contractual commitments of approximately $7.0 million for teacher services.

At June 30, 2012, the Virginia Department of Health had commitments of approximately $14.7 million to localities, trauma centers, trainers, and grants to rescue squads.

At June 30, 2012, the Virginia Employment Commission (major enterprise fund) had contractual commitments of approximately $19.6 million and non-contractual commitments of approximately $17.9 million for an information systems modernization project. The agency also had approximately $6.9 million in other contractual commitments.

The Virginia College Savings Plan (major enterprise fund) had $103.1 million in private equity commitments.

The Virginia Wireless E-911 (nonmajor enterprise fund) had $2.2 million in outstanding grants awarded but not yet disbursed to localities since all of the eligibility criteria have not been met in accordance with GASB Statement No. 33.

Component Units

The Virginia Housing Development Authority (major) had $243.3 million in commitments to fund new loans as of June 30, 2012, since all of the eligibility criteria have not been met in accordance with GASB Statement No. 33.

The Virginia Resource Authority (nonmajor) was obligated to disburse $195.3 million in loan commitments to various localities and other governmental entities in the Commonwealth of Virginia as of June 30, 2012, since all of the eligibility criteria have not been met in accordance with GASB Statement No. 33.

The Virginia Small Business Financing Authority (nonmajor) had $5.7 million in loan commitments to banks and borrowers as of June 30, 2012, since all of the eligibility criteria have not been met in accordance with GASB Statement No. 33.

20. ACCRUED LIABILITY FOR COMPENSATED ABSENCES

Employees accrue annual leave at a rate of four to nine hours semimonthly, depending on their length of service. The maximum leave accumulation is dependent upon years of service, but in no case may it exceed 432 hours. The maximum compensation for annual leave balances is also dependent upon years of service, but in no case may an employee be compensated for more than 336 hours.

All employees hired after January 1, 1999, are required to enroll in the Virginia Sickness and Disability Program (VSDP) (see Note 15). Under the VSDP, employees receive a specified number of sick and personal leave hours, depending on their length of service, and any balances at the end of the calendar year revert. Individuals employed at January 1, 1999, had the option of converting to the VSDP or remaining in the original sick leave plan. If converting, the employee's sick leave balance could be used to purchase retirement credits or be converted to disability credits. If an employee opted to remain in the original sick leave program, sick leave accrues at a rate of five hours semimonthly. Employees who leave state service after a minimum of five years employment receive the lesser of 25.0 percent of the value of their disability credits or accumulated sick leave at their current earnings rate or $5,000. All employees leaving state service are paid for accrued annual leave up to the maximum calendar year limit at their current earnings rate.

In conformance with Section C60 of the GASB Codification, the monetary value of accumulated annual and sick leave and disability credits payable upon termination is included in the accompanying financial statements and is reported as Compensated Absences. In the government-wide statements, proprietary fund statements, and discrete component unit fund statements, compensated absence amounts are segregated into two components – the amount due within one year and the amount due in more than one year. Compensated absences due within one year consist of an estimate of the amount that will be used by active employees for paid time off and/or paid upon termination, plus the actual amount paid after June 30 for employees terminating on or before June 30. In the governmental fund statements, amounts to be paid from expendable resources are recognized as fund liabilities in the applicable governmental fund types as long-term liabilities and represent payments to employees for separations that occurred on or before June 30. Amounts not payable from expendable resources are reflected in the governmental activities column in the Government-wide Statement of Net Assets (see Note 25). All amounts related to the fiduciary funds are recognized in those funds.

The liability at June 30, 2012, was computed using salary rates effective at that date, and represents vacation, compensatory and sick leave earned or disability credits held by employees up to the allowable ceilings.

21. POLLUTION REMEDIATION OBLIGATIONS

The Commonwealth has pollution remediation obligations of $5.2 million of which $2.6 million is due within one year. With the exception of the Department of Environmental Quality (DEQ), agencies estimated future obligations based on professional consultant estimates and/or historical project expenses of similar projects; however, there is the potential for change in estimates due to price increases or reductions, technology, or applicable laws and regulations. Remediations for DEQ are not estimates but contractual obligations between the Commonwealth and the U.S. Environmental Protection Agency (EPA), and any change due to a reconciliation of incurred costs requires mutual consent and contract amendment.

The estimated Commonwealth pollution remediation liability relates to the anticipated cost of hazardous waste removal, cleanup relating to leakage of underground storage tanks, soil and groundwater contaminations, dump site cleanups, asbestos and mercury abatement, lead contamination and remediation relating to superfund state contracts.

Agencies involved in remediation include:

- Department of Emergency Management (VDEM)
- Department of Environmental Quality (DEQ)
- Department of Transportation (VDOT)
- Department of Corrections (DOC)
- Department of Juvenile Justice (DJJ)
- Department of Behavioral Health and Developmental Services (DBHDS)

A Facility Lead Agreement was signed between the EPA and VDOT to resolve an issue concerning the storage of lab wastewater in an outdoor lined surface impoundment that operated between 1979 and 1983 for which contamination is present in soil and groundwater. DOC was fined by the EPA in September/October 2003. DOC proposed to conduct a Supplemental Environmental Project (SEP) which included the formation of the Pollution Prevention Section of the Environmental Services Unit, disclosure of all environmental deficiencies to both the EPA and DEQ and corrections of those deficiencies.

The following pollution remediation outlays could not reasonably be estimated as of June 30, 2012:

- Department of Emergency Management (VDEM) relating to cleanup of an emergency fuel storage facility
- Department of Behavioral Health and Developmental Services (DBHDS) relating to soil and groundwater contamination
- Department of Transportation (VDOT) relating to groundwater contamination

22. INSURANCE

A. Self-Insurance

The Commonwealth maintains two types of self-insurance plans. The first type of self-insurance is a health care plan administered by the Department of Human Resource Management for Commonwealth employees. The plan is accounted for in the Health Care Internal Service Fund. Interfund premiums are accounted for as internal activity receipts from other funds. At June 30, 2012, $109.6 million is reported as the estimated claims payable for this fund, which is undiscounted as nearly all health care claims are current in nature. The estimated liability is based upon actual claims that have been submitted as well as actuarially determined claims incurred but not reported as described in Note 1.T. Changes in the balances of claims liabilities (dollars in thousands) during the current and prior fiscal years are as follows:

	Balance July 1,	Current Year Claims and Changes in Estimates	Claim Payments	Balance June 30, (1)
2011-2012	$ 81,480	$ 1,012,254	$ (984,143)	$ 109,591
2010-2011	$ 94,376	$ 904,861	$ (917,757)	$ 81,480

(1) The entire ending balance shown above is due within one year.

The second type of plan, Risk Management, is administered by the Department of the Treasury, Division of Risk Management and the Department of Human Resource Management, Worker's Compensation Program. These plans are accounted for in the Risk Management Internal Service Fund. The Department of the Treasury administers risk management programs providing property, general (tort) liability, medical malpractice, automobile and surety bond exposures for the Commonwealth of Virginia as provided in Sections 2.2-1834 through 1838 and Section 2.2-1840 of the *Code of Virginia*. Established subject to the approval of the Governor, risk management plans provide state agencies with protection through purchased insurance, self-insurance or a combination thereof. Interfund premiums for the fund are accounted for as internal activity receipts from other funds. The claims payable is an estimated liability based upon actual claims that have been submitted as well as actuarially determined claims incurred but not reported. At June 30, 2012, $608.7 million is reported as the estimated claims payable for the risk management plan. This amount is discounted to present value at a rate of 3.0 percent. Undiscounted claims payable at June 30, 2012, is $858.6 million. The estimated losses are based upon actual claims that have been submitted, as well as claims incurred but not reported. Changes in the balances of claims liabilities (dollars in thousands) during the current and prior fiscal years are as follows:

	Balance July 1,	Current Year Claims and Changes in Estimates	Claim Payments	Balance June 30, (1)
2011-2012	$ 488,188	$ 194,898	$ (74,372)	$ 608,714
2010-2011	$ 444,467	$ 112,138	$ (68,417)	$ 488,188

(1) Of the balance shown above, $75.7 million is due within one year.

For workers' compensation, the Commonwealth assumes the full risk of claims filed. For tort and automobile, liability is assumed at a maximum of $2.0 million per occurrence. Medical malpractice liability is assumed at the maximum recovery limit stated in Section 8.01-581.15 of the *Code of Virginia* up to a maximum of $3.0 million per occurrence. Risk Management purchases commercial insurance to protect state-owned property with deductibles as stated in the insurance policies.

The Commonwealth has not had any insurance settlements exceed the coverage during the past three years.

The Virginia Commonwealth University Health System Authority (Authority) (a blended component unit of the Virginia Commonwealth University – major component unit) is self-insured for medical malpractice and provides for the liability on an undiscounted basis, based on the ultimate cost of known claims and claims incurred but not yet reported. The Authority is also self-insured for workers' compensation and provides for the liability on a blended discounted and undiscounted basis, based on the ultimate cost of known claims and claims incurred but not yet reported. These liabilities include assumptions and factors related to the frequency and severity of claims, claims development history, and claims settlement practices. Estimated losses on malpractice and workers' compensation claims for the current and prior fiscal years are as follows (dollars in thousands):

Estimated Malpractice Losses

	Balance July 1,	Claims Expense (2)	Claims Settled	Balance June 30, (1)
2011-2012	$ 23,501	$ 5,052	$ (5,086)	$ 23,467
2010-2011	$ 26,910	$ (727)	$ (2,682)	$ 23,501

(1) Of the balance shown above, $3.5 million is due within one year.
(2) This column represents malpractice claims expense, net of actuarial adjustments.

Estimated Workers' Compensation Losses

	Balance July 1,	Claims Expense	Claims Settled	Balance June 30, (1)
2011-2012	$ 18,409	$ 597	$ (1,479)	$ 17,527
2010-2011	$ 17,007	$ 3,397	$ (1,995)	$ 18,409

(1) Of the balance shown above, $2.0 million is due within one year.

In addition, expenses and liabilities arising from services rendered to VA Premier's Plan (component unit of the Authority) HMO members are reported when it is probable that services have been provided and the amount of the claim can be reasonably estimated. The claims payable includes an estimate of claims that have been incurred but not reported. At June 30, 2012 the amount of these liabilities is approximately $42.7 million and is reported as Claims Payable – Due within One Year. This liability is VA Premier's best estimate based on available information.

Additional information on the claims payable amounts reported by the Authority can be found in the individually published financial statements of the Authority.

Virginia International Terminals, Inc., a component unit of the Virginia Port Authority (nonmajor component unit) is partially self-insured for certain workers' compensation claims. The Authority maintains insurance coverage of $5.0 million per claim, but is obligated to pay the first $1.0 million of any individual's claims per incident. The Authority is also partially self-insured for employee health coverage. The Authority is responsible for actual claim costs up to $125,000 per individual per calendar year. Insurance coverage is maintained for claims in excess of the individual employee limit and for aggregate claims in excess of $5.1 million.

B. Public Entity Risk Pools

The Commonwealth administers two types of public entity risk pools for the benefit of local governmental units: health care and risk management insurance. The Local Choice Health Care plan was established to make comprehensive health care insurance available to localities and political subdivisions at affordable rates and with stable premiums. During the fiscal year, there were 300 local government units participating in the pool. This includes 32 school districts, 34 counties, 109 cities/towns, and 125 other subdivisions. This program is accounted for in the Local Choice Health Care Enterprise Fund (nonmajor).

The Department of Human Resource Management, under Section 2.2-1204 of the *Code of Virginia*, has the authority to design, set rates, and administer the Local Choice Health Care fund. The pool's standard contract period is one year. However, a member group may withdraw on the last day of any month with three month's written notice. Contributions are based on the current necessary contribution and the amortization of experience adjustments in the pool. At June 30, 2012, $26.5 million is reported as the actuarially determined estimated claims payable for this fund based on claims incurred but not reported.

The actuarial liability is determined for the membership pool in total and then adjusted for each locality based on individual historic and demographic data. If the pool's assets were to be exhausted, the program participants would share the responsibility for any liabilities or deficits.

The Department of the Treasury, Division of Risk Management administers risk management programs for political subdivisions, constitutional officers and others in accordance with Section 2.2-1839 of the *Code of Virginia*. These pools were established to provide an economical, low-cost alternative to the commercial insurance market for the Commonwealth's political subdivisions. These risk programs are accounted for in the Risk Management Enterprise Fund (nonmajor). The pool is established subject to approval by the Governor. It may be insurance, self-insurance, or any combination thereof, and must provide protection and legal defense against liability. Participation is voluntary and open to those identified in Section 2.2-1839, *Code of Virginia*. As of June 30, 2012, there were 507 units of local government in the pool, including 4 cities, 28 towns, and 30 counties. The remaining 445 units include a large variety of boards, commissions, authorities, and special districts.

The pool has a minimum membership period of one year. However, a member group can cancel membership and withdraw from the plan on their coverage anniversary date or at the end of the fiscal year with 30 days notice.

The pool is actuarially valued annually and is considered sound. No excess insurance or reinsurance is provided, but a "stability fund" is incorporated into the actuarially determined required reserves. For the liability insurance pool, participation is voluntary and open to those identified in Section 2.2-1839 of the *Code of Virginia*. The risk assumed by the local public entity pool for member liability is $1.0 million per occurrence.

At June 30, 2012, $23.0 million is reported as estimated claims payable for these programs. This figure is actuarially determined for the fund in total and is reported at gross and does not reflect possible reimbursements for insurance recoveries.

The following schedule (dollars in thousands) shows the changes in claims liabilities for the past two fiscal years.

	Local Choice Health Care		**Risk Management**	
	June 30, 2012	**June 30, 2011**	**June 30, 2012**	**June 30, 2011**
Unpaid Claims and Claim Adjustment Expenses at Beginning of Fiscal Year	$ 18,656	$ 22,874	$ 19,799	$ 16,309
Incurred Claims and Claim Adjustment Expenses:				
Provision for Insured Events of the Current Fiscal Year	244,788	212,233	1,409	1,473
Changes in Provision for Insured Events of Prior Fiscal Years	-	-	2,832	757
Total Incurred Claims and Adjustment Expenses	244,788	212,233	4,241	2,230
Payments:				
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Fiscal Year	236,937	216,451	1,677	396
Total Payments	236,937	216,451	1,677	396
Change in Provision for Discounts	-	-	626	412
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Discounted) (1) (2) (3)	$ 26,507	$ 18,656	$ 22,989	$ 18,555
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Undiscounted)	$ 26,507	$ 18,656	$ 24,533	$ 19,799

Note (1): The entire balance for Local Choice Health Care, $26,507 (dollars in thousands) is due within one year.

Note (2): Of the balance shown above for Risk Management, $7,329 (dollars in thousands) is due within one year.

Note (3): The interest rate used for discounting is 3.0 percent.

23. ACCOUNTS PAYABLE

The following table (dollars in thousands) summarizes Accounts Payable as of June 30, 2012.

	Vendor	Salary/ Wage	Retainage	Other	Foundations (1)	Total
Primary Government:						
General	$ 159,142	$ 96,927	$ 33	$ -	$ -	$ 256,102
Major Special Revenue Funds:						
Commonwealth Transportation	312,204	30,249	2,863	-	-	345,316
Federal Trust	125,896	17,420	2,559	-	-	145,875
Literary	24	-	-	-	-	24
Nonmajor Governmental Funds	42,965	23,750	10,279	224	-	77,218
Major Enterprise Funds:						
State Lottery (2)	3,464	1,666	-	3,604	-	8,734
Virginia College Savings Plan (2)	1,358	397	-	119	-	1,874
Unemployment Compensation	153	-	-	-	-	153
Nonmajor Enterprise Funds	27,998	5,017	-	-	-	33,015
Internal Service Funds	63,235	3,050	-	-	-	66,285
Private Purpose Trust Funds	111	153	-	250	-	514
Pension and Other Employee Benefit Trust (3)	577	1,647	-	37,118	-	39,342
Agency Funds	1,818	-	-	2,913	-	4,731
Total Primary Government (4)	$ 738,945	$ 180,276	$ 15,734	$ 44,228	$ -	$ 979,183
Discrete Component Units:						
Virginia Housing Development Authority	$ 2,056	$ 1,227	$ -	$ 12,128	$ -	$ 15,411
Virginia Public School Authority	282	-	-	-	-	282
University of Virginia	132,214	59,170	898	5,325	62,366	259,973
Virginia Polytechnic Institute and State University	71,886	54,284	7,577	-	14,808	148,555
Virginia Commonwealth University	77,546	89,220	444	-	833	168,043
Nonmajor Component Units	157,194	166,291	29,741	10,327	23,006	386,559
Total Component Units	$ 441,178	$ 370,192	$ 38,660	$ 27,780	$ 101,013	$ 978,823

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.

Note (2): Other Accounts Payable for the State Lottery represents administrative costs payable. Other Accounts Payable for the Virginia College Savings Plan represents program distributions payable.

Note (3): Other Accounts Payable for the Pension and Other Employee Benefit Trust Fund consists of $25,712 (dollars in thousands) in investment management expense, $11,406 (dollars in thousands) in program benefit liabilities.

Note (4): Fiduciary liabilities of $44,587 (dollars in thousands) are not included in the Government-wide Statement of Net Assets. In addition, governmental fund liabilities of $104,671 (dollars in thousands) are included in the Government-wide Statement of Net Assets, but excluded from the above amounts.

24. OTHER LIABILITIES

The following table (dollars in thousands) summarizes Other Liabilities as of June 30, 2012.

	Primary Government				
	General	Commonwealth Transportation	Federal Trust	Nonmajor Governmental Funds	State Lottery
Lottery Prizes Payable	$ -	$ -	$ -	$ -	$ 52,132
Due to Program Participants, Escrows, and Providers	-	-	-	-	-
Medicaid Payable	341,332	-	344,627	-	-
Family Access to Medical Insurance Security Payable	4,569	-	8,485	-	-
Tax Refunds Payable	390,947	-	-	-	-
Insurance Carrier Surety Deposit	-	-	-	-	-
Deposits Pending Distribution	5,008	8,160	-	1,858	-
Car Tax Payable	263,025	-	-	-	-
Other Liabilities	362	-	4	428	-
Total Other Liabilities	$ 1,005,243	$ 8,160	$ 353,116	$ 2,286	$ 52,132

	Primary Government				
	Virginia College Savings Plan	Unemployment Compensation	Nonmajor Enterprise Funds	Internal Service Funds (1)	Private Purpose Funds
Lottery Prizes Payable	$ -	$ -	$ -	$ -	$ -
Due to Program Participants, Escrows, and Providers	30	34,715	-	-	1,145
Medicaid Payable	-	-	-	-	-
Family Access to Medical Insurance Security Payable	-	-	-	-	-
Tax Refunds Payable	-	-	-	-	-
Insurance Carrier Surety Deposit	-	-	-	-	-
Deposits Pending Distribution	-	-	179	78	-
Car Tax Refund Payable	-	-	-	-	-
Other Liabilities	30	-	188	5,026	-
Total Other Liabilities	$ 60	$ 34,715	$ 367	$ 5,104	$ 1,145

Note (1): The Other Liabilities amount of $5,026 (dollars in thousands) is due to third party clearing amounts that have increased from the prior year due to timing issues with checks clearing the bank.

	Primary Government		
	Pension and Other Employee Benefit Trust Funds (2)	Agency Funds	Total Primary Government (3)
Lottery Prizes Payable	$ -	$ -	$ 52,132
Due to Program Participants, Escrows, and Providers	-	39,305	75,195
Medicaid Payable	-	-	685,959
Family Access to Medical Insurance Security Payable	-	-	13,054
Tax Refunds Payable	-	-	390,947
Insurance Carrier Surety Deposit	-	441,542	441,542
Deposits Pending Distribution	-	46,116	61,399
Car Tax Refund Payable	-	-	263,025
Other Liabilities	150,319	1,755	158,112
Total Other Liabilities	$ 150,319	$ 528,718	$ 2,141,365

Note (2): Other Liabilities of $150,319 (dollars in thousands) reported in pension and other employee benefit trust funds are made up of $29,106 (dollars in thousands) in funds held for the Commonwealth Health Research Fund; $14,980 (dollars in thousands) in other funds managed by the System; $101,354 (dollars in thousands) in pending investment transactions, including $25,699 (dollars in thousands) for securities lending, $75,630 (dollars in thousands) for net foreign exchange contracts, $25 (dollars in thousands) in other investment payables; $997 (dollars in thousands) in other payable related to the System benefit plans; $2,300 (dollars in thousands) in foreign taxes payables related to the System benefit plans, and $1,582 (dollars in thousands) in interest and dividends payable related to the System benefit plans.

Note (3): Fiduciary liabilities of $680,182 (dollars in thousands) are not included in the Government-wide Statement of Net Assets. Governmental fund liabilities of $541,710 (dollars in thousands) are included in the Government-wide Statement of Net Assets, but excluded from the above amounts.

	Component Units				
	Virginia Housing Development Authority	Virginia Public School Authority	University of Virginia (4)	Virginia Polytechnic Institute & State University	Virginia Commonwealth University (4)
Accrued Interest Payable	$ 88,152	$ 59,087	$ 6,286	$ 5,069	$ 9,088
Other Liabilities	1,183	82	63,530	29,136	189,379
Deposits Pending Distribution	-	-	369,229	14,596	31,739
Short-term Debt	-	-	154,063	13,300	3,811
Grants Payable	-	-	-	-	-
Total Other Liabilities	$ 89,335	$ 59,169	$ 593,108	$ 62,101	$ 234,017

	Component Units	
	Nonmajor Component Units	Total Component Units
Accrued Interest Payable	$ 139,759	$ 307,441
Other Liabilities	35,654	318,964
Deposits Pending Distribution	32,024	447,588
Short-term Debt	22,338	193,512
Grants Payable	9,230	9,230
Total Other Liabilities	$ 239,005	$ 1,276,735

Note (4): Other Liabilities of $35,053 (dollars in thousands) for the University of Virginia and $78,362 (dollars in thousands) for the Virginia Commonwealth University represent hedging derivative instruments reported in accordance with GASBS No. 53 (see Note 13 for additional information).

Medicaid Payable

Medicaid Payable represents services rendered but not billed by providers and potential liability resulting from cost reports not settled as of year-end. Providers subject to cost settlement are paid in the interim based on established per diem or diagnosis related group rates for services.

The Department of Medical Assistance Services (DMAS) estimates, based on past experience, the total amount of Medicaid claims that will be paid from the Medicaid program in the future which relate to services provided before year-end. At June 30, 2012, the estimated liability related to Medicaid claims totaled $685.9 million. Of this amount, $341.3 million is reflected in the General Fund (major) and $344.6 million in the Federal Trust Special Revenue Fund (major).

Family Access to Medical Insurance Security Payable

DMAS estimates the total amount of claims that will be paid from the Family Access to Medical Insurance Security program in the future which relate to services provided before year-end. At June 30, 2012, the estimated liability related to claims totaled $13.0 million. Of this amount, $4.6 million is reflected in the General Fund (major) and $8.4 million in the Federal Trust Special Revenue Fund (major).

Tax Refunds Payable

Tax refunds payable represent refunds due on individual tax returns filed for the calendar year ended on or before December 31, 2011, and on business tax returns filed for corporate fiscal years ending on or before June 30, 2012. The individual tax return filing deadline is May 1 of each year for the preceding calendar year. The corporate tax return filing deadline is the 15th day of the fourth month following the close of the corporate fiscal year.

Car Tax Refund Payable

During the year ended June 30, 1998, the General Assembly passed the Personal Property Tax Relief Act. Under the terms of this legislation, the Commonwealth assumed financial responsibility for a portion, ranging from 12.5 percent to 70.0 percent, of the personal property taxes assessed by localities.

During 2004, the General Assembly modified this legislation. Chapter 1 of Special Session 1 (2004) established a $950.0 million limit on the amount the Commonwealth would appropriate for personal property tax relief, beginning in tax year 2006. It further established that each county, city, and town would receive a fixed percentage of the $950.0 million, with payments to begin on or after July 1, 2006 (fiscal year 2007). The accrued liability amount of $263.0 million reflects payments owed to localities as of June 30 and paid in July.

Termination Benefits

During fiscal year 2012, the Commonwealth laid off 86 employees. The affected employees had the option of volunteering for enhanced retirement benefits or severance benefits. The enhanced retirement benefits option was elected by 12 employees, and the remaining 74 employees elected severance benefits. The severance benefits include salary payments based on years of service and insurance premium payments for health and life insurance. All severance benefits were initiated during fiscal year 2012 and will end no later than June 30, 2013. The benefit cost expended and the outstanding liability as of June 30, 2012, is $1.2 million and $637,376, respectively. Since the severance benefits last for a maximum of 12 months, discounting of future cash flows is unnecessary. Additionally, the estimated payments are calculated using the Department of Human Resources' Termination Benefits Calculator and actual costs.

Short-term Debt

Short-term debt results from borrowings from anticipation notes, lines of credit, and similar loans with parties external to the primary government. The primary government's policy is to disclose activity related to short-term borrowings occurring during the fiscal year. For fiscal year 2012, the primary government's agencies did not participate in short-term borrowings with external parties.

Various higher education institutions' foundations (component units) have short-term debt. University of Virginia foundations (major component unit) report $26.6 million, Virginia Commonwealth University foundations (major component unit) report approximately $3.8 million, and nonmajor component unit foundations report approximately $22.3 million. This short-term debt is for working capital, property acquisition, construction costs, operating costs, and refinancing. The University of Virginia (major component unit) has commercial paper of approximately $127.5 million and the Virginia Polytechnic Institute and State University (major component unit) reports $13.3 million of commercial paper that provides bridge financing for capital projects. The Library of Virginia Foundation (nonmajor component unit) has a $50,000 note with a related party. During the year ended June 30, 2012, $5,000 of the loan was forgiven and has been recognized as a contribution.

The balance of Other Liabilities is spread among various other funds.

25. LONG-TERM LIABILITIES

Commonwealth bonds are issued pursuant to Section 9 of Article X of the *Constitution of Virginia*. Section 9(a) bonds have been issued to redeem previous debt obligations. Section 9(b) bonds have been authorized by the citizens of Virginia through bond referenda to finance capital projects. These bonds are retired through the use of state appropriations. Section 9(c) bonds are issued to finance capital projects which, when completed, will generate revenue to repay the debt. Section 9(a), 9(b), and 9(c) bonds are tax-supported general obligation bonds and are backed by the full faith, credit, and taxing power of the Commonwealth. No other long-term debt or obligations are backed by the full faith, credit, and taxing power of the Commonwealth.

Section 9(d) bonds are revenue bonds and are not backed by the full faith, credit and taxing power of the Commonwealth. These bonds are not general obligation bonds and are not deemed to constitute a legal liability of the Commonwealth. This debt may be supported by state appropriations in whole or in part, as in the case of certain debt of the Virginia Port Authority (nonmajor component unit). Other 9(d) revenue bonds are payable from general revenues of the component units, or from revenues of specific revenue-producing capital projects such as the teaching hospitals, dormitories, student centers, and dining halls at the various colleges and universities (component units). Additionally, the 9(d) Transportation Bonds (primary government) are payable solely from revenues or earnings, and other available sources of funds appropriated by the General Assembly.

Certain 9(d) bonds are considered, with 9(a), 9(b), and 9(c) bonds, to be tax-supported debt of the Commonwealth. Tax-supported debt includes all bond issues and short-term debt supported by tax revenues (net of sinking fund requirements), for which debt service payments are made or are ultimately pledged to be made from general governmental funds.

Other 9(d) revenue bonds are considered debt not supported by taxes. For this debt, the Commonwealth has no direct or indirect pledge of tax revenues. However, in some cases, the Commonwealth has made a moral obligation pledge. A government's moral obligation pledge provides a deficiency make-up for bondholders should underlying project revenues prove insufficient. The mechanics involve funding a debt service reserve fund when the bonds are issued. If a revenue deficiency exists, reserve fund monies are used to pay bondholders. The issuer then informs the legislative body requesting that it replenish the reserve fund before subsequent debt service is due. The legislative body may, but is not legally required to, replenish the reserve fund. These bonds are considered to be moral obligation debt.

The following schedule presents the total long-term liabilities of the Commonwealth, and the portion of these amounts which are due within one year, as reported on the Government-wide Statement of Net Assets.

Total Long-term Liabilities
June 30, 2012

(Dollars in Thousands)	**Balance At June 30**	**Amount Due Within One Year**
Primary Government:		
Governmental Activities:(1)		
General Obligation Bonds: (2)		
9(b) Public Facilities (3)	$ 831,148	$ 71,067
9(c) Parking Facilities (3)	18,383	756
9(c) Transportation Facilities (3)	24,210	2,185
Total General Obligation Bonds	873,741	74,008
Nongeneral Obligation Bonds - 9(d):		
Transportation Debt (3) (4)	3,136,659	203,025
Virginia Public Building Authority (3)	2,566,789	182,830
Total Nongeneral Obligation Bonds	5,703,448	385,855
Other Long-term Obligations:		
Pension Liability	1,660,768	-
OPEB Liability	406,969	-
Compensated Absences	315,176	143,967
Capital Lease Obligations	77,400	10,564
Pollution Remediation Obligations	5,171	2,591
Regional Jail Financing Payable	2,748	1,911
Notes Payable	49,689	20,606
Installment Purchase Obligations	114,959	9,342
Economic Development Authority Obligations (3)	81,747	4,070
Other Liabilities	27,647	4,000
Total Other Long-term Obligations	2,742,274	197,051
Total Governmental Activities (3)	9,319,463	656,914
Business-type Activities: (1) (5)		
Other Long-term Obligations:		
Pension Liability	42,249	-
OPEB Liability	12,751	-
Compensated Absences	9,267	4,994
Capital Lease Obligations	449	449
Tuition Benefits Payable	2,175,296	192,471
Lottery Prizes Payable	194,481	35,670
Total Other Long-term Obligations	2,434,493	233,584
Total Business-type Activities	2,434,493	233,584
Total Primary Government	11,753,956	890,498

Total Long-term Liabilities
June 30, 2012

(Dollars in Thousands)	Balance At June 30	Amount Due Within One Year
Component Units:		
General Obligation Bonds: (2)		
Higher Education Fund - 9(c) Bonds (3)	906,474	47,343
Nongeneral Obligation Bonds:		
Higher Education Institutions - 9(d) (3) (5)	1,541,802	23,633
Virginia College Building Authority (3)	2,470,589	145,283
Innovation and Entrepreneurship Investment Authority	2,375	1,155
Virginia Port Authority (3) (6)	519,299	13,604
Virginia Housing Development Authority (3) (5)	5,945,174	278,878
Virginia Resources Authority (3) (7)	3,279,627	125,341
Virginia Public School Authority (3) (5)	3,378,084	202,148
Hampton Roads Sanitation District Commission (5)	639,286	47,814
Virginia Biotechnology Research Park Authority (3)	37,162	1,878
Foundations (5) (8)	975,148	20,789
Total Nongeneral Obligation Bonds	18,788,546	860,523
Other Long-term Obligations:		
Pension Liability (9)	785,472	-
OPEB Liability (10)	470,661	-
Compensated Absences	253,845	173,339
Capital Lease Obligations	91,166	5,376
Notes Payable (5)	2,070,152	251,702
Installment Purchase Obligations	100,161	16,217
Trust and Annuity Obligations (5) (11)	2,508	-
Other Liabilities (5)	293,405	93,721
Total Other Long-term Obligations (Excluding Foundations)	4,067,370	540,355
Other Long-term Obligations (Foundations): (5) (8)		
Pension Liability	98,259	-
OPEB Liability	30	-
Compensated Absences	8,382	7,931
Capital Lease Obligations	432	114
Notes Payable	211,556	8,774
Trust and Annuity Obligations (11)	72,630	2,822
Other Liabilities	204,010	13,358
Total Other Long-term Obligations - Foundations	595,299	32,999
Total Other Long-term Obligations	4,662,669	573,354
Total Component Units	24,357,689	1,481,220
Total Long-term Liabilities	$ 36,111,645	$ 2,371,718

1. Pursuant to GASB Statement No. 34, governmental activities include internal service funds. Business-type activities are considered enterprise funds.
2. Total general obligation debt of the Commonwealth is $1.8 billion.
3. Amounts are net of any unamortized discounts, premiums, and deferrals.
4. This debt includes $481.2 million that is not supported by taxes.
5. This debt is not supported by taxes.
6. This debt includes $282.0 million that is not supported by taxes.
7. This debt is not supported by taxes; however, $801.4 million is considered moral obligation debt.
8. Foundations represent FASB reporting entities defined in Note 1.B.
9. This includes pension obligations that do not relate to the Virginia Retirement System from Virginia Commonwealth University of $3.5 million and Virginia Port Authority of $7.8 million. It does not include pension obligations from fiduciary funds of $11.3 million.
10. This includes OPEB obligations that do not relate to the Virginia Retirement System from University of Virginia of $25.3 million and Virginia Port Authority of $185,386. It does not include OPEB obligations from fiduciary funds of $3.9 million.
11. These generally represent split-interest agreements that represent donor contributed assets with the requirement that an annual distribution be made to the donor or specified beneficiary. The annual distributions are usually for a fixed dollar amount or a fixed percentage of the trust's fair market value. The present value of these commitments is reported as Trust and Annuity Obligations.

Primary Government

Transportation Facilities Debt

Transportation Facilities Bonds include $24,210,496 of Section 9(c) general obligation bonds and $3,136,659,265 of Transportation Facilities Section 9(d) debt. The Section 9(d) debt includes $2,655,481,504 of Section 9(d) revenue bonds, $182,449,414 of outstanding Commonwealth of Virginia Federal Highway Reimbursement Anticipation Notes, and $298,728,347 of Grant Anticipation Revenue Vehicles (GARVEES) in addition to the outstanding Section 9(d) revenue bonds. 9(c) Principal and interest requirements for the current year totaled $3,193,850. 9(d) Principal and interest requirements for the current year totaled $258,344,895. The Section 9(c) Transportation Facilities Bonds were issued to fund the construction and improvement of the George P. Coleman Bridge. The Section 9(d) Transportation Facilities Bonds were issued to fund the construction of State Route 28, U.S. Route 58, the Northern Virginia Transportation District Program, and the Oak Grove Connector (Chesapeake). The Commonwealth of Virginia Federal Highway Reimbursement Anticipation Notes were issued to finance various capital transportation projects throughout the Commonwealth. The interest rates for these bonds range from 2.00 percent to 5.25 percent and the issuance dates range from October 10, 2002, to May 23, 2012. The GARVEES were issued to finance various Federal Aid Transportation projects throughout the Commonwealth. The interest rates for these bonds range from 3.00 percent to 5.00 percent and the issuance date was March 15, 2012.

The following schedules detail the annual funding requirements necessary to amortize Transportation Facilities 9(c) bonds and 9(d) debt. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth will receive a 35.0 percent interest subsidy to reimburse interest payments of $126,765,808 for Build America Bonds (BABs) issued. The BABs are applicable to Commonwealth of Virginia Transportation Series 2010A Capital Project Revenue Bonds and Series 2009A Northern Virginia Transportation District Revenue Bonds.

9(c) TRANSPORTATION FACILITIES BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2013	$ 2,185,000	$ 1,009,850	$ 3,194,850
2014	2,290,000	900,600	3,190,600
2015	2,405,000	786,100	3,191,100
2016	2,520,000	665,850	3,185,850
2017	2,620,000	568,200	3,188,200
2018-2022	11,585,000	1,180,800	12,765,800
Less: Deferral on Debt Defeasance	(41,600)	-	(41,600)
Add: Unamortized Premium	647,096	-	647,096
Total	$ 24,210,496	$ 5,111,400	$ 29,321,896

9(d) TRANSPORTATION FACILITIES DEBT
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2013	$ 203,025,000	$ 130,097,729	$ 333,122,729
2014	146,845,000	124,809,123	271,654,123
2015	153,510,000	118,029,291	271,539,291
2016	160,780,000	110,564,641	271,344,641
2017	136,430,000	103,485,276	239,915,276
2018-2022	637,035,003	424,369,351	1,061,404,354
2023-2027	562,350,268	287,340,201	849,690,469
2028-2032	463,885,000	165,183,890	629,068,890
2033-2037	421,205,000	49,990,460	471,195,460
Less: Unamortized Discount	(110,037)	-	(110,037)
Add: Accretion on Capital Appreciation Bonds	16,338,961	-	16,338,961
Unamortized Premium	235,365,070	-	235,365,070
Total	$ 3,136,659,265	$ 1,513,869,962	$ 4,650,529,227

Fairfax Economic Development Authority Obligations

In fiscal year 2006, the Fairfax County Economic Development Authority (EDA) issued Section 9(d) revenue bonds to pay for the Commonwealth's (VDOT) costs of the planning, design and construction of a transportation infrastructure and related public safety operations complex to be developed on the contiguous sites in the county commonly referred to as "Camp 30" for the joint use of VDOT and the county. The Commonwealth's obligation is set out in a payment agreement between Fairfax County EDA and the Commonwealth of Virginia, Department of Transportation, in which the Commonwealth agrees to make payments equal to the debt service from amounts appropriated by the General Assembly. The interest rates for these bonds range from 4.25 percent to 5.00 percent and the issue date was April 12, 2006. The principal and interest requirements for current year totaled $7,828,188. The following schedule details the annual funding requirements necessary to repay these bonds.

FAIRFAX COUNTY ECONOMIC DEVELOPMENT AUTHORITY
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2013	$ 4,070,000	$ 3,759,438	$ 7,829,438
2014	4,270,000	3,555,938	7,825,938
2015	4,485,000	3,342,438	7,827,438
2016	4,710,000	3,118,188	7,828,188
2017	4,945,000	2,882,688	7,827,688
2018-2022	28,480,000	10,663,500	39,143,500
2023-2027	27,940,000	3,375,050	31,315,050
Add: Unamortized Premium	2,846,608	-	2,846,608
Total	$ 81,746,608	$ 30,697,240	$ 112,443,848

Public Facilities Bonds

Section 9(b) general obligation bonds consist of Public Facilities Bonds, Series 2003A, 2004A, Series 2004B Refunding, Series 2005A, Series 2006A Refunding, Series 2006B, Series 2007A, Series 2007B, Series 2008A, Series 2008B, Series 2008B Refunding, Series 2009A, Series 2009D Refunding, Series 2009E, and Series 2012A Refunding. Bonds were issued to fund construction projects for higher educational institutions, mental health, and/or park facilities. The Series 2003A bonds were issued to advance refund outstanding Series 1993A and B, Series 1994, and Series 1996 bonds. The Series 2004B bonds were issued to advance refund outstanding Series 1997, Series 1998, and Series 1999A bonds. The Series 2006A bonds were issued to advance refund outstanding Series 1996 bonds. The Series 2008B bonds were issued to advance refund outstanding Series 1998 refunding bonds. The Series 2009D bonds were issued to advance refund outstanding Series 2004A, Series 2005A, and Series 2006B bonds. The Series 2012A bonds were issued to advance refund outstanding Series 2002, Series 2003A, Series 2004A, and Series 2005A bonds. Principal and interest requirements for the current year totaled $118,289,014. The interest rates for all bonds range from 1.2 percent to 5.5 percent and the issuance dates range from June 30, 2003, to March 7, 2012. The following schedule details the annual funding requirements necessary to repay these bonds. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth will receive a 35.0 percent interest subsidy to reimburse interest payments of $5,582,311 for Build America Bonds (BABs) issued. The BABs are applicable to Series 2009E Public Facilities Revenue Bonds.

9(b) PUBLIC FACILITIES BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2013	$ 71,067,178	$ 36,594,976	$ 107,662,154
2014	72,540,000	33,305,063	105,845,063
2015	68,240,000	29,924,223	98,164,223
2016	60,550,000	26,739,473	87,289,473
2017	52,945,000	23,800,995	76,745,995
2018-2022	244,835,000	83,462,171	328,297,171
2023-2027	192,075,000	28,951,806	221,026,806
2028-2032	22,665,000	1,323,763	23,988,763
Less: Deferral on Debt Defeasance	(16,635,800)	-	(16,635,800)
Add: Unamortized Premium	62,867,930	-	62,867,930
Total	$ 831,149,308	$ 264,102,470	$ 1,095,251,778

Parking Facilities Bonds

Section 9(c) general obligation bonds consist of Parking Facilities Bonds, Series 2004A, 2009B, and 2009D Refunding, and 2012A Refunding. The Series 2004A bonds were issued to fund the renovation of the 9th and Franklin Street parking deck. The Series 2009B bonds were issued to fund the construction of a new 1,000 vehicle parking structure at 7th and Franklin Streets. The Series 2009D Refunding bonds were issued to advance refund outstanding Series 2004A and 2006B Refunding bonds. The Series 2012A Refunding bonds were issued to advance refund outstanding Series 2002 Refunding and Series 2004A bonds. The interest rates for these bonds range from 2.5 percent to 5.5 percent and the issuance dates range from August 4, 2004, to March 7, 2012. Current year principal and interest requirements totaled $1,575,167.

The following schedule details the annual funding requirements necessary to repay these bonds.

9(c) PARKING FACILITIES BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2013	$ 755,892	$ 795,905	$ 1,551,797
2014	805,604	780,730	1,586,334
2015	847,843	743,436	1,591,279
2016	722,093	704,073	1,426,166
2017	890,000	667,610	1,557,610
2018-2022	5,185,000	2,622,052	7,807,052
2023-2027	5,249,045	1,277,842	6,526,887
2028-2032	2,110,000	159,500	2,269,500
Less: Deferral on Debt Defeasance	(599,400)	-	(599,400)
Add: Unamortized Premium	2,417,036	-	2,417,036
Total	$ 18,383,113	$ 7,751,148	$ 26,134,261

Virginia Public Building Authority

Virginia Public Building Authority (VPBA) Section 9(d) bonds consist of Series 2002A, 2003A Refunding, 2004A Refunding, 2004B, 2004C Refunding, 2004D Refunding, 2005A Refunding, 2005B Refunding, 2005C, 2005D, 2006A, 2006B, 2007A, 2008A Refunding, 2008B, 2009A, 2009B, 2009C, 2009D Refunding, 2010A, 2010B-1, 2010B-2, 2010B-3 Refunding, 2011AB, and 2012A Refunding. All bonds were issued for the purpose of constructing, improving, furnishing, maintaining, and acquiring public buildings for the use of the Commonwealth and also to reimburse localities, regional jail authorities or other combination of localities under the Regional Jail Financing Program. The Series 2003A and 2004A bonds were issued to advance refund outstanding Series 1993A, 1994A, 1995, and 1997A bonds. The Series 2004C and 2005A bonds were issued to refinance certain capital lease obligations of the Commonwealth. The Series 2004D bonds were issued to advance refund outstanding Series 1997A, Series 1999B, and Series 2000A bonds. The Series 2005B bonds were issued to advance refund outstanding Series 1996A, Series 1998B, and Series 1999A bonds. The Series 2008A bonds were issued to advance refund outstanding series 1998A Refunding bonds. The Series 2009D bonds were issued to advance refund outstanding series 2001A and 2002A Revenue bonds. The Series 2010B-3 bonds were issued to advance refund outstanding series 2002A and 2004B Revenue bonds. The Series 2012A bonds were issued to advance refund outstanding series 2004B and 2005C Revenue bonds. The interest rates for all fixed rate bonds range from 2.0 percent to 5.75 percent and the issuance dates range from August 1, 2002, to February 23, 2012. The Series 2005D bonds are variable rate bonds and the rates are reset weekly by the remarketing agent. Current year principal and interest requirements totaled $283,157,424. The following schedule details the annual funding requirements necessary to repay these bonds. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth will receive a 35.0 percent interest subsidy to reimburse interest payments of $105,348,837 for Build America Bonds (BABs) issued. The BABs are applicable to Series 2010 Revenue Bonds.

9(d) VIRGINIA PUBLIC BUILDING AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2013	$ 182,830,000	$ 111,466,849	$ 294,296,849
2014	174,040,000	103,092,707	277,132,707
2015	178,290,000	94,479,027	272,769,027
2016	175,520,000	86,040,356	261,560,356
2017	159,565,000	78,199,853	237,764,853
2018-2022	630,410,000	294,171,712	924,581,712
2023-2027	600,010,000	155,475,401	755,485,401
2028-2032	342,120,000	35,078,121	377,198,121
Less: Deferral on Debt Defeasance	(25,153,157)	-	(25,153,157)
Add: Unamortized Premium	149,157,725	-	149,157,725
Total	$ 2,566,789,568	$ 958,004,026	$ 3,524,793,594

Regional Jail Financing Program

The Regional Jail Financing Program of the Commonwealth of Virginia Treasury Board was created during the 1993 Session of the General Assembly to establish a method of reimbursing localities, regional jail authorities or other combination of localities for a portion of the capital and financing costs of a jail project, made pursuant to Sections 53.1-80, 53.1-81, or 53.1-82 of the *Code of Virginia*. The General Assembly, upon recommendation from the Department of Planning and Budget, may determine to reimburse localities for approved capital costs over time through a contractual reimbursement agreement between the localities or authority and the Treasury Board. The Board of Corrections determines the amount of reimbursable capital costs. If approved for reimbursement over time, the Treasury Board determines the amount of reimbursable financing costs and calculates the periodic reimbursement payments.

In 1996, the General Assembly adopted legislation that authorized funding of jail project reimbursements through bonds issued by the Virginia Public Building Authority (VPBA). As of June 30, 1998, all future jail reimbursements were approved for funding through the VPBA as opposed to the Treasury Board. All reimbursements whether up front or over time, are subject to appropriation by the General Assembly. Current year principal and interest requirements totaled $2,635,715.

The following schedule details the annual funding requirements necessary to repay these obligations.

REGIONAL JAILS FINANCING
Financial Obligations to Maturity

Calendar Year Obligations	*Capital Costs*	*Financing Costs*	*Total*
2013	$ 1,911,009	$ 725,511	$ 2,636,520
2014	837,165	(646,925)	190,240
Total	$ 2,748,174	$ 78,586	$ 2,826,760

Component Units

Higher Education Institution Bonds

Higher Education Institution Bonds are comprised of both 9(c) general obligation bonds and 9(d) revenue bonds. Section 9(d) bonds are from several sources as shown on the following schedule (dollars in thousands).

College and university bonds backed by pledge of general revenue or revenue from specific revenue-producing capital projects	$ 1,205,869
College and university debt backed exclusively by pledged revenues of an institution	335,933
Total Higher Education Institution 9(d) debt	$ 1,541,802

The interest rates for these bonds range from 0.04 percent to 6.2 percent and the issuance dates range from November 17, 1981, to March 7, 2012. The VCBA Series 2006B and 2006C bonds, the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University) Series 2005 and 2008 bonds, and the UVA Series 2003A bonds are variable rate bonds and the rates are reset weekly by the remarketing agent.

The following schedules detail the annual funding requirements necessary to amortize Higher Education Institution 9(c) and 9(d) bonds. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth will receive a 35 percent interest subsidy to reimburse interest payments of $403,629,901 for Build America Bonds (BABs) issued. The BABs are applicable to General Obligation Series 2010A Bonds, Series 2009F and 2010B 21st Century Virginia College Building Authority Education Facilities Bonds, and the University of Virginia's Series 2009 and 2010 General Revenue Bonds.

9(c) HIGHER EDUCATION INSTITUTION BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2013	$ 45,241,930	$ 38,861,829	$ 84,103,759
2014	44,909,396	36,824,488	81,733,884
2015	48,292,157	34,737,331	83,029,488
2016	48,102,907	32,480,445	80,583,352
2017	47,705,000	30,379,103	78,084,103
2018-2022	222,760,000	122,079,577	344,839,577
2023-2027	224,420,955	72,836,908	297,257,863
2028-2032	137,600,000	28,011,878	165,611,878
2033-2037	44,585,000	5,947,705	50,532,705
2038-2042	5,190,000	493,030	5,683,030
Less:			
Deferral on			
Debt Defeasance	(11,692,000)	-	(11,692,000)
Add:			
Unamortized Premium	49,359,024	-	49,359,024
Total	$ 906,474,369	$ 402,652,294	$ 1,309,126,663

9(d) HIGHER EDUCATION INSTITUTION BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2013	$ 23,557,379	$ 60,854,606	$ 84,411,985
2014	23,221,381	62,115,202	85,336,583
2015	26,655,503	61,159,064	87,814,567
2016	26,874,749	60,093,030	86,967,779
2017	21,249,125	59,023,213	80,272,338
2018-2022	109,403,843	282,657,225	392,061,068
2023-2027	128,355,000	262,811,382	391,166,382
2028-2032	157,195,000	242,866,779	400,061,779
2033-2037	287,674,000	222,083,302	509,757,302
2038-2042	720,715,000	100,456,313	821,171,313
Less:			
Deferral on			
Debt Defeasance	(14,123,688)	-	(14,123,688)
Add:			
Unamortized Premium	31,024,194	-	31,024,194
Total	$ 1,541,801,486	$ 1,414,120,116	$ 2,955,921,602

9(d) VIRGINIA COLLEGE BUILDING AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2013	$ 131,585,000	$ 106,342,488	$ 237,927,488
2014	139,055,000	98,739,467	237,794,467
2015	149,885,000	92,429,254	242,314,254
2016	148,010,000	85,968,691	233,978,691
2017	154,275,000	79,597,925	233,872,925
2018-2022	634,790,000	306,827,277	941,617,277
2023-2027	586,435,000	169,857,733	756,292,733
2028-2032	382,650,000	42,388,776	425,038,776
Less:			
Deferral on			
Debt Defeasance	(14,320,300)	-	(14,320,300)
Add:			
Unamortized Premium	158,224,662	-	158,224,662
Total	$ 2,470,589,362	$ 982,151,611	$ 3,452,740,973

Various higher education institutions' foundations (component units) and a museum foundation (component unit) have bonds outstanding as of year-end. The purpose of a majority of these bonds is for construction, property acquisition, and defeasance of prior debt. The following schedule details the future principal payments.

FOUNDATIONS' BONDS (1)
Debt Service Requirements to Maturity

Maturity	*Principal*
2013	$ 20,789,420
2014	35,342,526
2015	24,035,802
2016	27,859,614
2017	26,268,414
Thereafter	840,851,962
Total	$ 975,147,738

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.

Innovation and Entrepreneurship Investment Authority

The Innovation and Entrepreneurship Investment Authority (IEIA) (nonmajor) has issued Taxable Lease Revenue Bonds, Series 1989, and Series 1997 Refunding. The Series 1989 bonds were issued to cover a portion of the costs related to the construction of a software development center and office building. Series 1997 bonds were issued to advance refund $11.2 million of the outstanding 1989 bonds.

The 1989 bonds had an average interest rate of 10.3 percent and the 1997 bonds have an average interest rate of 7.4 percent. The bonds were issued on March 1, 1989, and May 1, 1997, respectively. The following schedule details the annual funding requirements necessary to amortize IEIA bonds.

9(d) INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2013	$ 1,155,000	$ 178,600	$ 1,333,600
2014	1,220,000	91,744	1,311,744
Total	$ 2,375,000	$ 270,344	$ 2,645,344

Virginia Port Authority

The Virginia Port Authority (VPA) (nonmajor) has issued Section 9(d) revenue bonds and notes pursuant to powers provided to its board of commissioners by the *Code of Virginia*. The interest rates for these bonds range from 3.375 percent to 5.5 percent and the issuance dates range from July 23, 2002, to January 25, 2012. Series 2006A bonds were issued to advance refund $22.9 million of outstanding Series 1996 bonds. Series 2010 bonds were issued to currently refund in full the outstanding principal amount of the Authority's Series 2009 Bond Anticipation Note. Series 2012 bonds were issued to currently refund in full the outstanding principal amount of the Authority's Commonwealth Port Fund Revenue Bonds and to pay all or a portion of the expenses incurred with respect to the issuance of the Series 2012 Bonds and the refunding of the Series 2002 Bonds. The following schedule details the annual funding requirements necessary to amortize VPA bonds.

9(d) VIRGINIA PORT AUTHORITY DEBT
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2013	$ 12,935,000	$ 23,433,923	$ 36,368,923
2014	15,090,000	21,854,582	36,944,582
2015	15,580,000	21,369,260	36,949,260
2016	16,105,000	20,836,311	36,941,311
2017	16,515,000	20,261,559	36,776,559
2018-2022	84,605,000	92,102,370	176,707,370
2023-2027	103,450,000	73,246,997	176,696,997
2028-2032	103,075,000	49,677,388	152,752,388
2033-2037	123,450,000	23,339,450	146,789,450
2038-2042	17,095,000	2,189,000	19,284,000
Less: Deferral on Debt Defeasance	(969,200)	-	(969,200)
Add: Unamortized Premium	12,368,074	-	12,368,074
Total	$ 519,298,874	$ 348,310,840	$ 867,609,714

Virginia Housing Development Authority

The Virginia Housing Development Authority (VHDA) (major) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 0.184 percent to 8.18 percent and the origination dates range from January 9, 2001, to September 27, 2011. The following schedule details the annual funding requirements necessary to amortize these bonds.

9(d) VIRGINIA HOUSING DEVELOPMENT AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2013	$ 278,877,856	$ 275,400,045	$ 554,277,901
2014	271,400,000	264,007,815	535,407,815
2015	265,995,000	253,607,786	519,602,786
2016	265,070,000	242,861,950	507,931,950
2017	262,430,000	231,882,225	494,312,225
2018-2022	1,235,485,000	984,034,731	2,219,519,731
2023-2027	997,540,000	719,157,687	1,716,697,687
2028-2032	987,292,004	466,171,500	1,453,463,504
2033-2037	750,037,878	244,716,771	994,754,649
2038-2042	552,234,250	59,061,170	611,295,420
2043-2047	47,430,000	3,759,346	51,189,346
Add: Unamortized Premium	31,381,758	-	31,381,758
Total	$ 5,945,173,746	$ 3,744,661,026	$ 9,689,834,772

Virginia Resources Authority

The Virginia Resources Authority (VRA) (nonmajor) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 1.25 percent to 8.70 percent and the origination dates range from October 15, 1999, to June 13, 2012. The following schedule details the annual funding requirements necessary to amortize these bonds.

9(d) VIRGINIA RESOURCES AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2013	$ 113,711,100	$ 141,892,119	$ 255,603,219
2014	126,923,450	139,057,487	265,980,937
2015	134,475,000	133,784,088	268,259,088
2016	140,415,000	127,906,117	268,321,117
2017	154,405,000	121,446,747	275,851,747
2018-2022	754,830,000	501,663,009	1,256,493,009
2023-2027	713,105,000	329,971,357	1,043,076,357
2028-2032	588,515,000	166,100,268	754,615,268
2033-2037	281,375,000	59,876,341	341,251,341
2038-2042	112,330,000	14,535,534	126,865,534
2043-2047	9,870,000	223,425	10,093,425
Less: Unaccreted Capital Appreciation Bonds	(39,276,094)	-	(39,276,094)
Add: Unamortized Premium	188,948,095	-	188,948,095
Total	$ 3,279,626,551	$ 1,736,456,492	$ 5,016,083,043

Virginia Public School Authority

The Virginia Public School Authority (VPSA) (major) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 0.05 percent to 5.95 percent, and the origination dates range from December 21, 2001, to February 24, 2012. The following schedule details the annual funding requirements necessary to amortize these bonds. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth will receive a 100.0 percent interest subsidy to reimburse interest payments of $204,759,508 for Qualified School Construction Bonds (QSCBs) issued. The QSCBs are applicable to Series 2010-1 and 2011-1 Revenue Bonds.

9(d) VIRGINIA PUBLIC SCHOOL AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2013	$ 199,050,000	$ 149,240,426	$ 348,290,426
2014	218,820,000	140,149,301	358,969,301
2015	212,930,000	129,805,044	342,735,044
2016	211,914,060	119,515,757	331,429,817
2017	206,733,003	109,425,232	316,158,235
2018-2022	922,425,000	407,439,196	1,329,864,196
2023-2027	877,540,000	216,624,015	1,094,164,015
2028-2032	425,785,000	58,499,541	484,284,541
2033-2037	44,850,000	4,657,394	49,507,394
2038-2042	905,000	20,363	925,363
Less: Deferral on Debt Defeasance	(108,385,900)	-	(108,385,900)
Add: Unamortized Premium	165,517,693	-	165,517,693
Total	$ 3,378,083,856	$ 1,335,376,269	$ 4,713,460,125

Hampton Roads Sanitation District Commission

The Hampton Roads Sanitation District Commission (nonmajor) issued bonds under a Master Trust Indenture and a Trust Agreement dated December 1, 1993, and March 1, 2003. The interest cost for these bonds range from 2.38 percent to 5.86 percent. The following schedule details the annual funding requirements necessary to amortize these bonds.

HAMPTON ROADS SANITATION DISTRICT COMMISSION
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2013	$ 22,603,000	$ 28,010,000	$ 50,613,000
2014	24,029,000	27,027,000	51,056,000
2015	24,604,000	26,086,000	50,690,000
2016	24,143,000	25,163,000	49,306,000
2017	18,947,000	24,346,000	43,293,000
2018-2022	104,241,000	109,827,000	214,068,000
2023-2027	120,962,000	85,436,000	206,398,000
2028-2032	122,329,000	56,309,000	178,638,000
2033-2037	109,109,000	26,810,000	135,919,000
2038-2042	63,625,000	3,033,000	66,658,000
Add: Unamortized Premium	4,694,000	-	4,694,000
Total	$ 639,286,000	$ 412,047,000	$ 1,051,333,000

Virginia Biotechnology Research Partnership Authority

The Virginia Biotechnology Research Partnership Authority (nonmajor) consists of Series 2009 Commonwealth of Virginia Lease Revenue bonds. Coupon interest rates range from 3.0 percent to 6.4 percent.

VIRGINIA BIOTECH RESEARCH PARTNERSHIP AUTHORITY
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2013	$ 1,835,000	$ 1,563,475	$ 3,398,475
2014	3,270,000	1,486,900	4,756,900
2015	3,385,000	1,370,150	4,755,150
2016	3,525,000	1,231,950	4,756,950
2017	3,665,000	1,088,150	4,753,150
2018-2022	21,060,000	2,717,175	23,777,175
Less: Unamortized Discount	(559,836)	-	(559,836)
Deferral on Debt Defeasance	(2,439,409)	-	(2,439,409)
Add: Unamortized Premium	3,421,431	-	3,421,431
Total	$ 37,162,186	$ 9,457,800	$ 46,619,986

Total principal outstanding at June 30, 2012, on all component unit bonds amounted to $19.7 billion.

The following schedule summarizes the changes in long-term liabilities:

Schedule of Changes in Long-term Debt and Obligations (1) (2)

(Dollars in Thousands)

	Balance July 1, 2011	Issuances and Other Increases	Retirements and Other Decreases	Subtotal June 30, 2012
Primary Government				
Governmental Activities:				
Long-term Debt Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
General Obligation Bonds - 9(b) and 9(c):				
Public Facilities Bonds	$ 873,489	$ 71,065	$ (159,637)	$ 784,917
Parking Facilities Bonds	17,322	1,143	(1,900)	16,565
Transportation Facilities Bonds	25,685	-	(2,080)	23,605
Add: Unamortized Premium	60,358	16,781	(11,208)	65,931
Less: Deferral on Debt Defeasance	(16,480)	2,303	(3,100)	(17,277)
Total General Obligation Bonds	960,374	91,292	(177,925)	873,741
Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Transportation Facilities Bonds	2,157,564	1,072,340	(344,838)	2,885,066
Virginia Public Building Authority Bonds	2,320,885	370,915	(249,015)	2,442,785
Regional Jails Financing Payable	4,617	-	(1,869)	2,748
Economic Development Authority Obligations	82,775	-	(3,875)	78,900
Add: Unamortized Premium	231,325	200,587	(44,544)	387,368
Accretion on Capital Appreciation Bonds	19,865	-	(3,526)	16,339
Less: Unamortized Discount	(115)	5	-	(110)
Deferral on Debt Defeasance	(24,708)	17,092	(17,537)	(25,153)
Installment Purchase Obligations (3)	101,014	34,373	(20,428)	114,959
Notes Payable - Transportation	8,000	-	-	8,000
Notes Payable - Aviation	1,336	-	(286)	1,050
Notes Payable - Tax Refund	60,959	-	(20,320)	40,639
Compensated Absences	311,523	6,785	(3,132)	315,176
Capital Lease Obligations	87,219	1,136	(10,955)	77,400
Pension Liability	1,405,714	255,054	-	1,660,768
OPEB Liability	301,771	105,198	-	406,969
Pollution Remediation Liability	4,772	652	(253)	5,171
Other	24,308	7,893	(4,554)	27,647
Total Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth	7,098,824	2,072,030	(725,132)	8,445,722
Total Governmental Activities	8,059,198	2,163,322	(903,057)	9,319,463
Business-type Activities:				
Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Capital Lease Obligations	918	-	(469)	449
Compensated Absences	9,044	2,310	(2,087)	9,267
Pension Liability	34,054	8,195	-	42,249
OPEB Liability	9,099	3,652	-	12,751
Lottery Prizes Payable	216,408	9,588	(31,515)	194,481
Tuition Benefits Payable	2,215,261	93,316	(133,281)	2,175,296
Total Business-type Activities	2,484,784	117,061	(167,352)	2,434,493
Total Primary Government	$ 10,543,982	$ 2,280,383	$ (1,070,409)	$ 11,753,956

Foundations (5)	Balance June 30, 2012	Due Within One Year
$ -	$ 784,917	$ 71,067
-	16,565	756
-	23,605	2,185
-	65,931	-
-	(17,277)	-
-	873,741	74,008
-	2,885,066	203,025
-	2,442,785	182,830
-	2,748	1,911
-	78,900	4,070
-	387,368	-
-	16,339	-
-	(110)	-
-	(25,153)	-
-	114,959	9,342
-	8,000	-
-	1,050	286
-	40,639	20,320
-	315,176	143,967
-	77,400	10,564
-	1,660,768	-
-	406,969	-
-	5,171	2,591
-	27,647	4,000
-	8,445,722	582,906
-	9,319,463	656,914
-	449	449
-	9,267	4,994
-	42,249	-
-	12,751	-
-	194,481	35,670
-	2,175,296	192,471
-	2,434,493	233,584
$ -	$ 11,753,956	$ 890,498

Continued on next page

Schedule of Changes in Long-term Debt and Obligations (1) (2)

(continued)

(Dollars in Thousands)

	Balance July 1, 2011 as restated (6)	Issuances and Other Increases	Retirements and Other Decreases	Subtotal June 30, 2012
Component Units				
Long-term Debt Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
General Obligation Bonds - Higher Education 9(c) (4)	$ 765,280	$ 212,778	$ (71,584)	$ 906,474
Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Bonds (4)	16,834,461	3,426,546	(2,447,609)	17,813,398
Installment Purchase Obligations	118,277	1,291	(19,407)	100,161
Capital Lease Obligations	99,569	-	(8,403)	91,166
Notes Payable	2,403,627	980,915	(1,314,390)	2,070,152
Compensated Absences	248,148	234,662	(228,965)	253,845
Pension Liability	644,481	144,525	(3,534)	785,472
OPEB Liability	342,066	128,618	(23)	470,661
Trust and Annuity Obligations	2,376	132	-	2,508
Other	335,307	837,380	(879,282)	293,405
Total Component Units	$ 21,793,592	$ 5,966,847	$ (4,973,197)	$ 22,787,242

Note (1) Pursuant to GASB Statement No. 34, governmental activities include internal service funds. Business-type activities are considered enterprise funds.

Note (2) Payments on bonded debt that pertain to the Commonwealth's governmental activities are made through the debt service funds. Payments for installment purchases, compensated absences, capital leases, pension, and other obligations that pertain to the Commonwealth's governmental activities are made through the general and special revenue funds. Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for these funds are included as part of the total for governmental activities. Enterprise funds, or business-type activities, are self-supporting funds. Accordingly, long-term liabilities are paid from each respective fund.

Note (3) Included in the installment purchase obligation is $17.4 million for which the property management fund (internal service) is contractually obligated for which there is no offsetting internal service fund asset. Accordingly, this activity is excluded from the Noncash Investing, Capital, and Financing Activities reported on page 61.

Note (4) Amounts are net of any unamortized discounts, premiums, and deferrals.

Note (5) Foundations represent FASB reporting entities defined in Note 1.B.

Note (6) Beginning balances have been restated by $19,950 (dollars in thousands) for the University of Virginia (major component unit) due to the elimination of an intrafund capital lease with its foundation.

Foundations (5)	Balance June 30, 2012	Due Within One Year
$ -	$ 906,474	$ 47,343
975,148	18,788,546	860,523
-	100,161	16,217
432	91,598	5,490
211,556	2,281,708	260,476
8,382	262,227	181,270
98,259	883,731	-
30	470,691	-
72,630	75,138	2,822
204,010	497,415	107,079
$ 1,570,447	$ 24,357,689	$ 1,481,220

Bond Defeasance

Primary Government

On February 23, 2012, the Virginia Public Building Authority issued $72,415,000 of Series 2012A Public Facilities Revenue refunding bonds. The bonds refunded were $48,285,000 of Series 2004B and $31,390,000 of Series 2005C Public Facilities Revenue Bonds. The net proceeds from the sale of the refunding bonds of $89,956,103 were deposited in an irrevocable trust with an escrow agent to provide for all future debt service on the defeased bonds. The reacquisition price exceeded the net carrying amount of the old debt by $7,431,355. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt which is shorter than the life of the new debt issued. Total debt service payments over the next 13 years will be reduced by $11,183,480 resulting in an economic gain of $9,832,709 discounted at the rate of 1.724 percent.

On February 23, 2012, the Commonwealth Transportation Board of the Commonwealth of Virginia issued $86,430,000 in Transportation Revenue Refunding Bonds Series 2012A and $37,700,000 in Transportation Revenue Refunding Bonds Series 2012B with a varying interest rate of 2 to 5 percent. The bonds that were refunded with the Series 2001A Transportation Refunding Bonds include $15,380,000. The bonds that were refunded with the Series 2001B Transportation Refunding Bonds include $3,565,000. The bonds that were refunded with the Series 2002A Transportation Refunding Bonds include $81,130,000. The bonds that were refunded with the Series 2002B Transportation Refunding Bonds include $36,640,000. The net proceeds from the sale of the Refunding Bonds of $141,299,388 (after payment of underwriter's fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service and redemption premiums on the refunded bonds. The reacquisition price exceeded the net carrying amount of the old debt by $3,305,298. This amount is being netted against the new debt and amortized over the remaining life the refunded debt or the new debt, whichever is shorter. Total debt service payments will be reduced by $24,741,687 resulting in an economic gain of $25,860,645, discounted at a rate of 1.33 percent.

On March 7, 2012, the Commonwealth issued $95,490,000 General Obligation Refunding Bonds, Series 2012A, pursuant to Sections 9(b) and 9(c) of Article X of the *Constitution of Virginia*, with a true interest cost (TIC) of 1.58 percent to refund $108,035,000 of certain outstanding bonds. The bonds that were refunded include $14,385,000 of outstanding Higher Education Institution Refunding Bonds, Series 2002, $1,065,000 of Higher Education Institution Bonds, Series 2002A, $3,910,000 of Higher Education Institution Bonds, Series 2004A, $6,600,000 of Higher Education Institution Bonds, Series 2005A, $19,910,000 of Public Facilities Refunding Bonds, Series 2002, $25,235,000 of Public Facilities Bonds, Series 2003A, $24,190,000 of Public Facilities Bonds, Series 2004A, $11,580,000 of Public Facilities Bonds, Series 2005A, $95,000 of Parking Facilities Refunding Bonds, Series

2002, and $1,065,000 of Parking Facilities Bonds, Series 2004A. The net proceeds from the sale of the Refunding Bonds of $116,184,421 (after payment of underwriter's fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service and redemption premiums on the refunded bonds. The debt defeasance resulted in an accounting loss of $3,310,000. It will, however, reduce total debt service payments over the next 14 years by $13,153,182 resulting in an economic gain of $12,700,398 discounted at the rate of 1.56 percent.

On May 23, 2012, the Commonwealth Transportation Board of the Commonwealth of Virginia issued $50,620,000 in Transportation Contract Revenue Refunding Bonds Series 2012 with a varying interest rate of 2.0 to 5.0 percent. The bonds that were refunded with the Series 2002 CIB Transportation Refunding Bonds include $9,608,396. The bonds that were refunded with the Series 2002 CAB Transportation Refunding Bonds include $38,390,000. The net proceeds from the sale of the Refunding Bonds of $55,024,253 (after payment of underwriter's fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service and redemption premiums on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by $6,800,759. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt or the new debt, whichever is shorter. Total debt service payments will be reduced by $20,107,139 resulting in and economic gain of $12,297,449 discounted at a rate of 2.72 percent.

Component Units

On October 12, 2011, the University of Virginia (major) issued $4,691,000 of Taxable Commercial Paper and on October 13, 2011, issued Series 2011 Bonds of $73,950,000 to advance refund $82,215,000 of Series 2003B Bonds. The advance refunding reduced the aggregate debt service by $12,435,451 resulting an economic gain of $8,589,746 and an accounting loss of $7,993,477 discounted at the rate of 3.33 percent.

In March 2012, the Virginia College Building Authority (nonmajor) issued $164,475,000 of Series 2012A Pooled Bond Program refunding bonds. The bonds refunded were $50,695,000 of series 2003A, $66,495,000 of series 2004A, and $56,255,000 of series 2005A Pooled Bond Program bonds. The net proceeds from the sale of the refunding bonds of $193,140,527 were deposited in irrevocable trusts with escrow agents to provide for all future debt service on the defeased bonds. This defeasance resulted in an accounting loss of $17,579,000. Total debt service payments over the next 19 years will be reduced by $19,384,966 resulting in an economic gain of $16,245,212 discounted at the rate of 2.09 percent.

In March 2012, the Virginia Public School Authority (major) issued $282,230,000 of Series 2012A refunding bonds ("Refunding Bonds"). The bonds refunded were $7,595,000 of series 2001B, $14,830,000 of series 2003A bonds, $24,625,000 of series 2004A, $54,330,000 of series 2004B, $79,810,000 of series 2005C, and $118,490,000 of series 2005D. The net proceeds of $337,082,264 from the sale of the Refunding Bonds were placed with an escrow agent to provide for all future debt service on the defeased bonds. This defeasance resulted in an accounting loss of $37,402,000. Total debt service payments over the next 19 years will be reduced by $22,210,383 resulting in an economic gain of $21,973,019 discounted at the rate of 2.08 percent.

GASB Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt*, provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of June 30, 2012, there were $334.9 million in bonds from the primary government that have been refunded and defeased in-substance from the governmental activities column by placing existing assets and the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments. In addition, there were $1.2 billion in bonds outstanding considered defeased from the component units.

Arbitrage Rebate

The Tax Reform Act of 1986 requires that governmental entities issuing tax-exempt debt subsequent to August 1986 calculate and rebate arbitrage earnings to the federal government. The U.S. Treasury has issued regulations on calculating the rebate amount and complying with the provisions of the Tax Reform Act of 1986. Governmental issuers must comply with the rebate regulations in order for their bonds to maintain tax-exempt status. The regulations require the excess of the aggregate amount earned on investments purchased with bond proceeds over the amount that would have been earned if the proceeds were invested at a rate equal to the bond yield, to be rebated to the federal government. Income earned on excess earnings is also subject to rebate. Rebate liability, if any, must be paid every five years over the life of the bonds. Governmental issuers may elect to pay a penalty in lieu of rebate. Some bonds may be exempt from the rebate requirements if they qualify for certain regulatory exceptions. If the issuer meets one of the exceptions, the issuer retains any arbitrage earnings. Rebate and penalty payments are calculated and paid as required by law on bond issues that do not qualify for an exception.

Although rebatable arbitrage need only be calculated for tax purposes every fifth year that debt is outstanding, and consistent with modified accrual basis of accounting, is not recognized as a liability in governmental funds until amounts actually become due and payable, a liability is recognized in accrual basis government-wide statements as soon as the underlying event has occurred. Accordingly, as of June 30, 2012, the Commonwealth has recognized a government-wide liability of $1.2 million and the Virginia Resources Authority (nonmajor component unit) has recognized a liability of $3.1 million.

Amounts remitted to the federal government for rebate liability are generally paid from earnings derived from the issue. However, if all proceeds (including earnings) have been expended and depending on the type of issue, it may be necessary to use project revenues or general or nongeneral fund appropriations to satisfy any rebate liability. During fiscal year 2012, a rebate payment in the amount of $1.4 million was made on the Commonwealth's Series 2006B General Obligation Bonds. No rebate payments were owed on bonds of the Virginia Public Building Authority, Commonwealth Transportation Board, or the Virginia College Building Authority 21st Century or Pooled Bond Programs.

Rebate liability on bonds of the Virginia Public School Authority (major component unit) is payable from earnings on related bond funds and from local issuers whose local school bonds were purchased by the VPSA. During the year, $972,263 was paid to the federal government for rebate on various VPSA school financing bonds.

Capital Leases

The Commonwealth leases buildings and equipment under various agreements that are accounted for as capital leases. The lease agreements are for various terms and all leases contain nonappropriation clauses indicating that continuation of the lease is subject to funding by the General Assembly.

Gross minimum lease payments, together with the present value of the net minimum lease payments as of June 30, 2012, are shown in the following table (dollars in thousands).

	Governmental Activities	Business-Type Activities	Component Units (1)
2013	$ 15,614	$ 588	$ 8,623
2014	16,031	-	8,566
2015	15,725	-	8,071
2016	15,559	-	7,985
2017	8,545	-	6,316
2018-2022	29,432	-	29,002
2023-2027	1,618	-	25,704
2028-2032	-	-	25,245
2033-2037	-	-	5,403
2038-2042	-	-	1,557
2043-2047	-	-	622
2048-2052	-	-	1,157
Total Gross Minimum Lease Payments	102,524	588	128,251
Less: Amount Representing Executory Costs	(7,325)	-	-
Net Minimum Lease Payments	95,199	588	128,251
Less: Amount Representing Interest	(17,799)	(139)	(37,085)
Present Value of Net Minimum Lease Payments	$ 77,400	$ 449	$ 91,166

Note (1): The above amounts exclude capital lease obligations of foundations.

	Foundations (2)
2013	$ 117
2014	115
2015	95
2016	86
2017	27
Net Minimum Lease Payments	440
Less: Amount Representing Interest	(8)
Present Value of Net Minimum Lease Payments	$ 432

Note (2): Foundations represent FASB reporting entities defined in Note 1.B.

At June 30, 2012, assets purchased under capital leases were included in depreciable capital assets as follows (dollars in thousands). The amounts are net of accumulated depreciation where applicable. For a portion of these assets, ownership will pass to the Commonwealth at the end of the lease term.

	Buildings	Equipment	Total
Governmental Activities:			
Gross Capital Assets	$ 170,559	$ 3,529	$ 174,088
Less: Accumulated Depreciation	(64,854)	(845)	(65,699)
Total Governmental Activities	$ 105,705	$ 2,684	$ 108,389
Business-Type Activities:			
Gross Capital Assets	$ 2,347	$ -	$ 2,347
Less: Accumulated Depreciation	(225)	-	(225)
Total Business-Type Activities	$ 2,122	$ -	$ 2,122
Component Units:			
Gross Capital Assets	$ 165,267	$ 1,705	$ 166,972
Less: Accumulated Depreciation	(41,388)	(1,701)	(43,089)
Subtotal (excluding Foundations)	123,879	4	123,883
Foundations:			
Gross Capital Assets	-	458	458
Less: Accumulated Depreciation	-	(58)	(58)
Subtotal Foundations	-	400	400
Total Component Units (3)	$ 123,879	$ 404	$ 124,283

Note (3): Land purchased under capital leases by the University of Virginia (major) is $8,095 (dollars in thousands).

Notes Payable

Notes Payable consist of several items as shown in the following schedule (dollars in thousands):

Primary Government		
Transportation Note	$	8,000
Aviation Note		1,050
Installment Notes		114,959
Tax Refund Note		40,639
Total Primary Government		164,648
Component Units		
Virginia Public School Authority		161,170
Virginia Housing Development Authority		109,500
University of Virginia		45,771
Virginia Polytechnic Institute and State University		237,691
Virginia Commonwealth University		299,784
Nonmajor Component Units		1,216,236
Installment Notes		100,161
Subtotal (excluding Foundations)		2,170,313
Foundations:		
Notes Payable		211,556
Subtotal - Foundations		211,556
Total Component Units		2,381,869
Total Notes Payable	$	2,546,517

The Transportation (primary government) Note represents an interest free note payable to Chesterfield County, Virginia, of $8,000,000 for the repayment of the Powhite Parkway Extension Toll Road from surplus net revenues of the project prior to the retirement of all the bonds issued.

The Aviation (primary government) Note represents a loan agreement with the Virginia Resources Authority (nonmajor component unit) with an outstanding balance of $1,050,000. The purpose of the loan was to finance and refinance grants-in-aid made to the Peninsula Airport Commission to provide funding for capital improvements at the Newport News/Williamsburg International Airport. The principal amount shall be paid semi-annually with the final payment due in 2017.

The Tax Refund (primary government) Note of $40,639,103 is owed to a taxpayer and will be paid in four annual installments. Variable interest not to exceed 4.0 percent will be included in the annual payments.

The Virginia Public School Authority (major component unit) notes of $161,170,000 are for the School Equipment Financing Notes Educational Technology program. The note proceeds were used to make grants to school divisions for the purchase of educational technology equipment. The notes will be repaid from appropriations to be made by the Virginia General Assembly from the Literary Fund (major special revenue fund).

The Virginia Housing Development Authority (major component unit) has notes payable of $109,500,000 representing a credit agreement with the Federal Home Loan Bank of Atlanta. The proceeds along with the bond proceeds are used to make mortgage loans.

The Virginia Resources Authority (nonmajor component unit) notes of $4,094,949 are Equipment and Term Financing loans.

The Virginia Biotechnology Research Partnership Authority (nonmajor component unit) has notes payable in the amount of $1,853,437 used for refunding the 1998 bonds issued for BioTech One, making tenant improvements to BioTech Six and purchasing two pieces of land.

An additional amount of $1,793,534,000 is comprised primarily of higher education (component unit) promissory notes with the Virginia College Building Authority (VCBA) (nonmajor component unit) to finance the construction of various higher education facilities. The VCBA principal amount net of unamortized accruals is as follows: University of Virginia (major component unit) $45,517,595; Virginia Polytechnic Institute and State University (major component unit) $237,691,223; Virginia Commonwealth University (major component unit) $299,664,357; and nonmajor component units $1,207,870,019. Interest rates range from 2.1 percent to 5.75 percent and shall be paid semi-annually. The final principal payment is due in 2041.

The higher education institutions (component units) also have notes payable. The University of Virginia (major component unit) has notes payable of $253,000 for a GPS system and software. The Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University – major component unit) has a notes payable of $119,390 regarding a parking deck. Virginia State University (nonmajor component unit) has a note payable of $1,496,539, which is the result of a loan agreement with the U.S. Department of Housing and Urban Development to repair seven dormitories. The loan is to be repaid over 30 years at 3.0 percent interest per annum, and is secured by a lien on the net revenues from the ownership, operation, and use of the seven dormitories under repair. The Radford University Property Acquisition Corporation (blended component unit of Radford University – nonmajor component unit) has a notes payable of $922,153 to purchase land and a building. The terms include an interest rate of 5.53 percent, payable in monthly installments with a final payment in 2022.

Various foundations (component units) have notes outstanding as of year-end. The purpose of a majority of these notes is for property acquisition, working capital, and construction. Future principal payments as of June 30, 2012, are shown in the following table (dollars in thousands).

Foundations' Notes Payable (Component Units) (1)
June 30, 2012

Maturity	Principal
2013	$ 9,395
2014	33,903
2015	35,915
2016	4,856
2017	64,869
Thereafter	62,618
Total	$ 211,556

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.

Installment purchase obligations have been entered into by agencies and institutions of the Commonwealth. These agreements, other than those in the component units and certain institutions of higher education, contain nonappropriation clauses indicating that continuation of the installment purchase obligations is subject to funding by the General Assembly. Installment purchase obligations represent $215,120,511 of the total outstanding debt of the Commonwealth. Presented in the following tables are repayment schedules for installment purchase obligations.

Installment Purchase Obligations - Governmental Funds
June 30, 2012

Maturity	Principal	Interest	Total
2013	$ 9,342,780	$ 4,109,641	$ 13,452,421
2014	9,969,300	3,768,894	13,738,194
2015	10,296,157	3,434,361	13,730,518
2016	10,574,487	3,087,897	13,662,384
2017	10,165,037	2,732,544	12,897,581
2018-2022	40,760,474	8,756,571	49,517,045
2023-2027	23,845,604	2,023,277	25,868,881
2028-2032	5,278	8	5,286
Total	$ 114,959,117	$ 27,913,193	$ 142,872,310

Installment Purchase Obligations - Component Units
June 30, 2012

Maturity	Principal	Interest	Total
2013	$ 16,216,708	$ 3,028,617	$ 19,245,325
2014	16,238,381	2,616,314	18,854,695
2015	13,672,046	2,146,824	15,818,870
2016	10,662,120	1,736,313	12,398,433
2017	10,422,117	1,408,085	11,830,202
2018-2022	28,626,370	2,964,147	31,590,517
2023-2027	4,323,652	389,485	4,713,137
Total	$ 100,161,394	$ 14,289,785	$ 114,451,179

The various foundations (component units) had no installment purchase obligations as of June 30, 2012.

Lottery Prizes Payable

Lottery prizes are paid in 20, 25, 26, or 30 installments. The first installment is paid on the day the prize is claimed. The subsequent annual payments are funded with U.S. Treasury STRIPS purchased by the Virginia Lottery. For Life prizes payable represent estimated prizes payable monthly, quarterly or annually for the life of the winner based on life expectancy tables from the Virginia Bureau of Insurance, and funded with a pool of U.S. Treasury STRIPS.

Lottery prizes payable represent the future annual prize payments valued at cost plus accrued interest (present value of securities held to maturity) of the investment securities funding the payments.

Lottery prizes payable for the fiscal year ended June 30, 2012, are shown in the following table:

	Jackpot	Win For Life	Total
Due within one year	$ 31,065,238	$ 4,604,416	$ 35,669,654
Due in subsequent years	98,068,581	60,742,182	158,810,763
Total (present value)	129,133,819	65,346,598	194,480,417
Add:			
Interest to Maturity	42,196,181	40,564,402	82,760,583
Lottery Prizes Payable at Maturity	$ 171,330,000	$ 105,911,000	$ 277,241,000

Tuition Benefits Payable

The Virginia College Savings Plan administers the Virginia Prepaid Education Program (VPEP). VPEP offers contracts which, for actuarially determined amounts, provide for guaranteed full future tuition payments at state higher education institutions. The contract provisions also allow the benefits to be used for private or out-of-state institutions at a prorated amount based upon the amounts charged by the state’s higher education institutions.

At June 30, 2012, tuition benefits payable of $2.2 billion have been recorded for the VPEP program on the balance sheet for the actuarially determined present value of future obligations anticipated for payment of benefits and administrative expenses for the VPEP program. In addition, a receivable in the amount of $244.8 million has been recorded to reflect the actuarially determined present value of future payments anticipated from contract holders.

26. OTHER REVENUE

The following table (dollars in thousands) summarizes Other Revenue for the fiscal year ended June 30, 2012.

	Assessments and Receipts for Support of Special Services	Fines, Forfeitures, Court Fees, Penalties, and Escheats	Receipts from Cities Counties, and Towns	Private Gifts, Grants, and Contracts	Sales of Property
Primary Government:					
General	$ 2,548	$ 218,784	$ 16,209	$ 648	$ 30,188
Major Special Revenue Funds:					
Commonwealth Transportation	17,874	11,195	22,220	22,422	2,368
Federal Trust	-	735	-	217	370
Literary	-	65,570	-	8	-
Nonmajor Governmental Funds	99,796	52,452	65,475	8,876	7,937
Major Enterprise Funds:					
Virginia College Savings Plan	-	-	-	-	-
Nonmajor Enterprise Funds	-	12,979	-	-	-
Internal Service Funds	-	-	-	-	-
Pension and Other Employee Benefit Trust	-	-	-	-	-
Total Primary Government	$ 120,218	$ 361,715	$ 103,904	$ 32,171	$ 40,863

	Tobacco Master Settlement	Taxes	E-Z Pass	Other (1)	Total Other Revenue
Primary Government:					
General	$ 49,136	$ -	$ -	$ 267,845	$ 585,358
Major Special Revenue Funds:					
Commonwealth Transportation	-	-	9,724	4,599	90,402
Federal Trust	-	-	-	120,778	122,100
Literary	-	-	-	77,293	142,871
Nonmajor Governmental Funds	-	-	-	161,676	396,212
Major Enterprise Funds:					
Virginia College Savings Plan	-	-	-	18	18
Nonmajor Enterprise Funds	-	3,498	-	932	17,409
Internal Service Funds	-	-	-	1	1
Pension and Other Employee Benefit Trust	-	-	-	4,568	4,568
Total Primary Government	$ 49,136	$ 3,498	$ 9,724	$ 637,710	$ 1,358,939

Note (1): $75,000 (dollars in thousands) of the total amount recorded for the Literary fund is related to unclaimed property.

27. PRIZES AND CLAIMS

The following table summarizes Prizes and Claims Expense for the fiscal year ended June 30, 2012.

(Dollars in Thousands)

	Insurance Claims	Lottery Prize Expense	Total Prizes and Claims
Proprietary Funds:			
Major Enterprise Funds:			
State Lottery	$ -	$ 950,628	$ 950,628
Unemployment Compensation	637,955	-	637,955
Nonmajor Enterprise Funds	261,814	-	261,814
Total Enterprise Funds	$ 899,769	$ 950,628	$ 1,850,397
Internal Service Funds	$ 1,219,077	$ -	$ 1,219,077

28. OTHER EXPENSES

The following table summarizes Other Expenses for the fiscal year ended June 30, 2012.

(Dollars in Thousands)

	Grants and Distributions To Localities	Expendable Equipment/ Improvements	Other (1)	Total Other Expenses
Proprietary Funds:				
Major Enterprise Funds:				
Virginia College Savings Plan	$ -	$ 445	$ 2,006	$ 2,451
Nonmajor Enterprise Funds	119	2,823	821	3,763
Total Enterprise Funds	$ 119	$ 3,268	$ 2,827	$ 6,214
Internal Service Funds	$ 1,660	$ 3,779	$ 6,886	$ 12,325
Pension and Other Employee Benefit Trust (2)	$ -	$ -	$ 1,406	$ 1,406

Note (1): $5,851 (dollars in thousands) can be attributed to expenses related to closing cases in the Risk Management internal service fund. $2,006 (dollars in thousands) can be attributed to the SOAR scholarship program for Virginia College Savings Plan Fund.

Note (2): Fiduciary expenses of $1,406 (dollars in thousands) are not included in the Government-wide Statement of Activities.

29. OTHER NON-OPERATING REVENUE/EXPENSES

The following table summarizes Other Non-Operating Revenue/Expenses for the fiscal year ended June 30, 2012.

(Dollars in Thousands)

	Loss on Sale of Capital Assets	Expenses for Securities Lending Transactions	Interest Expense	Federal Unemployment Tax Act	Other (1)	Total Other Non-Operating Revenue/ (Expenses)
Proprietary Funds:						
Major Enterprise Funds:						
State Lottery	$ -	$ (398)	$ -	$ -	$ 357	$ (41)
Virginia College Savings Plan	-	-	(106)	-	-	(106)
Unemployment Compensation	-	-	-	68,079	-	68,079
Nonmajor Enterprise Funds	-	(1)	-	-	9,196	9,195
Total Enterprise Funds	$ -	$ (399)	$ (106)	$ 68,079	$ 9,553	$ 77,127
Internal Service Funds	$ (270)	$ -	$ -	$ -	$ (2,298)	$ (2,568)

Note (1): Other Non-Operating Revenue/Expenses of the nonmajor enterprise funds are comprised of $9,196 reported by the Department of Alcoholic Beverage Control.

30. TRANSFERS

The following table summarizes Transfers In and Transfers Out for the fiscal year ended June 30, 2012 (dollars in thousands).

	Transfers In (Reported In):				
Transfers Out (Reported In):	**General**	**Commonwealth Transportation**	**Federal Trust**	**Literary**	**Nonmajor Governmental Funds**
Primary Government					
General	$ -	$ 194,984	$ 110	$ -	$ 420,855
Major Special Revenue Funds:					
Commonwealth Transportation	28,847	-	1,227	-	278,319
Federal Trust	798	9,114	-	-	11,053
Nonmajor Governmental Funds	146,703	-	17	400	1,760
Major Enterprise Funds:					
State Lottery	487,953	-	-	11,298	-
Virginia College Savings Plan	679	-	-	-	-
Unemployment Compensation	-	-	10,361	-	-
Nonmajor Enterprise Funds	144,654	-	-	1	15,659
Internal Service Funds	3,809	-	758	-	-
Total Primary Government	$ 813,443	$ 204,098	$ 12,473	$ 11,699	$ 727,646

Transfers are used to (1) move revenues from the fund that the *Code of Virginia* or budget requires to collect them to the fund that the *Code of Virginia* or budget requires to expend them; (2) move receipts restricted for debt service from the funds holding the resources to the debt service fund as principal and interest payments become due; (3) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; and (4) reimburse the General Fund for expenses incurred on behalf of nongeneral funds.

During the fiscal year, the following significant transfers were made that do not occur on a routine basis or are inconsistent with the activities of the fund making the transfer.

- Various nongeneral funds transferred approximately $114.3 million to the General Fund as required by Chapter 2, 2012 Acts of Assembly.
- The Department of Motor Vehicles transferred certain fees of approximately $7.4 million to the General Fund as required by Chapter 2, 2012 Acts of Assembly.

Nonmajor Enterprise Funds	Internal Service Funds	Total Primary Government
$ 185	$ -	$ 616,134
-	363	308,756
74	82	21,121
1,843	-	150,723
-	-	499,251
-	-	679
-	-	10,361
-	-	160,314
-	-	4,567
$ 2,102	$ 445	$ 1,771,906

31. ON-BEHALF PAYMENTS

Higher education institutions (component units) received various on-behalf payments from foundations primarily for salary supplements and stipends during fiscal year 2012. Since the foundations are included as part of the higher education entity, the on-behalf payments were considered intrafund and were eliminated from the financial statements.

32. ENDOWMENTS

Donor restricted endowments reside primarily within the higher education institutions. The net appreciation available for expenditure is $1.0 billion. Of this amount, $1.0 million is reported as unrestricted net assets and the remainder is reported as restricted net assets. The *Code of Virginia* authorizes acceptance of donations. The governing boards of these entities and the donor agreements determine whether net appreciation can be spent and the accepted spending rate. These policies are entity specific and vary with each institution.

33. CASH FLOWS – ADDITIONAL DETAILED INFORMATION

The following table (dollars in thousands) summarizes specific cash flows for the fiscal year ended June 30, 2012.

	State Lottery	Virginia College Savings Plan	Unemployment Compensation	Nonmajor Enterprise Funds
Cash Flows Resulting from:				
Payments for Prizes, Claims, and Loss Control:				
Lottery Prizes	$ (994,554)	$ -	$ -	$ -
Claims and Loss Control	-	-	(639,541)	(244,227)
Total	$ (994,554)	$ -	$ (639,541)	$ (244,227)
Other Operating Revenue:				
Other Operating Revenue	$ -	$ -	$ -	$ 3,087
Total	$ -	$ -	$ -	$ 3,087
Other Operating Expense:				
Other Operating Expenses (1)	$ -	$ (2,006)	$ -	$ (1,840)
Total	$ -	$ (2,006)	$ -	$ (1,840)
Other Noncapital Financing Receipt Activities:				
Advances/Contributions from the Commonwealth	$ -	$ -	$ -	$ 28,489
Receipts from Taxes	-	-	61,774	184,065
Other Noncapital Financing Receipt Activities (2)	328	-	263,599	248
Total	$ 328	$ -	$ 325,373	$ 212,802
Other Noncapital Financing Disbursement Activities:				
Repayments of Advances/Contributions from the Commonwealth	$ -	$ -	$ -	$ (29,468)
Other Noncapital Financing Disbursement Activities (3)	-	-	(445,818)	-
Total	$ -	$ -	$ (445,818)	$ (29,468)
Other Capital and Related Financing Disbursement Activities	$ -	$ -	$ -	$ -
Total	$ -	$ -	$ -	$ -

Note (1): $2,006 (dollars in thousands) can be attributed to disbursements related to Virginia College Savings Plan for the SOAR scholarship. Also, $5,851 (dollars in thousands) can be attributed to disbursements related to closing cases in the Risk Management internal service fund.

Note (2): $263,599 (dollars in thousands) can be attributed to Federal repayable advances under Title XII of the Social Security Act. Also, $17,385 (dollars in thousands) can be attributed to the Property Management internal service fund related to energy performance contracts where the asset is retained by the primary government.

Note (3): The entire amount can be attributed to repayments of Federal repayable advances under Title XII of the Social Security Act.

Total Enterprise Funds		Internal Service Funds	
$	(994,554)	$	-
	(883,768)		(1,058,674)
$	(1,878,322)	$	(1,058,674)
$	3,087	$	-
$	3,087	$	-
$	(3,846)	$	(10,199)
$	(3,846)	$	(10,199)
$	28,489	$	-
	245,839		-
	264,175		17,791
$	538,503	$	17,791
$	(29,468)	$	(9,545)
	(445,818)		-
$	(475,286)	$	(9,545)
$	-	$	(632)
$	-	$	(632)

34. TOBACCO SETTLEMENT AND SECURITIZATION

On November 23, 1998, 46 states' Attorneys General and the major tobacco companies signed a proposed settlement that reimburses states for smoking-related medical expenses paid through Medicaid and other health care programs. At the time of the settlement, it was estimated that the Commonwealth could receive approximately $4.1 billion over the duration of the settlement. The settlement was approved in a Consent Decree in December 1998. On March 29, 1999, the General Assembly enacted a law approving the establishment of the Virginia Tobacco Indemnification and Community Revitalization Commission (Commission), in compliance with the Consent Decree, to help communities in Virginia hurt by the decline of tobacco.

The Commission was established for the purposes of determining the appropriate recipients of monies in the Tobacco Indemnification and Community Revitalization Fund. The monies are to be used to provide payments to tobacco farmers as compensation for the tobacco equipment and barns and lost tobacco production opportunities associated with a decline in quota. The monies are also to be used to revitalize tobacco dependent communities.

The General Assembly also created the Virginia Foundation for Healthy Youth (Foundation). The purpose of the Foundation is to determine the appropriate recipients of monies in the Virginia Tobacco Settlement Fund. The Foundation will also be responsible for distributing monies for the purposes provided in the legislation. Disbursements can be made to assist in financing efforts to restrict the use of tobacco products by minors, through educational and awareness programs describing the health effects of tobacco use on minors, and laws restricting the distribution of tobacco products to minors. The Commission and the Foundation are included in the Comprehensive Annual Financial Report as component units.

Additionally, the General Assembly created two special non-reverting funds. The Tobacco Settlement monies are accounted for in these funds and the General Fund. Fifty percent of the Settlement monies will be deposited into the Tobacco Indemnification and Community Revitalization Fund. Ten percent of the Settlement monies will be deposited into the Virginia Tobacco Settlement Fund. The remaining 40.0 percent will be reported in the General Fund.

In May 2005, pursuant to a Purchase and Sale Agreement with the Commonwealth, acting as an agent on behalf of the Tobacco Indemnification and Community Revitalization Commission (Commission), the Commonwealth sold to the Tobacco Settlement Financing Corporation (Corporation) 25.0 percent of its future right, title and interest in the Tobacco Settlement Revenues (TSRs). In May 2007, pursuant to a Purchase and Sale Agreement with the Commonwealth, acting as an agent on behalf of the Commission, the Commonwealth sold to the Corporation the remaining 25.0 percent of its future right, title and interest in the TSRs. Specifically, these rights include the 50.0 percent share of the TSRs received by the Commission starting May 15, 2005, and in perpetuity under the Master Settlement Agreement.

Consideration paid by the Corporation to the Commission for TSRs consisted of a cash amount deposited into an endowment to fund the long-term spending plan approved by the Commission. The bonds of the Corporation are asset-backed instruments secured solely by the TSRs, and the Corporation's right to receive TSRs is expected to produce funding for its obligations.

The Commission is a discrete component unit of the Commonwealth and the Corporation is disclosed as a related organization.

35. INFORMATION TECHNOLOGY INFRASTRUCTURE PARTNERSHIP – NORTHROP GRUMMAN

The Comprehensive Infrastructure Agreement (CIA) is a contract, executed on November 13, 2005, between the Commonwealth of Virginia (Commonwealth) acting through the Virginia Information Technologies Agency (VITA) and Northrop Grumman Information Technology, Inc (NG). The Commonwealth's primary goal is to significantly improve the Commonwealth's IT infrastructure and the manner in which such infrastructure is operated, supported, and maintained for the following service towers: Cross-Functional Services; Desktop Computing Services; Data Network Services; Voice and Video Telecom Services; Mainframe and Server Services; Help Desk Services; Messaging Services; Security Services; Internal Application Services; and Data Center facilities.

On March 31, 2010, contract revisions to the CIA were completed between the Commonwealth and Northrop Grumman. As a result of the contract changes, the Commonwealth renewed the contract for an additional three years, the parties established the products and services covered in the contractual cap including the baseline quantities to be billed and the prices at which those quantities will be billed, a shortened formula for contract year ten cost of living adjustment, and increased resolution and disentanglement fees. These contract changes are intended to provide improved performance to the VITA customer agencies, provide greater accountability and operational efficiencies for the services provided, and resolve outstanding financial issues. Additional contract revisions to the CIA were completed between the Commonwealth and Northrop Grumman during fiscal years 2011 and 2012. The contract term expires June 30, 2019.

Expenses associated with the CIA in fiscal year 2012 are $267.2 million, including payments to Northrop Grumman of $210.2 million. The Commonwealth expects to spend an additional $1.8 billion over the next seven fiscal years.

The Commonwealth may terminate the CIA due to a variety of reasons including the Commonwealth's convenience; a significant change of control in the equity interests in NG; NG's failure to implement satisfactory improvements; or, NG's failure to prevent service interruption of 15 days or more. In these instances, the Commonwealth will be required to pay exit and resolution fees as outlined in the CIA. Additional causes for termination that do not require the payment of exit or resolution fees are NG's default on the CIA terms, the Commonwealth's lack of funds, or NG's incurrence of liabilities equal to or more than 75 percent of the direct damages cap. NG may terminate the CIA only if the Commonwealth owes an aggregate amount in excess of $100.0 million that is more than 30 days past due and not being disputed in good faith. The Commonwealth may be required to pay exit and resolution fees, as outlined in the CIA, if NG terminates the CIA. Fees resulting from the termination of the agreement are expected to be significant to the Commonwealth. However, exit fees are subject to the appropriation, allocation and availability of Commonwealth funds. Further, if the Commonwealth and NG terminate the business relationship at the conclusion of the CIA term, the Commonwealth could incur significant costs to obtain and transition the IT infrastructure necessary to continue the Commonwealth's operations.

36. CONTINGENCIES

A. Grants and Contracts

The Commonwealth has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the Commonwealth.

Institutions of higher education (component units) and other state agencies are required to comply with various federal regulations issued by the Office of Management and Budget, if such agencies are recipients of federal grants, contracts, or other sponsored agreements. Failure to comply with certain requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. It is believed that the ultimate disallowance pertaining to these regulations, if any, will be immaterial to the overall financial condition of the Commonwealth.

The U.S. Department of Health and Human Services (DHHS) Office of the Inspector General conducted a review and indicated that the Commonwealth's Statewide Indirect Cost Allocation Plan rates have allowed over-recoveries and transfers in the internal service funds. The U.S. DHHS has received the 2013 cost allocation plan, which is based on fiscal year 2011 data. The Commonwealth believes this liability has the potential to total $1.2 million as of June 30, 2012.

Virginia's combined overpayment and underpayment SNAP error rate for federal fiscal year 2011 was 3.41 percent. The national performance measure (national average payment error rate) for fiscal 2011 was 3.80 percent. Information for fiscal year 2012 is not yet available.

Under the Food and Nutrition Act of 2008 (the Act), a 2-year liability system for excessive payment error rates is in place. Under this system, a liability amount shall be established when, for the second or subsequent consecutive fiscal year, FNCS (Food, Nutrition, and Consumer Services) determines that there is a 95.0 percent statistical probability that a State's payment error rate exceeds 105.0 percent of the national performance measure for payment error rates. For fiscal year 2010, the FNCS determined that there was a 95.0 percent statistical probability that Virginia's payment error rate of 5.87 percent exceeded 105.0 percent of the national performance measure for fiscal year 2010. On June 16, 2011, Virginia was notified that fiscal year 2010 was the first year of two possible consecutive years of excessive payment error rates. For fiscal year 2011, VDSS fell within the tolerance level and fiscal year 2011 will not count as a first year or a second year for excessive payment error rates and a liability amount will not be established.

The Virginia Tourism Authority (nonmajor component unit) had unclaimed awards totaling $1.5 million payable to awardees upon submission of proper claims for reimbursement for the Marketing Leverage Program. Also, the Authority received a donation of land from King George County to be used as the Gateway Welcome Center on highway U.S. 301 at the Virginia Maryland border. The deed requires the land to revert to the U.S. government if needed for national defense. The book value of the land is $824,000. Additionally, the Authority had unclaimed awards totaling $84,004 payable to awardees' upon submission of proper claims for reimbursement for the Sesquicentennial Marketing Program.

B. Litigation

The Commonwealth is named as a party in legal proceedings and investigations that occur in the normal course of governmental operations, some involving substantial amounts. It is not possible at the present time to estimate the ultimate outcome or liability, if any, of the Commonwealth in respect to the various proceedings; however, it is believed that any ultimate liability resulting from these suits or investigations will not have a material, adverse effect on the financial condition of the Commonwealth.

C. Subject to Appropriation

Both the primary government and the discretely presented component units enter into agreements and issue debt secured solely by future appropriations from the General Fund of the Commonwealth. The primary government has leases and other agreements of such debt of $2.7 billion. The discretely presented component units have such debt of $2.5 billion.

D. Bailment Inventory

The Department of Alcoholic Beverage Control (ABC) houses and controls bailment inventory in the warehouse and is therefore responsible for the exercise of reasonable care to preserve the inventory until it is purchased by ABC or returned to the supplier. ABC uses the bailment system for payment of merchandise for resale. ABC initiates payments to the vendors based on shipments from the ABC warehouse to the retail stores, rather than receipt of invoice from the vendor. At June 30, 2012, the bailment inventory was valued at $37.1 million.

E. Loan Guarantees

The Assistive Technology Loan Fund Authority (nonmajor component unit) has an alternative financing program which provides guarantees of loans made and serviced by its banking partner. As of June 30, 2012, there was approximately $421,494 of guaranteed loans held by the Authority's banking partner.

The Virginia Small Business Financing Authority (nonmajor component unit) has a loan guaranty program which provides guarantees up to the lesser of $500,000 or 75.0 percent of a bank loan for lines of credit and short-term working capital loans for small businesses. As of June 30, 2012, the loan guaranty program has guarantees outstanding of $5.4 million.

F. Other

The Virginia Horse Center Foundation (nonmajor component unit) has incurred recurring losses from operations and is in violation of selected covenants contained in agreements with the USDA and with the Commonwealth. Bank notes outstanding were not renewed when due and a forbearance agreement is under negotiation. Management is actively developing plans in regard to these matters.

37. SUBSEQUENT EVENTS

Primary Government

Other

Title XII of the Social Security Act provides for interest bearing repayable advances to States for the purpose of payment of unemployment compensation claims in the event the state Unemployment Trust Fund reserves are reduced to zero. These advances are repayable from future collections of employer contributions to the Unemployment Trust Fund. Federal advances are anticipated for the months of January 2013 through May 2013. Also, the Trust Fund received approval for short-term Commonwealth Treasury loans in the amount of $63.0 million through December 2012. Of this authorized amount, $18.0 million has been drawn down.

Debt

In July 2012, the Commonwealth Transportation Board issued $120.6 million Commonwealth of Virginia Federal Transportation Grant Anticipation Revenue Notes Series 2012B. The 2012B bonds will provide funding costs associated with the Interstate 95 HOV/HOT Lanes Project in Northern Virginia and the Downtown Tunnel/Midtown Tunnel/Martin Luther King Freeway Extension Project in Hampton Roads.

Component Units

Debt

Subsequent to June 30, 2012, the Virginia Resources Authority (nonmajor) issued bonds in the amount of $79.1 million. The interest rates range from 2.0 percent to 5.0 percent with a final due date of November 1, 2041.

Subsequent to June 30, 2012, the Virginia Housing Development Authority (VHDA) (major) issued $125.1 million of Bank of America, N.A., Revolving Credit Agreement and Series 2012B Rental Housing Bonds. Additionally, in September 2012, VHDA repaid $60.1 million of 2003B Rental Housing Bonds and VHDA General Purpose Bonds, Series 2002Y and 2002Z.

In April 2012, the Virginia Secretary of Transportation received an unsolicited proposal to operate the facilities of the Virginia Port Authority (nonmajor). Under Virginia law, the state was required to open up the bidding to alternative proposals. Subsequent to year-end, interested vendors were required to submit proposals. The Virginia Transportation Secretary will oversee the process of proposal selection and make recommendations, but the final decision rests with the Governor and the Virginia Port Authority Board of Commissioners. No decision has been made to date.

In August 2012, the Virginia Public School Authority (VPSA) (major) issued its $65.7 million Special Obligation School Financing Bonds Prince William County Series 2012 as part of its stand-alone bond program. The proceeds will be used to purchase general obligation bonds issued by Prince William County to pay the costs of various capital school improvement projects for the County.

In September 2012, the Commonwealth agreed to purchase of certain improvements to Launch Pad 0-A from Orbital Sciences Corporation (Orbital), on behalf of the Virginia Commercial Space Flight Authority (VCSF) (nonmajor), in the amount of $25.6 million. The Commonwealth also has the option to purchase, on behalf of the VCSF, additional improvements up to $16.5 million. Additionally, the Commonwealth agreed to provide funding to VCSF for completion of these improvements. VCSF will provide Orbital future access to Launch Pad 0-A, in return for a fixed fee arrangement of $1.5 million per covered mission plus bulk commodities at cost.

In September 2012, the Virginia Port Authority (VPA) (nonmajor) issued $45.2 million of Virginia Port Authority, Commonwealth Port Fund Revenue Bonds, Series 2012B (Taxable), and $4.8 million of Virginia Port Authority, Commonwealth Port Fund Revenue Bonds, Series 2012C. Serial bonds issued in the principal amount of $45.2 million are payable in annual installments beginning July 1, 2013, in amounts ranging from $635,000 to $3.6 million with interest ranging from 0.4 percent to 3.4 percent payable semiannually, the first interest installment due January 1, 2013 and the final installment due July 1, 2029. Serial bonds issued for the 2012C series in the principal amount of $4.8 million are payable in annual installments beginning July 1, 2029, in amounts ranging from $780,000 to $4.0 million with interest ranging from 3.0 percent to 5.0 percent payable semiannually, the first interest installment due January 1, 2013 and the final installment due July 1, 2030. Proceeds will be used to defease all or portions of the Commonwealth Port Fund Revenue Bonds, Series 2005B (Non-AMT) for debt service savings.

In November 2012, the Virginia Public School Authority (VPSA) (major) sold two different series of bonds. First, VPSA issued $66.0 million of School Financing Series 2012C bonds. The proceeds will be used to purchase general obligation school bonds issued by certain Virginia localities for capital projects for their public schools. Second, VPSA sold $23.3 million in School Tax Credit Bonds, a portion of which will be issued as direct payment "qualified school construction bonds" and the remainder as "qualified zone academy bonds" Series 2012-1. VPSA will irrevocably elect to receive interest subsidy payments from the United States Treasury rather than to provide a tax credit to the owners of the 2012-1 bonds. VPSA will transfer the interest subsidy payments received to the 2012-1 local issuers.

In November 2012, VCBA sold its Educational Facilities Revenue Bonds (Public Higher Education Financing Program) $141.1 million Series 2012B. The proceeds were used to buy Institutional Notes of nine higher education institutions to fund capital projects at those institutions.

In November 2012, VCBA issued its Educational Facilities Revenue Bonds (21st Century College and Equipment Programs) $377.6 million Series 2012B. The proceeds were used to fund certain capital projects and to acquire equipment at higher education institutions.

Required Supplementary Information

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Major Special Revenue Funds

Fiscal Year Ended June 30, 2012
(Dollars in Thousands)

	General Fund			
	Original Budget	Final Budget	Actual	Final/Actual Variance Positive (Negative)
Revenues:				
Taxes:				
Individual and Fiduciary Income	$ 10,329,600	$ 10,526,400	$ 10,612,836	$ 86,436
Sales and Use	3,340,600	3,282,100	3,335,601	53,501
Corporation Income	831,600	827,800	859,923	32,123
Motor Fuel	-	-	-	-
Motor Vehicle Sales and Use	-	-	-	-
Communications Sales and Use	448,900	440,000	424,257	(15,743)
Deeds, Contracts, Wills, and Suits	310,200	331,409	330,938	(471)
Premiums of Insurance Companies	289,600	287,300	252,895	(34,405)
Alcoholic Beverage Sales	180,600	180,800	186,377	5,577
Tobacco Products	174,254	179,200	192,453	13,253
Estate	-	-	298	298
Public Service Corporations	96,400	93,900	94,429	529
Other Taxes	24,556	26,180	20,442	(5,738)
Rights and Privileges	89,089	82,838	72,817	(10,021)
Sales of Property and Commodities	29,285	14,447	30,146	15,699
Assessments and Receipts for Support of Special Services	2,025	2,325	2,570	245
Institutional Revenue	39,464	40,511	38,134	(2,377)
Interest, Dividends, and Rents	104,090	82,442	83,055	613
Fines, Forfeitures, Court Fees, Penalties, and Escheats	219,605	227,206	216,032	(11,174)
Federal Grants and Contracts	-	-	-	-
Receipts from Cities, Counties, and Tow ns	15,249	14,991	16,209	1,218
Private Donations, Gifts and Contracts	450	532	680	148
Tobacco Master Settlement	58,560	50,205	49,136	(1,069)
Other	107,903	168,771	282,731	113,960
Total Revenues	16,692,030	16,859,357	17,101,959	242,602
Expenditures:				
Current:				
General Government	2,334,125	2,196,546	2,096,588	99,958
Education	7,130,084	7,225,088	7,123,221	101,867
Transportation	30	462	462	-
Resources and Economic Development	383,615	415,708	353,567	62,141
Individual and Family Services	5,215,566	5,149,191	5,027,601	121,590
Administration of Justice	2,324,610	2,383,519	2,284,948	98,571
Capital Outlay	16,787	19,397	7,627	11,770
Total Expenditures	17,404,817	17,389,911	16,894,014	495,897
Revenues Over (Under) Expenditures	(712,787)	(530,554)	207,945	738,499
Other Financing Sources (Uses):				
Transfers:				
Transfers In	641,365	748,237	799,070	50,833
Transfers Out	(543,013)	(602,512)	(621,163)	(18,651)
Bonds Issued	-	-	-	-
Premium on Debt Issuance	-	-	-	-
Total Other Financing Sources (Uses)	98,352	145,725	177,907	32,182
Revenues and Other Sources Over (Under) Expenditures and Other Uses	(614,435)	(384,829)	385,852	770,681
Fund Balance, July 1, as restated	1,297,560	1,297,560	1,297,560	-
Fund Balance, June 30	$ 683,125	$ 912,731	$ 1,683,412	$ 770,681

See notes on page 177 in this section.

Special Revenue Funds			
Commonwealth Transportation Fund			
Original Budget	Final Budget	Actual	Final/Actual Variance Positive (Negative)
$ -	$ -	$ -	$ -
521,000	504,800	482,307	(22,493)
-	-	-	-
913,192	886,817	859,947	(26,870)
499,000	525,800	538,143	12,343
-	-	-	-
34,600	38,400	39,140	740
136,000	137,300	137,297	(3)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
38,447	40,060	37,920	(2,140)
524,359	541,024	537,963	(3,061)
556	556	3,646	3,090
17,563	17,654	17,867	213
-	-	-	-
41,580	20,958	30,039	9,081
11,917	11,667	11,008	(659)
1,173,860	1,290,875	1,178,487	(112,388)
102,495	98,605	19,173	(79,432)
-	-	28,812	28,812
-	-	-	-
12,993	685	15,973	15,288
4,027,562	4,115,201	3,937,722	(177,479)
3,155	2,458	2,037	421
2,414	2,414	2,405	9
4,046,933	6,116,968	4,406,333	1,710,635
13,972	13,410	9,553	3,857
-	-	-	-
9,650	9,650	9,497	153
38,761	36,822	11,076	25,746
4,114,885	6,181,722	4,440,901	1,740,821
(87,323)	(2,066,521)	(503,179)	1,563,342
103,061	170,302	209,459	39,157
(323,541)	(326,871)	(309,088)	17,783
897,590	897,590	897,590	-
131,946	131,946	131,946	-
809,056	872,967	929,907	56,940
721,733	(1,193,554)	426,728	1,620,282
2,331,014	2,331,014	2,331,014	-
$ 3,052,747	$ 1,137,460	$ 2,757,742	$ 1,620,282

Continued on next page

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual –
General and Major Special Revenue Funds *(Continued from previous page)*

Fiscal Year Ended June 30, 2012
(Dollars in Thousands)

	Special Revenue Funds			
	Federal Trust			
	Original Budget	Final Budget	Actual	Final/Actual Variance Positive (Negative)
Revenues:				
Taxes:				
Individual and Fiduciary Income	$ -	$ -	$ -	$ -
Sales and Use	-	-	-	-
Corporation Income	-	-	-	-
Motor Fuel	-	-	-	-
Motor Vehicle Sales and Use	-	-	-	-
Communications Sales and Use	-	-	-	-
Deeds, Contracts, Wills, and Suits	-	-	-	-
Premiums of Insurance Companies	-	-	-	-
Alcoholic Beverage Sales	-	-	-	-
Tobacco Products	-	-	-	-
Estate	-	-	-	-
Public Service Corporations	-	-	-	-
Other Taxes	-	-	-	-
Rights and Privileges	-	-	-	-
Sales of Property and Commodities	304	298	456	158
Assessments and Receipts for Support of Special Services	-	-	-	-
Institutional Revenue	-	-	-	-
Interest, Dividends, and Rents	1,211	1,095	1,306	211
Fines, Forfeitures, Court Fees, Penalties, and Escheats	1,211	1,174	718	(456)
Federal Grants and Contracts	6,592,521	8,022,874	8,746,547	723,673
Receipts from Cities, Counties, and Tow ns	-	-	-	-
Private Donations, Gifts and Contracts	137	-	217	217
Tobacco Master Settlement	-	-	-	-
Other	24,434	22,706	145,555	122,849
Total Revenues	6,619,818	8,048,147	8,894,799	846,652
Expenditures:				
Current:				
General Government	142,236	169,093	126,732	42,361
Education	895,892	1,535,894	1,461,510	74,384
Transportation	35,037	21,548	16,033	5,515
Resources and Economic Development	176,411	262,993	209,522	53,471
Individual and Family Services	5,307,138	5,957,972	7,032,088	(1,074,116)
Administration of Justice	56,027	62,857	35,990	26,867
Capital Outlay	13,158	34,652	12,605	22,047
Total Expenditures	6,625,899	8,045,009	8,894,480	(849,471)
Revenues Over (Under) Expenditures	(6,081)	3,138	319	(2,819)
Other Financing Sources (Uses):				
Transfers:				
Transfers In	-	2	14,711	14,709
Transfers Out	(10)	(9,231)	(21,121)	(11,890)
Bonds Issued	-	-	-	-
Premium on Debt Issuance	-	-	-	-
Total Other Financing Sources (Uses)	(10)	(9,229)	(6,410)	2,819
Revenues and Other Sources Over (Under) Expenditures and Other Uses	(6,091)	(6,091)	(6,091)	-
Fund Balance, July 1, as restated	6,091	6,091	6,091	-
Fund Balance, June 30	$ -	$ -	$ -	$ -

See notes on page 177 in this section.

Notes for Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Major Special Revenue Funds

1. Basis of Budgeting vs. Modified Accrual Basis Fund Balance (1)

Since the presentation of financial data on the basis of budgeting differs from that presented under accounting principles generally accepted in the United States of America, a schedule reconciling the fund balance on a budgetary basis at June 30, 2012, to the fund balance on a modified accrual basis follows.

Fund Balance Comparison

Budgetary Basis to GAAP Basis

(Dollars in Thousands)

	General Fund	Commonwealth Transportation Fund	Federal Trust Fund
Fund Balance, Basis of Budgeting	$ 1,683,412	$ 2,757,742	$ -
Adjustments from Budget to Modified Accrual:			
Accrued Revenues:			
Taxes	675,620	136,081	-
Tax Refunds	(390,947)	-	-
Other Revenue/Other Sources	96,945	73,533	628,676
Deferred Taxes (2)	(452,442)	-	-
Medicaid Payable	(341,332)	-	(353,112)
Accrued Expenditures/Other Uses	(758,897)	(220,762)	(175,830)
Fund Balance, Modified Accrual Basis	$ 512,359	$ 2,746,594	$ 99,734

1. As discussed in Note 1.E., the Literary Fund has no approved budget.
2. See also Note 1.Q.

2. Appropriations

The amounts presented in the Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Major Special Revenue Funds are principally on a cash basis and represent the original budget adopted by the General Assembly and all supplemental appropriations and transfers. The following schedule reconciles original appropriations to the final adjusted expenditure appropriations for the General Fund and Major Special Revenue Funds, at June 30, 2012, except the Literary Fund which has no approved budget.

(Dollars in Thousands)	General Fund (9)	Commonwealth Transportation Fund	Federal Trust Fund (10)
Appropriations (1)	$ 17,404,817	$ 4,114,885	$ 6,625,899
Supplemental Appropriations:			
Reappropriations (2)	68,899	37,699	21,181
Subsequent Executive (3)	608,252	985,005	1,443,568
Subsequent Legislative (4)	(568,673)	1,013,216	1,297
Capital Outlay and Operating Reversions (5)	(577)	(27)	(178)
Transfers (6)	(109,692)	74,049	(28,374)
Capital Outlay Adjustment (7)	(13,115)	(39,610)	(18,384)
Debt Service Adjustment (8)	-	(3,495)	-
Appropriations, as adjusted	$ 17,389,911	$ 6,181,722	$ 8,045,009

1. Represents the budget appropriated through Chapter 890, 2011 Acts of Assembly, as amended by Chapter 2, 2012 Acts of Assembly.
2. Actions taken to reappropriate any prior year unexpended balances per authority of the language in the Appropriation Act.
3. Actions taken by the Governor to carry forward any prior year unexpended balances, sum sufficient authority, and year 2 to year 1 reductions (General Fund) and actions taken to appropriate any additional revenues collected so that they can be legally spent (Special Revenue Funds).
4. Actions taken by the Governor and the General Assembly to adjust the budget.
5. Represents reversions of unexpended capital outlay and operating balances.
6. Represents transfers required by the Appropriation Act. Transfers out are reduced by approximately $1.4 billion (General Fund) and $3.7 million (Commonwealth Transportation Fund) for transfers to component units and fiduciary funds that have been reclassified as expenditures in accordance with GASB Statement No. 34.
7. Capital outlay appropriations cover the projects' lives and usually extend beyond the current fiscal year. These amounts have been adjusted to report the amount authorized for expenditure during the current fiscal year.
8. The Special Revenue Commonwealth Transportation Fund appropriations have been adjusted for debt service.
9. Budgetary reductions totaling $17.4 million are excluded since they were not available for disbursement during the current fiscal year.
10. Appropriations do not include food stamp issuances of $1.4 billion since this is a noncash item; however, this amount is included in actual expenditures.

Funding Progress for Defined Benefit Pension Plans

(Dollars in Millions)

Actuarial Valuation Date June 30	Actuarial Value of Assets [a]	Actuarial Accrued Liability (AAL Entry Age [b]	Unfunded AAL (UAAL) [b-a]	Funded Ratio [a/b]	Covered Payroll [c]	UAAL as a Percentage of Covered Payroll [b-a]/[c]
			Virginia Retirement System (VRS)			
2011	$ 52,559	$ 75,185	$ 22,626	69.9%	$ 14,709	153.8%
2010	52,729	72,801	20,072	72.4%	14,758	136.0%
* 2009	53,185	66,323	13,138	80.2%	14,948	87.9%
2008	52,548	62,554	10,006	84.0%	14,559	68.7%
2007	47,815	58,116	10,301	82.3%	13,834	74.5%
2006	42,669	52,822	10,153	80.8%	13,002	78.1%
* 2005	40,372	49,628	9,256	81.3%	12,212	75.8%
2004	39,691	43,958	4,267	90.3%	11,510	37.1%
2003	39,243	40,698	1,455	96.4%	10,885	13.4%
2002	38,957	38,265	(692)	101.8%	10,669	(6.5%)
			State Police Officers' Retirement System (SPORS)			
2011	$ 617	$ 986	$ 369	62.6%	$ 100	370.3%
2010	634	949	315	66.8%	98	321.4%
* 2009	647	879	232	73.6%	101	229.7%
2008	646	844	198	76.5%	103	192.2%
2007	595	806	211	73.8%	101	208.9%
2006	539	730	191	73.8%	94	203.2%
* 2005	514	673	159	76.4%	91	174.7%
2004	510	656	146	77.7%	82	178.0%
2003	509	616	107	82.6%	79	135.4%
2002	508	595	87	85.4%	81	107.4%
			Virginia Law Officers' Retirement System (VaLORS)			
2011	$ 926	$ 1,683	$ 757	55.0%	$ 356	212.5%
2010	925	1,579	654	58.6%	346	189.0%
* 2009	913	1,412	499	64.7%	359	139.0%
2008	873	1,281	408	68.1%	368	110.9%
2007	766	1,166	400	65.7%	341	117.3%
2006	656	1,096	440	59.9%	321	137.1%
* 2005	575	980	405	58.7%	307	131.9%
2004	509	927	418	54.9%	298	140.3%
2003	458	854	396	53.6%	292	135.6%
2002	418	806	388	51.9%	306	126.8%
			Judicial Retirement System (JRS)			
2011	$ 371	$ 569	$ 198	65.2%	$ 59	336.8%
2010	372	560	188	66.4%	61	308.2%
* 2009	378	521	143	72.6%	63	227.0%
2008	374	495	121	75.6%	61	198.4%
2007	340	442	102	76.9%	58	175.9%
2006	302	424	122	71.2%	54	225.9%
* 2005	288	402	114	71.6%	52	219.2%
2004	285	366	81	77.9%	48	168.8%
2003	282	348	66	81.0%	48	137.5%
2002	281	352	71	79.8%	48	147.9%

* Revised economic and demographic assumptions due to experience study.

See Notes on following page.

Valuation Date:		June 30, 2011
Actuarial Cost Method:		Entry Age Normal
Amortization Method:		
State Employees		Level percent, open
Teachers		Level percent, open
Political Subdivision Employees		Level percent, open
State Police/VA Law Officers/Judges		Level percent, open
Payroll Grow th Rate:		
State Employees		3.00%
Teachers		3.00%
Political Subdivision Employees		3.00%
State Police/VA Law Officers/Judges		3.00%
Remaining Amortization Period:		
State Employees		10 and 30 years
Teachers		10 and 30 years
Political Subdivision Employees		30 years
State Police/VA Law Officers/Judges		10 and 30 years
Asset Valuation Method:		5 year Smoothed Market
Actuarial Assumptions:		
Investment Rate of Return (1)		7.00%
Projected Salary Increases (1)		
State Employees		3.75% to 5.60%
Teachers		3.75% to 6.20%
(Non-Hazardous Duty Employees)		3.75% to 5.60%
Political Subdivision Employees (Hazardous Duty Employees)		3.50% to 4.75%
State Police/VA Law Officers		3.50% to 4.75%
Judges		4.50%
Cost of Living Adjustments	Plan 1	2.50%
	Plan 2	2.25%

(1) Includes inflation at 2.50%.

Schedule of Employer Contributions – Defined Benefit Pension Plans (1)

(Dollars in Thousands)

Year Ended June 30	Annual Required Contribution	Percentage Contributed	Statutory Required Contribution	Percentage Contributed
		Virginia Retirement System (VRS)		
2012	$ 1,614,464	59.56%	$ 961,653	100.00%
2011	1,577,131	46.73%	736,950	100.00%
2010	1,489,124	66.57%	991,334	100.00%
2009	1,501,018	81.25%	1,219,645	100.00%
2008	1,378,993	92.58%	1,276,645	100.00%
2007	1,299,606	85.89%	1,116,217	100.00%
2006	864,245	89.51%	773,553	100.00%
2005	810,944	85.26%	691,415	100.00%
2004	469,200	91.66%	430,064	100.00%
2003	450,766	67.61%	304,784	100.00%
		State Police Officers' Retirement System (SPORS)		
2012	$ 26,250	43.58%	$ 11,441	100.00%
2011	24,570	30.36%	7,460	100.00%
2010	23,791	66.05%	15,714	100.00%
2009	24,241	83.23%	20,175	100.00%
2008	22,941	91.49%	20,989	100.00%
2007	19,402	84.31%	16,358	100.00%
2006	23,132	65.96%	15,258	100.00%
2005	21,946	65.96%	14,475	100.00%
2004	20,187	51.16%	10,328	100.00%
2003	19,866	44.20%	8,781	100.00%
		Virginia Law Officers' Retirement System (VaLORS)		
2012	$ 55,306	44.27%	$ 24,481	100.00%
2011	53,686	32.14%	17,255	100.00%
2010	57,894	67.41%	39,027	100.00%
2009	60,059	84.80%	50,932	100.00%
2008	61,325	91.20%	55,929	100.00%
2007	56,190	86.03%	48,338	100.00%
2006	77,414	67.96%	52,611	100.00%
2005	74,301	67.96%	50,495	100.00%
2004	72,752	55.80%	40,596	100.00%
2003	72,699	48.00%	34,895	100.00%
		Judicial Retirement System (JRS)		
2012	$ 27,631	68.43%	$ 18,907	100.00%
2011	28,101	61.57%	17,303	100.00%
2010	23,638	72.20%	17,065	100.00%
2009	23,148	90.72%	21,000	100.00%
2008	23,599	94.86%	22,386	100.00%
2007	22,557	91.02%	20,530	100.00%
2006	23,871	67.89%	16,206	100.00%
2005	22,490	67.89%	15,269	100.00%
2004	21,341	71.18%	15,190	100.00%
2003	21,110	64.44%	13,604	100.00%

(1) Contributions made by employers were not in all cases in accordance with the actuarially determined Annual Required Contribution (ARC), but they did meet statutory requirements.

Funding Progress for Other Postemployment Benefit Plans

(Dollars in Millions)

Actuarial Valuation Date June 30	Actuarial Value of Assets [a]	Actuarial Accrued Liability (AAL) [b]	Unfunded AAL (UAAL) [b-a]	Funded Ratio [a/b]	Covered Payroll [c]	UAAL as a Percentage of Covered Payroll [b-a]/[c]
			Group Life Insurance Fund			
2011	$ 852	$ 2,359	$ 1,507	36.1%	$ 16,543	9.1%
2010	929	2,245	1,316	41.4%	16,526	8.0%
2009	967	1,995	1,028	48.5%	16,728	6.1%
2008	975	1,772	797	55.0%	16,267	4.9%
2007	880	1,552	672	56.7%	14,822	4.5%
2006 (1)	751	1,436	685	52.3%	13,923	4.9%
			Retiree Health Insurance Credit Fund			
2011	$ 213	$ 2,195	$ 1,982	9.7%	$ 14,111	14.0%
2010 (2)	281	2,162	1,881	13.0%	14,220	13.2%
2009 (2)	296	2,007	1,711	14.8%	14,339	11.9%
2008 (2)	264	1,943	1,679	13.6%	13,686	12.3%
2007 (2)	207	1,883	1,676	11.0%	11,935	14.0%
			Disability Insurance Trust Fund			
2011	$ 369	$ 296	$ (73)	124.6%	$ 3,372	(2.2%)
2010 (3)	336	311	(25)	108.0%	3,168	(0.8%)
2009 (3)	290	291	1	99.7%	4,080	-
2008 (3)	313	392	79	79.9%	4,111	1.9%
2007	264	451	187	58.5%	3,909	4.8%
2006 (1)	192	423	231	45.4%	3,716	6.2%
			Line of Duty Death and Disability			
2011	$ -	$ 399	$ 399	-	$ N/A	-
2010 (4)	-	576	576	-	N/A	-
2009	-	373	373	-	N/A	-
2008	3	185	182	1.6%	N/A	-
2007	-	146	146	-	N/A	-
2006 (1)	-	99	99	-	N/A	-
			Pre-Medicare Retiree Healthcare			
2011	$ -	$ 1,269	$ 1,269	-	$ 3,566	35.6%
2010 (3)	-	1,298	1,298	-	3,297	39.4%
2009	-	1,218	1,218	-	3,170	38.4%
2007 (5)	-	982	982	-	2,931	33.5%

(1) 2006 was the first actuarial valuation prepared using the required parameters of GASB Statement No. 43.

(2) Data for 2007-2010 has been restated to include the state-funded Retiree Health Insurance Credit benefit for local employees. Similar information for 2006 was not available so that year has been excluded.

(3) Data for 2008-2010 has been restated to include state-funded Long-Term Care program. Prior years were funded by premiums paid to insurance carrier and the insurance carrier was responsible for the liability.

(4) Contributions into the Line of Duty Act Trust Fund are based on the number of participants in the program using a per capita based contribution versus a payroll based contribution.

(5) 2007 was the first actuarial valuation prepared for Pre-Medicare Retiree Healthcare.

See Notes on following page.

Notes for Funding Progress for Other Postemployment Benefit Plans

	Group Life Insurance Fund	Retiree Health Insurance Credit Fund	Disability Insurance Trust Fund	Line of Duty Death and Disability	Pre-Medicare Retiree Healthcare
Valuation Date	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011	July 01, 2011
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Pay, Open	Level Percent of Pay, Open	Level Percent of Pay, Open	Level Percent of Pay, Open	Level dollar, Open
Payroll Growth Rate:					
State Employees	3.00%	3.00%	3.00%	3.00%	3.00%
Teachers	3.00%	3.00%	N/A	N/A	N/A
Political Subdivision Employees	3.00%	3.00%	N/A	3.00%	N/A
State Police / Virginia Law Officers	3.00%	3.00%	3.00%	3.00%	3.00%
Judges	3.00%	3.00%	N/A	N/A	N/A
Remaining Amortization Period	30 years	30 years	30 years	5 and 30 years	30 years
Asset Valuation Method	5-Year, Smoothed Market	5-Year, Smoothed Market	Market Value	Market Value	Market Value
Actuarial Assumptions:					
Investment Rate of Return (1)	7.00%	7.00%	7.00%	4.75%	4.00%
Projected Salary Increases (1)					
State Employees	3.75% to 5.60%	3.75% to 5.60%	3.75% to 5.60%	N/A	4.00%
Teachers	3.75% to 6.20%	3.75% to 6.20%	N/A	N/A	N/A
Political Subdivision Employees (Non-Hazardous Duty Employees)	3.75% to 5.60%	3.75% to 5.60%	N/A	N/A	N/A
Political Subdivision Employees (Hazardous Duty Employees)	3.50% to 4.75%	3.50% to 4.75%	N/A	N/A	N/A
State Police / Virginia Law Officers	3.50% to 4.75%	3.50% to 4.75%	3.50% to 4.75%	N/A	4.00%
Judges	4.50%	4.50%	N/A	N/A	N/A

(1) Includes inflation at 2.50%.

Schedule of Employer Contributions – Other Postemployment Benefit Plans (1)

(Dollars in Thousands)

Year Ended June 30	Annual Required Contribution	Percentage Contributed	Statutory Required Contribution	Percentage Contributed
		Group Life Insurance Fund		
2012	$ 181,527	26.05%	$ 47,293	100.00%
2011	177,378	25.23%	44,744	100.00%
2010	145,228	65.54%	95,185	100.00%
2009	146,545	92.13%	135,019	100.00%
2008	158,740	100.00%	158,740	100.00%
		Retiree Health Insurance Credit Fund		
2012	$ 138,195	37.54%	$ 51,882	100.00%
2011	133,655	36.46%	48,736	100.00%
2010	148,956	66.70%	99,356	100.00%
2009	150,048	96.63%	144,989	100.00%
2008	147,524	100.00%	147,524	100.00%
		Disability Insurance Trust Fund		
2012	$ 30,285	3.62%	$ 1,096	100.00%
2011	28,646	-	-	-
2010	76,530	40.32%	30,861	100.00%
2009	78,120	91.33%	71,344	100.00%
2008	97,975	80.00%	78,380	100.00%
		Line of Duty Death and Disability (2)		
2012	$ 25,033	33.25%	$ 8,323	100.00%
2011	-	-	-	-
2010	16,901	53.75%	9,084	100.00%
2009	16,523	51.51%	8,511	100.00%
2008	9,786	102.45%	10,026	100.00%
		Pre-Medicare Retiree Healthcare		
2012	$ 172,910	21.21%	$ -	-
2011	166,984	17.75%	-	-
2010	136,710	17.43%	-	-
2009	131,925	23.34%	-	-
2008	127,426	25.21%	-	-

(1) Contributions made by employers were not in all cases in accordance with the actuarially determined Annual Required Contribution (ARC), but they did meet statutory requirements.

(2) Line of Duty Death and Disability became a cost sharing plan effective July 1, 2010. Accordingly, the net OPEB obligation at the beginning of the transition period has been reduced to zero.

Claims Development Information – Risk Management

(Dollars in Thousands)

Comparison of Earned Revenues and Investment Income to Related Costs of Loss and Other Expenses

Fiscal and Policy Year Ended	2003	2004	2005	2006
1. Required contribution and investment revenue:				
Earned	$ 5,740	$ 5,279	$ 5,788	$ 6,166
Ceded (a)	-	-	-	-
Net earned	5,740	5,279	5,788	6,166
2. Unallocated expenses	918	1,209	1,068	1,008
3. Estimated incurred claims and expenses, end of policy year:				
Incurred	3,488	2,861	2,791	1,539
Ceded (a)	-	-	-	-
Net incurred	3,488	2,861	2,791	1,539
4. Net paid (cumulative) as of:				
End of policy year	380	161	227	177
One year later	1,894	1,072	1,699	745
Two years later	2,181	1,420	2,079	1,421
Three years later	2,375	1,539	2,332	2,087
Four years later	2,435	1,559	2,438	2,176
Five years later	2,454	1,569	2,451	2,554
Six years later	2,455	1,569	2,455	2,591
Seven years later	2,455	1,594	2,474	
Eight years later	2,456	1,649		
Nine years later	2,456			
5. Reestimated ceded claims and expenses (a)	-	-	-	-
6. Reestimated incurred claims and expenses:				
End of policy year	3,488	2,861	2,791	1,539
One year later	3,237	3,302	3,563	2,168
Two years later	2,910	2,306	3,418	2,494
Three years later	2,619	1,700	3,204	2,872
Four years later	2,447	1,697	2,763	2,820
Five years later	2,467	1,648	2,736	2,591
Six years later	2,457	1,642	2,671	2,676
Seven years later	2,458	1,621	2,746	
Eight years later	2,456	1,691		
Nine years later	2,456			
7. Increase (decrease) in estimated net incurred claims and expense from end of policy year	(1,032)	(1,170)	(45)	1,137

The Commonwealth, through the Department of the Treasury, Division of Risk Management, provides errors and omissions liability insurance and law enforcement professional liability insurance for local governmental units, which went into effect in fiscal year 1987.

See Notes on page 188 in this section.

2007	2008	2009	2010	2011	2012
$ 6,560	$ 6,759	$ 6,197	$ 5,485	$ 4,131	$ 5,019
-	-	-	-	-	-
6,560	6,759	6,197	5,485	4,131	5,019
1,047	1,307	1,272	1,269	1,310	1,382
2,060	3,330	3,681	3,282	3,102	5,227
-	-	-	-	-	-
2,060	3,330	3,681	3,282	3,102	5,227
106	493	300	350	367	1,549
1,051	1,697	1,858	2,139	1,894	
2,436	3,476	2,690	5,140		
2,631	3,753	3,679			
2,662	3,834				
2,671					
-	-	-	-	-	-
2,060	3,330	3,681	3,282	3,102	5,227
3,316	3,928	3,742	5,845	3,862	
3,224	5,420	3,943	7,492		
2,887	5,309	4,721			
2,730	5,094				
2,731					
671	1,764	1,040	4,210	760	-

Claims Development Information – Health Care

(Dollars in Thousands)

Comparison of Earned Revenues and Investment Income to Related Costs of Loss and Other Expenses

Fiscal and Policy Year Ended	2003	2004	2005	2006
1. Required contribution and investment revenue:				
Earned	$ 118,825	$ 137,582	$ 157,959	$ 184,360
Ceded (a)	-	-	-	-
Net earned	118,825	137,582	157,959	184,360
2. Unallocated expenses	6,171	6,271	10,655	11,899
3. Estimated incurred claims and expenses, end of policy year:				
Incurred	104,453	124,887	144,976	152,289
Ceded (a)	-	-	-	-
Net incurred	104,453	124,887	144,976	152,289
4. Net paid (cumulative) as of:				
End of policy year	99,443	99,656	140,452	147,534
One year later	N/A	N/A	N/A	N/A
Two years later	N/A	N/A	N/A	N/A
Three years later	N/A	N/A	N/A	N/A
Four years later	N/A	N/A	N/A	N/A
Five years later	N/A	N/A	N/A	N/A
Six years later	N/A	N/A	N/A	N/A
Seven years later	N/A	N/A	N/A	
Eight years later	N/A	N/A		
Nine years later	N/A			
5. Reestimated ceded claims and expenses (a)	-	-	-	-
6. Reestimated incurred claims and expenses:				
End of policy year	104,453	124,887	144,976	152,289
One year later	104,453	124,887	144,976	152,289
Two years later	N/A	N/A	N/A	N/A
Three years later	N/A	N/A	N/A	N/A
Four years later	N/A	N/A	N/A	N/A
Five years later	N/A	N/A	N/A	N/A
Six years later	N/A	N/A	N/A	N/A
Seven years later	N/A	N/A	N/A	
Eight years later	N/A	N/A		
Nine years later	N/A			
7. Increase (decrease) in estimated net incurred claims and expense from end of policy year	-	-	-	-

The Commonwealth, through its Department of Human Resource Management, provides health care insurance for local governmental units, which went into effect in fiscal year 1987.

See Notes on page 188 in this section.

2007	2008	2009	2010	2011	2012
$ 202,366	$ 211,034	$ 222,498	$ 240,305	$ 246,730	$ 259,135
-	-	-	-	-	-
202,366	211,034	222,498	240,305	246,730	259,135
13,782	16,215	16,400	15,936	15,849	16,701
163,787	185,117	214,411	215,376	213,694	250,019
-	-	-	-	-	-
163,787	185,117	214,411	215,376	213,694	250,019
159,769	181,566	204,655	214,371	209,365	235,058
N/A	N/A	N/A	N/A	N/A	
N/A	N/A	N/A	N/A		
N/A	N/A	N/A			
N/A	N/A				
N/A					
-	-	-	-	-	-
163,787	185,117	214,411	215,376	213,694	250,019
163,787	185,117	214,411	215,376	213,694	
N/A	N/A	N/A	N/A		
N/A	N/A	N/A			
N/A	N/A				
N/A					
-	-	-	-	-	-

Notes for Claims Development Information Tables

The tables on the previous four pages illustrate how the Risk Management and Health Care Claims Funds earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the funds as of the end of each of the past several years. The rows of the tables are defined as follows:

1. This line shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.

2. This line shows each fiscal year's other operating costs of the funds, including overhead and claims expense not allocable to individual claims.

3. This line shows the funds' gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).

4. This section of rows shows the cumulative net amounts paid as of the end of successive years for each policy year.

5. This line shows the latest reestimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.

6. This section of rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.)

7. This line compares the latest reestimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years.

The columns of the tables show data for successive policy years.

Notes:

(a) During fiscal year 1997, the Commonwealth implemented GASB Statement No. 30, *Risk Financing Omnibus*. The Commonwealth has no reinsurers; therefore, the ceded amounts on lines 1, 3, and 5 are zero.

APPENDIX B

COMMONWEALTH OF VIRGINIA

FINANCIAL AND OTHER INFORMATION

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APPENDIX B
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INTRODUCTION

This financial and other information was provided by the Commonwealth of Virginia (the "Commonwealth"), its agencies, institutions and authorities. The data were compiled by the Department of the Treasury and were not independently verified; however, the Department of the Treasury has no reason to believe that such material is not true and correct.

GOVERNMENTAL ORGANIZATION

Under the Constitution of Virginia (the "Constitution"), the legislative, executive and judicial powers of the Commonwealth are divided into three separate and distinct departments.

Legislative Department

The legislative power is vested in the General Assembly, the oldest representative lawmaking body in the United States. The General Assembly is bicameral, consisting of a Senate with 40 Senators elected for four-year terms and a House of Delegates with 100 Delegates elected for two-year terms. The General Assembly convenes annually each January. Regular sessions are 60 days in duration in even numbered years and 30 days in odd numbered years, but each can be extended for an additional 30 days by a two-thirds vote of each house.

The General Assembly is assisted in its legislative function by a full-time staff of over 100 persons and various commissions appointed by the General Assembly. The Joint Legislative Audit and Review Commission was established to carry out continuous legislative review and evaluation of Commonwealth programs from the standpoint of cost effectiveness.

The Auditor of Public Accounts is elected by the General Assembly. The Auditor and a staff of approximately 130 persons audit the accounts of all Commonwealth offices, departments, boards, commissions, institutions and other agencies handling Commonwealth funds and report thereon to the General Assembly.

Executive Department

The Governor, Lieutenant Governor and Attorney General are constitutional officers, elected every four years. The present term of each office began January 16, 2010 and each expires January 18, 2014. The Constitution does not allow a Governor to serve successive terms.

The Governor is the Commonwealth's chief executive officer. The Governor advises the General Assembly on the condition of the Commonwealth and makes recommendations for legislation. The Governor is also charged with the responsibility for preparing and executing the Commonwealth's budget. The Governor's veto of legislation may be overridden only by a two-thirds vote of each house of the General Assembly. If deemed necessary for the welfare of the Commonwealth, the Governor may convene the General Assembly at any time. With few exceptions, the Governor appoints the administrative heads and boards of all Commonwealth agencies. Commonwealth agencies report to the Governor through a cabinet of twelve Secretaries appointed by the Governor to supervise and manage the various functions of the Commonwealth's government.

The Lieutenant Governor is next in line in the event of the Governor's inability to serve. The Lieutenant Governor also serves as President of the Senate, but may not vote except in the event of a tie.

The Attorney General is the chief executive officer of the Department of Law. The Department of Law represents the Commonwealth in all civil cases to which the Commonwealth or any of its agencies is a party and in all criminal cases on appeal to the Supreme Court of Virginia. The Attorney General is also the legal advisor to the Governor, General Assembly and heads of Commonwealth agencies.

Judicial Department

The Supreme Court is the Commonwealth's highest court and consists of seven justices appointed by the General Assembly. Several agencies involved in legal administration operate under the control of the Supreme Court. These include the Judicial Inquiry and Review Commission, the Virginia State Bar and the State Board of Bar Examiners. The Commonwealth is divided into 31 Judicial Circuits over which Circuit Judges preside. The Circuit Courts are courts of record having original jurisdiction in cases involving a specified sum and felonies, and appellate jurisdiction over lower District Courts. A Court of Appeals stands between the Circuit Courts and the Supreme Court and has appellate jurisdiction.

FINANCIAL FACTORS

Budgetary Process

The Governor is the chief planning and budget officer of the Commonwealth. The Secretary of Finance and the Department of Planning and Budget assist the Governor in the preparation of executive budget documents. The Governor's Secretaries advise the Governor and the Department of Planning and Budget on the relative priority of the budget requests from their respective agencies.

The Governor is required by statute to present a bill detailing his proposed budget for the next biennium (the “Budget Bill”) and a narrative summary of the bill to the General Assembly by December 20th in the year immediately prior to each even-year session. The Budget Bill is introduced in both the House of Delegates and the Senate. It is referred to the House Appropriations and Senate Finance Committees, which hold joint meetings to hear from citizens, from other General Assembly members and from agency representatives. The Budget Bill is then approved by each Committee in an open session and reported to the respective floors for consideration, debate, amendment and passage. After the bill has passed both houses, differences between the House and Senate versions are reconciled by a conference committee from both houses.

Under constitutional provisions, the Governor retains the right in his review of legislative action on the Budget Bill, to suggest alterations to or to veto appropriations made by the General Assembly. After enactment, the Budget Bill becomes law (the “Appropriation Act”).

In the odd-year sessions of the General Assembly, amendments are considered to the Appropriation Act enacted in the previous year. The Governor submits a bill by December 20th which includes his proposed amendments to the current biennial budget. It is then introduced in both houses and is considered in the same manner as the regular biennial Budget Bill. The Appropriation Act enacted in the odd-year session is effective upon passage, whereas the regular biennial Appropriation Act is effective July 1, the beginning of the biennium.

An appropriation for a project or service is initially contained in the Appropriation Act enacted by the General Assembly. An agency request for an increase or other adjustments to its legislative appropriation must be reviewed and approved by the Department of Planning and Budget. Under the Constitution, no money may be paid out of the State Treasury except pursuant to appropriations made by law. No such appropriation may be made which is payable more than two years and six months after the end of the session of the General Assembly at which the appropriation was enacted.

Implementation and administration of the provisions of the Appropriation Act are functions of the Governor, assisted by the Secretary of Finance and the Department of Planning and Budget. This process also involves constant monitoring of revenue collections and expenditures to ensure that a balanced budget is maintained. The Appropriation Act requires that if projected revenue collections fall below amounts appropriated, the Governor must reduce expenditures and withhold allotments of appropriations, with the exception of amounts needed for debt service and specified other purposes, to the extent necessary to prevent any expenditure in excess of estimated revenues. The Appropriation Act provides that up to 15 percent of a general fund appropriation to an agency may be withheld, if required.

The Constitution requires the Governor to ensure that expenses do not exceed total revenues anticipated plus fund balances during the period of two years and six months following the end of the General Assembly session in which the appropriations are made. A Revenue Stabilization Fund was established by constitutional amendment effective January 1, 1993, and is available to offset, in part, anticipated shortfalls in revenues in years when revenues are forecast to decline by more than two percent of the certified tax revenues collected in the most recently ended fiscal year. Deposits to the Fund are made pursuant to Constitutional provisions based on tax revenue collections as certified by the Auditor of Public Accounts. If in any year total revenues are forecast to decline by more than two percent of the certified tax revenues collected in the most recently ended fiscal year, the General Assembly may appropriate for transfer up to one-half of the Revenue Stabilization Fund balance to the General Fund to stabilize revenues. This transfer shall not exceed one-half of the forecast shortfall. The maximum balance in the Fund can consist of an amount not to exceed 15 percent of the Commonwealth's average annual tax revenues derived from income and retail sales taxes for the three immediately preceding fiscal years, as certified by the Auditor of Public Accounts. If any amounts accrue to the credit of the Fund in excess of the 15 percent limitation, such as through interest or dividends, the Treasurer shall promptly transfer any such excess amounts to the General Fund.

Development of Revenue Estimates

The development of the General Fund revenue estimate begins with the selection of a forecast of national economic activity for the state budget period prepared by independent economic forecasting firms based on the advice of the Joint Advisory Board of Economists and the Commonwealth's own staff. The national economic forecast is used to develop a forecast of similar indicators of in-state activity. The Governor’s Advisory Council on Revenue Estimates also examines the economic assumptions with respect to the general economic climate of the Commonwealth.

After the development of forecasts of major Commonwealth economic indicators, revenue estimates are generated using revenue forecasting models developed and maintained by the Department of Taxation. Adjustments are made on a revenue source-by-source basis for any legislative, judicial or administrative changes that would affect the projected level of revenues but that cannot be forecast by models constructed using historical data. Finally, adjustments are made if revenues are substantially above or below the projected level.

Financial Control Procedures

The General Assembly appropriates funds for a particular program in the Appropriation Act. These funds must then be allotted by the Governor and the Department of Planning and Budget for specific purposes. The State Comptroller accounts for certain specific personnel and non-personnel transactions. Once appropriation, allotment and accounting procedures have been completed, funds are disbursed by the State Treasurer upon a warrant of the State Comptroller drawn at the request of the responsible agency. The Auditor of Public Accounts audits such financial transactions to assure the reporting of such transactions is in compliance with generally accepted accounting principles.

The Director of the Department of Planning and Budget is appointed by the Governor. The Department of Planning and Budget monitors and evaluates the use of resources to ensure that agencies are delivering effective and efficient services. The Governor is empowered to withhold appropriations to agencies in the event that expenditures are no longer warranted or are not being made for the purposes for which the funds were initially appropriated.

The State Comptroller, who is appointed by the Governor subject to confirmation by the General Assembly, is the director of the Department of Accounts, the central accounting agency of the Commonwealth. The State Comptroller maintains a complete system of general accounts of every department, division, office, board, commission, institution and agency of the Commonwealth. In order to assure uniform accounting practices among the agencies and to avoid duplication, the State Comptroller also prescribes the accounts and control records that are to be kept by each state agency.

The State Treasurer, who is also appointed by the Governor subject to confirmation by the General Assembly, is the director of the Department of the Treasury. This department receives, maintains custody of and disburses all funds of the Commonwealth.

Unlike the State Comptroller and the State Treasurer, the Auditor of Public Accounts is appointed by the General Assembly for a term of four years and is, therefore, part of the Legislative Department rather than the Executive Department. The principal function of the Auditor is to audit the accounts of all state departments, offices, boards, commissions, institutions and agencies handling state funds. In the event the Auditor discovers some irregularity or misuse of funds, it is his duty to inform the Governor, the Joint Legislative Audit and Review Commission and the State Comptroller.

Investment of Public Funds

It is the policy of the State Treasurer to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands and conforming to all statutes governing the investment of public funds. The General Account of the Commonwealth, which is comprised of funds collected and held for various fund groups including the General Fund, is divided into two major portfolios. Both portfolios are managed in accordance with guidelines promulgated by the Treasury Board. The Primary Liquidity Portfolio, representing approximately 75 percent of the General Account, provides for disbursements and operational needs. Safety of principal and liquidity are the objectives of this portfolio. The Extended Duration and Credit Portfolio, which can be up to 25 percent of the General Account, is structured to generate investment returns over the long term higher than the return on the Primary Liquidity Portfolio, while maintaining sound credit quality and providing secondary liquidity.

Financial Statements

The Commonwealth operates on a fiscal year basis beginning on July 1 and ending on June 30. The Commonwealth's financial statements, audited by the Auditor of Public Accounts, for the fiscal year ended June 30, 2012, are contained in the Commonwealth Comprehensive Annual Financial Report (the "CAFR") available at www.doa.virginia.gov. The financial statements conform to GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The financial statements include government-wide statements using full accrual accounting, fund financial statements that use different accounting approaches based on the type of fund, and a reconciliation of the two types of statements. See the section in the CAFR entitled "Management's Discussion and Analysis" for a more detailed explanation of the types of financial statements prepared. The Commonwealth's annual budget is prepared principally on a cash basis and represents departmental appropriations as authorized by the General Assembly. Under the cash basis of accounting, revenues and other financial resources are recognized in the accounting period in which cash is received; expenditures and other financial uses are recognized when cash is disbursed. The section of the CAFR entitled "Required Supplementary Information" reconciles the budgetary (*i.e.*, cash) presentation to the financial statements. The Preliminary Annual Report for the year ended June 30, 2013, which is comprised of cash basis financial statements, is presented on an unaudited basis, and is available at www.doa.virginia.gov. The audited CAFR for the fiscal year ended June 30, 2013 will be available on December 15, 2013.

Summary of General Fund Revenues, Expenditures and Changes in Fund Balance

The following tables summarize the Commonwealth's General Fund revenues, expenditures and fund balance on a cash basis for fiscal years 2009 through 2013 and compares the budgeted to actual numbers. The financial information for fiscal year 2013 is preliminary and unaudited.

The General Fund balance, as shown on page B-6, increased by $137.2 million in fiscal year 2013, an increase of 8.2 percent from fiscal year 2012. Overall tax revenues increased by 5.2 percent from fiscal year 2012 to fiscal year 2013. Individual and Fiduciary Income tax revenues increased by 6.9 percent. Additional tax revenue increases occurred in the form of a 3.2 percent increase in State Sales and Use tax collections, a 0.7 percent increase in Communications Sales and Use tax, a 1.9 percent increase in Public Service Corporation tax collections, a 3.7 percent increase in Premiums of Insurance Companies tax collections and an 8.1 percent increase in other tax collections which includes: Deeds, Contracts, Wills and Suits; Alcoholic Beverage Sales; Tobacco Products; Estate and Other Taxes. Tax revenue decreases occurred in the form of a 7.3 percent decrease in Corporation Income tax collections. Overall revenue and non-tax revenues increased by 4.8 percent and decreased by 3.4 percent, respectively. Overall expenditures increased by 6.5 percent in fiscal year 2013, compared to a 5.0 percent increase in fiscal year 2012. Individual and family service expenditures increased by $355.9 million, or 7.1 percent, and education expenditures increased by $464.6 million, or 6.5 percent. General government expenditures increased $76.7 million or 3.7 percent.

Of the $1.8 billion fund balance as of June 30, 2013, $927.8 million was restricted as the Revenue Stabilization Fund (the "Fund"). During fiscal year 2013, no withdrawal was made from the Fund and $3.7 million in interest was earned. The Fund is segregated from the General Fund and can be used only for constitutionally authorized purposes. Virginia law directs that the Fund be included as a component of the General Fund only for financial reporting purposes.

Under the provisions of Article X, Section 8 of the Constitution of Virginia, and based on fiscal year 2011 revenue collections, a deposit of $132.7 million was made to the Fund during fiscal year 2013. In addition, a deposit of $244.6 million is required during fiscal year 2014 based on fiscal year 2012 revenue collections. Also, Chapter 806, 2013 Acts of Assembly, appropriates an additional amount of $95.0 million to be deposited in fiscal year 2014 as a prepayment towards future deposits required in the 2014-2016 biennium. A deposit of $243.2 million is required during fiscal year 2015 based on fiscal year 2013 revenue collections. Both required deposits are reported as restricted components of fund balance. Pursuant to the constitutional amendment of Article X, Section 8, effective January 1, 2011, the amount on deposit cannot exceed 15 percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years. Section 2.2-1829(b) of the Code of Virginia, requires that if certain revenue criteria are met, then an additional deposit to the Fund equal to at least one-half the mandatory deposit must be included in the Governor's budget. The Code further requires that any such additional deposits to the Fund shall be included in the Governor's budget recommendations only if the estimate of General Fund revenues for the fiscal year in which the deposit is to be made is at least five percent greater than the actual General Fund revenues for the immediately preceding fiscal year. These conditions were not met for fiscal year 2013.

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SUMMARY OF GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – CASH BASIS (in thousands)

	2009	2010	2011	2012	2013*
Revenues:					
Taxes					
Individual and Fiduciary Income	$9,481,109	$9,088,252	$9,944,370	$10,612,836	$11,339,966
State Sales and Use	3,116,831	3,291,958	3,216,406	3,335,601	3,441,195
Corporation Income	648,033	806,473	822,259	859,923	796,728
Communications Sales and Use	-	491,698	442,455	424,257	427,262
Deeds, Contracts, Wills and Suits	314,264	290,189	299,967	330,938	388,633
Premiums of Insurance Companies	255,019	261,881	281,563	252,895	262,242
Alcoholic Beverage Sales	173,227	175,093	178,937	186,377	195,192
Tobacco Products	183,750	176,057	173,731	192,453	187,874
Estate	6,006	5,671	2,713	298	-
Public Service Corporations	91,340	97,263	93,777	94,429	96,222
Other Taxes	28,230	26,269	21,808	20,442	18,036
Total Taxes	14,297,809	14,710,804	15,477,986	16,310,449	17,153,350
Rights and Privileges	67,426	68,460	73,283	72,817	76,931
Sales of Property and Commodities	1	824	28,005	30,146	25,477
Assessments and Receipts for Support of Special	396	373	2,777	2,570	858
Institutional Revenue	6,402	6,019	40,122	38,134	37,210
Interest, Dividends, Rents	134,400	113,142	90,905	83,055	72,958
Fines, Forfeitures, Court Fees, Penalties, and	197,875	194,151	222,256	216,032	216,788
Federal Grants and Contracts	-	-	-	-	6,354
Receipts from Cities, Counties, and Towns	10,265	9,761	16,340	16,209	15,813
Private Donations, Gifts and Contracts	118	137	4,595	680	439
Tobacco Master Settlement	58,966	49,182	48,185	49,136	74,010
Other	102,568	168,429	204,033	282,731	238,148
Total Revenues	14,876,226	15,321,282	16,208,487	17,101,959	17,918,336
Expenditures:					
General Government	1,669,257	2,093,036	2,149,242	2,096,588	2,173,327
Education	8,045,614	7,007,842	6,931,515	7,123,221	7,587,805
Transportation	11,863	11,125	516	462	172
Resources and Economic Development	288,877	272,075	306,970	353,567	389,221
Individual and Family Services	4,012,450	4,004,995	4,449,683	5,027,601	5,383,507
Administration of Justice	2,300,008	2,120,477	2,247,447	2,284,948	2,443,464
Capital Outlay	47,421	13,477	6,144	7,627	6,274
Total Expenditures	16,375,490	15,523,027	16,091,517	16,894,014	17,983,770
Revenues Over (Under) Expenditures	(1,499,264)	(201,745)	116,970	207,945	(65,434)
Other Financing Sources (Uses):					
Transfers In	664,141	752,251	693,750	799,070	712,400
Transfers Out	(561,192)	(503,106)	(487,991)	(621,163)	(509,749)
Total Other Financing Sources (Uses)	102,949	249,145	205,759	177,907	202,651
Revenues and Other Sources Over (Under) Expenditures and Other Uses	(1,396,315)	47,400	322,729	385,852	137,217
Fund Balance, July 1:					
Restricted	-	-	310,778	456,384	707,401
Committed	-	-	443,182	461,140	518,619
Assigned	-	-	220,871	380,036	457,392
Reserved	1,127,908	662,489	-	-	-
Unreserved	1,091,882	160,986	-	-	-
Total Fund Balance, July 1, as restated	2,219,790	823,475	974,831**	1,297,560	1,683,412
Fund Balance, June 30:					
Restricted	-	-	456,384	707,401	940,906
Committed	-	-	461,140	518,619	556,076
Assigned	-	-	380,036	457,392	323,647
Reserved	662,489	379,631	-	-	-
Unreserved	160,986	491,244	-	-	-
Total Fund Balance, June 30	$823,475	$870,875	$1,297,560	$1,683,412	1,820,629

*Preliminary and Unaudited
** As restated as required by GASB 54
Source: Department of Accounts.

SUMMARY OF GENERAL FUND
REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND VARIANCE OF ACTUAL-BUDGETARY BASIS
(in thousands)

	Fiscal Year Ended June 30,			
	2009		2010	
	Final Budget	Variance of Actual Favorable (Unfavorable)	Final Budget	Variance of Actual Favorable (Unfavorable)
Revenues:				
Taxes				
Individual and Fiduciary Income	$9,697,300	$(216,191)	$8,960,100	$128,152
State Sales and Use	3,179,300	(62,469)	3,247,500	44,458
Corporation Income	685,000	(36,967)	730,700	75,773
Communications Sales and Use	-	-	446,247	45,451
Public Service Corporations	92,800	(1,460)	94,600	2,663
Premiums of Insurance Companies	257,500	(2,481)	242,500	19,381
Other [1]	671,000	34,477	671,700	1,579
Total Taxes	$14,582,900	$(285,091)	$14,393,347	$317,457
Rights and Privileges	63,900	3,526	74,700	(6,240)
Institutional Revenue	7,500	(1,098)	5,900	119
Interest, Dividends, Rents and Other Investment Income	121,986	12,414	116,765	(3,623)
Tobacco Master Settlement	66,754	(7,788)	57,186	(8,004)
Other [2]	308,597	2,626	394,298	(20,623)
Total Revenues	$15,151,637	$(275,411)	$15,042,196	$279,086
Expenditures:				
General Government	1,722,663	53,406	2,147,466	54,430
Education	8,083,328	37,714	7,042,173	34,331
Transportation	53,949	42,086	11,680	555
Resources and Economic Development	313,963	25,086	284,912	12,837
Individual and Family Services	4,075,027	62,577	4,065,874	60,879
Administration of Justice	2,440,305	140,297	2,151,618	31,141
Capital Outlay	74,498	27,077	19,477	6,000
Total Expenditures	$16,763,733	$388,243	$15,723,200	$200,173
Revenues Over (Under) Expenditures	$(1,612,096)	$112,832	$(681,004)	$479,259
Other Financing Sources (Uses):				
Transfers In	641,273	22,868	740,009	12,242
Transfers Out	(556,413)	(4,779)	(503,274)	168
Total Other Financing Sources (Uses)	$84,860	$18,089	$236,735	$12,410
Revenues and Other Sources Over (Under) Expenditures and Other Uses	(1,527,236)	130,921	(444,269)	491,669
Fund Balance, July 1	2,219,790	-	823,475	-
Fund Balance, June 30	$692,554	$130,921	$379,206	$491,669

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[1] Note that under Taxes above, certain line items have been combined into the "Other" line item; they are: "Deeds, Contracts, Wills and Suits," "Alcoholic Beverage Sales," "Tobacco Products," and "Estate." The reason for this is consistency with the CAFR line items.

[2] Note that under Revenues above, certain line items have been combined into the "Other" line item; they are: "Sales of Property and Commodities," "Assessments and Receipts for Support of Special Services," "Fines, Forfeitures, Court Fees, Penalties, and Escheats," "Federal Grants and Contracts," "Receipts from Cities, Counties, and Towns," and "Private Donations, Gifts, and Contracts." The reason for this is consistency with the CAFR line items.

Source: Department of Accounts.

Fiscal Year Ended June 30,

2011		2012		2013*	
Final Budget	Variance of Actual Favorable (Unfavorable)	Final Budget	Variance of Actual Favorable (Unfavorable)	Final Budget	Variance of Actual Favorable (Unfavorable)
$9,746,200	$198,170	$10,526,400	$86,436	$11,092,600	$247,366
3,186,200	30,206	3,282,100	53,501	3,471,616	(30,421)
766,600	55,659	827,800	32,123	820,900	(24,172)
448,900	(6,445)	440,000	(15,743)	440,000	(12,738)
96,400	(2,623)	93,900	529	95,300	922
277,700	3,863	287,300	(34,405)	255,600	6,642
662,456	14,700	717,589	12,919	743,309	46,426
$15,184,456	$293,530	$16,175,089	$135,360	$16,919,325	$234,025
88,545	(15,262)	82,838	(10,021)	79,663	(2,732)
38,912	1,210	40,511	(2,377)	41,668	(4,458)
75,288	15,617	82,442	613	68,064	4,894
52,134	(3,949)	50,205	(1,069)	52,733	21,277
349,728	128,278	428,272	120,096	413,991	89,886
$15,789,063	$419,424	$16,859,357	$242,602	$17,575,444	$342,892
2,224,688	75,446	2,196,546	99,958	2,360,523	187,196
7,021,369	89,854	7,225,088	101,867	7,670,879	83,074
585	69	462	-	172	-
416,856	109,886	415,708	62,141	512,266	123,045
4,540,334	90,651	5,149,191	121,590	5,488,489	104,982
2,367,326	119,879	2,383,519	98,571	2,477,411	33,947
19,358	13,214	19,397	11,770	36,297	30,023
$16,590,516	$498,999	$17,389,911	$495,897	$18,546,037	$562,267
$(801,453)	$918,423	$(530,554)	$738,499	$(970,593)	$905,159
645,516	48,234	748,237	50,833	699,253	13,147
(467,055)	(20,936)	(602,512)	(18,651)	(493,024)	(16,725)
$178,461	$27,298	$145,725	$32,182	$206,229	$(3,578)
(622,992)	945,721	(384,829)	770,681	(764,364)	901,581
974,831 **	-	1,297,560	-	1,683,412	-
$351,839	$945,721	$912,731	$770,681	$919,048	$901,581

*Preliminary and Unaudited
** As restated as required by GASB 54

General Fund Revenues

Of total fiscal year 2013 tax revenue, 97.1 percent was derived from six major taxes imposed by the Commonwealth: Individual and Fiduciary Income Taxes, State Sales and Use Taxes, Corporate Income Taxes, Communications Sales and Use Taxes, Taxes on Premiums of Insurance Companies and Taxes on Deeds, Contracts, Wills and Suits.

Individual and fiduciary income taxes are the principal component of General Fund revenues. These revenues support a number of government functions, primarily education, individual and family services, public safety and general government. General Fund revenues are available for payment of debt service obligations of the Commonwealth.

Individual and Fiduciary Income Taxes: (66.1 percent of Total Taxes in fiscal year 2013) The individual and fiduciary income tax applies to income derived by resident and non-resident individuals and fiduciaries. The tax is based on a taxpayer's federal adjusted gross income with modifications, if applicable, and with deductions for personal exemptions and standard or itemized deductions. The following tax rates are applicable to net taxable income for the taxable year 2013:

PERSONAL TAX RATES

Taxable Income	Rate	Of Excess Over
$0 – $3,000	2.00%	
$3,001 – $5,000	$ 60 + 3.00%	$ 3,000
$5,001 – $17,000	$120 + 5.00%	$ 5,000
Over $17,000	$720 + 5.75%	$17,000

Source: Department of Taxation.

An individual income tax return for a taxable year must be filed by May 1 of the following year. Prepayment of the tax on most earnings is accomplished through withholdings by employers. Employers must transfer withholding taxes to the Department of Taxation quarterly, monthly or, in some cases, eight times a month. Individual income taxpayers are required to file a declaration of estimated tax for any income not subject to withholding and pay one-fourth of such estimated tax in quarterly installments.

State Sales and Use Taxes: (20.1 percent of Total Taxes in fiscal year 2013) A sales and use tax is imposed at the rate of 4.0 percent on the sale, rental, lease or storage for use or consumption of tangible personal property except food for home consumption. Food for home consumption is taxed at a rate of 2.5 percent. There are certain exclusions from the tax, including motor vehicles, aircraft and large watercraft, sales of gasoline and prescription medicines. One and one-eighth cents of the 4.0 percent sales tax is distributed to localities on the basis of school age population for use in public education.

Retail sellers collect the sales and use taxes from customers at the time of sale. Sellers are required to remit collected taxes either monthly or quarterly.

Corporation Income Taxes: (4.6 percent of Total Taxes in fiscal year 2013) The Commonwealth imposes a 6 percent income tax on the net income of all corporations having income from sources in the Commonwealth, whether domestic or foreign, with the exception of insurance companies, inter-insurance exchanges, state and national banks, banking associations, companies doing business on a mutual basis, credit unions and non-profit corporations. Commonwealth taxable income is based on federal income, with modifications. If a corporation is engaged in multi-state activities, and if its income is taxable both by the Commonwealth and another state, the Commonwealth permits the corporation to apportion its taxable income (other than dividends which are allocated according to the commercial domicile of the taxpayer) according to a three factor formula comprised of property, payroll and sales.

A corporation income tax return must be filed on or before the 15th day of the 4th month following the close of the corporation's taxable year. Corporations are required to make a declaration of estimated tax directly to the Department of Taxation and pay such estimated tax in such taxable year.

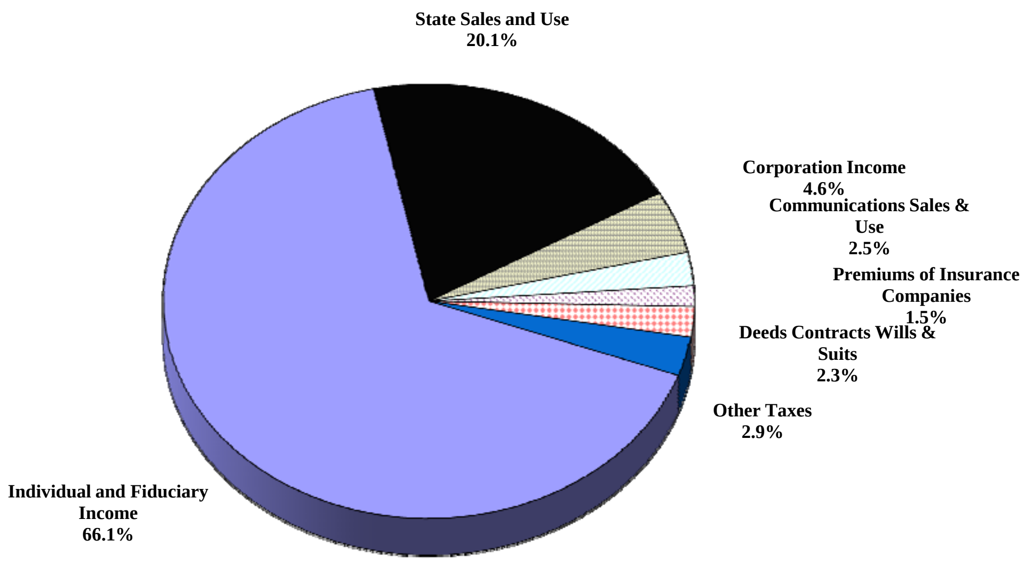
Communication Sales and Use Taxes: (2.5 percent of Total Taxes in fiscal year 2013) Effective for fiscal year 2010, statutory changes required that the Communication Sales and Use Tax Fund be included as part of the General Fund for reporting purposes. Since this fund was previously reported as an agency fund, there was no beginning balance impact. However, the comparability of revenue and expense amounts are affected. The Commonwealth collects communication sales and use taxes and disburses these amounts to localities.

Taxes on Premiums of Insurance Companies: (1.5 percent of Total Taxes in fiscal year 2013) Insurance companies are required to pay an annual license tax measured by the gross premium income derived from business done in the Commonwealth. The rate of tax varies according to the type of company. Insurance companies subject to this state license tax must make a declaration of estimated tax and pay one-fourth of such estimated tax in quarterly installments.

Taxes on Deeds, Contracts, Wills and Suits: (2.3 percent of Total Taxes in fiscal year 2013) The Commonwealth taxes the admission to record of deeds, deeds of trust, mortgages, leases and contracts at the rate of 25 cents per $100 of consideration or value, whichever is greater. An additional tax is imposed on deeds or conveyances of real estate at the rate of 50 cents per $500 of consideration or value, exclusive of the value of any lien or encumbrance. A tax is also imposed on the probate of wills and grants of administration not exempt by law at the rate of 10 cents per $100 of the value of the probate estate. A tax ranging from $5 to $25 is imposed on the filing of various types of legal actions.

The following pie chart summarizes general revenue fund tax revenue by source.

COMPOSITION OF GENERAL FUND TAX REVENUES BY SOURCE
Fiscal Year Ended June 30, 2013*



*Preliminary and Unaudited

Collection of Delinquent Tax

When the Department of Taxation determines that taxes are delinquent, the taxpayer is sent a billing notice. A second notice is sent 30 days later demanding immediate payment within 10 days. If payment is not received at the end of that time, the Department of Taxation may take legal action to obtain payment including the placement of a lien on the taxpayer's wages or bank account. If the delinquency exceeds $100, the Department of Taxation may issue a memorandum of lien against the taxpayer's property. If subsequent to these actions satisfactory payment arrangements are not made, the Department of Taxation may execute the memorandum of lien or initiate court proceedings against the taxpayer.

Penalties for late payment or nonpayment of most taxes are assessed at the rate of 6 percent per month, not to exceed 30 percent of the delinquent tax liability. Interest on late or under payments is charged at an annualized rate of interest established pursuant to Section 6621(a) (2) of the federal Internal Revenue Code, plus 2 percent.

The following table presents total outstanding collectible tax receivables for all tax types at the end of fiscal years 2009 through 2013:

OUTSTANDING COLLECTIBLE TAX RECEIVABLES

Fiscal Year Ended June 30,	Amount
2009	$259,893,992
2010	351,827,736
2011	466,300,479
2012	489,381,022*
2013	1,719,157,006*

Source: Department of Taxation.
*Amount does not include non-billed or uncollectible receivables

General Fund Expenditures

General Fund expenditures relate to resources used for those services traditionally provided by a state government, which are not accounted for in any other fund. These services include general government, legislative, public safety, judicial, health and mental health, human resources, licensing and regulation, and primary and secondary education (See table on page B-6).

Education: (42.2 percent of Total Expenditures in fiscal year 2013) Expenditures for education support individuals in developing knowledge, skills and cultural awareness, including elementary and secondary education instruction, supervision and assistance.

Individual and Family Services: (29.9 percent of Total Expenditures in fiscal year 2013) Expenditures for individual and family services support programs to benefit the economic, social and physical well-being of the individual and family, including disease research, control and prevention.

Administration of Justice: (13.6 percent of Total Expenditures in fiscal year 2013) Expenditures for administration of justice relate to the activities of the civil and criminal justice systems. These activities encompass the apprehension, trial, punishment and rehabilitation of law violators, and the deterrence and detection of crime.

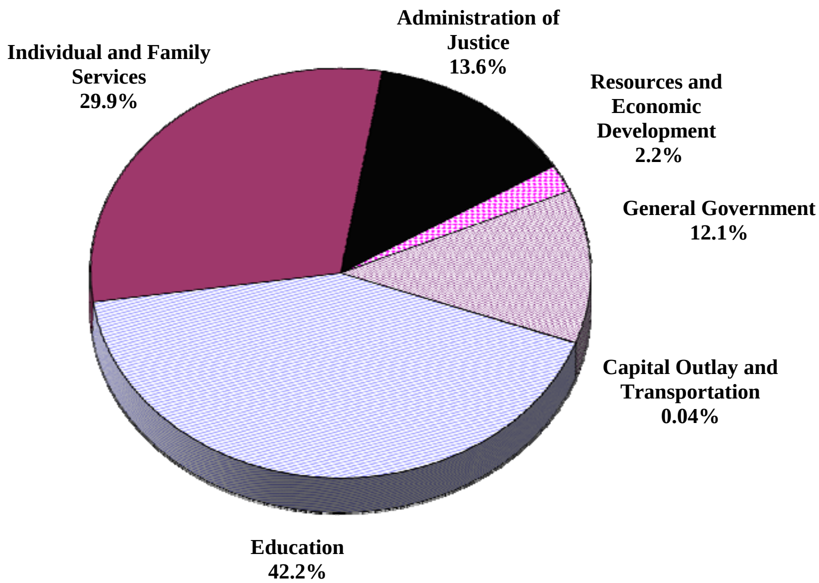
General Government: (12.1 percent of Total Expenditures in fiscal year 2013) General government expenditures support the general activities of state, regional and local levels of government. These activities include financial assistance to localities, enactment of legislative policy, intergovernmental projects, distribution of sales and use taxes to localities, and payments to localities pursuant to the Personal Property Tax Relief Act of 1998.

Resources and Economic Development: (2.2 percent of Total Expenditures in fiscal year 2013) Resources and economic development expenditures support activities to develop the Commonwealth's economic base, including alternative natural resources, and to regulate this base with regard to the public interest of the Commonwealth.

Capital Outlay & Transportation: (0.04 percent of Total Expenditures in fiscal year 2013) Expenditures for capital outlay relate to the construction and renovation of state-owned buildings and facilities. Transportation expenditures relate to the movement by road, water or air of people, goods and services, and the regulation thereof.

The following pie chart summarizes the general fund expenditures by source:

DISTRIBUTION OF GENERAL FUND EXPENDITURES BY SOURCE
Fiscal Year Ended June 30, 2013*



*Preliminary and Unaudited

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General Fund Balance

The Commonwealth's General Fund unreserved fund balance for the last ten fiscal years is shown below:

UNRESERVED GENERAL FUND ENDING BALANCE
(in thousands)

Fiscal Year	Cash Basis	Modified Accrual Basis
2004	677,089	36,941
2005	1,126,576	520,546
2006	1,804,483	973,461
2007	1,534,573	563,367
2008	1,091,882	78,468
2009	160,986	(927,977)
2010	491,244	(1,069,071)
2011	*	*
2012	*	*
2013	*	*

Source: Department of Accounts.
*See 2011, 2012 and 2013 below for an explanation as to how GASB 54 has required a change in the unreserved General Fund balance classification.

2009. General Fund revenues and other sources were less than expenditures and other uses by $1.4 billion in fiscal year 2009. The General Fund unreserved balance on a budgetary basis decreased by $930.9 million, or 85.3 percent, from fiscal year 2008 to fiscal year 2009 while reserved General Fund balances decreased by $465.4 million or 41.3 percent during the same period. Total revenues and total expenditures decreased by 9.0 percent and 3.8 percent, respectively. Transfers to the General Fund increased by 4.7 percent while transfers out decreased by 19.9 percent. Transfers to and from Component Units in fiscal year 2009 are reported as expenditures and revenues in accordance with GASB Statement No. 34.

2010. General Fund revenues and other sources exceeded expenditures and other uses by $47.4 million in fiscal year 2010. The General Fund unreserved balance on a budgetary basis increased by $330.3 million, or 205.1 percent, from fiscal year 2009 to fiscal year 2010 while reserved General Fund balances decreased by $282.9 million or 42.7 percent during the same period. Total revenues increased by 3.0 percent and total expenditures decreased by 5.2 percent. Transfers to the General Fund increased by 13.3 percent while transfers out decreased by 10.4 percent. Transfers to and from Component Units in fiscal year 2010 are reported as expenditures and revenues in accordance with GASB Statement No. 34.

2011. General Fund revenues and other sources exceeded expenditures and other uses by $322.7 million in fiscal year 2011. Total revenues increased by 5.8 percent and total expenditures increased by 3.7 percent. Transfers to the General Fund decreased by 7.8 percent while transfers out decreased by 3.0 percent. Transfers to and from Component Units in fiscal year 2011 are reported as expenditures and revenues in accordance with GASB Statement No. 34. With the implementation of GASB No. 54, the previous fund equity classifications of Reserved and Unreserved have been changed to Restricted, Committed, Assigned, and Unassigned. Restricted fund balances are those that have a restriction by the *Constitution of Virginia* or from a party external to the Commonwealth. Committed fund balances represent amounts that have been legislatively mandated for a specific purpose. Assigned fund balances represent amounts the Commonwealth has identified for a specific purpose, but for which the use is not legislatively mandated. Unassigned fund balances are those that have not been restricted, committed, or assigned to specific purposes. Due to statutory requirements, any unassigned balances in the General Fund on a cash basis are automatically committed for transfer to the Transportation Trust Fund and for nonrecurring expenditures. The table on page B-6 reflects the Fund Balance as of June 30, 2011 in these new classifications.

2012. General Fund revenues and other sources exceeded expenditures and other uses by $385.9 million in fiscal year 2012. Total revenues increased by 5.5 percent and total expenditures increased by 5.0 percent. Transfers to the General Fund increased by 15.2 percent while transfers out increased by 27.3 percent. Transfers to and from Component Units in fiscal year 2012 are reported as expenditures and revenues in accordance with GASB Statement No. 34. With the implementation of GASB No. 54, the fund equity classifications of Reserved and Unreserved have been changed to Restricted, Committed, Assigned, and Unassigned. Restricted fund balances are those that have a restriction by the *Constitution of Virginia* or from a party external to the Commonwealth. Committed fund balances represent amounts that have been legislatively mandated for a specific purpose. Assigned fund balances represent amounts the Commonwealth has identified for a specific purpose, but for which the use is not legislatively mandated. Unassigned fund balances are those that have not been restricted, committed, or assigned to specific purposes. Due to statutory requirements, any unassigned balances in the General Fund on a cash basis are automatically committed for transfer to the Transportation Trust Fund and for nonrecurring expenditures. The table on page B-6 reflects the Fund Balance as of June 30, 2012 in these new classifications.

2013. General Fund revenues and other sources exceeded expenditures and other uses by $137.2 million in fiscal year 2013. Total revenues increased by 4.8 percent and total expenditures increased by 6.5 percent. Transfers to the General Fund decreased by 10.9 percent while transfers out decreased by 17.9 percent. Transfers to and from Component Units in fiscal year 2013 are reported as expenditures and revenues in accordance with GASB Statement No. 34. With the implementation of GASB No. 54, the fund equity classifications of Reserved and Unreserved have been changed to Restricted, Committed, Assigned, and Unassigned. Restricted fund balances are those that have a restriction by the *Constitution of Virginia* or from a party external to the Commonwealth. Committed fund balances represent amounts that have been legislatively mandated for a specific purpose. Assigned fund balances represent amounts the Commonwealth has identified for a specific purpose, but for which the use is not legislatively mandated. Unassigned fund balances are those that have not been restricted, committed, or assigned to specific purposes. Due to statutory requirements, any unassigned balances in the General Fund on a cash basis are automatically committed for transfer to the Transportation Trust Fund and for nonrecurring expenditures. The table on page B-6 reflects the Fund Balance as of June 30, 2013 in these new classifications.

Nongeneral Fund Revenues

Nongeneral fund revenues consist of all revenues not accounted for in the General Fund. Included in this category are special taxes and user charges earmarked for specific purposes, the majority of institutional revenues and revenues from the sale of property and commodities, and receipts from the federal government.

Approximately 50 percent of the nongeneral revenues are accounted for by grants and donations from the federal government, motor vehicle taxes and institutional revenues. Institutional revenues consist primarily of fees and charges collected by institutions of higher education, medical and mental hospitals and correctional institutions. Motor vehicle related taxes include the motor vehicle fuel tax, motor vehicle sales and use tax, oil excise tax, driver's license fee, title registration fee, motor vehicle registration fee and other miscellaneous revenues.

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Below is a summary of revenues and expenditures for the largest of the Commonwealth's Special Revenue Funds, the Commonwealth Transportation Fund, prepared according to generally accepted accounting principles.

COMMONWEALTH TRANSPORTATION FUND*
(in thousands)

	Fiscal Year Ended June 30,				
	2008	**2009**	**2010**	**2011**	**2012**
Total revenues	$3,739,225	$3,461,872	$3,617,895	$3,849,149	$3,871,439
Total expenditures	3,913,037	3,725,125	3,422,843	3,884,844	4,488,603
Revenues over (under) expenditures	(173,812)	(263,253)	195,052	(35,695)	(617,164)
Other sources (uses) net	64,576	(150,232)	384,440	461,147	929,228
Revenue and other sources (uses) over (under) expenditures	(109,236)	(413,485)	579,492	425,452	312,064
Beginning fund balance (adjusted)	1,952,832	1,843,596	1,430,111	2,009,078	2,434,530
Ending fund balance	$1,843,596	$1,430,111	$2,009,603	$2,434,530	$2,746,594

Notes: Included in the Commonwealth Transportation Fund (formerly Highway Maintenance and Construction Fund) is the activity of the Highway Maintenance and Operating Fund and the Transportation Trust Fund. The Transportation Trust Fund was created in September 1986 during a special session of the Virginia General Assembly.

*Fiscal year 2013 data not yet available.

Source: *Reports of the Comptroller, 2008-2012.*

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The 2012 - 14 Appropriation Act

On December 19, 2011, Governor McDonnell presented the Budget Bill for the 2012-2014 biennium that began July 1, 2012 (House Bill/Senate Bill 30) (the "2012 Budget Bill"). The 2012 Budget Bill focused on the core functions of government, and was developed with five main objectives:

- Promote job creation, economic development, and entrepreneurship;
- Reform, reallocate, and reinvest in programs that make government more efficient, effective, and accountable;
- Fund the key budget areas of education and transportation;
- Address problem areas of pension funding, transportation maintenance, and higher education funding;
- Build up cash reserves and liquidity to provide flexibility to address future adverse economic events.

The proposed 2012 Budget Bill was considered by the 2012 Session of the Virginia General Assembly, which convened on January 11, 2012. The General Assembly adjourned on March 10, 2012 without adopting a biennial budget and immediately convened in a special session to consider the reintroduced 2012 Budget Bill, HB 1301.

On April 18, 2012, the General Assembly approved HB 1301 and sent it to the Governor for signature. On May 4, 2012, the Governor offered 88 amendments to HB 1301, the most significant of which addressed two overarching themes: job creation and K-12 education. Other amendments were technical in nature.

The General Assembly reconvened on May 14, 2012 and rejected 24 of the Governor's proposed amendments. On June 11, 2012, Governor McDonnell vetoed one item, and ruled a second item unconstitutional, and signed HB 1301 into law.

The 2012-14 Appropriation Act, also known as Chapter 3 of the 2012 Acts of Assembly Special Session I, became effective July 1, 2012, and honors the priorities Governor McDonnell set in the introduced budget. It prioritizes spending on the core functions of government; reduces the unfunded liabilities in the Virginia Retirement System with a $2.21 billion in total employer contributions (this does not include law enforcement, or the judiciary); provides $33.7 million in new funding for economic development and private sector job creation; furnishes $30 million in FY 2013 in new mental health funding; and directs $880.9 million in new funding to K-12 and higher education systems. The 2012-14 Appropriation Act also provides additional deposits into the Revenue Stabilization Fund of $132.7 million in 2013 and $166.4 million as a preliminary appropriation for 2014.

Other initiatives include: $5 million over the biennium to implement a life sciences initiative, consisting of a research consortium comprised of publicly-supported institutions of higher education in the Commonwealth that will contract with private entities, foundations, and other governmental sources to perform research in the biosciences; restores $2 million over the biennium for the Governor's Motion Picture Opportunity Fund; provides $3 million in FY 2013 for the Growth Acceleration Program and the Commonwealth Research and Commercialization Fund at the same level each year, which programs are designed to facilitate the overall growth and development of the technology industry in the Commonwealth; and provides $2 million over the biennium to expand the Commonwealth's cyber security and modeling and simulation efforts.

The following table summarizes the 2012-14 Appropriation Act.

2012-14 Appropriation Act (Chapter 3, 2012 General Assembly)

	FY 2013	FY 2014	Total
GENERAL FUND			
Revenue			
Unreserved Balance June 30, 2012	$675,516,651	-	$675,516,651
Additions to balance	2,805,080	$4,179,328	6,984,408
Official revenue estimates	16,313,139,429	17,041,740,657	33,354,880,086
Lottery Proceeds Fund	-	-	-
Transfers	397,837,581	414,034,675	811,872,256
Total general fund resources available for appropriation	$17,389,298,741	$17,459,954,660	$34,849,253,401
Appropriations			
Legislative	$69,483,521	$69,494,101	$138,977,622
Judicial	421,813,051	421,697,380	843,510,431
Executive	16,829,067,943	17,011,067,873	33,840,135,816
Independent Agencies	-	-	-
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	17,320,364,515	17,502,259,354	34,822,623,869
Capital Outlay	20,300,000	-	20,300,000
Total appropriations	$17,340,664,515	$17,502,259,354	$34,842,923,869
NONGENERAL FUNDS			
Revenue			
Balance June 30, 2012	$4,539,872,660	-	$4,539,872,660
Official revenue estimates	23,669,716,061	$25,106,646,860	48,776,362,921
Lottery Proceeds Fund	457,300,000	462,000,000	919,300,000
Bond proceeds	1,057,027,948	56,936,092	1,113,964,040
Total nongeneral fund revenue available for appropriation	$29,723,916,669	$25,625,582,952	$55,349,499,621
Appropriations			
Legislative	$3,506,435	$3,506,435	$7,012,870
Judicial	32,605,193	32,605,193	65,210,386
Executive Department	23,964,099,991	25,178,802,014	49,142,902,005
Independent Agencies	594,310,214	653,502,303	1,247,812,517
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	24,594,521,833	25,868,415,945	50,462,937,778
Capital Outlay	1,160,942,877	58,897,631	1,219,840,508
Total appropriations	$25,755,464,710	$25,927,313,576	$51,682,778,286

Source: Department of Planning and Budget.

The 2013 Amendments to the 2012 Appropriation Act

On December 17, 2012, Governor McDonnell presented his proposed amendments to Chapter 3 of the 2012 Acts of Assembly, Special Session I, affecting the remainder of the 2012-2014 biennium. In these amendments, the Governor addressed increased liquidity to guard against future economic uncertainty and the potential impact of federal spending reductions; increased support for instructional spending in public education; continued investments in higher education; improvements in funding availability for transportation; and improvements in support to localities.

Although the revised revenue forecast went up by a modest $98.7 million over the biennium, the Governor called for spending reductions through a combination of targeted savings, reduction plans, and other appropriation reductions. In the process of developing budget amendments, the Governor asked agencies to submit reduction plans equating to four percent of their general fund budgets. Included in the Governor's amended budget was a total of $58.8 million in savings from these plans. In addition to this, targeted reductions in Medicaid and Direct Aid to Public Education totaled $33.9 million.

The 2013 Amendments to the 2012 Appropriation Act (House Bill 1500/Senate Bill 800) were considered by the 2013 Session of the General Assembly which convened on January 9, 2013. The General Assembly adjourned on February 23, 2013 offering their recommendations on amendments to the 2012 Appropriation Act.

On March 25, 2013, Governor McDonnell returned House Bill 1500 to the General Assembly offering 52 amendments to be adopted to address five overarching themes: 1) continued efforts to address judicial workload and fill vacant judgeships, 2) provide general fund appropriations for select items that were funded by earmarks against dedicated funding streams, 3) a small restoration of reductions, 4) needed language changes, and 5) funding for new issues that surfaced since the adjournment. The spending amendments offered totaled $14.1 million. The General Assembly reconvened on April 3, 2013 to consider these amendments. The General Assembly rejected seven of the Governor's amendments.

The 2013 Amendments to the 2012 Appropriation Act, also known as Chapter 806, 2013 Virginia Acts of Assembly became effective May 3, 2013. Chapter 806 continues investment in higher education and job creation, and eliminates across the board cuts to local governments.

Other highlights of the 2013 Virginia Acts of Assembly include: a two percent salary increase for teachers and support positions; a salary compression adjustment for qualifying state employees; reforms to the existing Medicaid program; increased higher education funding for financial aid; $2.0 million for Housing Trust Fund and other housing programs; $1.0 million for offshore wind energy; $95 million dedicated toward future required deposits to the revenue stabilization fund; and increasing the rainy day fund from $295 million to nearly $800 million.

2013 Amendments to the 2012 Appropriation Act (as introduced in HB 1500/SB 800)

	FY 2013	FY 2014	Total
GENERAL FUND			
Revenue			
Unrestricted Balance June 30, 2012	$976,011,000	-	$976,011,000
Additions to balance	(179,378,723)	$3,602,508	(175,776,215)
Official revenue estimate	16,420,995,305	17,056,958,606	33,477,953,911
Revenue Stabilization Fund	-	-	-
Transfers	423,932,936	431,645,366	855,578,302
Total general fund resources available for appropriation	$17,641,560,518	$17,492,206,480	$35,133,766,998
Appropriations			
Legislative	$69,483,521	$72,052,144	$141,535,665
Judicial	423,087,296	424,174,190	847,261,486
Executive	16,623,269,228	17,488,672,074	34,111,941,302
Independent Agencies	200,000	1,200,000	1,400,000
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	17,116,040,045	17,986,098,408	35,102,138,453
Capital Outlay	20,050,000		20,050,000
Total appropriations	$17,136,090,045	$17,986,098,408	$35,122,188,453
NONGENERAL FUNDS			
Revenue			
Balance June 30, 2012	$4,307,352,991	-	$4,307,352,991
Official revenue estimate	24,634,182,779	$24,676,667,248	49,310,850,027
Lottery Proceeds Fund	487,300,000	462,000,000	949,300,000
Bond proceeds	1,112,939,948	1,185,975,092	2,298,915,040
Total nongeneral fund revenue available for appropriation	$30,541,775,718	$26,324,642,340	$56,866,418,058
Appropriations			
Legislative	$3,506,435	$3,506,435	$7,012,870
Judicial	32,905,193	32,905,193	65,810,386
Executive Department	24,927,895,852	24,598,225,839	49,526,121,691
Independent Agencies	594,310,214	666,443,112	1,260,753,326
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	25,558,617,694	25,301,080,579	50,859,698,273
Capital Outlay	1,219,854,877	1,282,791,631	2,502,646,508
Total appropriations	$26,778,472,571	$26,583,872,210	$53,362,344,781

Source: Department of Planning and Budget.

INDEBTEDNESS OF THE COMMONWEALTH

The Constitution of Virginia, in Section 9 of Article X, provides for the issuance of debt by or on behalf of the Commonwealth. Sections 9(a), (b) and (c) provide for the issuance of debt to which the Commonwealth's full faith and credit is pledged and Section 9(d) provides for the issuance of debt not secured by the full faith and credit of the Commonwealth, but which may be supported by and paid from Commonwealth tax collections subject to appropriations by the General Assembly. The Commonwealth may also enter into leases and contracts that are classified on its financial statements as long-term indebtedness. Certain authorities and institutions of the Commonwealth may also issue debt. This section discusses the provisions for and limitations on the issuance of general obligation debt and other types of debt of the Commonwealth and its authorities and institutions.

Section 9(a) Debt

Section 9(a) of Article X provides that the General Assembly may contract general obligation debt: (1) to meet certain types of emergencies, (2) to meet casual deficits in the revenue or in anticipation of the collection of revenues of the Commonwealth and (3) to redeem a previous debt obligation of the Commonwealth. Total indebtedness issued pursuant to Section 9(a) (2) shall not exceed 30 percent of an amount equal to 1.15 times the annual tax revenues derived from taxes on income and retail sales, as certified by the Auditor of Public Accounts, for the preceding fiscal year.

Section 9(b) Debt

Section 9(b) of Article X provides that the General Assembly may authorize the creation of general obligation debt for capital projects. Such debt is required to be authorized by an affirmative vote of a majority of the members elected to each house of the General Assembly and approved in a statewide referendum. The outstanding amount of such debt is limited in the aggregate to an amount equal to 1.15 times the average annual tax revenues derived from taxes on income and retail sales, as certified by the Auditor of Public Accounts, for the three immediately preceding fiscal years ("9(b) Debt Limit"). Thus, the amount of such debt that can be issued is the 9(b) Debt Limit less the total amount of such debt outstanding ("Debt Margin"). There is an additional 9(b) debt restriction on the amount of such debt that the General Assembly may authorize in any year. The additional authorization restriction is limited to 25% of the 9(b) Debt Limit less any 9(b) debt authorized in the current and prior three fiscal years.

The phrase "taxes on income and retail sales" is not defined in the Constitution or by statute. The record made in the process of adopting the Constitution, however, suggests an intention to include only income taxes payable by individuals, fiduciaries and corporations and the state sales and use tax.

Section 9(c) Debt

Section 9(c) of Article X provides that the General Assembly may authorize the creation of general obligation debt for revenue producing capital projects for executive branch agencies and institutions of higher learning. Such debt is required to be authorized by an affirmative vote of two-thirds of the members elected to each house of the General Assembly and approved by the Governor. The Governor must certify before the enactment of the bond legislation and again before the issuance of the bonds that the net revenues pledged are expected to be sufficient to pay principal and interest on the bonds issued to finance the projects.

The outstanding amount of Section 9(c) debt is limited in the aggregate to an amount equal to 1.15 times the average annual tax revenues derived from taxes on income and retail sales, as certified by the Auditor of Public Accounts, for the three immediately preceding fiscal years. While the debt limits under Sections 9(b) and 9(c) are each calculated as the same percentage of the same average tax revenues, these debt limits are separately computed and apply separately to each type of debt.

Effect of Refunding Debt

In general, when the Commonwealth issues bonds to refund outstanding bonds issued pursuant to Section 9(b) or 9(c) of Article X of the Constitution, the refunded bonds are considered paid for purposes of the constitutional limitations upon debt incurrence and issuance and the refunding bonds are counted in the computations of such limitations. Section 9(a) (3) provides that in the case of the refunding of debt incurred in accordance with Section 9(c) of Article X, the debt evidenced by the refunding bonds will be counted against the 9(c) Debt Limit unless the Governor does not provide the net revenue sufficiency certification, in which case the debt evidenced by the refunding bonds will be counted against the 9(b) Debt Limit.

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General Obligation Debt Limit and Debt Margin

Using individual and fiduciary income, corporate income and the state sales and use tax revenues, as of June 30, 2013, the debt limits pursuant to Article X, Section 9 of the Constitution of Virginia are as follows:

COMPUTATION OF LEGAL DEBT LIMITS
(in thousands)

	Fiscal Year Ended June 30,		
Taxes	**2011**	**2012**	**2013***
Individual and Fiduciary Income [1]	$9,944,370	$10,612,836	$11,339,966
Corporation Income [2]	822,259	859,923	796,728
State Sales and Use [3]	3,190,452	3,314,677	3,419,489
Total	$13,957,081	$14,787,436	$15,556,183
Average tax revenues for the three fiscal years			$14,766,900

Section 9(a)(2) General Obligation Debt Issuance Limit and Margin [4]:		
Debt Issuance Limit:		
30% of 1.15 times annual tax revenues for fiscal year 2013*		$5,366,883
Less 9(a)(2) Bonds Outstanding at June 30, 2013*:		0
Debt Margin for Section 9(a)(2) General Obligation Bonds		$5,366,883
Section 9(b) General Obligation Debt Issuance Limit and Margin:		
Debt Issuance Limit:		
1.15 times the average tax revenues for three fiscal years as calculated above		$16,981,935
Less 9(b) Bonds Outstanding at June 30, 2013*:		
Public Facilities Bonds [5]	752,493	
Bond Anticipation Notes	0	
Total 9(b) Bonds Outstanding at June 30, 2013*		752,493
Debt Margin for Section 9(b) General Obligation Bonds		$16,229,442
Debt Authorization Limit:		
25% of 1.15 times average tax revenues for three fiscal years as calculated above		$4,245,484
Less 9(b) debt authorized during the three prior fiscal years		0
Maximum additional 9(b) debt that may be authorized by the General Assembly (subject to referendum):		$4,245,484
Section 9(c) General Obligation Debt Issuance Limit and Margin:		
Debt Issuance Limit:		
1.15 times the average tax revenues for three fiscal years as calculated above		$16,981,935
Less 9(c) Bonds Outstanding at June 30, 2013*:		
Parking Facilities [5]	17,538	
Transportation Facilities [5]	21,961	
Higher Educational Institutions [5]	877,866	
Bond Anticipation Notes	0	
Total 9(c) Bonds Outstanding at June 30, 2013*		917,365
Debt Margin for Section 9(c) General Obligation Bonds		$16,064,570

[1] Includes taxes imposed pursuant to Articles 2 and 9 of Chapter 3, Title 58.1 of the Code of Virginia.
[2] Includes taxes imposed pursuant to Article 10 of Chapter 3, Title 58.1 of the Code of Virginia.
[3] Includes taxes imposed pursuant to Chapter 6, Title 58.1 of the Code of Virginia, less taxes identified in Sections 58.1-605 and 58.1-638.
[4] Debt limit applies only to debt authorized pursuant to Article X, Section 9(a) (2) of the Constitution of Virginia.
[5] Net of unamortized discounts, premiums and/or deferral on debt defeasance.
*Preliminary and Unaudited
Source: Department of Accounts, Department of the Treasury.

Tax-Supported Debt – General Obligation

Tax-supported debt of the Commonwealth includes both general obligation debt and debt of agencies, institutions, boards and authorities for which debt service is expected to be made in whole or in part from appropriations of tax revenues.

Outstanding Section 9(b) debt as of June 30, 2013 includes the unamortized portion of (a) $613 million of general obligation bonds authorized and approved by the voters in November 1992, (b) $1.0 billion in general obligation bonds authorized and approved by the voters in November 2002, and (c) various series of refunding bonds issued to advance refund certain series of bonds. Outstanding Section 9(c) debt as of June 30, 2013 includes various series of Higher Educational Institutions Bonds (including refunding bonds) issued from 2004 to 2013, one series of Transportation Facilities Bonds issued in 2006, and four series of Parking Facilities Bonds (including refunding bonds) issued between 2004 and 2012. Outstanding general obligation debt does not include 9(b) and 9(c) advance refunded bonds for which funds have been deposited in irrevocable escrow accounts in amounts sufficient to meet all required future debt service.

Other Tax-Supported Debt

Section 9(d) of Article X provides that the restrictions of Section 9 are not applicable to any obligation incurred by the Commonwealth or any of its institutions, agencies or authorities if the full faith and credit of the Commonwealth is not pledged or committed to the payment of such obligation.

There are currently outstanding various types of 9(d) revenue bonds issued by authorities, political subdivisions and agencies for which the Commonwealth's full faith and credit is not pledged. Certain of these bonds, however, are paid in part or in whole from revenues received as appropriations by the General Assembly from general tax revenues, while others are paid solely from revenues derived from enterprises related to the operation of the financed capital projects.

The debt repayments of the Virginia Public Building Authority, the Virginia College Building Authority 21st Century College and Equipment Programs, The Innovative Technology Authority, the Virginia Biotechnology Research Park Authority and several other long-term capital leases or notes have been supported all or in large part by General Fund appropriations.

The Commonwealth Transportation Board ("CTB") has issued various series of bonds authorized under the State Revenue Bond Act. These bonds are secured by and payable from funds appropriated by the General Assembly from the Transportation Trust Fund. The Transportation Trust Fund was established by the General Assembly in 1986 as a special non-reverting fund administered and allocated by the Transportation Board for the purpose of increased funding for construction, capital and other needs of state highways, airports, mass transportation and ports. As of June 30, 2013, $2.6 billion in CTB bonds were outstanding. During 2007, the CTB was authorized by the General Assembly to issue up to $3.0 billion in Capital Projects Revenue Bonds, with an additional $180 million authorized in 2008. As of June 30, 2013, $1.7 billion had been issued under this authorization.

The Virginia Port Authority ("VPA") issues bonds secured by its share of the Transportation Trust Fund. As of June 30, 2013, $229 million of Commonwealth Port Fund Revenue Bonds were outstanding. In 2008, the Authority was authorized to issue an additional $155 million in Commonwealth Port Fund Revenue Bonds. However during 2011, $30 million of that amount was rescinded. As of June 30, 2013, $57.4 million had been issued under this authorization.

Leases and Contracts

Capital Leases. The Commonwealth is involved in numerous agreements to lease buildings, energy efficiency projects and equipment. For a detailed description, see "Notes to the Financial Statements" included in the Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012. These lease agreements are for various terms, and each lease contains a nonappropriation clause indicating that continuation of the lease is subject to funding by the General Assembly. The principal balance of all tax-supported capital leases outstanding was $168.6 million as of June 30, 2012.

Installment Purchases. The Commonwealth also finances the acquisition of certain personal property and equipment through installment purchase agreements. The length of the agreements and the interest rates charged vary. In most cases, the agreements are collateralized by the personal property and equipment acquired. Installment purchase agreements contain nonappropriation clauses indicating that continuation of the installment purchase is subject to funding by the General Assembly. The principal balance of tax-supported installment purchase obligations outstanding was $215.1 million as of June 30, 2012.

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Outstanding Tax-Supported Debt

The following table summarizes for the past five fiscal years the outstanding indebtedness of the Commonwealth, its agencies, institutions and authorities for which appropriated tax revenues are required to pay debt service. In certain instances, debt service may be paid with or payable from other non-tax sources (e.g., toll revenues, port revenues and user fees), but the underlying security remains the appropriation of tax revenues by the Commonwealth.

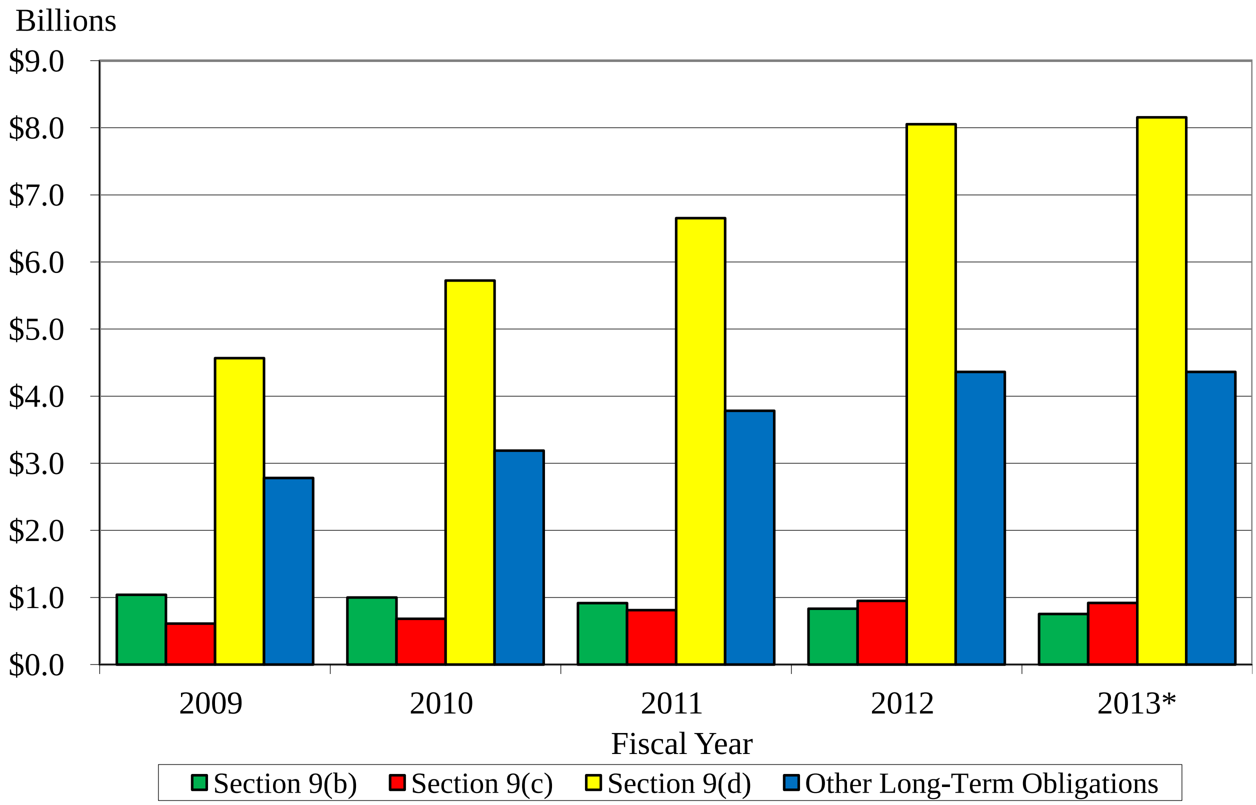
OUTSTANDING TAX-SUPPORTED DEBT
(in thousands)

	Fiscal Year Ended June 30,				
	2009	2010	2011	2012	2013*
General Obligation Debt:					
Section 9(a)	-	-	-	-	-
Section 9(b) [1]	$1,040,636	$999,841	$914,574	$831,148	$752,493
Section 9(c)					
Higher Educational Institutions [1]	573,550	631,275	765,280	906,474	877,866
Transportation Facilities [1]	30,358	28,394	26,355	24,210	21,961
Parking Facilities [1]	6,526	21,151	19,445	18,383	17,538
Sub-Total Section 9(c)	610,434	680,820	811,080	949,067	917,365
Total General Obligation Debt	1,651,070	1,680,661	1,725,654	1,780,215	1,669,858
Section 9(d) Debt:					
Transportation [1]	908,601	1,428,918	2,008,601	2,655,481	2,553,966
Virginia Public Building Authority [1]	2,092,662	2,276,819	2,418,513	2,566,789	2,534,346
Virginia Port Authority [1]	200,886	194,287	186,011	237,321	228,840
Virginia College Building Authority 21st Century/Equipment [1]	1,203,701	1,677,617	1,909,586	2,470,589	2,725,259
Innovation and Entrepreneurship Investment Authority	5,415	4,480	3,465	2,375	1,220
Newport News Industrial Development Authority	10,025	5,150	-	-	-
Virginia Biotechnology Research Partnership Authority [1]	45,409	42,650	39,955	37,162	34,905
Virginia Public Broadcasting Board	5,830	2,990	-	-	-
Virginia Aviation Board	1,909	1,623	1,336	1,050	764
Fairfax County Economic Development Authority	93,442	89,722	85,827	81,747	77,472
Total Section 9(d) Debt	4,567,880	5,724,256	6,653,294	8,052,514	8,156,711
Other Long-Term Obligations:					
Transportation Notes Payable	8,000	8,000	8,000	8,000	8,000 [2]
Capital Leases	216,600	201,501	206,738	168,566	168,566 [2]
Installment Purchase Obligations	218,202	214,976	219,291	215,120	215,120[2]
Compensated Absences	573,904	559,828	559,672	569,021	569,021 [2]
Regional Jail Financing Program	8,231	6,445	4,617	2,748	2,748 [2]
Pension Liability	1,410,513	1,653,718	2,050,195	2,446,240	2,446,240 [2]
Other Liabilities and Notes Payable	106,052	111,338	90,039	73,457	73,457 [2]
OPEB Liability	239,340	433,688	643,837	877,630	877,630 [2]
Total Other Long-Term Obligations	2,780,842	3,189,494	3,782,389	4,360,782	4,360,782
Total Tax-Supported Debt [3]	$8,999,792	$10,594,411	$12,161,337	$14,193,511	$14,187,411

[1] Net of deferral on debt defeasance, unamortized discounts and/or premiums.
[2] Represents fiscal year 2012 ending balances. Amounts for fiscal year 2013 are not yet available.
[3] Numbers may not add to totals due to rounding.

*Preliminary and Unaudited
Source: Department of the Treasury; Department of Accounts.

OUTSTANDING TAX-SUPPORTED DEBT
As of June 30, 2009-2013



*Preliminary and Unaudited

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Outstanding Tax-Supported Debt Service

The following table summarizes annual debt service on outstanding tax-supported debt as of June 30, 2013. The table does not include debt service requirements for capital lease and installment purchase obligations payable from the General Fund of the Commonwealth.

ANNUAL DEBT SERVICE REQUIREMENTS
Tax-Supported Debt Outstanding at June 30, 2013*
($ in thousands)

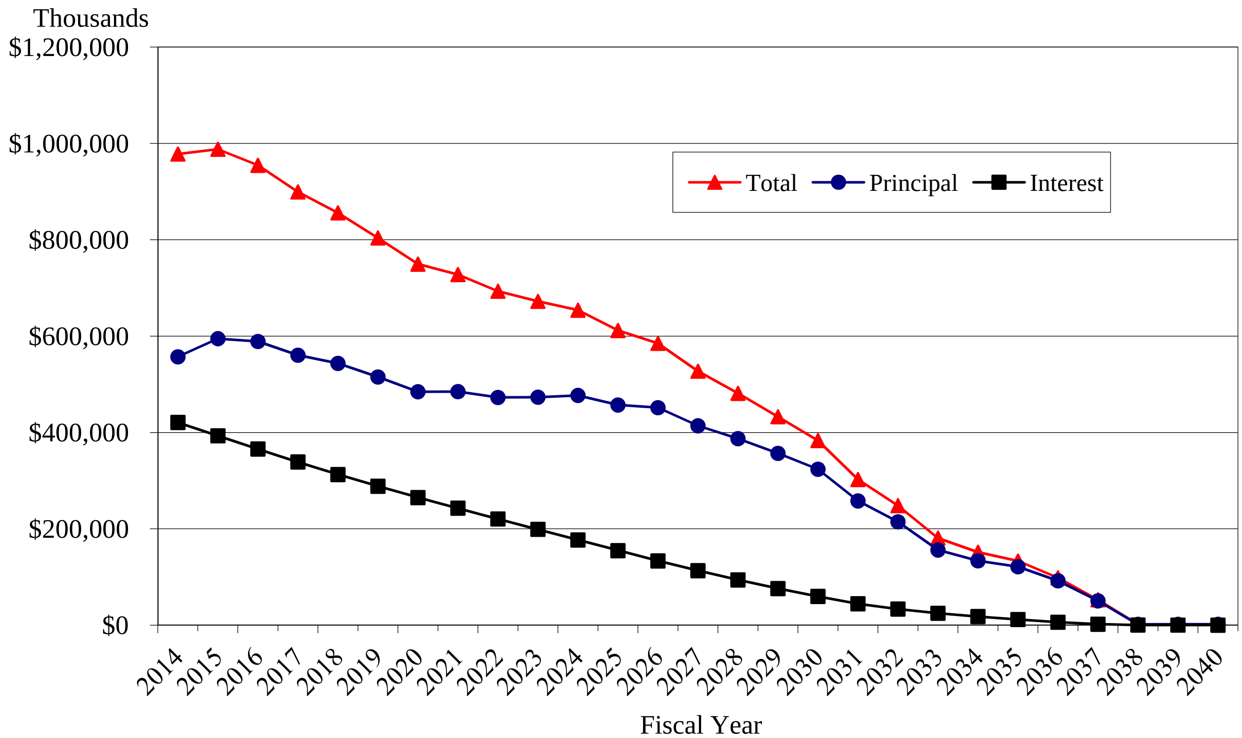
Fiscal Year Ending June 30	General Obligation Debt Sections 9(a), 9(b) and 9(c)			Other Tax-Supported Debt Section 9(d) [1]			Total		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2014	$114,605	$71,646	$186,251	$442,504	$349,259	$791,763	$557,109	$420,905	$978,014
2015	120,415	66,342	186,757	474,397	326,846	801,243	594,812	393,187	988,000
2016	112,745	60,709	173,454	476,247	305,014	781,261	588,992	365,723	954,715
2017	104,885	55,493	160,378	455,569	283,458	739,027	560,454	338,950	899,405
2018	98,780	50,553	149,333	444,675	262,046	706,721	543,455	312,600	856,055
2019	97,985	46,185	144,170	417,280	242,372	659,653	515,265	288,557	803,823
2020	97,770	41,682	139,452	386,823	223,279	610,102	484,593	264,961	749,554
2021	99,755	37,214	136,969	385,101	205,743	590,844	484,856	242,957	727,813
2022	94,730	32,678	127,408	378,040	187,922	565,962	472,770	220,600	693,370
2023	94,890	28,418	123,308	378,435	170,567	549,003	473,325	198,986	672,311
2024	94,255	24,205	118,460	382,751	152,747	535,498	477,006	176,952	653,957
2025	85,755	20,027	105,782	371,354	134,730	506,084	457,109	154,757	611,865
2026	80,120	16,367	96,487	371,464	117,190	488,654	451,584	133,557	585,141
2027	71,475	12,995	84,470	342,476	100,308	442,784	413,951	113,303	527,254
2028	55,755	9,833	65,588	331,530	84,251	415,781	387,285	94,084	481,369
2029	40,320	7,351	47,671	316,380	68,717	385,097	356,700	76,068	432,768
2030	30,360	5,600	35,960	293,360	54,084	347,444	323,720	59,684	383,404
2031	25,815	4,220	30,035	232,140	40,294	272,434	257,955	44,513	302,468
2032	15,650	3,017	18,667	198,965	30,545	229,510	214,615	33,562	248,177
2033	15,025	2,310	17,335	141,045	22,447	163,492	156,070	24,757	180,827
2034	12,455	1,633	14,088	121,165	16,272	137,437	133,620	17,904	151,524
2035	9,930	1,060	10,990	111,460	10,765	122,225	121,390	11,825	133,215
2036	5,835	616	6,451	86,345	5,535	91,880	92,180	6,151	98,331
2037	2,560	365	2,925	47,980	1,780	49,760	50,540	2,145	52,685
2038	1,675	244	1,919	0	0	0	1,675	244	1,919
2039	1,730	165	1,895	0	0	0	1,730	165	1,895
2040	1,785	84	1,869	0	0	0	1,785	84	1,869
Subtotal	1,587,060	601,012	2,188,072	7,587,489	3,396,169	10,983,658	9,174,549	3,997,181	13,171,730
Add Unamortized Premium & Accretion on Capital Appreciation Bonds	138,143	-	138,143	616,185	-	616,185	754,328	-	754,328
Less Unamortized Discount & Deferral on Debt Defeasance	(55,345)	-	(55,345)	(46,903)	-	(46,903)	(102,248)	-	(102,248)
TOTAL	$1,669,858	$601,012	$2,270,870	$8,156,771	$3,396,169	$11,552,940	$9,826,629	$3,997,181	$13,823,810

[1] Includes Virginia Biotechnology Research Park Authority, Fairfax County Economic Development Authority (Va. Dept. of Transportation Camp 30 Project), Innovation Technology Authority and Virginia Aviation Board. Does not include other capital leases, installment purchase obligations.

*Preliminary and Unaudited

Source: Department of the Treasury; Department of Accounts.

ANNUAL DEBT SERVICE REQUIREMENTS
TAX-SUPPORTED DEBT OUTSTANDING AT JUNE 30, 2013*
(in thousands)



*Preliminary and Unaudited

RATIOS OF OUTSTANDING TAX-SUPPORTED DEBT
TO POPULATION AND PERSONAL INCOME

Fiscal Year	Population [1]	Personal Income [2][3] (000's)	Outstanding Debt (000's)	Tax-Supported Debt/Capita	Debt/Income
2009	7,882,590	340,255,644	8,999,792	1,141.73	2.6%
2010	8,001,024	354,127,225	10,594,411	1,324.13	3.0%
2011	8,096,604	373,311,727	12,161,337	1,502.03	3.3%
2012	8,185,867	385,403,843	14,193,511	1,733.90	3.7%
2013*	8,185,867	385,403,843	14,187,411	1,733.16	3.7%

*Preliminary and Unaudited

Sources: *[1] U.S. Census Bureau. 2013 population data is not yet available. The estimate of 2013 population is the 2012 population..*
[2] U.S. Department of Commerce, Bureau of Economic Analysis.
[3] 2013 personal income data is not yet available. The estimate of 2013 personal income is the 2012 personal income.

Authorized and Unissued Tax-Supported Debt

As of June 30, 2013*, the following tax-supported debt had been authorized by the General Assembly and remained unissued:

Section 9(b) Debt:	
Higher Educational Institutions Bonds	$0
Park and Recreational Facilities Bonds	0
Subtotal 9(b) Debt:	$0
Section 9(c) Debt:	
Higher Educational Institutions Bonds	$480,623,151
Parking Facility Bonds	225,918
Subtotal 9(c) Debt:	$480,849,069
Section 9(d) Debt :	
Transportation Capital Projects Revenue Bonds	$1,487,335,000
Northern Virginia Transportation District Program	24,700,000
Virginia Public Building Authority -- Projects	485,318,659
Virginia Public Building Authority -- Jails	128,497,781
Virginia Public Building Authority -- Juvenile Detention Facilities	0
Virginia College Building Authority -- 21st Century Projects	1,832,653,919
Virginia College Building Authority -- 21st Century Equipment	126,436,308
Virginia Port Authority	64,998,665
Capital Lease Revenue Financings	0
Subtotal 9(d) Debt:	$4,149,940,333
Total	$4,630,789,402

*Preliminary and Unaudited
Source: Department of the Treasury; Department of Accounts.

Moral Obligation Debt

The Virginia Housing Development Authority, the Virginia Resources Authority and the Virginia Public School Authority are authorized to issue bonds secured in part by a moral obligation pledge of the Commonwealth. All three are designed to be self-supporting from their individual loan programs. The Commonwealth may fund deficiencies that may occur in debt service reserves for moral obligation debt. By the terms of the applicable statutes, the Governor is obligated to include in his annual budget submitted to the General Assembly the amount necessary to restore any such reported deficiency, but the General Assembly is not legally required to make any appropriation for such purpose. However, neither the Virginia Housing Development Authority nor the Virginia Public School Authority have bonds outstanding that are secured by the moral obligation pledge. To date, the Virginia Resources Authority has not reported to the Commonwealth that any such reserve deficiencies exist. The table below summarizes the Commonwealth's outstanding moral obligation indebtedness for the past five fiscal years.

OUTSTANDING MORAL OBLIGATION DEBT
(in thousands)

	Fiscal Year Ended June 30,				
	2009	2010	2011	2012	2013*
Virginia Housing Development Authority [1]	$ --	$ --	$ --	$ --	$ --
Virginia Resources Authority [1]	726,416	669,839	684,005	801,384	836,656
Total	$726,416	$669,839	$684,005	$801,384	$836,656

[1] Net of unamortized discounts, premiums, deferral on debt defeasance and issuance costs.

*Preliminary and Unaudited
Source: Department of the Treasury, Department of Accounts

Other Debt

There are several authorities and institutions of the Commonwealth that issue debt for which debt service is not paid through appropriations of state tax revenues and for which there is no moral obligation pledge to consider funding debt service or reserve fund deficiencies. A portion of the debt shown is additionally secured by a biennial contingent appropriation in the event available funds are less than the amount required to pay debt service. The following table summarizes for the past five fiscal years outstanding indebtedness of authorities and institutions whose debt falls into these categories.

OUTSTANDING OTHER DEBT*
(in thousands)

	Fiscal Year Ended June 30,				
	2008	2009	2010	2011	2012
Institutions of Higher Education [1]	$1,147,172	$1,356,659	$1,333,083	$1,450,714	$1,541,802
Virginia College Building Authority Public Higher Education Financing Program	1,037,650	1,289,525	1,476,645	1,633,910	1,715,515
Virginia College Building Authority Private College Program	455,295	532,530	524,645	634,395	639,597
Virginia Housing Development Authority [1]	6,487,296	6,754,384	6,739,603	6,438,200	5,945,174
Virginia Public School Authority [1]	3,030,087	3,258,258	3,235,947	3,215,448	3,378,084
Virginia Port Authority	292,982	223,541	288,764	284,558	281,978
Commonwealth Transportation Board					
Federal Highway Reimbursement Anticipation Notes [1]	677,297	548,695	414,319	274,650	182,450
Grant Anticipation Notes (GARVEES) [1]	--	--	--	--	298,728
Hampton Roads Sanitation District	359,904	360,136	547,318	560,996	639,286
Total	$13,487,683	$14,323,728	$14,560,324	$14,492,871	$14,622,614

[1] Net of unamortized discounts, premiums, deferral on debt defeasance and issuance costs.
* Fiscal year 2013 data not yet available.

Source: Department of the Treasury.

Commonwealth Debt Management

Debt Capacity Advisory Committee

The Debt Capacity Advisory Committee (the "Committee") is charged by statute with annually estimating the amount of tax-supported debt which may prudently be authorized for the next biennium, consistent with the financial goals, capital needs and policies of the Commonwealth. Such estimate is provided to the Governor and General Assembly. The Committee is also required to review annually the amount and condition of bonds, notes and other security obligations of the Commonwealth's agencies, institutions, boards and authorities which are either secured by a moral obligation pledge to replenish reserve fund deficiencies or for which the Commonwealth has a contingent or limited liability. The Committee provides its recommendations on the prudent use of such obligations to the Governor and the General Assembly.

The Committee also reviews the amounts and condition of bonds, notes and other security obligations of the Commonwealth's agencies, institutions, boards and authorities which are neither tax-supported debt nor obligations secured by a moral obligation pledge to replenish reserve fund deficiencies. The Committee may recommend limits, when appropriate, on these other obligations. The Committee's latest report can be found at http://www.trs.virginia.gov/debt/dcac.aspx.

Capital Outlay Plan

The Department of Planning and Budget has prepared a Six-Year Capital Outlay Plan (the "Plan") for the Commonwealth. The Plan lists proposed capital projects, and it recommends how the proposed projects should be financed. More specifically, the Plan distinguishes between immediate demands and longer-term needs, assesses the state's ability to meet its highest priority needs, and outlines an approach for addressing priorities in terms of costs, benefits and financing mechanisms. The General Assembly has set out requirements for the funding of capital projects at a level not less than two percent of the General Fund revenues for the biennium, and the portion of that amount that may be recommended for bonded indebtedness.

RETIREMENT PLANS

The Commonwealth contributes to four defined benefit pension plans each of which is administered by the Virginia Retirement System ("System"). The System acts as a common investment and administrative agent for the Commonwealth, local school boards and political subdivisions in Virginia. The plans administered by the System consist of the Virginia Retirement System ("VRS"), the State Police Officers Retirement System ("SPORS"), the Virginia Law Officer's Retirement System ("VaLORS") and the Judicial Retirement System ("JRS"). Membership in the VRS consists of Commonwealth employees, public school teachers and employees of political subdivisions that have voluntarily joined the system. Membership in SPORS consists of Commonwealth state police officers. Membership in VaLORS consists of law enforcement and corrections officers of the Commonwealth other than state police officers, and membership in JRS consists of judges in the Commonwealth's Circuit Courts, General District Courts, Court of Appeals and Supreme Court. Membership in the applicable retirement plans is mandatory for all eligible employees. VRS is the largest of four systems covering 329,042 active Commonwealth employees, school teachers and covered employees of local governments as of June 30, 2013, as compared with 11,709 active members of SPORS, VaLORS, and JRS combined. In addition, the four plans combined had approximately 39,984 inactive vested members who are no longer contributing but have not withdrawn previous contributions and may be eligible for a retirement benefit in the future.

ACTIVE MEMBER DISTRIBUTION OF PENSION AND RETIREMENT PLANS

	Fiscal Year Ended June 30	
	2012	**2013**
State Employees (VRS)	79,030	78,534
Teachers (VRS)	146,690	145,945
Employees of Political Subdivisions (VRS)	104,427	104,563
State Police Officers (SPORS)	1,886	2,003
Virginia Law Officers (VaLORS)	9,413	9,324
Judges (JRS)	380	382

Source: Virginia Retirement System.

The System's Board of Trustees administers all four plans pursuant to statute. Each plan provides retirement, disability and death benefits. In addition, most members of all four plans are covered by group term life insurance.

The General Assembly established a new plan (Plan 2) for all members who are hired on or after July 1, 2010. Members with service before July 1, 2010 are in Plan 1. The different provisions for Plan 1 and Plan 2 members are set forth in the table below:

Defined Benefit Plan Provisions

AS ESTABLISHED BY TITLE 51.1 OF THE *CODE OF VIRGINIA* (1950), AS AMENDED

Members qualify for retirement when they become vested (have at least five years of service credit and meet the age and service requirements for their plan, as shown in the following table. The benefit is calculated using a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit at retirement.

PROVISIONS	**PLAN 1** *Hired Before July 1, 2010*	**PLAN 2** *Hired On or After July 1, 2010 or previous Plan 1 member not vested by January 1, 2013.*
Average Final Compensation	Average of the member's 36 consecutive months of highest compensation as a covered employee.	Average of the member's 60 consecutive months of highest compensation as a covered employee
Member Contributions	State employees, other than elected officials, judges and optional retirement plan participants, contributed 5% of their compensation each month to their member contribution accounts. School division and political subdivisions may elect to pick up the 5% member contribution on behalf of their employees.	State employees contribute 5 percent of their compensation each month to their member contribution accounts. Employees of school divisions and political subdivisions may contribute all or a portion of the 5 percent member contribution as elected by the employer.
Vesting and Refunds	Vested members who leave covered employment are eligible for a full refund of their member contribution account balance. Non-vested members are eligible for a refund, excluding any contributions made by the employer after July 1, 2010 and the interest on these contributions. *Exception:* Members who are involuntarily separated from employment for causes other than job performance or misconduct are eligible for a full refund, including any employer contributions and interest.	Same as Plan 1.
Normal Retirement Age	VRS: Age 65.	Normal Social Security retirement age.
	SPORS, VaLORS and political subdivision hazardous duty employees: Age 60.	Same as Plan 1.

	JRS: Age 65.	Same as Plan 1.
Earliest Unreduced Retirement Eligibility	VRS: Age 65 with at least five years of service credit or age 50 with at least 30 years of service credit.	Normal Social Security retirement age with at least five years of service credit or when age and service credit equal 90. *Example:* Age 60 with 30 years of service credit. Note: Plan 2 state employees, except those covered under SPORS and VaLORS, must be at least age 60 to qualify for retirement under the Workforce Transition Act (WTA) if not qualified under the rule of 90.
	SPORS, VaLORS and political subdivision hazardous duty employees: Age 60 with at least five years of service credit or age 50 with at least 25 years of service credit.	Same as Plan 1.
	JRS: Age 65 with at least five years of service credit or age 60 with at least 30 years of service credit. Service earned under JRS is weighted. The weighting factors under Plan 1 are: • 3.5 for JRS members appointed or elected before January 1, 1995 • 2.5 for JRS members appointed or elected on or after January 1, 1995 Weighted and non-weighted service credit counts toward calculating the benefit.	Same as Plan 1. Service earned under JRS is weighted. The weighting factors under Plan 2 are: • 1.5 for JRS members appointed or elected before age 45 • 2.0 for JRS members appointed or elected between ages 45 and 54 • 2.5 for JRS members appointed or elected at age 55 or older Weighted and non-weighted service credit counts toward calculating the benefit.
Earliest Reduced Retirement Eligibility	VRS: Age 55 with at least five years of service credit or age 50 with at least 10 years of service credit.	Age 60 with at least five years of service credit.
	SPORS, VaLORS and political subdivision employees: Age 50 with at least five years of service credit.	Same as Plan 1.
	JRS: Age 55 with at least five years of service credit.	Same as Plan 1.
Retirement Multipliers	VRS and JRS: 1.7 percent.	Same as Plan 1 through December 2012 and reduced to 1.65% beginning January 2013.

	SPORS, sheriffs and regional jail superintendents: 1.85 percent.	Same as Plan 1.
	VaLORS: 1.7 percent or 2.0 percent.	2.0%
	Political subdivision hazardous duty employees: 1.7 percent or 1.85 percent as elected by the employer.	Same as Plan 1.
Cost-of-Living Adjustment (COLA) During years of no inflation or deflation, the COLA is 0%. Beginning January 2013, a member who retires with less than 20 years of service must receive an allowance for one full calendar year after reaching unreduced retirement age to be eligible for a COLA. Members within five years of eligibility for an unreduced benefit as of January 1, 2013 were grandfathered.	Matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half the remaining increase, up to a maximum COLA of 5%.	Matches the first 2% increase in the CPI-U and half the remaining increase, up to a maximum COLA of 6%. During years of no inflation or deflation, the COLA is 0%.

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Following is a summary of additions and deductions of the four retirement plans, including additions and deductions attributable to VRS members who are employees of local school boards and political subdivisions. The political subdivisions have voluntarily joined the VRS, and the Commonwealth is responsible only for administration of the programs.

RETIREMENT PLANS
ADDITIONS AND DEDUCTIONS
(in thousands)

	Fiscal Year Ended June 30,				
	2009	**2010**	**2011**	**2012**	**2013**
Additions:					
Member Contributions	$20,543	$26,498	$27,623	$230,967	$595,339
Employer Contributions	2,076,860	1,834,686	1,520,403	1,585,817	2,003,248
Net Investment Income (net of expenses)	752,986	774,306	1,030,658	1,052,001	910,677
Other	9,324	1,187	1,420	3,892	1,574
Total Additions	2,859,713	2,636,677	2,580,104	2,872,677	3,510,838
Deductions:					
Benefits	2,733,223	3,035,274	3,263,895	3,401,775	3,672,541
Refunds	91,348	93,086	100,544	88,923	81,538
Administrative Expenses	31,701	24,501	25,857	26,227	31,866
Other	668	4,050	6,675	721	4,743
Total Deductions	2,856,940	3,156,911	3,396,971	3,517,646	3,790,688
Excess of Additions over Deductions [before net appreciation (depreciation) in fair value of investments]	2,773	(520,234)	(816,867)	(644,969)	(279,850)
Net appreciation (depreciation) in fair value of investments	(12,253,992)	5,458,822	7,680,954	(414,764)	5,167,659
Net Assets Held in Trust at the End of the Year	$41,348,413	$46,287,001	$53,151,088	$52,091,355	$56,979,164

Source: Virginia Retirement System.

Each employer contributes an amount for any period equal to the sum of the normal cost and amortization of the unfunded actuarial accrued liability, if any. The Commonwealth's liability is determined, at a minimum, every two years by the System's Board of Trustees on the basis of studies by the consulting actuary. With respect to teachers, the Commonwealth pays a share of the employer contributions on the compensation of teachers who are employees of local school boards with the Commonwealth's portion determined by a formula that uses the student/teacher ratio, average teachers' salaries and the source of revenue used for salary. Employees contribute 5 percent of their creditable compensation unless the contribution is assumed by the employer as in the case of Commonwealth employees, judges, state police officers, and state law enforcement and correctional officers other than state police officers. Effective July 1, 2011, Commonwealth employees (except elected officials), state police officers, and state law enforcement and correctional officers other than state police officers began paying the 5% employee contribution. This contribution is handled as a pre-tax payroll deduction. Effective July 1, 2012, teacher and political subdivision employers were required to begin requiring their members to pay the 5% member contribution that was previously paid by the employer. The phase-in required the shift of a minimum of 1% each year with full implementation of the shift to member-paid for all employers by July 1, 2016.

Employer contributions are calculated under an entry age normal cost method, and the unfunded actuarial accrued liability is amortized as a level percentage of payroll within 30 years or less. The entry age normal cost method is designed to produce level normal costs over the working lifetime of the participating employees and to permit the amortization of any unfunded liability over a period of years. The unfunded liability arises because normal costs based on the current benefit provisions have not been in effect throughout the working lifetime of current employees and because of actuarial losses. Post-retirement benefit adjustments are pre-funded during the employees' working lifetime.

The Commonwealth's contribution rate for the 2013 fiscal year was determined in accordance with the actuarial valuation as of June 30, 2011. In calculating the Commonwealth's contribution rate for the 2013 fiscal year, the actuary assumed a 7 percent net investment yield compounded annually, a 2.5 percent inflation allowance in the salary scale, a 30-year amortization period for the Unfunded Actuarial Accrued Liability (UAAL) and valued the assets using a modified market basis.

For fiscal year 2012, pension contributions due or required were based on the June 30, 2009 actuarial valuation, which used a 20-year funding period for the UAAL. The General Assembly again funded less than the rate determined by the actuary by extending the funding period for these groups from 20 years to 30 years, increasing the investment return assumption from 7.50% to 8.00% and increasing the inflation assumption from 2.50% to 3.00%. In addition, for state employees, only the employer normal cost of the rate was funded for the first nine months of the fiscal year, and this was reduced by a factor representing the savings associated with the adoption of the revised benefit provisions of Plan 2. As a result, the fiscal year 2012 employer rate for state employees was reduced from the actuary's recommended rate of 8.46% to 2.08% for the first nine months of the fiscal year and increased to 6.58% for the last quarter of the year. Additionally, the employer rates for SPORS, VaLORS and JRS were reduced from the actuary's recommended rates of 25.56%, 15.93% and 46.79% to 7.73%, 5.07% and 28.65%, respectively for the first nine months of the fiscal year and then increased to 21.16%, 13.09% and 42.58%, respectively for the last quarter. The employer contribution rate for teachers was reduced from 12.91% to 6.33%. There was no adjustment to the employer contribution rate for political subdivision employers or to the member contribution rate of 5.00%.

For fiscal year 2013, pension contributions due and required were based on the June 30, 2011 actuarial valuations, which used a 10-year funding period for the deferred contributions from FY 2011 and FY 2012 and a 30-year funding period for the balance of the UAAL. The General Assembly again funded less than the rate determined by the actuary by increasing the investment return assumption from 7.00% to 8.00%. As a result, the FY 2013 employer rate for teachers was reduced from 16.77% to 11.66% and for state employees from 13.07% to 8.76%. Additionally, the employer rates for SPORS, VaLORS and JRS were reduced from the actuary's recommended rates of 32.62%, 19.52% and 54.11% to 24.74%, 14.80% and 45.44%, respectively. There was no adjustment to the employer contribution rate for political subdivision employers or to the member contribution rate of 5.00%.

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The normal contribution and accrued liability cost rates (expressed as percentages of covered compensation) recommended by the actuaries are as follows:

RETIREMENT SYSTEMS CONTRIBUTIONS, ACCRUED LIABILITY AND SUPPLEMENTARY COSTS (1997-1998 biennium through 2013 fiscal year) [1]

	State Employees	School Teachers	State Police	Virginia Law Officers' [2]	Judges
Normal contribution rate:					
1997-98	2.73	3.51	9.39	-	15.12
1998-99	3.56	4.54	8.72	-	17.34
1999-00	4.18	5.09	10.52	4.18	18.74
2000-01	4.24	5.83	8.92	8.92	27.85
2001-02	4.00	6.03	7.45	7.91	26.11
2002-03	4.00	6.03	7.99	8.51	22.27
2003-04	4.00	6.03	7.99	8.51	22.27
2004-05	4.00	6.03	7.99	8.51	22.19
2005-06	4.00	6.03	7.99	8.51	22.19
2006-07	2.80	4.45	7.47	8.06	24.49
2007-08	2.80	4.45	8.35	8.06	24.49
2008-09	2.93	4.71	8.84	8.24	25.13
2009-10	2.93	4.71	8.84	8.24	25.13
2010-11	2.67	4.68	8.81	5.81	30.15
2011-12	2.67	4.68	8.81	5.81	30.15
2012-13	3.55	5.93	10.49	6.80	33.69
Accrued liability rate:					
1997-98	2.08	3.77	3.99	-	13.98
1998-99	2.28	3.95	8.12	-	14.34
1999-00	1.85	3.95	8.68	1.85	15.51
2000-01	0.98	1.71	16.08	7.23	17.15
2001-02	0.24	(1.79)	17.55	17.09	18.89
2002-03	0.24	(1.79)	17.01	16.49	22.73
2003-04	0.24	(1.79)	17.01	16.49	22.73
2004-05	(0.11)	2.07	17.01	16.49	22.81
2005-06	(0.11)	2.07	17.01	16.49	22.81
2006-07	4.53	6.73	12.35	9.33	15.59
2007-08	4.53	6.73	14.34	9.33	15.59
2008-09	5.09	7.13	15.25	8.54	12.91
2009-10	5.09	7.13	15.25	8.54	12.91
2010-11	5.79	8.23	16.75	10.12	16.64
2011-12	5.79	8.23	16.75	10.12	16.64
2012-13	9.52	10.84	22.13	12.72	20.42
Total contribution rate:					
1997-98	4.81	7.28	13.38	-	29.10
1998-99	5.84	8.49	16.84	-	31.68
1999-00	6.03	9.04	19.20	6.03	34.25
2000-01	5.22	7.54	25.00	16.15	45.00
2001-02 [3]	4.24	4.24	25.00	25.00	45.00
2002-03 [4]	4.24	4.24	25.00	25.00	45.00
2003-04 [5]	4.24	4.24	25.00	25.00	45.00
2004-05 [6]	3.89	8.10	25.00	25.00	45.00
2005-06 [7]	3.89	8.10	25.00	25.00	45.00
2006-07 [8]	7.33	11.18	19.82	17.39	40.08
2007-08 [9]	7.33	11.18	22.69	17.39	40.08
2008-09 [10]	8.02	11.84	24.09	16.78	38.04
2009-10 [11]	8.02	11.84	24.09	16.78	38.04
2010-11 [12]	8.46	12.91	25.56	15.93	46.79
2011-12 [13]	8.46	12.91	25.56	15.93	46.79
2012-13 [14]	13.07	16.77	32.62	19.52	54.11

Source: Virginia Retirement System

[1] Rates for FY 2000 reflect "carve out" of a portion of the retirement rate for the Virginia Sickness and Disability Program.

[2] The Virginia Law Officers' Retirement System was established October 1, 1999.

[3] Contributions actually paid in FY 2002 were 2.12%, 3.60%, 12.50%, 8.07% and 22.50% for State, School Teachers, State Police, VaLORS and Judges, respectively.

[4] Contributions actually paid in FY 2003 were 0.00%, 3.77%, 11.05%, 12.00% and 29.00% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

[5] Contributions actually paid in FY 2004 were 3.77%, 3.77%, 12.79%, 13.95% and 32.03% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

[6] Contributions actually paid in FY 2005 were 3.91%, 6.03%, 16.49%, 16.99% and 30.55% for State, School Teachers, State Police, VaLORS, and Judges, respectively.
[7] Contributions actually paid in FY 2006 were 3.91%, 6.62%, 16.49%, 16.99% and 30.55% for State, School Teachers, State Police, VaLORS, and Judges, respectively.
[8] Contributions actually paid in FY 2007 were 5.74%, 9.20%, 16.71%, 14.96% and 36.47% for State, School Teachers, State Police, VaLORS, and Judges, respectively.
[9] Contributions actually paid in FY 2008 were 6.15%, 10.30%, 20.76%, 15.86% and 38.01% for State, School Teachers, State Police, VaLORS, and Judges, respectively. State Police computed and paid rates reflect an increase of 2.87% resulting from an increase in the multiplier from 1.70% to 1.85%, effective July 1, 2007.
[10] Contributions actually paid in FY 2009 were 6.23%, 8.81%, 20.05%, 14.23% and 34.51% for State, School Teachers, State Police, VaLORS, and Judges, respectively.
[11] Contributions actually paid in FY 2010 were 6.26%, 8.81%, 20.05%, 14.23% and 34.51% for State, School Teachers, State Police, VaLORS, and Judges, respectively. However, these contributions were suspended for state employee groups for April, May and the first half of June 2010, and for school teachers for the entire fourth quarter of FY 2010.
[12] Contributions actually paid in FY 2011 were 2.13%, 3.93%, 7.76%, 5.12% and 28.81% for State, School Teachers, State Police, VaLORS, and Judges, respectively.
[13] Contributions actually paid in FY 2012 were 6.33% for School Teachers and 2.08%, 7.73%, 5.07% and 28.65% for State, State Police, VaLORS, and Judges, respectively for the period July 2011 through March 2012 and 6.58%, 21.16%, 13.09%, and 42.58% for State, State Police, VaLORS, and Judges, respectively for April, May and June 2012.
[14] Contributions actually paid in FY 2013 were 8.76%, 11.67%, 24.74%, 14.80% and 45.44% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

Effective October 1, 1983, the Commonwealth assumed the 5 percent employee contribution previously paid by its employees who are members of the VRS, SPORS, VaLORS and JRS. The total contribution rate actually being paid by the Commonwealth for Commonwealth employees, state police officers, state law enforcement and correctional officers other than state police officers, and judges through the 2010 fiscal year is, therefore, higher by that amount than what is shown in the summary. Effective July 1, 2011, Commonwealth employees (except elected officials), state police officers, and state law enforcement and correctional officers other than state police officers began paying the 5% employee contribution through payroll deduction.

The most recent actuarial valuation review of the Commonwealth's liability under the VRS, SPORS, VaLORS and JRS was performed by Cavanaugh Macdonald Consulting, LLC as of June 30, 2012. Below is the schedule of Funding Progress for the various pension plans. The 2010 data reflects a reduction in the assumed rate of return on investments from 7.50% to 7.00%. For further discussion of the funding status of the pension programs, see "Retirement and Pension Systems" in The Report of the Comptroller for the Fiscal Year Ended June 30, 2013.

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SCHEDULE OF FUNDING PROGRESS
(dollars in millions)

Biennial Actuarial Valuation Date 6/30		Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
Virginia Retirement System							
2012		$51,212	$77,859	$26,647	65.8%	$14,880	179.1%
2011		52,559	75,185	22,626	69.9	14,709	153.8
2010		52,729	72,801	20,072	72.4	14,758	136.0
2009	[1]	53,185	66,323	13,138	80.2	14,948	87.9
2008		52,548	62,554	10,006	84.0	14,559	68.7
2007		47,815	58,116	10,301	82.3	13,834	74.5
2006		42,669	52,822	10,153	80.8	13,002	78.1
2005	[1]	40,372	49,628	9,256	81.3	12,212	75.8
2004		39,691	43,958	4,267	90.3	11,510	37.1
2003		39,243	40,698	1,455	96.4	10,885	13.4
State Police Officers Retirement System (SPORS)							
2012		$587	$1,013	$426	57.9%	$104	409.0%
2011		617	986	369	62.6	100	370.3
2010		634	949	315	66.8	98	323.2
2009	[1]	647	879	232	73.6	101	230.0
2008		646	844	198	76.6	103	193.2
2007		595	806	211	73.8	101	209.4
2006		539	730	191	73.8	94	204.1
2005	[1]	514	673	159	76.4	91	174.8
2004		510	656	146	77.8	82	178.0
2003		509	616	107	82.6	79	135.4
Virginia Law Officer's Retirement System (VaLORS)							
2012		$909	$1,753	$844	51.9%	$345	244.8%
2011		926	1,683	757	55.0	356	212.5
2010		925	1,579	654	58.6	346	189.0
2009	[1]	913	1,412	499	64.7	359	138.9
2008		873	1,281	408	68.2	368	110.8
2007		766	1,166	400	65.7	341	117.2
2006		656	1,096	440	59.9	321	137.0
2005	[1]	575	980	405	58.7	307	132.0
2004		509	927	418	54.9	298	140.3
2003		458	854	396	53.6	292	135.6
Judicial Retirement System (JRS)							
2012		$361	$582	$221	62.0%	$57	388.6%
2011		371	569	198	65.2	59	336.8
2010		372	560	188	66.5	61	307.8
2009	[1]	378	521	143	72.5	63	228.4
2008		374	495	121	75.6	61	199.9
2007		340	442	102	76.9	58	177.3
2006		302	424	122	71.3	54	224.1
2005	[1]	288	402	114	71.5	52	220.7
2004		285	366	81	78.0	48	168.8
2003		282	348	66	81.1	48	137.5

[1] Revised economic and demographic assumptions due to experience study.
Source: Virginia Retirement System.

In addition to the defined benefit programs described above, the Commonwealth also makes contributions to a defined contribution retirement plan for political appointees. Contributions for this plan are based on 10.4% of each appointee's salary. At June 30, 2013, this plan had 292 accounts and total assets of approximately $9,402,327.

OTHER LONG-TERM LIABILITIES

Employee Benefits Other than Pension Benefits

Employees of the Commonwealth accrue annual leave at a rate of four to nine hours semi-monthly, depending on their length of service. The maximum accumulation is dependent on years of service, but in no case may it exceed 42 days. All employees hired after January 1, 1999, are required to enroll in the Virginia Sickness and Disability Program ("VSDP"). Under the VSDP, employees receive a specified number of sick and personal leave hours, depending on their length of service, and any balances at the end of the calendar year revert. Individuals employed at January 1, 1999, had the option of converting to the VSDP or remaining in the original sick leave plan. If converting, the employee's sick leave balance could be used to purchase retirement credits or be converted to disability credits. If an employee opted to remain in the original sick leave program, sick leave accrues at a rate of five hours semimonthly. Employees who leave State service after a minimum of five years employment receive the lesser of 25 percent of the value of their disability credits or accumulated sick leave at the current earnings rate or $5,000. All employees leaving State service are paid for accrued annual leave up to the maximum calendar year limit at their current earnings rate.

The VSDP was established for all full-time, classified state employees, including state police officers, and other state law enforcement and correctional officers. Part-time, classified state employees who work at least 20 hours a week on a salaried basis and who accrue leave are also covered. After a seven calendar-day waiting period following the first incident of disability, the VSDP provides short-term disability benefits from 60% to 100% of compensation up to a maximum of 125 work days. After a 180 calendar day waiting period, eligible employees receive long-term disability benefits equal to 60% of compensation until they return to work, until age 65 (age 60 for state police officers and other state law enforcement and correctional officers), or until death. Eligibility periods for non-work related disability coverage and certain income replacement levels apply for employees hired on or after July 1, 2009.

In addition to providing pension benefits, the Commonwealth provides life insurance for active and retired employees and a retiree health insurance credit to offset a portion of the cost of health insurance premiums for qualifying state retirees under VRS, SPORS, JRS and VaLORS. The estimated costs of these benefits are funded over the working lives of the employees through employer contributions and investment income.

Self-Insurance

The Commonwealth provides several types of self-insurance for the benefit of state agencies and institutions. The Department of the Treasury, Division of Risk Management, administers self-insurance programs for general (tort) liability, medical malpractice and automobile liability. The Department of Human Resource Management administers the state employee health care self-insurance fund. At June 30, 2013, $718.3 million was reported as the combined estimated claims payable for self-insurance.

Medicaid Payable

The Department of Medical Assistance Services estimates, based on past experience, the total amount of claims that will be paid from the Medicaid program in the future which relate to services provided before year end. At June 30, 2013, the estimated liability related to normal operations totaled $685.9 million. Of this amount, $341.3 million is reflected in the General Fund and $344.6 million in the Federal Trust Special Revenue Fund.

For a more detailed explanation of Other Long-Term Liabilities, see "Notes to the Financial Statements" in The Report of the Comptroller for the Fiscal Year Ended June 30, 2012.

Other Post Employment Benefits (OPEB) – Financial Statement Reporting

The Commonwealth currently has five postemployment benefit programs other than the retirement plans described above ("OPEB Programs"). They are: Retiree Health Insurance Credit, Group Life Insurance, Virginia Sickness and Disability Plan, Pre-Medicare Retiree Health Insurance Program and Line of Duty Death and Health Insurance Benefit.

The Governmental Accounting Standards Board (GASB) issued accounting and reporting standards for other postemployment benefits. The VRS implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plan*, in their published financial statements for the fiscal year ended June 30, 2007. The Commonwealth, as an employer, implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* for the fiscal year ended June 30, 2008.

The Commonwealth's OPEB programs promise benefits to individuals who perform services for government today to be paid following the conclusion of their service. Historically, the Commonwealth and most other government employers financed other post employment benefit programs on a pay-as-you-go basis. The new reporting standards require expenses associated with these programs to be calculated and reported on an actuarial basis even though payment is deferred until after an individuals' service ends. As of June 30, 2013, the Commonwealth's estimated annual required OPEB contribution was $293.9 million and the estimated unfunded actuarial liabilities were $5.1 billion.

LABOR RELATIONS

It is against public policy for Commonwealth or local officials to recognize any labor union as a representative of public employees or to engage in collective bargaining with any labor union. Public employees of the Commonwealth do not have a legal right to strike, and no strike by employees of the Commonwealth has ever taken place. Any such employee who engages in any organized strike or willfully refuses to perform his duties shall, according to state law, be deemed to have terminated his employment. The General Assembly has rejected several recent legislative proposals to authorize public employees to engage in collective bargaining.

LITIGATION

The Commonwealth, its officials and employees are named as defendants in legal proceedings which occur in the normal course of governmental operations, some involving claims for substantial amounts. It is not possible at the present time to estimate the ultimate outcome or liability, if any, of the Commonwealth with respect to these lawsuits. However, any ultimate liability resulting from these suits is not expected to have a material adverse effect on the financial condition of the Commonwealth.

TOBACCO SETTLEMENT

The Commonwealth is a party to the national tobacco settlement (the "Settlement") between leading United States tobacco product manufacturers, 45 other states, the District of Columbia and 5 territories. The Settlement provides that tobacco companies pay a total of $206 billion to the participating states by the year 2025; significantly curb their advertising; and disband industry trade groups. The Commonwealth's share of the total amount to be paid to states through 2025 would be approximately $4.1 billion. The exact dollar amount is contingent upon certain adjustments as set forth in the Settlement. Under the Settlement, the tobacco companies will make three types of payments. Tobacco companies made five "initial payments" totaling approximately $13 billion over the six year period ending in January 2003. In addition, the tobacco companies make "annual payments" that began on April 15, 2000. Such payments will be paid annually into perpetuity and will be adjusted annually based on inflation and volume adjustments as determined by future sales of cigarettes. Approximately $8.6 billion of the Settlement has been deposited into a strategic contribution fund and allocated based on the states' contribution toward resolving the Settlement. The "strategic contribution payments" will be made in equal installments over a 10-year period beginning in 2008.

The Commonwealth created the Tobacco Indemnification and Community Revitalization Commission and Fund (the "TICR Commission" and "TICR Fund," respectively). Fifty percent of the amounts received by the Commonwealth from the Settlement is allocable to the TICR Commission (the "TICR Commission Allocation"). The TICR Commission distributes moneys in the TICR Fund to (i) provide payments to tobacco farmers as compensation for the elimination or decline in tobacco quotas and (ii) promote economic growth and development in tobacco dependent communities.

In 2002, the General Assembly authorized the securitization of the TICR Commission Allocation and created the Tobacco Settlement Financing Corporation (the "Corporation"). The Corporation was established to carry out the financing, purchasing, owning and managing of the portion of the TICR Commission Allocation that may be sold by the Commonwealth from time to time. On May 16, 2005, the Corporation issued $448,260,000 of its Tobacco Settlement Asset-Backed Bonds, Series 2005 (the "Series 2005 Bonds"). Net proceeds of the sale were deposited to the Tobacco Indemnification and Community Revitalization Endowment established pursuant to Section 3.1-1109.1 of the Code of Virginia to fund economic development projects throughout Southside and Southwest Virginia. On May 3, 2007, the Corporation issued $1,149,273,283 of its Tobacco Settlement Asset-Backed Bonds, Series 2007 (the "Series 2007 Bonds"). A portion of the proceeds of the Series 2007 Bonds were used to defease and refund the outstanding Series 2005 Bonds. The Series 2007 Bonds are backed solely by the TICR Commission Allocation. Tobacco Bonds issued by the Corporation are not obligations of the Commonwealth or any instrumentality other than the Corporation.

The Commonwealth also created the Virginia Foundation for Healthy Youth, and within it, the Virginia Tobacco Settlement Foundation to coordinate and finance efforts to restrict the use of tobacco products by minors through such means as educational and awareness programs on the health effects of tobacco use on minors and laws restricting the distribution of tobacco products to minors. Ten percent of the annual amount received by the Commonwealth from the Settlement is allocated to the Virginia Tobacco Settlement Fund (the "Foundation Allocation"). Chapter 345 of the 2007 Virginia Acts of Assembly authorizes the securitization of the Foundation Allocation, however no securitization of the Foundation Allocation has occurred. The remaining forty percent of unallocated Settlement payments are deposited to the General Fund.

The allocation and expenditures of the annual amounts received by the Commonwealth from the settlement are subject to appropriation by the General Assembly.

EFFECTS OF FEDERAL SEQUESTRATION ON VIRGINIA

The Federal budget reductions commonly referred to as "Sequestration" are expected to negatively impact Virginia disproportionately compared to other states. The steep reduction in federal military and domestic programs will acutely impact Virginia because of Virginia's robust community of defense contractors and other federal contractors. From 2001 to 2011, economists have observed that Virginia's economy grew more dependent on federal government spending, with about $58.9 billion being spent in Virginia in 2011. This is more than any other state and is the equivalent of 13.7 percent of Virginia's total economic output. The Center for Regional Analysis based at George Mason University estimates that federal spending drives 37 percent of the Northern Virginia economy, largely spending on defense contractors. The Hampton Roads economy is likewise heavily dependent on federal contracts. The White House has indicated that the Department of Defense will furlough approximately 90,000 civilian employees based in Virginia, which may reduce their salaries by approximately 20 percent this year. Economists predict that Virginia will continue to see net employment growth in 2013 and beyond, but at a pace slower than the national average because of Sequestration.

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APPENDIX C

COMMONWEALTH OF VIRGINIA

DEMOGRAPHIC AND ECONOMIC INFORMATION

APPENDIX C
TABLE OF CONTENTS

INTRODUCTION

The following demographic and economic information is provided by the Commonwealth of Virginia, its agencies, institutions and authorities (the "Commonwealth"). The data were compiled by the Department of the Treasury and were not independently verified; however, the Department of the Treasury has no reason to believe that such material is not true and correct.

DEMOGRAPHIC CHARACTERISTICS

General

The Commonwealth is divided into five distinct regions -- a coastal plain cut into peninsulas by four large tidal rivers, a piedmont plateau of rolling farms and woodlands, the Blue Ridge Mountains, the fertile Shenandoah Valley and the Appalachian plateau region extending over the southwest corner of the Commonwealth. Approximately one-third of all land in Virginia is used for farming and other agricultural services. This variety of terrain, the location of the Commonwealth on the Atlantic Seaboard at the southern extremity of the northeast population corridor and its close proximity to the nation's capital have had a significant influence on the development of the present economic structure of the Commonwealth.

According to the U.S Census Bureau, the Commonwealth's 2012 estimated population was 8,185,867 which was 2.61 percent of the United States total. Among the 50 states, it ranked twelfth in population. With 39,594 square miles of land area, its 2012 population density was 206.7 persons per square mile, compared with 88.7 persons per square mile for the United States.

Population Trends

From 2003 to 2012, Virginia's population increased 11 percent versus 8.1 percent for the nation. Population trends since 2003 for the Commonwealth and the United States are shown in the following table:

POPULATION TREND

	Virginia		United States	
Year	**Population**	**Increase Over Preceding Year**	**Population**	**Increase Over Preceding Year**
2003	7,373,694	- %	290,326,418	- %
2004	7,468,914	1.3	293,045,739	0.9
2005	7,563,887	1.3	295,753,151	0.9
2006	7,646,996	1.1	298,593,212	1.0
2007	7,719,749	1.0	301,579,895	1.0
2008	7,795,424	1.0	304,374,846	0.9
2009	7,882,590	1.1	307,006,550	0.9
2010	8,001,024	1.5	308,745,538	0.6
2011	8,104,384	1.3	311,587,816	0.9
2012	8,185,867	1.0	313,914,040	0.7

Source: 2011 and 2012 are US Bureau of the Census Annual Estimates as of December, 2012.

AGE DISTRIBUTION OF POPULATION

Compared to the nation, a higher proportion of the Commonwealth's population is in the adult/working ages of 20 through 64. A lower proportion of Virginia's population is comprised of persons 65 and older and of persons age 5 through 19. In 2012 the population of the Commonwealth and of the United States was distributed by age as follows:

AGE DISTRIBUTION
2012

Age	Virginia		United States	
Under 5 years	6.2	%	6.4	%
5 through 19 years	19.3		19.9	
20 through 44 years	34.5		33.6	
45 through 64 years	27.0		26.4	
65 years and older	13.0		13.7	
	100.0	%	100.0	%

Source: US Bureau of the Census Annual Estimates as of June, 2013.

GEOGRAPHIC DISTRIBUTION OF POPULATION

Like the nation as a whole, the Commonwealth has a high percentage of its citizens living in urban areas. Virtually all of the Commonwealth's population growth between 1950 and 1970 occurred in these areas. During the 1970s, however, non-metropolitan areas grew at a slightly faster rate than metropolitan areas. Since 1980, this trend has reversed with the metropolitan areas growing at three times the rate of the rest of the Commonwealth. Of the Commonwealth's population, 79 percent reside in eleven metropolitan statistical areas.

The largest metropolitan area is the Northern Virginia portion of the Washington-Arlington-Alexandria MSA. This is the fastest growing metropolitan area in the Commonwealth and had a 2012 population of 5,860,342 (including Washington and Maryland's population of 1,876,614). Northern Virginia has long been characterized by the large number of people employed in both civilian and military work with the federal government. It is also one of the nation's leading high-technology centers for computer software and telecommunications.

Spanning Hampton Roads is the Virginia Beach-Norfolk-Newport News MSA, which has large military installations and major port facilities. It had a 2012 population of 1,699,925 and is an important center of manufacturing and tourism. The Richmond MSA is the third largest metropolitan area with a 2012 population of 1, 231,980. The Richmond MSA is a leading center of diversified manufacturing activity including chemicals, tobacco, printing, paper, metals and machinery. Richmond is also the capital of the Commonwealth and its financial center which includes the Fifth District Federal Reserve Bank. The Roanoke MSA is the manufacturing, trade and transportation center for the western part of the Commonwealth. It had a 2012 population of 310,118. Also in the western part of the Commonwealth are the Lynchburg and Kingsport-Bristol-Bristol MSAs, which are both manufacturing centers, and had 2012 populations of 255,342 and 309,006, respectively. The Kingsport-Bristol-Bristol population includes Tennessee portions of the MSA. Located at the foot of the Blue Ridge Mountains is the Charlottesville MSA, a community with a 2012 population of 222,860 and home of the University of Virginia and significant manufacturing industries. The Danville MSA is located on the North Carolina border and had a 2012 population of 105,803.

In 2003, the federal Office of Management & Budget recognized three new Virginia MSAs -- Winchester, Harrisonburg and Blacksburg-Christiansburg-Radford. The Winchester MSA is located at the northernmost tip of Virginia and had a 2012 population of 130, 907. This fast-growing community has become increasingly attractive for both business and residential development due to its location bordering the Washington-Arlington-Alexandria MSA.

The Harrisonburg MSA, a community with a 2012 population of 128,372, is located in west central Virginia. It is a major retail, service and manufacturing center in the Shenandoah Valley. With a 2012 population of 178,933, the Blacksburg-Christiansburg-Radford MSA is located in the New River Valley in southwestern Virginia. The town of Blacksburg is the home of Virginia Polytechnic Institute & State University, Virginia's largest university and one of the nation's leading research institutions. 2012 population figures for all eleven Commonwealth MSAs are shown below:

METROPOLITAN STATISTICAL AREA
POPULATION AND PER CAPITA INCOME

MSA	2012 Population	Per Capita Income
Blacksburg-Christiansburg-Radford	178,933	$29,733
Charlottesville	222,860	44,350
Danville	105,803	31,297
Harrisonburg	128,372	31,324
Kingsport-Bristol-Bristol*	309,006	33,035
Lynchburg	255,342	33,664
Richmond	1,231,980	43,046
Roanoke	310,118	39,115
Virginia Beach-Norfolk-Newport News	1,699,925	41,976
Washington-Arlington-Alexandria**	5,860,342	59,345
Winchester	130,907	35,048

	2012 Population	2012 Per Capita Income
Commonwealth of Virginia	8,185,867	$47,082

*Kingsport-Bristol-Bristol MSA includes a portion of Tennessee.

** Washington-Arlington-Alexandria MSA includes Washington, DC and a portion of Maryland.

Source: Bureau of Economic Analysis ("BEA") and US Census Bureau as of April, 2013.

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Distributed throughout Virginia are smaller urban areas, most of which historically have been trade centers for the surrounding areas and continue to be so today. These communities have attracted many of the new manufacturing facilities locating in the Commonwealth in recent years. The remainder of the Commonwealth's population lives in rural areas, including most of the towns and the remaining smaller cities.

ECONOMIC FACTORS

Taxable Retail Sales

Over the past ten years, taxable retail sales in Virginia increased by $18.4 billion, or 24.5 percent. This growth is less than the average rate of inflation for this same period, which was 23.0 percent. The following table illustrates the changes in taxable retail sales for calendar years 2003 through 2012:

Calendar Year	Taxable Retail Sales	% Change
2003	$ 74,973,561,726	6.1
2004	81,291,117,472	8.4
2005	77,290,441,767	-4.9
2006	89,478,625,283	15.8
2007	92,043,248,947	2.9
2008	90,106,122,080	-2.1
2009	85,869,132,300	-4.7
2010	86,420,963,843	0.6
2011	89,070,341,371	3.1
2012	93,335,660,137	4.8

Source: Department of Taxation and the Weldon Cooper Center.

Personal Income

According to the U.S. Department of Commerce, Virginians received over $385 billion in estimated personal income in 2012. In 2012, the Commonwealth had per capita income of $47,082, ranking seventh among states in per capita personal income and greater than the national average of $42,693.

From 2003 to 2012, the Commonwealth's 3.4 percent average annual rate of growth in per capita income was more than the national average rate of growth of 3.2 percent. Virginia and United States per capita personal income are shown in the following table:

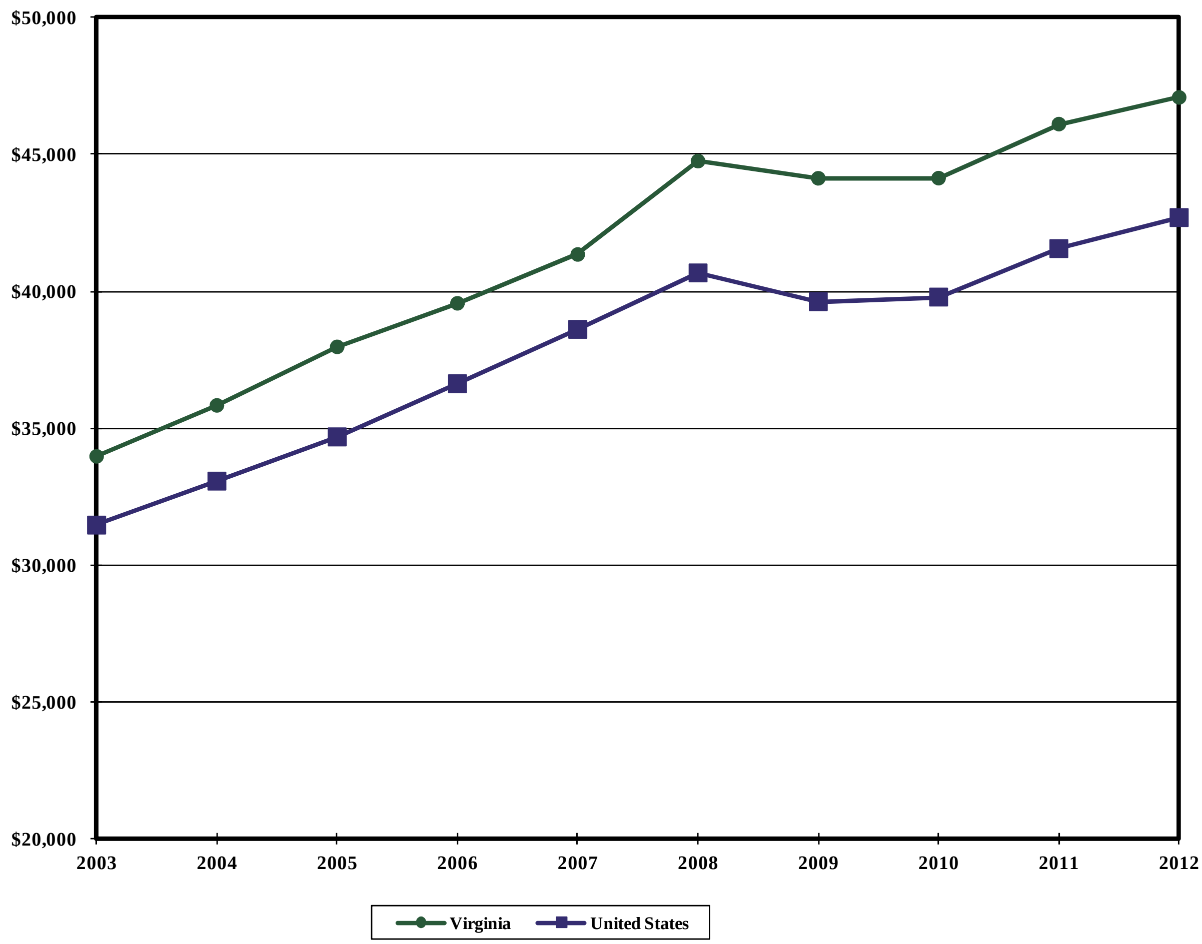
PERSONAL INCOME TRENDS

	Virginia		United States	
Year	Per Capita Personal Income	Increase Over Preceding Year	Per Capita Personal Income	Increase Over Preceding Year
2003	$ 35,033	- %	$ 32,295	- %
2004	36,869	5.2	33,909	5.0
2005	38,898	5.5	35,452	4.6
2006	41,218	6.0	37,725	6.4
2007	43,261	5.0	39,506	4.7
2008	44,691	3.3	40,947	3.6
2009	42,929	-3.9	38,637	-5.6
2010	44,134	2.8	39,791	3.0
2011	46,107	4.5	41,560	4.4
2012	47,082	2.1	42,693	2.7

Source: Bureau of Economic Analysis as of March 27, 2013.

Virginia and United States per capita personal income are shown in the following graph:

PERSONAL INCOME
TRENDS



In 2012, the sources of personal income in the Commonwealth and the comparable sources of personal income for the United States are shown in the table and pie chart:

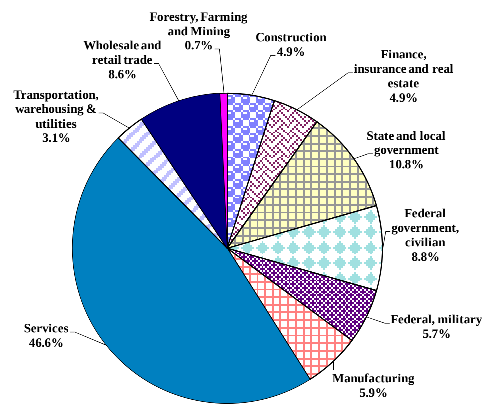
SOURCES OF PERSONAL INCOME
2012

	Virginia (in Millions)	Percentage of Personal Income Before Residence Adjustment: Virginia	Percentage of Personal Income Before Residence Adjustment: United States
Forestry, fisheries, related activities and other	$395	0.1 %	0.3 %
Construction	14,135	4.9	5.4
Farming	598	0.2	1.0
Finance, insurance and real estate	14,087	4.9	7.2
Government:			
State and local	30,878	10.8	11.9
Federal, civilian	25,323	8.8	3.4
Federal, military	16,468	5.7	1.9
Manufacturing	16,958	5.9	10.1
Mining	1,169	0.4	1.2
Services	133,697	46.6	42.1
Transportation, warehousing & utilities	8,823	3.1	4.2
Wholesale and retail trade	24,657	8.6	11.3
Subtotal	$287,188	100 %	100 %
Contributions for government social insurance	(27,653)		
Plus:			
Dividends, interest and rent	61,049		
Transfer payments	52,391		
Personal income before residence adjustment	$372,975		
Residence adjustment (1)	12,429		
Total Personal Income	$385,404		

(1) Total personal income is reported by place of residence. However, income by industry is shown by place of work. Thus, this adjustment was necessary to account for income earned by Virginia residents who worked outside the Commonwealth. These were primarily federal government employees who lived in Northern Virginia but worked in Washington, D.C.

Source: Bureau of Economic Analysis as of March 27, 2013.

DISTRIBUTION OF VIRGINIA NONAGRICULTURAL SOURCES OF GROSS PERSONAL INCOME BY MAJOR INDUSTRY
2012



Residential Construction

Residential construction was concentrated in three of the state's eleven MSAs. The Virginia portions of the Washington-Arlington-Alexandria MSA, the Virginia Beach-Norfolk-Newport News MSA, and the Richmond MSA accounted for approximately 86 percent of the state total.

AGGREGATE VALUE OF AND BUILDING PERMITS ISSUED FOR RESIDENTIAL CONSTRUCTION IN VIRGINIA[(1)]

Year	Value of Construction in Current Dollars (in millions)	Percent Change from Preceding Year	Number of Permits Issued	Percent Change from Preceding Year
2003	$ 6,863.50	- %	55,996	- %
2004	8,050.30	17.3	62,579	11.76
2005	9,261.00	15.0	62,765	0.30
2006	7,266.80	-21.5	45,360	-27.73
2007	6,330.12	-12.9	38,319	-15.52
2008	4,106.78	-35.1	27,704	-27.70
2009	3,196.75	-22.2	21,455	-22.56
2010	3,311.10	3.6	21,404	-0.24
2011	3,399.52	2.7	23,271	8.72
2012	4,026.66	18.4	27,275	17.21

[(1)] Excludes mobile homes.

Source: *University of Virginia, Weldon Cooper Center for Public Service.*

Assessed Value of Locally Taxed Property

The Constitution of Virginia provides that real estate, coal and other mineral lands and tangible personal property, except the rolling stock of public service corporations, are reserved for taxation by cities, counties, towns and other local government entities. Shown below is the assessed value of real estate and personal property as determined by the various taxing jurisdictions and the combined value of real estate and personal property for public utilities as determined by the State Corporation Commission. Cities and counties are required by law to assess real estate at 100 percent of market value.

ASSESSED VALUES OF REAL ESTATE AND TANGIBLE PERSONAL PROPERTY

Tax Year Ended 31-Dec	Real Estate	Public Service Corporation	Personal Property	Total
2001	$ 441,708,209,690	$ 26,999,337,787	$ 55,202,531,447	$ 523,910,078,924
2002	495,156,975,902	29,239,165,763	57,949,553,914	582,345,695,579
2003	551,789,426,873	27,101,230,213	59,935,871,109	638,826,528,195
2004	617,559,007,920	27,379,304,201	61,349,533,127	706,287,845,248
2005	727,049,755,759	29,539,242,718	66,156,293,731	822,745,292,208
2006	900,079,538,628	28,843,374,447	69,815,543,837	998,738,456,912
2007	982,816,278,651	29,126,367,531	70,911,848,399	1,082,854,494,581
2008	1,023,386,154,546	31,749,628,737	71,398,689,437	1,126,534,472,720
2009	988,853,631,404	34,705,834,232	68,225,665,097	1,091,785,130,733
2010	942,044,609,913	37,137,075,381	70,049,322,677	1,049,231,007,972
2011	949,019,441,456	38,455,832,384	71,600,491,421	1,059,075,765,261

Source: Department of Taxation.

Employment

As of December 2012, up to 4.2 million residents of the Commonwealth were in the civilian labor force, which includes agricultural and nonagricultural employment, the unemployed, the self-employed and residents who commute to jobs in other states.

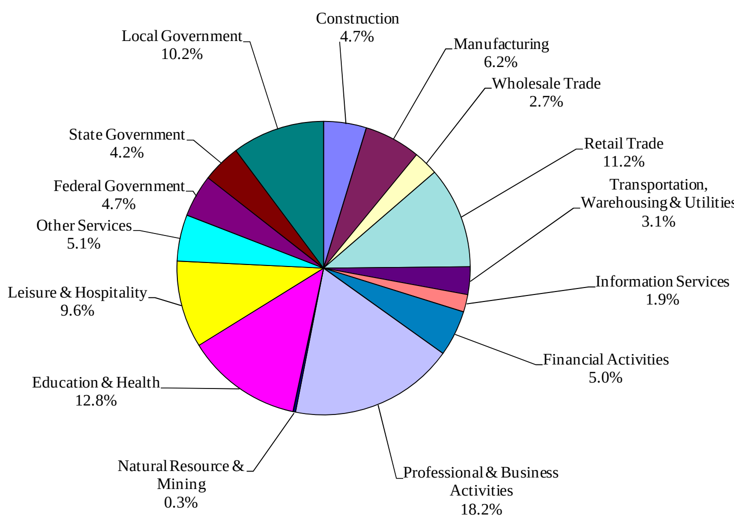
The following table indicates the distribution by category of nonagricultural employment in the Commonwealth and the comparative distribution in the United States.

DISTRIBUTION OF NONAGRICULTURAL EMPLOYMENT
2012

	Virginia	United States
Natural Resource & Mining	0.3 %	0.6 %
Construction	4.7	4.2
Manufacturing	6.2	8.9
Wholesale Trade	2.7	4.2
Retail Trade	11.2	11.1
Transportation, Warehousing & Utilities	3.1	3.7
Information	1.9	2.0
Financial Activities	5.0	5.8
Professional & Business Activities	18.2	13.5
Education & Health	12.8	15.3
Leisure & Hospitality	9.6	10.3
Other Services	5.1	4.0
Public Administration		
Federal Government	4.7	2.1
State Government	4.2	3.8
Local Government	10.2	10.5
	100.0 %	100.0 %

Source: U.S. Department of Labor, Bureau of Labor Statistics; and Virginia Employment Commission Report.

DISTRIBUTION OF VIRGINIA NONAGRICULTURAL EMPLOYMENT BY MAJOR INDUSTRY
2012



NONAGRICULTURAL EMPLOYMENT TRENDS

	2008	2009	2010	2011	2012	% Change 2008-2012
Natural Resource & Mining	11,100	11,100	8,871	9,213	10,900	**-1.8** %
Construction	222,900	194,900	184,474	177,832	175,900	**-21.1**
Manufacturing	264,800	236,100	229,656	231,573	232,100	**-12.3**
Wholesale Trade	119,465	115,845	111,469	112,928	101,073	**-15.4**
Retail Trade	420,635	409,055	410,027	414,730	416,923	**-0.9**
Transportation & Warehousing	119,000	117,500	109,547	109,366	113,704	**-4.5**
Information Services	87,400	78,700	75,879	74,604	71,800	**-17.8**
Financial Activities	188,700	186,300	171,688	174,619	188,200	**-0.3**
Professional & Business Activities	657,000	637,900	661,325	671,411	678,100	**3.2**
Education & Health	439,400	458,100	439,469	451,642	477,900	**8.8**
Leisure & Hospitality	349,300	333,000	336,654	344,660	357,500	**2.3**
Other Services	188,800	179,900	130,120	132,322	190,400	**0.8**
Public Administration						
Federal Government	159,900	169,700	174,225	174,022	174,100	**8.9**
State Government	154,000	160,400	140,928	146,391	158,100	**2.7**
Local Government	380,500	385,800	378,150	379,428	380,300	**-0.1**
Total	**3,762,900**	**3,674,300**	**3,562,482**	**3,604,741**	**3,727,000**	**-1.0** %

Source: Virginia Employment Commission.

During 2012, employment in the Transportation and Warehousing sector increased by 4% percent from 109,366 in 2011 to 113,704. Construction employment decreased during the year 1.1 percent to 175,900 from the 2011 average of 177,832, while Education and Health increased 5.8% in 2012. Retail Trade employment increased by 0.5% from 414,730 in 2011 to 416,923 in 2012.

The Leisure and Hospitality sector has shown recent growth, increasing by 3.7 percent in 2012. Employment growth also occurred in the Other Services sector during the year, growing by 43.9 percent from 132,322 to 190,400. Total Public Administration increased by 12,659 or 1.8 percent in 2012.

Largest Employers

The ten largest private and public sector employers in the Commonwealth, each of which employed 1,000 or more persons, are shown below.

TOP TEN PRIVATE SECTOR EMPLOYERS 2013

Rank	Name	Industry
1	Wal Mart	General Merchandise Stores
2	Huntington Ingalls/Newport News Shipbuilding	Transportation Equipment Manufacturing
3	Sentara Healthcare	Hospitals
4	Food Lion	Food and Beverage Stores
5	HCA Virginia Health System	Hospitals
6	Capital One Bank	Credit Intermediation and Related Activities
7	Inova Fairfax Hospital	Hospitals
8	Target Corp.	General Merchandise Stores
9	Booz, Allen and Hamilton	Professional, Scientific, and Technical Services
10	Science Applications International Corporation	Professional, Scientific, and Technical Services

Source: Virginia Employment Commission Community Profile as of June, 2013

TOP TEN PUBLIC SECTOR EMPLOYERS 2013

Rank	Name	Industry
1	U.S. Department of Defense	National Security and International Affairs
2	Fairfax County Public Schools	Educational Services
3	U.S. Postal Service	Postal Service
4	County of Fairfax	Executive, Legislative, and Other General Government Support
5	University of Virginia /Blue Ridge Hospital	Hospitals
6	U.S. Department of Homeland Defense	Administration of Security
7	Prince William County Schools	Educational Services
8	City of Virginia Beach Schools	Educational Services
9	Loudoun County Schools	Educational Services
10	Virginia Commonwealth University	Higher Education

Source: Virginia Employment Commission Community Profile as of June, 2013

Unemployment

The Commonwealth is one of 22 states with a Right-to-Work Law and has a record of good labor-management relations. The Commonwealth's favorable business climate is reflected in the relatively small number of strikes and other work stoppages it experiences.

The Commonwealth is one of the least unionized of the more industrialized states. Three major reasons for this situation are the Right-to-Work Law; the importance of manufacturing industries such as textiles, apparel, electric and electronic equipment and lumber which are not highly unionized in the Commonwealth; and the importance of federal civilian and military employment. Typically the percentage of nonagricultural employees belonging to unions in the Commonwealth has been approximately half the U.S. average.

As of the fourth quarter 2012, Virginia had modest job growth in nine of the 10 metropolitan statistical areas reported on by the Virginia Employment Commission. Those areas include Blacksburg-Christiansburg, Danville, Harrisonburg, Lynchburg, Northern Virginia, Richmond, Roanoke, Virginia Beach-Norfolk-Newport News, and Winchester. The Charlottesville metropolitan area experienced the largest job loss, down 1,500 jobs or 1.4 percent of nonfarm employment.

The following table shows the size of the Commonwealth's total civilian labor force from 2003 through 2012, the percentage unemployed during this period and the comparable national unemployment rate.

UNEMPLOYMENT TRENDS

Year	Virginia's Civilian Labor Force	Unemployment in Virginia	Unemployment in United States
2003	3,802,819	4.10	6.00
2004	3,857,950	3.70	5.50
2005	3,921,799	3.50	5.10
2006	3,983,717	3.00	4.60
2007	4,048,996	3.00	4.60
2008	4,188,397	4.00	5.80
2009	4,179,810	6.80	9.30
2010	4,185,321	6.90	9.60
2011	4,347,644	6.10	8.50
2012	4,209,532	5.90	8.10

Source: Bureau of Labor Statistics as of June, 2013

Other Economic Factors [1]

Utilities: Adequate electric power is available throughout the Commonwealth mainly through the investor-owned utilities of Dominion Virginia Power (Dominion), Appalachian Power (APCO), Allegheny Power, and Kentucky Utilities. In addition, 13 electric cooperatives distribute power in rural districts and 16 municipalities have their own distribution systems with power purchased primarily from the previously mentioned companies. The electric utilities serving the Commonwealth are interconnected with neighboring utilities, both within and outside of the Commonwealth, for reliability of service.

Dominion completed construction of a $1.8 billion clean-coal power station in Wise County, Virginia. The 585-megawatt Virginia City Hybrid Energy Center uses advanced technology designed to reduce emissions and protect the environment. The power station became operational in July of 2012.

Dominion is also taking steps toward constructing a third nuclear reactor at its North Anna Power Station in Louisa County. Dominion's application is currently under review by the Nuclear Regulatory Commission as well as the State Corporation Commission. Dominion Virginia Power announced on May 7, 2010, that it has selected Mitsubishi Heavy Industries' Advanced Pressurized Water Reactor (US-APWR) technology for the potential third nuclear unit at North Anna. Dominion has not officially committed to build the new unit, but wants to maintain the option to do so to meet projected demand for electricity in Virginia in the next decade.

In 2007 the General Assembly passed legislation to return Virginia to a cost-of-service regulation overseen by the State Corporation Commission (SCC). These actions reduce the possibility of "rate shock" by limiting the fuel adjustment to no more than 4 percent in residential rates. With few modifications, the SCC will have the powers it historically exercised before the deregulation process began. Virginia has also updated The Virginia Energy Plan which assesses Virginia's energy situation by examining the state's primary energy resources: electricity, coal, nuclear, natural gas, renewables and petroleum.

In addition to available electric power, the Commonwealth is also served by four major interstate natural gas transmission companies: Nisource Transmission (Columbia Gas Transmission), Dominion Transmission, Williams Pipeline (formerly Transcontinental Gas Pipe Line Corporation (Transco)), and Spectra Gas Transmission (formerly Eastern Tennessee Natural Gas).

With few exceptions, municipalities and several highly urbanized counties own their own waterworks systems. In some instances, the system of a municipality serves nearby communities and suburban areas. Some federal installations and many industrial plants have their own water supplies. Larger municipalities usually depend on surface water supplemented by ground water. Of Virginia's 2,500 public water supply systems, 2,300 use ground water. More than 6.1 million Virginians are served by public water systems and of these citizens, 95% receive fluoridated water.

All cities, many towns, and some counties have their own sewage collection systems. Existing or planned facilities provide wastewater treatment which meets, or will meet established federal and state water quality standards.

Transportation: The Commonwealth has the nation's third largest system of state-maintained highways totaling approximately 58,000 miles of interstate, primary and secondary roads. The system includes approximately 20,000 bridges and culverts. In addition, independent cities and towns maintain about 11,500 miles of local streets and receive funds from the Transportation Board for such purpose. More than a dozen railroad companies and services, including nine freight railroads, operate over 3,500 miles of railway in Virginia. The Commonwealth is a junction point between major north-south and east-west rail lines. CSX Corporation Railroad has offices in Richmond and Norfolk Southern Corporation is headquartered in Norfolk. Rail freight service is provided by these two Class I railroads, along with nine local railroads, and two switching companies.

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[1] Information contained in this section was compiled by Virginia state agencies and entities, including the Virginia Economic Development Partnership. It also contains data recently published by Federal agencies and entities.

Virginia is served by 14 commercial airports (including those just across the state line at Bluefield, West Virginia; Blountville, Tennessee; Greensboro and Raleigh-Durham, North Carolina; and Baltimore, Maryland). Scheduled commercial airline service is provided to over 145 non-stop destinations around the world. Dulles International and Ronald Reagan Washington National Airports offer daily international non-stop flights to approximately 40 destinations. The commercial airports are supplemented by 58 general aviation airports licensed for public use. Washington Dulles International has been one of the fastest growing airports in the country. Ronald Reagan Washington National Airport, located in Arlington, historically has been one of the world's busiest airports.

Rail is a critical component for the long-haul movement of containers to and from the marine terminals. In September 2010, Norfolk Southern completed its Heartland Corridor rail project, a direct double-stack container route between the marine terminals and the Midwest markets. This project is a public-private partnership between Norfolk Southern and West Virginia, Virginia, Ohio, and the Federal Highway Administration to create the shortest, fastest route for double-stacked container trains moving between the Port of Virginia and the Midwest. Containers from the marine terminals can reach Columbus, Ohio in one day, and Chicago, Illinois in two days. National Gateway, a similar double-stack corridor initiative by CSX was announced in October of 2011. The public private partnership will increase freight capacity between the East Coast and the Midwest that will link the Port of Virginia to the railroad's intermodal ramp in Northwest Ohio. The project is expected to be completed in 2015. The Commonwealth Railway is a 19-mile short line freight railroad serving the Virginia Port Authority and interchanging with CSX Transportation and Norfolk Southern.

Port Facilities: The Port of Virginia is largely responsible for the Commonwealth's strong ties with international commerce. At 50 feet, the Port of Virginia offers the deepest shipping channels on the U.S. East Coast, and is serviced by more than 30 international steamship lines. Norfolk Southern and CSX offer on-dock, double stack intermodal service to key inland markets in the Midwest, Ohio Valley and Southeast.

Norfolk International Terminals (NIT) is the Port of Virginia's largest terminal, and has fourteen of the biggest, most efficient cranes in the world. The main channel leading to the terminal is 50 feet deep and the Virginia Port Authority has the authorization to dredge to 55 feet when needed. Slightly down the river from NIT is the second largest terminal, Portsmouth Marine Terminal (PMT). PMT has 3,540 feet of wharf, 3 berths, and 6 cranes, and has direct access to both CSX and Norfolk Southern railways, and will soon connect to the Commonwealth Railway. Located in Newport News, Virginia, the Newport News Marine Terminal (NNMT) provides 42,720 feet of direct cargo loading on and off ships to and from the CSX break-bulk rail service, and 3,480 feet of total pier space serviced by four cranes, covered storage, container storage, and accessibility from 3 major Virginia roadways. In 2010, the Virginia Port Authority executed a 20-year lease with APM Terminals North America, allowing VPA to assume operations at its facility in Portsmouth, Virginia. The 576 acre terminal is recognized as the most technologically advanced marine cargo facility in the Americas, and provides on-site rail with links to Norfolk Southern and CSX. APM has a current capacity of 1.4 million twenty-foot equivalent units (TEUs) annually, with room for further expansion.

The Virginia Inland Port (VIP) in Front Royal is the second smallest of the port facilities. The intermodal facility is serviced by Norfolk Southern, and accessible via Interstates 66 and 81. VIP provides access to markets in Washington, D.C., Maryland, Delaware, West Virginia, Ohio, Pennsylvania, and New York. In 2011, the Virginia Port Authority entered into a five year lease with the Port of Richmond. The Richmond facility allows for barge service between the NIT and APM terminals in Hampton Roads and Richmond, and serves waterborne, rail and truck shippers in the Mid-Atlantic States.

In 2012, the Port of Virginia and the U.S. Army Corps of Engineers signed a partnership agreement for the Craney Island Eastward Expansion project. This dual-purpose project will extend the life of Craney Island as a dredged material management area and also provide land for the construction of a new marine terminal. With 522 acres, Craney Island Marine Terminal is expected to provide an 8,400 foot-long berth, 15 container cranes, rail access to Norfolk Southern and CSX lines, and a capacity of 5 million TEUs. The eastward expansion is currently under construction.

Telecommunications: Virginia is one of the most connected states in the country with more than 18.5 million access lines, over 7.2 million wireless telephone subscribers and 3.7 million high-speed lines. Mobile services are provided to the Commonwealth's communities by ten mobile telephone facilities-based carriers. More than 97 percent of households in the Commonwealth have telephone service. The largest exchange carrier in Virginia is Verizon. There are a multitude of competitive providers with large scale national and international backbone networks in operation in the Commonwealth, including Level (3) Communications, AT&T, Verizon Business, Sprint, COX Business Services and many regional network providers.

Customers in the Commonwealth have access to a full range of high quality, technologically advanced communication services. Virtually all major cities and towns are linked by fiber optic lines crisscrossing the Commonwealth, which, in turn, are tied into recently constructed national fiber optic networks.

Nationally renowned as a model for rural economic development, the Mid-Atlantic Broadband Cooperative's ("MBC") world-class fiber-optic backbone network began providing services in 2006 and continues to expand. Through this initiative, 800 miles of new 144 strand advanced fiber optic cable have been installed in Southside Virginia connecting 4 cities, 20 counties, and more than 100 Virginia business, industrial and technology parks (called GigaParks). This cable network provides opportunities for the region to connect directly with major Tier 1 peering and carrier collocation centers. The MBC, backed by grants from the U.S. Department of Commerce's Economic Development Administration and the Virginia Tobacco Indemnification and Community Revitalization Commission, will continually expand as other communities want to be included and as funds are available to fulfill the requests. Three major MBC projects are currently underway that will increase the network's fiber route miles from 800 to 1,500 by late 2013.

Efforts are underway to further expand and enhance Southwest Virginia's technological capabilities. Grants from the Virginia Tobacco Indemnification and Community Revitalization Commission and the Virginia Coalfield Economic Development Authority will enable electronic upgrades as well as last-mile connections. Broadband infrastructure along Virginia's Interstate 81 is currently undergoing expansion work that will create a second connection between the Bristol Virginia Utilities Authority ("BVU") and MBC. Specifically, an additional 49 miles of BVU's OptiNet fiber-optic backbone from Abingdon up I-81 to Virginia Route 16 from Marion into Grayson County will link up with Citizens Telephone. When complete, the route will connect existing facilities owned by Citizens Telephone in Independence, VA, to BVU's facilities in Marion and west along the Virginia Route 11 corridor. BVU OptiNet is recognized as the first municipal broadband network in the United States to provide triple-play services over an all-fiber-optic network. OptiNet was launched in Bristol, Virginia in 2003 and has since grown to encompass more than 850 miles across eight counties in Southwest Virginia.

Research and Development: The Commonwealth is home to many internationally recognized research and development (R&D) facilities. Federally funded R&D facilities, coupled with the research from Virginia universities, provide Virginia businesses access to leading researchers and technologies. Virginia is home to more than 210 private sector R&D operations, 11 federally funded R&D Centers, and 20 FLC Laboratories such as the Homeland Security Institute, NASA Langley Research Center, and the Thomas Jefferson National Accelerator Facility. Twelve unique university research parks across the state offer private companies' opportunities for co-location and cooperative relationships with Virginia universities, federal labs and other research consortia.

Philip Morris completed a research and development center at the Virginia Biotechnology Park in downtown Richmond. The Park features more than 1.2 million square feet of space in nine buildings, and employs more than 2,000 scientists, researchers, engineers and technicians in fields that include drug development, medical diagnostics, biomedical engineering, forensics and environmental analysis.

The NASA Langley Research Center and the National Institute of Aerospace Associates (NIAA) have joined forces to create the National Institute of Aerospace (NIA) for cutting-edge aerospace and atmospheric sciences research and graduate education. The NIA facility is housed on a new five building research and education campus in Hampton and operates through a consortium of research universities including Virginia Tech, University of Virginia, Old Dominion University, The College of William and Mary, Georgia Tech, University of Maryland and North Carolina State University.

SRI International, a world-class, nonprofit research institute based in Menlo Park, California, established a Center for Advanced Drug Research in the Shenandoah Valley. The Center is partnered with James Madison University and other Virginia universities to focus on advancing state-of-the-art drug research. SRI opened the Center for Advanced Drug Research ("CADRE") at the Shenandoah Valley facility in 2009. CADRE focuses on improving the productivity of the pharmaceutical industry. Overtime, SRI Shenandoah Valley plans to add high technology programs in areas such as security and defense, microscience, energy and computing technology.

The Commonwealth Center for Advanced Manufacturing ("CCAM") located in Prince George County, Virginia, is an applied research center that bridges the gap between fundamental research typically performed at universities and product development routinely performed by companies. The only collaboration of its kind in North America, CCAM accelerates the transition of research innovation from the laboratory to commercial use.

Business Climate: Virginia is ranked highly in three of the most comprehensive and impartial independent studies to date evaluating America's top states for business: Forbes.com, Pollina Corporate Real Estate, and CNBC.

In 2012 Virginia again ranked second in the country in the Forbes.com *"Best States for Business"*. Virginia took the top spot in 2006, 2007, 2008, and 2009 and ranked second overall in 2010 and 2011. The review examines multiple objective measurements, including business cost, regulatory climate, quality of the workforce, and economic growth. Forbes.com is the official Internet site of the Forbes family of business publications. According to Forbes.com, the Commonwealth has a strong, educated labor force and a pro-business regulatory climate.

In 2012, Pollina Corporate Real Estate, a full-service brokerage and consulting firm representing corporations in real estate matters on a national and international basis, ranked Virginia as America's second most business-friendly state in their annual independent study titled, *Pollina Corporate Top 10 Pro-Business States for 2012*. The study evaluates and ranks states based on 32 factors including taxes, human resources, right-to-work legislation, energy costs, infrastructure spending, worker compensation legislation, jobs lost or gained, economic incentive programs and state economic development efforts. Virginia demonstrated strength particularly in the areas of taxes, education, and infrastructure, combined with excellent incentive programs and an efficient and effective state economic development department. The Commonwealth ranked first in the Pollina study in 2007, 2009, 2010 and 2011 while ranking second in 2006 and third in 2008.

CNBC recently ranked Virginia as America's fifth best state for business in 2013. CNBC had ranked Virginia as America's third best state for business in 2012. The network evaluated each state on 43 different measures of competitiveness in 10 categories: cost of doing business, workforce, quality of life, economy, transportation and infrastructure, technology and innovation, education, business friendliness, access to capital, and cost of living. CNBC commends Virginia for its strategic location, friendly business climate, and diverse economy. Since the rankings began, Virginia has remained one the top five states for business, claiming the number one spot in 2007, 2009 and 2011 while receiving second in 2008 and 2010.

The Rolls-Royce Crosspointe Campus, located in Prince George County, is the largest Rolls-Royce North America ("Rolls-Royce,") site by area in North America and provides ample space to accommodate suppliers' and partners' co-location, as well as future expansion. The company's 180,000 square foot rotatives facility opened in May 2011. In 2012 Rolls-Royce announced plans to expand by adding a second advanced manufacturing facility at its Crosspointe Campus. The new 90,000 square foot Advanced Airfoil Machine facility is expected to be completed early in 2014. Rolls-Royce, the University of Virginia and Virginia Tech have established the Commonwealth Center for Aerospace Propulsion Systems ("CCAPS"), which brings together best-in-class research disciplines from both universities to collaborate on specific research activities that are critical to aerospace propulsion at Rolls-Royce. Rolls-Royce is an active member of CCAM.

In December of 2011, Amazon.com, Inc., announced that it would open two distribution centers in Chesterfield and Dinwiddie counties in the fall of 2012. The Seattle-based company opened a one million-square-foot fulfillment center in eastern Chesterfield, which ships smaller products and employs approximately 1,000 people. The Dinwiddie fulfillment center is also one million square feet, employs approximately 350 people, and ships larger products.

MeadWestvaco Corporation (“MWV”) has made a series of investments across the Commonwealth, including the construction of a new $285 million state-of-the-art biomass boiler at its mill in Alleghany County, and the development of a state-of–the-art plant in Henrico County in 2012. The MWV’s Center for Packaging Innovation develops and tests new products and technologies as part of the company’s effort to find creative packaging solutions for customers across the globe.

Unilever United States, Inc., announced in March 2013 that it will invest $96.2 million to expand and upgrade its Lipton Tea manufacturing plant in the City of Suffolk. The facility is the largest tea production facility in the US, employs nearly 300 people in Hampton Roads, and has been in existence for nearly 60 years.

On January 30, 2013, Microsoft Corporation announced that it would invest $348 million to expand its modular data center in Mecklenburg County. This expansion will allow Microsoft to meet the growing demand for consumers and businesses for cloud services in the region. The existing center was built in 2010 and involved 50 jobs. The new expansion will accommodate 30 additional new jobs.

In May 2013, HP Hood, one of the largest branded dairy operators in the United States, announced that it will invest $84.6 million in its Frederick County plant. The 75 new jobs associated with this investment will bring total employment at the plant to approximately 500.

Local Government: As of June 30, 2012, Virginia had 95 counties, 39 incorporated cities and 37 incorporated towns. Cities and counties are units of general government that have traditionally provided all services not provided by the Commonwealth. The Commonwealth is unique in that cities and counties are independent and their land areas do not overlap. Cities and counties each levy and collect their own taxes and provide their own services. Towns, on the other hand, are a part of the counties in which they are located. Towns levy and collect taxes for town purposes, but their residents are also subject to county taxes.

The largest expenditure by local governments in the Commonwealth is for public elementary and secondary education. Each county and city in the Commonwealth, with few exceptions, constitutes a separate school district. Counties, cities and towns typically also provide such services as police and fire protection, water and sewer services and recreational facilities.

According to figures prepared by the Auditor of Public Accounts of Virginia, the total outstanding debt of counties in the Commonwealth was approximately $15.7 billion as of June 30, 2012, of which over 50 percent was borrowed for public school construction. The outstanding debt for cities at that date was computed by the Auditor of Public Accounts to be approximately $10.9 billion. The outstanding debt for towns, as of June 30, 2012, was calculated by the Auditor of Public Accounts to be approximately $638.4 million.

Education: The Constitution of Virginia vests the supervision of public elementary and secondary schools in local school boards. The State Board of Education is, however, required to prescribe standards of quality and has prescribed minimum competency tests for high school graduation.

The costs of elementary and secondary education are apportioned between the Commonwealth and the localities in the manner prescribed by the General Assembly. In the fiscal year ended June 30, 2012, the Commonwealth paid $5.4 billion of the approximately $13.7 billion cost of operating local schools. Of the remainder, $1.4 billion was paid by the federal government and $6.9 billion was paid from local sources.

In the 2012-13 academic year, 409,075 students were enrolled in the Commonwealth's 39 public colleges, community colleges and universities. Of these students, 194,435 attended 23 community colleges on 40 campuses within the Virginia Community College System. A total of 1,264,764 students attended public elementary and secondary schools. The following table illustrates enrollment levels for all educational levels for the last 10 academic years.

ENROLLMENT FOR PUBLIC AND PRIVATE INSTITUTIONS OF HIGHER EDUCATION AND PUBLIC PRIMARY AND SECONDARY SCHOOLS

Academic	Higher Education			Public Primary and
Year	Public	Private	Total	Secondary
2003-04	342,151	53,557	395,708	1,190,977
2004-05	343,550	58,395	401,945	1,205,701
2005-06	349,377	65,951	415,328	1,213,616
2006-07	357,857	70,785	428,642	1,220,440
2007-08	370,598	79,073	449,671	1,230,857
2008-09	383,459	86,959	470,418	1,235,064
2009-10	401,352	100,514	501,866	1,244,873
2010-11	409,277	110,495	519,772	1,251,949
2011-12	413,019	122,275	535,294	1,258,520
2012-13	409,075	129,926	539,001	1,264,764

Source: State Council for Higher Education in Virginia, Virginia Department of Education.

Natural Resources: Virginia's five physiographic provinces are underlaid by rocks of different ages, kinds, and character. Consequently, the state has a wide variety of mineral resources. Today, the value of mineral production in Virginia is nearly $3.3 billion. In terms of value, the most important commodity is bituminous coal. Seven counties in the Appalachian Plateau region constitute the Southwest Virginia Coal Field. According to *Virginia Economic Indicators* published by the Virginia Employment Commission (Vol. 43, No. 4), the mining industry is expected to follow energy markets. It is predicted that utilities will use more coal when oil prices are up**.**

Virginia's forests provide more than $27.5 billion in annual economic benefits to the Commonwealth. More than $23.4 billion is generated by the forest products industry with $2.4 billion in forest related recreational spending. The forest industry provides employment for more than 144,000 Virginians, according to a 2010 state of the forest annual report. In addition, the forestland in Virginia provides citizens with valuable ecological services, including protection of water and air quality and habitat for many plant and animal species.

Virginia's geographic location contributes to the success of its seafood industry. Its ports are rarely, if ever, closed in the winter. Its catch is widely diversified, preventing dependence on any one species. Among the 50 commercially valuable seafood species harvested from some 620,000 acres of water are sea scallops, clams, oysters, blue crabs, summer flounder, striped bass, croaker and spot. The Virginia Institute of Marine Science has reported the annual economic impact of Virginia's seafood industry to be over $500 million.

Agriculture: The agricultural industry has an economic impact of $55 billion annually and provides more than 357,000 jobs in the Commonwealth. Every job in agriculture and forestry supports 1.5 jobs elsewhere in the Virginia economy.

Production agriculture employs nearly 60,000 farmers and workers in Virginia and generates approximately $2.9 billion in total output. Value-added industries, those that depend on farm commodities, employ an additional 76,000 workers and generate $26 billion in total industrial output. Agriculture-related industries contribute an additional 221,000 jobs and nearly $26 billion in total output.

Tourism: Another of Virginia's most important economic assets is the travel and tourism industry. Tourism's economic contribution to Virginia in 2012 increased to $21.2 billion, a 4 percent increase over 2011. Approximately 210,000 Virginia jobs were directly supported by travel spending in 2012, including employment in such travel-related businesses as lodging establishments, restaurants, museums, amusement parks, retail stores and gasoline service stations. Tourism is also a significant source of government revenues and was responsible for $2.7 billion in combined state and local tax revenues in 2012.

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APPENDIX D

FORMS OF BOND COUNSEL OPINION

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__________ __, 2013

Virginia College Building Authority
Richmond, Virginia

The Bank of New York Mellon Trust
Company, National Association, as Trustee
Richmond, Virginia

Virginia College Building Authority
$____________ Educational Facilities Revenue Bonds
(21st Century College and Equipment Programs), Series 2013A

Ladies and Gentlemen:

We have served as Bond Counsel to the Virginia College Building Authority (the "Authority") in connection with its issuance of $____________ Educational Facilities Revenue Bonds (21st Century College and Equipment Programs), Series 2013A (the "Bonds") on the date hereof. The Bonds are issued under a Master Indenture of Trust dated as of December 1, 1996, as amended (the "Master Indenture") between the Authority and The Bank of New York Mellon Trust Company, National Association (the "Trustee"), as successor trustee, and as supplemented by a Twenty-Ninth Supplemental Indenture of Trust dated as of _________ 1, 2013 (the "Supplemental Indenture"), between the Authority and the Trustee. The proceeds of the Bonds will be used to finance certain projects of capital improvement and equipment acquisition at public institutions of higher education (the "Participating Institutions") in the Commonwealth of Virginia (the "Commonwealth").

In connection with our opinion, we have examined the Virginia College Building Authority Act of 1966, Chapter 3.2, Title 23, Code of Virginia of 1950, as amended (the "Act"), the legislation authorizing the 21st Century College Program and the Equipment Program, each as defined in the Master Indenture, and the related projects and copies of the proceedings and other papers relating to the issuance and sale of the Bonds by the Authority. Reference is made to the Bonds for a description of the purposes for which the Bonds are issued, their terms, including payment and redemption provisions, and the security therefor.

Without undertaking to verify the same by independent verification, as to questions of fact material to this opinion, we have relied upon representations of the Authority, the Participating Institutions and the Commonwealth, including, without limitation, representations as to the use of proceeds of the Bonds, and upon certifications and representations contained in certificates of the Authority, the Participating Institutions, the Commonwealth and other public officials furnished to us. We have assumed that all signatures on documents, certificates and instruments examined by us are genuine, all documents, certificates and instruments submitted to us as originals are authentic, and all documents, certificates and instruments submitted to us as copies conform to the originals In addition, we have assumed that all documents, certificates and instruments relating to the issuance of the Bonds have been duly authorized, executed and delivered by all parties other than the Authority, and we have further assumed the due organization, existence and powers of such other parties.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Authority is a public body corporate and a political subdivision of the Commonwealth duly created by the Act and vested with all of the rights and powers conferred by the Act.

2. The Authority has the requisite authority and power under the Act, and the legislation authorizing the 21st Century College Program, the Equipment Program and the related projects, to enter into the Master Indenture and the Supplemental Indenture, to issue and sell the Bonds, and to apply the proceeds from the issuance and sale of the Bonds as set forth in the Master Indenture and the Supplemental Indenture.

3. The Bonds have been duly authorized, executed and delivered in accordance with the Act, the legislation authorizing the 21st Century College Program, the Equipment Program and the related projects, the Master Indenture and the Supplemental Indenture and constitute valid and binding limited obligations of the Authority, enforceable against the Authority in accordance with their terms. The Bonds are payable solely from Revenues (as defined in the Master Indenture) and other property of the Authority specifically pledged for such purpose under the Master Indenture. The principal of and interest on the Bonds will not be deemed to constitute a debt of the Commonwealth. Neither the faith and credit nor the taxing power of the Commonwealth or any of its political subdivisions is pledged, nor is the Commonwealth or any of its political subdivisions otherwise obligated, to pay the principal of or interest on the Bonds.

4. The Master Indenture and the Supplemental Indenture have been duly authorized, executed and delivered by the Authority, constitute the valid and binding limited obligations of the Authority, assign and pledge the Revenues to the Trustee as security for the Bonds, and are enforceable against the Authority in accordance with their respective terms, subject to the provisions of Paragraph 5. The Supplemental Indenture is authorized or permitted by the Master Indenture and complies with the requirements and terms of the Master Indenture. The execution and delivery of the Supplemental Indenture will not cause interest on any bonds previously issued under the Master Indenture as tax-exempt obligations to become includable in the gross income of the holders thereof for federal income tax purposes; provided that this opinion is not meant to bring-down or otherwise update the bond counsel opinion as to tax-exemption delivered in connection with the issuance of any such bonds.

5. The obligations of the Authority under the Bonds, the Master Indenture and the Supplemental Indenture are subject to the provisions of applicable bankruptcy, insolvency,

reorganization, moratorium and similar laws, now or hereafter in effect, relating to or affecting the enforcement of creditors' rights generally. Such obligations also are subject to usual equitable principles, which may limit the specific enforcement of certain remedies but which do not affect the validity of such obligations.

6. Interest on the Bonds (including any accrued original issue discount properly allocable an owner of a Bond), is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, for the purpose of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinion set forth in the preceding sentence is subject to the condition that the Authority and the Participating Institutions comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds for interest on the Bonds to continue to be excluded from gross income for federal income tax purposes. The Authority and the Participating Institutions have covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

7. In accordance with Section 23-30.33 of the Code of Virginia of 1950, as amended, the Bonds, their transfer and income from the Bonds, including any profit made on their sale, are exempt from taxation by the Commonwealth and any of its political subdivisions.

Our services as Bond Counsel to the Authority have been limited to delivering the foregoing opinion based on our review of such legal proceedings as we deem necessary to approve the validity of the Bonds and the tax-exempt status of the interest thereon. The foregoing opinion is in no respect an opinion as to the business or financial resources of the Authority or as to the accuracy, adequacy or completeness of any information, including the Authority's Preliminary Official Statement dated ________ __, 2013 and its Official Statement dated ________ __, 2013 relating to the Bonds that may have been relied upon by anyone in making a decision to purchase Bonds.

The opinion expressed herein is given as of the date hereof only, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that hereafter may come to our attention or any changes in law that hereafter may occur or become effective. We have not been asked to, and we do not, express any opinion as to any matter except as specifically set forth herein.

Very truly yours,

APPENDIX E

FORMS OF CONTINUING DISCLOSURE AGREEMENTS

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CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement dated as of _______ 1, 2013 (the "Disclosure Agreement") is executed and delivered by the Virginia College Building Authority (the "Authority") of the Commonwealth of Virginia (the "Commonwealth") in connection with the issuance by the Authority of its $_________ Educational Facilities Revenue Bonds (21st Century College and Equipment Programs) Series 2013A (the "2013A Bonds"). The 2013A Bonds are being issued pursuant to the provisions of the Master Indenture of Trust, dated as of December 1, 1996 (the "Original Master Indenture"), between the Authority and The Bank of New York Mellon Trust Company, National Association, as successor trustee (the "Trustee"), as amended and supplemented from time to time, including as supplemented by the Twenty-Ninth Supplemental Indenture of Trust, dated the date hereof (the "Supplemental Indenture," and the Original Master Indenture as so amended and supplemented from time to time, the "Indenture"), between the Authority and the Trustee. The proceeds of the 2013A Bonds are being used by the Authority to finance the costs of capital projects and equipment at public institutions of higher education in the Commonwealth. The Authority represents that it is in compliance with its undertakings regarding the Rule (as defined below). The Authority hereby covenants and agrees as follows:

Section 1. <u>Purpose of the Disclosure Agreement</u>. This Disclosure Agreement is being executed and delivered by the Authority for the benefit of the Holders and in order to assist the Participating Underwriters in complying with the Rule. The Authority acknowledges that it is undertaking primary responsibility for any reports, notices or disclosures that may be required under this Disclosure Agreement.

Section 2. <u>Definitions</u>. In addition to the definitions used for purposes of the Indenture which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

> **"Annual Report"** shall mean any Annual Report provided by the Authority pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.
>
> **"Dissemination Agent"** shall mean the Authority, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Authority and which has filed with the Authority a written acceptance of such designation.
>
> **"EMMA"** shall mean the MSRBs Electronic Municipal Market Access system, the internet address of which is http://emma.msrb.org/, and any successor thereto.
>
> **"Fiscal Year"** shall mean the twelve-month period, at the end of which the financial position of the Authority and results of its operations for such period are determined. Currently, the Authority's Fiscal Year begins July 1 and continues through June 30 of the next year.
>
> **"Holder"** shall mean, for purposes of this Disclosure Agreement, any person who is a record owner or beneficial owner of a 2013A Bond.
>
> **"Participating Underwriters"** shall mean any of the original underwriters of the 2013A Bonds required to comply with the Rule in connection with the offering of the 2013A Bonds.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. <u>Provision of Annual Reports: Audited Financial Statements</u>.

(a) Not later than 10 months following the end of each Fiscal Year of the Authority, commencing with the Fiscal Year ending June 30, 2013, the Authority shall, or shall cause the Dissemination Agent (if different from the Authority) to, provide to EMMA an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than 10 days prior to said date, the Authority shall provide the Annual Report to the Dissemination Agent (if applicable). In each case, the Annual Report (i) may be submitted as a single document or as separate documents comprising a package, (ii) may cross-reference other information as provided in Section 4 of this Disclosure Agreement, and (iii) shall include such financial statements as may be required by the Rule.

(b) The annual financial statements of the Authority shall be prepared on the basis of generally accepted accounting principles and will be audited by either the Auditor of Public Accounts or a firm of independent certified public accountants. Copies of the audited annual financial statements, which may be filed separately from the Annual Report, will be submitted to EMMA when they become publicly available.

(c) If the Authority fails to provide an Annual Report by the date required in subsection (a) hereof, or to file its audited annual financial statements when available as described in (b), the Authority shall send an appropriate notice to the Municipal Securities Rulemaking Board via EMMA in substantially the form attached hereto as Exhibit A or in such form as may be provided by the MSRB as the applicable form for filing such notice via EMMA.

Section 4. <u>Content of Annual Reports</u>. Each Annual Report required to be filed hereunder shall contain or incorporate by reference, at a minimum, the following information, all with a view toward assisting the Participating Underwriters in complying with the Rule:

(a) a summary of information regarding appropriations made by the General Assembly for payments under the Payment Agreement with respect to the 2013A Projects, and

(b) updated information regarding the balance of the payments due under the Payment Agreement as of the end of the preceding Fiscal Year.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Authority, which have been filed with each of the Municipal Securities Rulemaking Board or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Authority shall clearly identify each such other document so incorporated by reference.

Section 5. <u>Event Notices</u>. The Authority will provide, or cause the Dissemination Agent (if different from the Authority) to provide, in a timely manner not in excess of 10 business days after the occurrence thereof, to the Municipal Securities Rulemaking Board via EMMA, notice of the occurrence of any of the following events (listed in subsection (b)(5)(i)(c) of the Rule) with respect to the 2013A Bonds to which the Authority has actual knowledge:

(1) Principal and interest payment delinquencies;

(2) Non-payment related defaults, if material;

(3) Unscheduled draws on debt service reserves reflecting financial difficulties;

(4) Unscheduled draws on credit enhancements reflecting financial difficulties;

(5) Substitution of credit or liquidity providers, or their failure to perform;

(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax status of the 2013A Bonds or other material events affecting the tax status of the 2013A Bonds;

(7) Modifications to rights of holders of the 2013A Bonds, if material;

(8) 2013A Bond calls, if material, and tender offers;

(9) Defeasances;

(10) Release, substitution, or sale of property securing repayment of the 2013A Bonds, if material;

(11) Rating changes;

(12) Bankruptcy, insolvency, receivership or similar event with respect to the Authority;

(13) The consummation of a merger, consolidation or acquisition involving the Authority or sale of all or substantially all of the assets of the Authority, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(14) Appointment of a successor or additional trustee under the Indenture or the change of name of a trustee under the Indenture, if material.

The Authority does not undertake to provide the above-described notice in the event of a mandatory, scheduled redemption, not otherwise contingent upon the occurrence of an event, if (i) the terms, dates and amounts of redemption are set forth in detail in the official statement for the 2013A Bonds, (ii) the only open issue is when 2013A Bonds will be redeemed in the case of a partial redemption, (iii) notice of redemption is given to the bondholders under the terms of the Indenture, and (iv) public notice of the redemption is given pursuant to 1934 Act Release No. 23856 of the Securities and Exchange Commission, even if the originally scheduled amounts may be reduced by prior optional redemption or 2013A Bond purchases.

Section 6. Termination of Reporting Obligation. The obligations of the Authority under this Disclosure Agreement shall terminate upon the earlier to occur of the legal defeasance or final retirement of the 2013A Bonds.

Section 7. Dissemination Agent. The Authority may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement and may discharge any such Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Authority shall be the Dissemination Agent.

Section 8. Amendment. Notwithstanding any other provision of this Disclosure Agreement, the Authority may amend this Disclosure Agreement, if such amendment is supported by an opinion of independent counsel with expertise in federal securities laws to the effect that such amendment is permitted or required by the Rule.

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice described in Section 5 above, in addition to that which is required by this Disclosure Agreement. If the Authority chooses to include any information in any Annual Report or notice described in Section 5 above, in addition to that which is specifically required by this Disclosure Agreement, the Authority shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice.

Section 10. Default. Any person referred to in Section 11 (other than the Authority) may take such action as may be permitted by law against the appropriate public official to secure compliance with the obligation of the Authority to file its Annual Report or to give notice as described in Section 5 hereinabove. In addition, the holders of not less than a majority in aggregate principal amount of 2013A Bonds outstanding may take such actions as may be permitted by law to challenge the adequacy of any information provided pursuant to this Disclosure Agreement, or to enforce any other obligation of the Authority hereunder. A default under this Disclosure Agreement shall not be deemed an event of default under the Indenture or the 2013A Bonds, and the sole remedy under this Disclosure Agreement in the event of any failure of the Authority to comply herewith shall be an action to compel performance. Nothing in this provision shall be deemed to restrict the rights or remedies of any holder pursuant to the Securities Exchange Act of 1934, the rules and regulations promulgated thereunder, or other applicable laws.

Section 11. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Authority, the Participating Underwriters, and holders from time to time of the 2013A Bonds, and shall create no rights in any other person or entity.

Section 12. Obligated Person. The Authority has determined that the Commonwealth is an "obligated person", within the meaning of the Rule, that is or may be material to the 2013A Bonds. The Commonwealth has concurred in such determination and has covenanted and agreed to provide its Annual Reports, annual financial statements and notice of any Listed Events, if material, as required by the Rule.

Section 13. EMMA. All filings made pursuant to the Rule under this Disclosure Agreement shall be made solely by transmitting such filings to the Municipal Securities Rulemaking Board via EMMA, as described in 1934 Act Release No. 59062. Should the Securities and Exchange Commission approve any additional or subsequent internet-based electronic filing system for satisfying the continuing disclosure filing requirements of the Rule, any filings required under this Disclosure Agreement may be made by transmitting such filing to such system, as described in the applicable Securities and Exchange Commission regulation or release approving such filing system.

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IN WITNESS WHEREOF, the Authority has caused this Continuing Disclosure Agreement to be executed in its corporate name by its duly authorized officer, all as of the date first written above.

VIRGINIA COLLEGE BUILDING AUTHORITY

By:____
Treasurer

Attachments:

Exhibit A - Notice of Failure to File Annual Report [Audited Annual Financial Statements]

4843-5592-9364.1

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT
[AUDITED ANNUAL FINANCIAL STATEMENTS]

Virginia College Building Authority
Educational Facilities Revenue Bonds
(21st Century College and Equipment Programs), Series 2013A
CUSIP NOS. 927781 ___ to ___

Dated Date: _________ ___, 201__
Issue Date: _________ ___, 201__

NOTICE IS HEREBY GIVEN that the Virginia College Building Authority (the "Authority") has not provided an Annual Report [Audited Annual Financial Statements] for the fiscal year ended ____________ as required by the Continuing Disclosure Agreement dated as of _________ 1, 2013 (the "Disclosure Agreement") as executed and delivered by the Authority.

The Authority anticipates that the Annual Report [Audited Annual Financial Statements] will be filed by ____________________.

Dated: ________, 20__.

VIRGINIA COLLEGE BUILDING AUTHORITY

By:____
Name:
Title:

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement, dated as of __________, 2013 (this "Disclosure Agreement"), is executed and delivered by the **Commonwealth of Virginia** (the "Commonwealth") in connection with the issuance by the Virginia College Building Authority (the "Authority") of its $__________ Educational Facilities Revenue Bonds (21st Century College and Equipment Programs) Series 2013A Bonds (the "2013A Bonds"). The 2013A Bonds are being issued pursuant to the provisions of the Master Indenture of Trust, dated as of December 1, 1996 (the "Original Master Indenture"), between the Authority and The Bank of New York Mellon Trust Company, National Association, as successor trustee (the "Trustee"), as amended and supplemented from time to time, including as supplemented by the Twenty-Ninth Supplemental Indenture of Trust, dated as of ____________ __, 2013 (the "Twenty-Ninth Supplemental Indenture," and the Original Master Indenture as so amended and supplemented from time to time, the "Indenture"), between the Authority and the Trustee. The proceeds of the 2013A Bonds are being used by the Authority to finance the costs of certain capital projects and equipment at public institutions of higher education in the Commonwealth of Virginia (21st Century College and Equipment Programs). The Authority has advised the Commonwealth that it has determined that the Commonwealth constitutes an "obligated person" within the meaning of the Rule in respect of the 2013A Bonds and the Commonwealth concurs in such determination. The Commonwealth represents that it is in compliance with its undertakings regarding the Rule. The Commonwealth hereby covenants and agrees as follows:

SECTION 1. <u>Purpose of the Disclosure Agreement.</u> This Disclosure Agreement is being executed and delivered by the Commonwealth for the benefit of the Holders and in order to assist the Participating Underwriters in complying with the Rule. The Commonwealth acknowledges that it is undertaking primary responsibility for any reports, notices or disclosures that may be required under this Agreement.

SECTION 2. <u>Definitions.</u> In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Commonwealth pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Dissemination Agent" shall mean the Commonwealth, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Commonwealth and which has filed with the Commonwealth a written acceptance of such designation.

"EMMA" shall mean the MSRB's Electronic Municipal Market Access System, the internet address of which is http://emma.msrb.org/, and any successor thereto.

"Fiscal Year" shall mean the twelve-month period, at the end of which the financial position of the Commonwealth and results of its operations for such period are determined. Currently, the Commonwealth's Fiscal Year begins July 1 and continues through June 30 of the next year.

"Holder" shall mean, for purposes of this Disclosure Agreement, any person who is a record owner or beneficial owner of a 2013A Bond.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Participating Underwriter" shall mean any of the original underwriters of the 2013A Bonds required to comply with the Rule in connection with the offering of such 2013A Bonds.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports; Audited Financial Statements.

(a) Not later than seven months following the end of each Fiscal Year of the Commonwealth, commencing with the Fiscal Year ending June 30, 2013, the Commonwealth shall, or shall cause the Dissemination Agent (if different from the Commonwealth) to, submit to EMMA an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than 10 days prior to said date, the Commonwealth shall provide the Annual Report to the Dissemination Agent (if applicable). In each case, the Annual Report (i) may be submitted as a single document or as separate documents comprising a package, (ii) may cross-reference other information as provided in Section 4 of this Disclosure Agreement, and (iii) shall include such financial statements as may be required by the Rule.

(b) The annual financial statements of the Commonwealth shall be prepared on the basis of generally accepted accounting principles and will be audited. Copies of the audited annual financial statements, which may be filed separately from the Annual Report, will be submitted to EMMA when they become publicly available.

(c) If the Commonwealth fails to submit an Annual Report to EMMA by the date required in subsection (a) hereof, or to submit its audited annual financial statements to EMMA when they become publicly available, the Commonwealth shall send an appropriate notice to the MSRB in substantially the form attached hereto as Exhibit A.

SECTION 4. Content of Annual Reports. Each Annual Report required to be filed hereunder shall include, at a minimum, the information referred to in Exhibit B as it relates to the Commonwealth, all with a view toward assisting Participating Underwriters in complying with the Rule. Any or all of such information may be incorporated by reference from other documents, including official statements containing information with respect to the Commonwealth, which have been filed with the MSRB, or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Commonwealth shall clearly identify each such other document so incorporated by reference.

SECTION 5. Notice of Rating Changes. The Commonwealth will provide in a timely manner not in excess of ten business days after the occurrence of the event to the Authority and to EMMA notice of any changes in the ratings of the Commonwealth's general obligation bonds by the rating agencies requested by the Commonwealth to rate such bonds.

SECTION 6. Notice of Bankruptcy, Insolvency, Receivership or Similar Event. The Commonwealth will provide in a timely manner not excess of ten business days after the occurrence of the event, to the Authority and to EMMA notice of any bankruptcy, insolvency, receivership or similar event of the Commonwealth. For purposes of this Section, a bankruptcy, insolvency, receivership or similar event of the Commonwealth is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Commonwealth in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Commonwealth, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan or reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Commonwealth.

SECTION 7. Notice of Merger, Consolidation, Acquisition or Similar Event. The Commonwealth will provide in a timely manner not in excess of ten business days after the occurrence of the event to the Authority and to EMMA notice of any consummation of a merger, consolidation, or acquisition involving the Commonwealth or the sale of all or substantially all of the assets of the Commonwealth, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

SECTION 8. Termination of Reporting Obligation. The obligations of the Commonwealth under this Disclosure Agreement shall terminate upon the earlier to occur of the legal defeasance or final retirement of the 2013A Bonds, and the Authority shall notify the Commonwealth promptly upon the occurrence of either such event.

SECTION 9. Dissemination Agent. The Commonwealth may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement and may discharge any such Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Commonwealth shall be the Dissemination Agent.

SECTION 10. Amendment. Notwithstanding any other provision of this Disclosure Agreement, the Commonwealth may amend this Disclosure Agreement, if such amendment is supported by an opinion of independent counsel with expertise in federal securities laws to the effect that such amendment is permitted or required by the Rule.

SECTION 11. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Commonwealth from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notices described in Section 5, Section 6, and Section 7 above, in addition to that which is required by this Disclosure Agreement. If the Commonwealth chooses to include any information in any Annual Report or notice described in Section 5, Section 6, and Section 7 above, in addition to that which is specifically required by this Disclosure Agreement, the Commonwealth shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice.

SECTION 12. Default. Any person referred to in Section 13 (other than the Commonwealth) may take such action as may be permitted by law against the appropriate public official to secure compliance with the obligation of the Commonwealth to file its Annual Report or to give notices as described in Section 5, Section 6, and Section 7 hereinabove. In addition, Holders of not less than a majority in aggregate principal amount of 2013A Bonds outstanding may take such actions as may be permitted by law to challenge the adequacy of any information provided pursuant to this Disclosure Agreement, or to enforce any other obligation of the Commonwealth hereunder. A default under this Disclosure Agreement shall not be deemed an event of default under any applicable resolution or other debt authorization of the Commonwealth, and the sole remedy under this Disclosure Agreement in the event of any failure of the Commonwealth to comply herewith shall be an action to compel performance. Nothing in this provision shall be deemed to restrict the rights or remedies of any Holder pursuant to the Securities Exchange Act of 1934, the rules and regulations promulgated thereunder, or other applicable laws.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Commonwealth, the Authority, the Participating Underwriters, and Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 15. EMMA. All filings under this Disclosure Agreement shall be made solely by transmitting such filings to the Municipal Securities Rulemaking Board via EMMA, as described in 1934 Act Release No. 59062. Should the Securities and Exchange Commission approve any additional or subsequent internet-based electronic filing system for satisfying the continuing disclosure filing requirements of the Rule, any filings required under this Disclosure Agreement may be made by transmitting such filing to such system, as described in the applicable Securities and Exchange Commission regulation or release approving such filing system.

Date: ________

COMMONWEALTH OF VIRGINIA

By: ______________________________
State Treasurer

AGREED TO & ACKNOWLEDGED:

VIRGINIA COLLEGE BUILDING AUTHORITY

By: ______________________________
Chairman

Attachments:

Exhibit A - Notice of Failure to File Annual Report [Audited Annual Financial Statements]
Exhibit B - Content of Annual Report

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT
[AUDITED ANNUAL FINANCIAL STATEMENT]

COMMONWEALTH OF VIRGINIA

Virginia College Building Authority
Educational Facilities Revenue Bonds
(21st Century College and Equipment Programs), Series 2013A

CUSIP Numbers: 927781 _____ to _____

Dated Date: __________, 2013
Issue Date: __________, 2013

NOTICE IS HEREBY GIVEN that the Commonwealth of Virginia (the "Commonwealth") has not provided an Annual Report [Audited Annual Financial Statements] as required by Section 3 of the Continuing Disclosure Agreement, which was entered into in connection with the above-named bonds issued pursuant to those certain supplemental indentures approved on _________ __, 2013, by the Board Members of the Virginia College Building Authority. The Commonwealth anticipates that the Annual Report [Audited Annual Financial Statements] will be filed by ____________________.

Dated: __________

COMMONWEALTH OF VIRGINIA

By: ______________________________
State Treasurer

EXHIBIT B

CONTENT OF ANNUAL REPORT

General Fund. Information concerning revenues, sources of revenues, expenditures, categories of expenditures and balances of the General Fund of the Commonwealth for the preceding fiscal year.

Appropriation Act. A summary of the material budgetary aspects of the Appropriation Act for the current biennium.

Debt. Updated information respecting tax-supported and other outstanding debt of the Commonwealth including a historical summary of outstanding tax-supported debt; a summary of authorized but unissued tax-supported debt and a summary of annual debt service on outstanding tax-supported debt.

Retirement Plans. Updated information (to the extent not shown in the latest audited annual financial statements) respecting pension and retirement plans administered by the Commonwealth including a summary of membership, revenues, expenses and actuarial valuation(s) of such plans.

Litigation. A summary of material litigation pending against the Commonwealth.

Demographic Information. Updated demographic information respecting the Commonwealth such as its population and tax base.

Economic Information. Updated economic information respecting the Commonwealth such as income, employment, industry and infrastructure data.

In general, the foregoing will include information as of the end of the most recent fiscal year or as of the most recent practicable date. Where information for the fiscal year just ended is provided, it may be preliminary and unaudited. Where information has historically been provided for more than a single period, comparable information will in general be provided for the same number of periods where valid and available. Where comparative demographic or economic information for the Commonwealth and the United States as a whole is contemporaneously available and, in the judgment of the Commonwealth, informative, such information may be included. Where, in the judgment of the Commonwealth, an accompanying narrative is required to make data presented not misleading, such narrative will be provided.

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APPENDIX F

THE 2013A EQUIPMENT PROGRAM ALLOCATION

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THE 2013A EQUIPMENT PROGRAM ALLOCATION

Institution	Equipment and Research Allocation
George Mason University	$ 3,568,904
Old Dominion University	4,312,086
University of Virginia	12,666,897
Virginia Commonwealth University	7,969,949
Virginia Polytechnic Institute and State University	12,606,388
College of William and Mary	2,340,828
Christopher Newport University	608,154
University of Virginia’s College at Wise	202,068
James Madison University	1,861,748
Longwood University	599,263
University of Mary Washington	528,581
Norfolk State University	967,377
Radford University	1,406,595
Virginia Military Institute	714,250
Virginia State University	1,081,905
Richard Bland College	129,092
Virginia Community College System	9,765,909
Virginia Institute of Marine Science	435,000
Southwest Virginia Higher Education Center	64,575
Roanoke Higher Education Authority	62,570
Institute for Advanced Learning and Research	221,003
Southern Virginia Higher Education	77,214
New College Institute	27,799
Total	$ 62,218,155

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NOTICE OF SALE

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NOTICE OF SALE

$332,710,000*

VIRGINIA COLLEGE BUILDING AUTHORITY

(21st Century College and Equipment Programs)
Educational Facilities Revenue Bonds
Series 2013A

Electronic Bid, via the *PARITY*® Competitive Bidding System ("*PARITY*®") only, for the purchase of all, and not less than all, of the $332,710,000* Virginia College Building Authority Educational Facilities Revenue Bonds (21st Century College and Equipment Programs), Series 2013A (the "2013A Bonds"), will be received until 11:00 a.m., RICHMOND, VIRGINIA TIME, on September 17, 2013, (unless postponed or changed as described herein), by or on behalf of the Virginia College Building Authority (the "Authority").

Tax-Exempt Bonds. Interest on the 2013A Bonds is (i) excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), (ii) not treated as a preference item in calculating the alternative minimum tax imposed under the Code on individuals and corporations; however for purposes of computing the alternative minimum tax imposed on certain corporations such interest is taken into account in determining adjusted current earnings.

Preliminary Official Statement

The Authority has authorized the preparation and distribution of a Preliminary Official Statement dated September 10, 2013 (the "Preliminary Official Statement") containing information relating to the 2013A Bonds. This Notice of Sale and Preliminary Official Statement referred to above are available on the internet at www.iDealProspectus.com. This Preliminary Official Statement in its entirety is available in physical form and may be obtained by contacting First Southwest Company at (212) 642-4350.

THE BONDS

Authorization and Security

The 2013A Bonds will be issued pursuant to a Master Indenture of Trust, as amended (the "Master Indenture"), dated as of December 1, 1996, as supplemented by a Twenty-Ninth Supplemental Indenture of Trust (the "Twenty-Ninth Supplemental Indenture"), to be dated as of September 1, 2013, between the Authority and The Bank of New York Mellon Trust Company, National Association, as trustee (the "Trustee"). The Master Indenture, the Twenty-Ninth Supplemental Indenture and any previous or further supplements are referred to collectively as the "Indenture." The bonds currently outstanding under the Indenture are collectively referred to as the "Prior Bonds." The 2013A Bonds, the Prior Bonds, and all other parity or additional bonds hereafter issued from time to time under and secured equally and ratably by the Indenture (the "Additional Bonds") are collectively called the "Bonds."

THE 2013A BONDS WILL BE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM THE REVENUES, RECEIPTS AND FUNDS PLEDGED OR AVAILABLE FOR THE PAYMENT THEREOF AND ARE NOT A DEBT, OR A PLEDGE OF THE FAITH AND CREDIT, OF THE COMMONWEALTH. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS.

THE GENERAL ASSEMBLY IS NOT REQUIRED, AND IS UNDER NO LEGAL OBLIGATION, TO MAKE AN APPROPRIATION FOR ANY AMOUNTS DUE UNDER THE PAYMENT AGREEMENT.

The 2013A Bonds will be dated the date of their original issuance and delivery (the "Dated Date"). Interest on the 2013A Bonds from the Dated Date will be calculated on a 30/360 day basis and will be payable semiannually on February 1 and August 1, commencing August 1, 2014. The 2013A Bonds will be issued only as fully registered bonds in book entry form, payable to a nominee of The Depository Trust Company, New York, New York ("DTC"), as securities depository for the 2013A Bonds. Reference is made to the Preliminary Official Statement relating to the 2013A Bonds

*Preliminary, subject to revision as described herein.

for the applicable provisions relating to the transfer of beneficial ownership, manner of redemption, the responsibilities of DTC participants and the right of the Authority to discontinue the book entry only system.

Maturity Schedule

Principal of the 2013A Bonds will be paid through serial maturities on the following dates and in the following amounts:

February 1	Principal Amount*
2015	$10,910,000
2016	16,700,000
2017	17,195,000
2018	17,890,000
2019	18,600,000
2020	19,530,000
2021	20,505,000
2022	11,935,000
2023	12,530,000
2024	13,155,000
2025	13,815,000
2026	14,505,000
2027	15,230,000
2028	15,995,000
2029	16,790,000
2030	17,630,000
2031	18,515,000
2032	19,440,000
2033	20,410,000
2034	21,430,000

Serial Bonds, Term Bonds and Mandatory Sinking Fund Redemption

The successful bidder may provide in the bid form for all of the 2013A Bonds to be issued as serial bonds or may designate consecutive annual principal amounts of the 2013A Bonds to be combined into term bonds. Each such term bond shall be subject to mandatory sinking fund redemption commencing on February 1 of the first year which has been combined to form such term bond and continuing on February 1 in each year thereafter until the stated maturity date of that term bond. The amount redeemed in any year shall be equal to the principal amount for such year set forth in the appropriate amortization schedule, as adjusted in accordance with the provisions described above under the caption "Adjustments to Principal Amount." The 2013A Bonds to be redeemed in any year by mandatory sinking fund redemption shall be redeemed at par and shall be selected by lot among the 2013A Bonds of the maturity being redeemed.

*Preliminary, subject to revision as described herein.

Optional Redemption – 2013A-1 Bonds Issued as Tax-Exempt Bonds

The 2013A Bonds maturing on or before February 1, 2023, will not be subject to optional redemption. The 2013A Bonds issued maturing on and after February 1, 2024, will be subject to optional redemption on and after February 1, 2023, in whole or in part at any time, at par plus interest accrued thereon to the date fixed for redemption.

Selection of 2013A Bonds for Redemption

If less than all of the 2013A Bonds are called for optional redemption, the maturities of the 2013A Bonds to be redeemed will be called in such order as the Authority may determine. If less than all of the 2013A Bonds of any maturity are called for optional or mandatory redemption, the 2013A Bonds to be redeemed will be selected by The Depository Trust Company, New York, New York ("DTC") or any successor securities depository pursuant to its rules and procedures or, if the book-entry system is discontinued, will be selected by the Trustee by lot in such manner as the Trustee in its discretion may determine. In either event, each portion of $5,000 principal amount shall be counted as one Bond for such purpose.

Changes to Bid Specifications, Bid Date, Closing Date, and Principal Amounts

Change of Bid Specifications, Bid Date and Closing Date

The Authority reserves the right to change, from time to time, the specification and the date and/or time established for the receipt of bids and will undertake to notify registered prospective bidders via notification published on *PARITY®*. Prospective bidders may request notification by facsimile of any changes in the date or time for the receipt of bids by so advising, and furnishing their telephone, and telecopier numbers or email address to First Southwest Company, at (212) 642-4350 by no later than 12 NOON, RICHMOND, VIRGINIA TIME, on the business day prior to the announced date for receipts of bids.

A change of the bid specifications, date and/or time will be announced via *PARITY®* not later than 9:30 A.M., RICHMOND, VIRGINIA TIME, on the Bid Date, and a alternative sale date and time will be announced via *PARITY®* by NOON, RICHMOND, VIRGINIA TIME, at least 20 hours prior to such alternative date and/or time for receipts of bids.

On any such alternative date and/or time for receipts of bids, the Authority will accept electronic bids for the purchase of the 2013A Bonds, such bids to conform in all respects to the provisions of this Notice of Sale, except for the changes in the specifications, date and/or time for receipts of bids and any other changes announced via *PARITY®* at the time the date and time for receipts of bids are announced.

Changes to Preliminary Principal Amounts

The preliminary aggregate principal amounts of the 2013A Bonds and the preliminary annual principal amounts as set forth in this Notice of Sale (the "Preliminary Aggregate Principal Amount" and the "Preliminary Annual Principal Amounts," respectively; collectively, the "Preliminary Amounts") may be revised before the bid date. Any such revisions (the "Revised Aggregate Principal Amount" and the "Revised Annual Principal Amounts," respectively; collectively, the "Revised Amounts") WILL BE PUBLISHED AS AN AMENDMENT TO THE NOTICE OF SALE AND ANNOUNCED ON *PARITY®* NOT LATER THAN 9:30 A.M., RICHMOND, VIRGINIA TIME, ON THE BID DATE.

In the event that no such revisions are made, the Preliminary Amounts will constitute the Revised Amounts. BIDDERS SHALL SUBMIT BIDS BASED ON THE REVISED AMOUNTS. Prospective bidders may request notification by facsimile or e-mail transmission of any revisions in Preliminary Amounts by so advising and furnishing, in writing, the name of the contact person; their telephone and telecopier numbers or e-mail address to First Southwest Company at (212) 642-4350 by 12 NOON, RICHMOND, VIRGINIA TIME, at least one business day prior to the receipts of bids.

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*Preliminary, subject to revision as described herein.

Changes to Revised Principal Amounts

After selecting the winning bid, the Authority reserves the right to change the final aggregate principal amount of the 2013A Bonds and each final annual principal amount (the "Final Aggregate Principal Amount" and the "Final Annual Principal Amounts," respectively; collectively, the "Final Amounts"). In determining the Final Amounts, the Authority will not reduce or increase the Revised Aggregate Principal Amount by more than 10% of such amount. THE SUCCESSFUL BIDDER MAY NOT WITHDRAW ITS BID OR CHANGE THE INTEREST RATES BID OR THE INITIAL REOFFERING PRICES (AS HEREIN DEFINED) AS A RESULT OF ANY CHANGES MADE TO THE REVISED AMOUNTS WITHIN THESE LIMITS. The dollar amount bid by the successful bidder will be adjusted to reflect any adjustment in the aggregate principal amount of the 2013A Bonds. Such adjusted bid price will reflect changes in the dollar amount of the underwriter's discount and the original issue discount/premium, if any, but will not change the selling compensation per $1,000 of par amount of bonds from the selling compensation that would have been received based on the purchase price in the winning bid and the Initial Reoffering Prices (as herein defined). The interest rate specified by the successful bidder for each maturity and the Initial Reoffering Prices will not change. The Authority anticipates that the Final Amounts and the adjusted bid price will be communicated to the successful bidder by 10:00 A.M., RICHMOND, VIRGINIA TIME, on the business day following the sale date.

ELECTRONIC BIDDING AND BIDDING PROCEDURES

Registration to Bid

All prospective bidders must be contracted customers of *PARITY*®. To become a customer, contact *PARITY*® at (212) 849-5021. By submitting a bid for the 2013A Bonds, a prospective bidder represents and warrants to the Authority that such bidder's bid for the purchase of the 2013A Bonds is submitted for and on behalf of such prospective bidder by an officer or agent who is duly authorized to bind the prospective bidder to a legal, valid and enforceable contract for the purchase of the 2013A Bonds. By registering to bid for the 2013A Bonds, a prospective bidder is not obligated to submit a bid in connection with the sale.

IF ANY PROVISIONS OF THIS NOTICE OF SALE SHALL CONFLICT WITH INFORMATION PROVIDED BY PARITY AS APPROVED PROVIDER OF ELECTRONIC BIDDING SERVICES, THIS NOTICE OF SALE (INCLUDING ANY AMENDMENTS OR SUPPLEMENTS) SHALL CONTROL. Further information about PARITY, including qualification, registration, rules and any fee charged, may be obtained from PARITY, telephone (212) 849-5021, email at parity@i-deal.com.

Disclaimer

Each prospective bidder shall be solely responsible to register to bid via *PARITY*®. Each qualified prospective bidder shall be solely responsible to make necessary arrangements to access *PARITY*® for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Notice of Sale. Neither the Authority nor *PARITY*® shall have any duty or obligation to undertake such registration to bid for any prospective bidder or to provide or assure such access to any qualified prospective bidder, and neither the Authority nor *PARITY*® shall be responsible for a bidder's failure to register to bid or for proper operation of *PARITY*®, or have any liability for any delays or interruptions of, or any damages caused by, *PARITY*®. The Authority is using *PARITY*® as a communication mechanism, and not as the Authority's agent, to conduct the electronic bidding for the Bonds. The Authority has no liability for any errors in, or any other failures of, the electronic bidding system, and each bidder agrees to hold the Authority harmless against any claims related to or arising from such bidder's use of or involvement in the bidding process. The Authority is not bound by any advice and determination of *PARITY*® to the effect that any particular bid complies with the terms of this Notice of Sale and in particular the "Bid Specifications" hereinafter set forth. All costs and expenses incurred by prospective bidders in connection with their registration and submission of bids via *PARITY*® are the sole responsibility of the bidders, and the Authority is not responsible, directly or indirectly, for any such costs or expenses. If a prospective bidder

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*Preliminary, subject to revision as described herein.

encounters any difficulty in registering to bid or submitting, modifying or withdrawing a bid for Bonds, it should telephone *PARITY*® at (212) 849-5021 and notify the Director of Debt Management of the Commonwealth by facsimile transmission at (804) 225-3187.

Good Faith Deposit

A good faith deposit in an amount equal to $3,327,100 (the "Deposit") is required in connection with the sale and bid for the 2013A Bonds. The Deposit may be provided for by (i) a certified check, bank cashier's, treasurer's or official check drawn upon or certified by a responsible banking institution and made payable to the order of the Virginia College Building Authority delivered at or prior to the time of bid or (ii) a federal funds wire transfer to be submitted to the Authority by the successful bidder not later than 4:00 p.m. (Richmond Time) on the date of sale (the "Wire Transfer Deadline") as set forth below under "Wire Transfers". The Deposit of the successful bidder will be collected and the proceeds thereof retained by the Authority to be applied in partial payment for the 2013A Bonds and no interest will be allowed or paid upon the amount thereof, but in the event the successful bidder shall fail to comply with the terms of the respective bid, the proceeds thereof will be retained as and for full liquidated damages. Checks of unsuccessful bidders will be returned promptly after the bonds are awarded.

Wire Transfers. If the successful bidder chooses to deliver its good faith deposit by federal funds wire transfer, the Authority will distribute wiring instructions for the Deposit to the successful bidder upon verification of the bids submitted by the bidders and prior to the Wire Transfer Deadline. If the Deposit is not received by the Wire Transfer Deadline, the award of the sale of the 2013A Bonds to the successful bidder may be cancelled by the Authority in its discretion without any financial liability of the Authority to the successful bidder or any limitation whatsoever on the Authority's right to sell the 2013A Bonds to a different purchaser upon such terms and conditions as the Authority shall deem appropriate.

Bidding Procedures

Bids must be submitted electronically for the purchase of the 2013A Bonds (all or none) by means of the Virginia College Building Authority AON Bid Form (the "Bid Form") via *PARITY*® by 11:00 a.m., RICHMOND, VIRGINIA TIME, September 17, 2013, unless postponed or changed as described herein (see "*Changes to Bid Date, Closing Date, and Principal Amounts* – Change of Bid Date and Closing Date" above). Prior to that time, a prospective bidder may input and save proposed terms of its bid in *PARITY*®. Once the final bid has been saved in *PARITY*®, the bidder may select the final bid button in *PARITY*® to submit the bid to *PARITY*®. Once the bids are communicated electronically via *PARITY*® to the State Treasurer, each bid will constitute an irrevocable offer to purchase the 2013A Bonds on the terms therein provided. For purposes of the electronic bidding process, the time as maintained on *PARITY*® shall constitute the official time. For information purposes only, bidders are requested to state in their bids the true interest cost to the Authority, as described under "Award of Bonds" below, represented by the rate or rates of interest and the bid price specified in their respective bids.

No bids will be accepted in written form, by facsimile transmission or in any other medium or on any system other than by means of the Bid Form via *PARITY*®. No bid will be received after the time for receiving such bids specified above.

Bid Specifications

Bidders are invited to name the rate or rates of interest that the 2013A Bonds are to bear, in multiples of 1/8 or 1/20 of one percent. Any number of rates may be named provided that (a) the difference between the highest interest rate and the lowest interest rate shall not exceed 3.00% in rate and (b) no interest rate may exceed 5.00%. Each bidder must specify in its bid a single rate for each maturity date on the 2013A Bonds. No bond of any maturity may be reoffered at a price less than 98% of the principal amount of such bond. Bids must be for not less than 100% of the par value of the aggregate principal amount of the 2013A Bonds (based on the Revised Amounts as described below). No bid for less than all of the 2013A Bonds will be considered.

*Preliminary, subject to revision as described herein.

THE AUTHORITY RESERVES THE RIGHT TO ALTER OR AMEND THE BID SPECIFICATIONS NO LATER THAN 9:30 A.M. ON THE BID DATE AS DESCRIBED IN "CHANGE TO BID SPECIFICATIONS, BID DATE, CLOSING DATE, AND PRINCIPAL AMOUNTS" ABOVE.

Award of the Bonds

ALL BIDS SHALL REMAIN FIRM UNTIL 5:00 P.M. (EDT) ON THE DATE OF THE SALE. An award of the 2013A Bonds, if made, will be made by the Authority within such six hour period of time. Unless all bids are rejected, the 2013A Bonds will be awarded to the bidder whose bid results in the lowest true interest cost to the Authority, based on the Revised Amounts described above. The true interest cost (expressed as an annual interest rate) will be determined as being twice that factor or discount rate, compounded semi-annually, which, when applied against each combined semi-annual debt service payment (interest, or principal and interest, as due, including any mandatory sinking fund payment) for the 2013A Bonds, will equate the sum of such discounted semi-annual payments to the total purchase price. The true interest cost shall be calculated from the dated date of the Bonds. In case of a tie, the Authority, at its sole discretion, may select the successful bidder. THE AUTHORITY RESERVES THE RIGHT TO WAIVE IRREGULARITIES IN ANY BID AND TO REJECT ANY OR ALL BIDS.

MISCELLANEOUS; CLOSING

Undertakings of the Successful Bidder

The successful bidder shall make a bona fide public offering of all of the 2013A Bonds to the general public and shall, within 30 minutes after being notified that such bidder's bid appears to be the apparent winning bid, subject to verification, advise the Authority in writing (via facsimile or electronic transmission) of the initial public offering prices or yields of the 2013A Bonds (the "Initial Reoffering Prices"). The successful bidder must provide the Initial Reoffering Prices, as the Authority will not include in the Official Statement an "NRO" ("not reoffered") designation to or for any maturity of the 2013A Bonds. Such reoffering prices and yields, among other things, will be used by the Authority to calculate the final principal amount of each maturity and the final aggregate principal amount of the 2013A Bonds. The successful bidder will be responsible to the Authority in all respects for the accuracy and completeness of any information it provides with respect to such reoffering. The successful bidder must, by facsimile or electronic or e-mail transmission or delivery received by the Authority within 24 hours after notification of the Final Amounts, furnish the following information to the Authority to complete the Official Statement in final form, as described below:

A. Selling compensation (aggregate total anticipated compensation to the underwriters expressed in dollars, based on the expectation that all 2013A Bonds are sold at the Initial Reoffering Prices).

B. The identity of the other underwriters if the successful bidder is part of a group or syndicate.

C. Any other material information that the State Treasurer determines is necessary to complete the final Official Statement.

Prior to the delivery of the 2013A Bonds, the successful bidder shall furnish to the Authority a certificate acceptable to Bond Counsel regarding "issue price," establishing that the successful bidder has made a bona fide public offering of the 2013A Bonds and that as of the bid date, a substantial amount of the 2013A Bonds of each maturity was sold or was expected to be sold to the public (excluding bond houses, brokers and other intermediaries) at the Initial Reoffering Prices. The Authority expects the successful bidder to deliver copies of such Official Statement in final form (the "final Official Statement") to persons to whom such bidder initially sells the 2013A Bonds, the Municipal Securities Rulemaking Board ("MSRB") and to the MSRB's Electronic Municipal Market Access System ("EMMA"). The successful bidder will be required to acknowledge receipt of such final Official Statement, to certify that it has made delivery of the final Official Statement to such repositories, to acknowledge that the Authority expects the successful bidder to deliver copies of such final Official Statement to persons to whom such bidder initially sells the 2013A Bonds and to certify that the 2013A Bonds will only be offered pursuant to the final Official Statement and only in states where the offer is legal.

*Preliminary, subject to revision as described herein.

Bond Insurance

In the event that the successful bidder has on its own obtained a commitment for a municipal bond insurance policy or other credit enhancement, the Authority shall indicate in the final Official Statement those maturities that the successful bidder has informed the Authority are expected to be covered by such credit enhancement. The purchase of any such credit enhancement shall be at the sole option and expense of the successful bidder. The Authority will also indicate within the final Official Statement that further information concerning such potential credit enhancement may be obtained through the successful bidder. The Authority will not include the identity of the potential credit enhancer or other information with respect to the potential credit enhancer in the final Official Statement. In addition, the Authority will not place a statement of insurance on the bonds or provide such documentation, or make such covenants or arrangements, as would customarily be provided, made or arranged if the Authority were to obtain a commitment for municipal bond insurance or other credit enhancement on its own.

If the successful bidder obtains a municipal bond insurance policy or other form of credit enhancement, at the same time it provides the Initial Reoffering Prices it shall advise the Authority of the cost of such credit enhancement and whether it will provide to the Authority, at or before the closing of the 2013A Bonds, a certificate certifying that (i) the present value of the fees paid for such credit enhancement are less than the present value of the interest reasonably expected to be saved as a result of obtaining such credit enhancement, using the yield on the 2013A Bonds (determined with regard to the payments for such credit enhancement) as the discount factor for this purpose, and (ii) to the best of its knowledge, such fees were obtained in arm's length negotiations and do not exceed a reasonable charge for the transfer of credit risk. In addition, the successful bidder will cooperate with the Authority to obtain the necessary certifications from the credit enhancement provider. Failure of the 2013A Bonds to be so insured or of any such policy to be issued shall not in any manner relieve the successful bidder of its contractual obligations arising from the acceptance of its bid for the purchase of the 2013A Bonds.

Delivery of Bonds

The 2013A Bonds are expected to be delivered on or about September 26, 2013 (UNLESS A NOTICE OF A CHANGE IN THE DELIVERY DATE IS ANNOUNCED via *PARITY*® by 9:30 A.M., RICHMOND, VIRGINA TIME, ON THE BID DATE), through the facilities at DTC against payment of the purchase price therefor (less the amount of the Deposit) in Federal Funds.

There will be furnished the usual closing papers, including certificates signed by appropriate Authority officers (i) stating that no litigation of any kind is now pending or, to their information, knowledge or belief, threatened to restrain or enjoin the issuance or delivery of the 2013A Bonds or in any manner questioning the proceedings and authority under which the 2013A Bonds are issued, or affecting the validity of the 2013A Bonds and (ii) relating to the Official Statement, as described in the Preliminary Official Statement.

Legal Opinion

The approving opinion of Kutak Rock LLP, Richmond, Virginia, Bond Counsel, in substantially the form set forth as an appendix to the Preliminary Official Statement, will be furnished without cost to the successful bidder. The Preliminary Official Statement contains a discussion of the effect of the Internal Revenue Code of 1986, as amended, on the exclusion from gross income for federal income tax purposes of interest on the 2013A Bonds and a discussion of Bond Counsel's opinion insofar as it concerns such exclusion.

CUSIP Numbers

CUSIP numbers will be applied for with respect to the 2013A Bonds, but the Authority will assume no obligation for the assignment or printing of such numbers on the 2013A Bonds or for the correctness of such numbers, and neither the failure to print such numbers on any 2013A Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the successful bidder to accept delivery of and make payment for the 2013A Bonds.

*Preliminary, subject to revision as described herein.

Amendments

In addition to any changes in the bid date or amounts of the 2013A Bonds provided for herein, the Authority otherwise reserves the right to amend this Notice of Sale. The Authority expects it would publish notification of such amendment via *PARITY*® by 9:30 A.M., RICHMOND, VIRGINIA TIME, ON THE BID DATE and would provide notification by facsimile or e-mail transmission to prospective bidders who have so requested such notification and provided applicable contact information to First Southwest Company.

Official Statement

The Preliminary Official Statement dated as of the date hereof (the "Preliminary Official Statement") and the information contained therein have been deemed final by the State Treasurer as of its date within the meaning of Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12") with permitted omissions, but is subject to change without notice and to completion or amendment in the final Official Statement.

The Authority, at its expense, will make available to the successful bidder a reasonable number of final Official Statements, for delivery to each potential investor requesting a copy of the final Official Statement and to each person to whom such bidder and members of its bidding group initially sell the 2013A Bonds, within seven business days of the award of the 2013A Bonds, provided that the successful bidder cooperates in providing the information required to complete the final Official Statement.

The successful bidder shall comply with the requirements of Rule 15c2-12 and the rules of the MSRB, including its obligation to provide information to the Treasury Board on a timely basis for the final Official Statement.

Continuing Disclosure

In order to assist bidders in complying with Rule 15c2-12(b)(5), the Authority will undertake, pursuant to a Continuing Disclosure Agreement, to provide certain annual financial information and operating data and notices of the occurrence of certain events, if material. A description of the undertakings is set forth in the Preliminary Official Statement and also will be set forth in the final Official Statement.

Additional Information

For further information relating to the 2013A Bonds, reference is made to the Preliminary Official Statement, dated the date hereof prepared for and authorized by the Authority. The Preliminary Official Statement may be obtained via the Internet at www.idealprospectus.com. Physical copies are available upon request by calling I-Deal Prospectus LLC at (212) 849-5021, or from the undersigned through the Office of the State Treasurer, Third Floor, James Monroe Building, 101 North 14th Street, Richmond, VA 23219 (telephone (804) 225-2142; telecopy (804) 225-3187), or from the financial advisor, First Southwest Company (telephone (212) 642-4350; telecopy (212) 642-4357).

Dated: September 10, 2013

VIRGINIA COLLEGE BUILDING AUTHORITY

*Preliminary, subject to revision as described herein.