VIRGINIA COLLEGE BUILDING AUTHORITY

FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2012

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Table of Contents

This section of the annual financial report of the Virginia College Building Authority (the Authority) presents an analysis of the Authority's financial performance during the fiscal year that ended on June 30, 2012. This information should be considered in conjunction with the information contained in the financial statements, which follow this section.

Authority Activities and Highlights

The Virginia College Building Authority is authorized to issue revenue bonds and notes to finance (1) capital projects of public institutions of higher education under the Pooled Bond Program; (2) capital projects of public institutions of higher education under the 21st Century College and Equipment Programs; and (3) loans to private, non-profit institutions of higher education within the Commonwealth.

Under the Pooled Bond Program, bonds of the Authority are secured by notes of participating institutions of higher education to which the general revenues of the college or university have been pledged. During the year, the Authority issued $327.8 million of bonds under this Program.

The 21st Century Program and the Equipment Program were established in 1996 and 1986, respectively, and provide financing for state-supported institutions of higher education. The 21st Century Program provides funding for capital projects designated by the General Assembly. The Equipment Program provides funding for educational equipment. Bonds for both programs are payable from amounts to be appropriated by the General Assembly, and are frequently issued together as a single 21st Century College and Equipment Programs offering. During the year, the Authority issued $607.6 million of bonds under this Program.

The Authority is also authorized to issue conduit revenue bonds and notes to finance educational projects through loans to private, non-profit institutions of higher education within the Commonwealth. Since these financings are not obligations of the Commonwealth, they are not included in these financial statements. However, for informational purposes only, a Schedule of Outstanding Bond Issues for Private Colleges and Universities is included on page 18 of this report.

Overview of the Financial Statements

This discussion and analysis is an introduction to the Authority's basic financial statements, which are comprised of two components: 1) combined government-wide and fund financial statements and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities are two basic financial statements that report information about the Authority as a whole. The data is reported using the accrual basis of accounting, and provides insight as to whether or not the Authority's total financial position has improved as a result of the current year's activities.

The Statement of Net Assets presents all of the Authority's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases and decreases in net assets measure whether the Authority's financial position is improving or deteriorating.

The Statement of Activities presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. receipt or payments on long-term debt obligations).

Both statements report governmental activities. The financial information in this section is related to Authority programs backed by appropriations from the Commonwealth and by note obligations from institutions of higher education. This includes the Authority's 21st Century College and Equipment Programs and Pooled Bond Program.

Fund Financial Statements
The fund financial statements provide detailed information about the major individual funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Authority uses to keep track of specific sources of funding and spending for a particular purpose.

All of the Authority's activity is reported in Governmental Funds Financial Statements. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental funds financial statements focus on near-term inflows and outflows of spendable resources. This approach is known as using the current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the Authority's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Authority.

Because the focus of governmental funds is narrower 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. By doing so, readers may better understand the long-term impact of the government'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 the governmental activities. These reconciliations are presented in the adjustment column in each of the financial statements.

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 the fund financial statements.

Government-wide Financial Analysis of the Authority

The primary purpose of the Authority is to provide a vehicle for financing capital and equipment needs for state supported institutions of higher education. The Department of the Treasury provides staff support for the Authority. Consequently, the only operating costs are those attributable to its financing programs, which are paid from bond proceeds. The Authority owns no capital assets.

Condensed Statement of Net Assets
(in millions)

	2012	2011
Current assets	$ 451	$ 341
Noncurrent assets	1,664	1,592
Total assets	2,115	1,933
Current liabilities	578	596
Noncurrent liabilities	3,958	3,346
Total liabilities	4,536	3,942
Net assets (deficit):		
Restricted	90	-
Unrestricted	(2,511)	(2,008)
Total net assets (deficit)	$ (2,421)	$ (2,008)

Net assets decreased by $413 million, or 21%, in fiscal year 2012 as compared to fiscal year 2011. The 21st Century College and Equipment Programs comprise the majority of the Authority's net assets. During the year the Authority spent $689 million on disbursements to institutions and on bond interest expenses. Offsetting revenues were only $279 million. The Authority's total assets did increase by $181 million, or 9%, primarily attributable to a $133 million increase in the 21st Century College and Equipment Programs' assets and a $49 million increase in the Pooled Bond Program's total assets. Increases in assets for both Programs were driven by the issuance of bonds. Increases in liabilities under the Pooled Bond Program offset the Pooled Bond asset increase, leaving a minimal change in Pooled Bond net assets, while liabilities under the 21st Century College and Equipment Programs increased by $546 million. The increase in 21st Century liabilities is tied to bonds issued. 21st Century bond proceeds are spent almost as fast as they are received, leaving little to no increase in total assets to offset the increase in liabilities which results from the issuance of bonds.

Deficit net assets reported by the Authority are a function of the reporting of outstanding obligations for the 21st Century College and Equipment Programs without the reporting of the corresponding appropriation receivable from the Commonwealth, which secures these bonds. This is done since future appropriations are not considered available and do not constitute a legally binding commitment, and generally accepted accounting principles do not permit the reporting of these receivables prior to their receipt. The General Assembly has never failed to appropriate funds to the Authority for payment of debt service on the Authority's bonds.

Condensed Statement of Activities
(in millions)

	2012	2011
Revenues:		
Appropriations from the Commonwealth	$ 190	$ 180
Other revenues	89	82
Total revenues	279	262
Expenses:		
Interest on long-term debt	160	144
Construction and equipment disbursements	529	483
Other	3	3
Total expenses	692	630
Decrease in net assets	(413)	(368)
Net assets (deficit) July 1	(2,008)	(1,640)
Net assets (deficit) June 30	$ (2,421)	$ (2,008)

The increase in revenues of $17 million, or 6%, is attributable to a $17 million increase in debt service-related receipts. The increase in expenditures of $61 million, or 10%, is primarily due to an $24 million increase in disbursements to institutions for equipment allocation expenses, combined with an increase of $21 million in disbursements for capital project activity and an increase of $16 million in debt service-related disbursements.

Financial Analysis of the Authority's Funds

In the Special Revenue Fund, total assets increased by $100 million, or 37%, in fiscal year 2012. This is primarily attributable to current period receipts (comprised of $863 million in bond proceeds and $353 million in receipts for debt service), exceeding current period expenditures (comprised of $762 million in disbursements to institutions and $352 million in debt service expenditures). Liabilities decreased by $23 million, or 19%. This is primarily due to lower year-end payables due to the institutions, which fluctuate with construction schedules and reimbursement requests.

Debt Administration

As a financing entity, the whole business of the Authority is debt administration. The Authority issues bonds to finance capital projects approved by the General Assembly of the Commonwealth of Virginia. Depending on the program, certain bonds are secured by obligations of the recipient institutions of higher education; other bonds are secured by amounts to be appropriated by the General Assembly. The table below summarizes bond issuance activity during the year under each program.

Summary of Authority Bond Obligations
(in millions)

	21st Century Program - Capital	21st Century Program - Equipment	Pooled Bond Program	Total
Outstanding, 7/1/11	$ 1,698	$ 137	$ 1,634	$ 3,469
Issued during year	510	97	328	935
Retired during year	(78)	(38)	(73)	(189)
Defeased during year	-		(173)	(173)
Deferral on debt defeasance	(14)	-	-	(14)
Outstanding, 6/30/12	$ 2,116	$ 196	$ 1,716	$ 4,028

The Authority obtains bond ratings from Moody's Investors Service (Moody's), Standard and Poor's Rating Service (S&P) and Fitch Ratings, Inc. (Fitch). The table below summarizes the ratings on outstanding Authority bonds.

Virginia College Building Authority Bond Ratings

	Moody's	S&P	Fitch
21st Century College and Equipment Programs	Aa1	AA+	AA+
Pooled Bond Program	Aa1	AA	AA+

Since the Authority's bond programs are either backed by state appropriations (21st Century College and Equipment Programs) or carry the credit support of the State Aid Intercept Provision (Pooled Bond Program), the bond ratings are a direct reflection of the Commonwealth's triple-A rating from each of the three rating agencies.

Future Impact to Financial Position

The Authority received applications from nine institutions for the 2012 fall pool. The applications are to fund twelve projects totaling $154 million. The related bonds, totaling $141 million, were sold on November 8, 2012 with an expected closing date of November 29, 2012.

The Authority will be issuing approximately $377.6 million in Educational Facilities Revenue Bonds to finance certain capital projects at public institutions of higher education. The bond sale is scheduled for November 28, 2012, with an anticipated closing of December 16, 2012.

VIRGINIA COLLEGE BUILDING AUTHORITY

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET

As of June 30, 2012

	Special Revenue Fund	Adjustments (Note 1F)	Statement of Net Assets
ASSETS			
Current assets:			
Cash and cash equivalents	$ 368,613,786	$ -	$ 368,613,786
Short-term notes receivable	-	82,400,000	82,400,000
Interest receivable	75,312	-	75,312
Total current assets	368,689,098	82,400,000	451,089,098
Noncurrent assets:			
Restricted cash and cash equivalents	1,373,865	-	1,373,865
Long-term notes receivable	-	1,633,115,000	1,633,115,000
Restricted interest receivable	11	23,999,822	23,999,833
Due from the federal government	-	5,411,467	5,411,467
Total noncurrent assets	1,373,876	1,662,526,289	1,663,900,165
Total assets	$ 370,062,974	1,744,926,289	2,114,989,263
LIABILITIES			
Current liabilities:			
Due to higher education institutions	$ 77,313,262	179,646,741	256,960,003
Allocation payable	21,507,121	-	21,507,121
Interest payable	-	71,704,011	71,704,011
Bonds payable (net of deferral on debt defeasance)	-	212,310,900	212,310,900
Premium on bonds sold	-	15,371,643	15,371,643
Accounts payable	-	15,159	15,159
Total current liabilities	98,820,383	479,048,454	577,868,837
Noncurrent liabilities:			
Bonds payable (net of deferral on debt defeasance)	-	3,815,568,800	3,815,568,800
Premium on bonds sold	-	142,853,019	142,853,019
Total noncurrent liabilities	-	3,958,421,819	3,958,421,819
Total liabilities	98,820,383	4,437,470,273	4,536,290,656
FUND BALANCE/NET ASSETS:			
Fund balance:			
Restricted for construction and equipment	269,868,726	(269,868,726)	-
Restricted for debt service	1,373,865	(1,373,865)	-
Total fund balance	271,242,591	(271,242,591)	-
Total liabilities and fund balance	$ 370,062,974		
Net assets (deficit):			
Restricted for construction and equipment purchases		90,206,815	90,206,815
Restricted for debt service		1,193	1,193
Unrestricted		(2,511,509,401)	(2,511,509,401)
Total net assets (deficit)		$ (2,421,301,393)	$ (2,421,301,393)

The accompanying notes are an integral part of the financial statements.

VIRGINIA COLLEGE BUILDING AUTHORITY

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

For the Fiscal Year Ended June 30, 2012

	Special Revenue Fund	Adjustments (Note 1F)	Statement of Activities
REVENUES:			
Interest on investments	$ 823,473	$ (620,713)	$ 202,760
Interest on bonds	75,639,430	(55,957)	75,583,473
Receipt of note principal payments	72,759,928	(72,759,928)	-
Appropriations from the Commonwealth	189,555,786	-	189,555,786
Interest on Build America Bonds	14,631,203	(1,079,291)	13,551,912
Total revenues	353,409,820	(74,515,889)	278,893,931
EXPENDITURES/EXPENSES:			
Current:			
Legal and financial services	353,738	(210,156)	143,582
Bond rating fees	561,017	(260,617)	300,400
Printing and electronic distributions	8,749	(5,080)	3,669
Equipment allocation	61,838,196	-	61,838,196
Disbursement to higher education institutions	677,971,354	(210,831,419)	467,139,935
Underwriter's discount	4,626,864	(2,579,339)	2,047,525
Miscellaneous	193,658	(182,192)	11,466
Debt service:			
Principal retirement	188,765,000	(188,765,000)	-
Interest and fiscal charges	163,250,234	(2,827,132)	160,423,102
Total expenditures/expenses	1,097,568,810	(405,660,935)	691,907,875
			-
Excess (deficiency) of revenues over (under) expenditures	(744,158,990)	-	-
Other financing sources (uses):			
Bond issuance	935,400,000	(935,400,000)	-
Bond premium	125,754,017	(125,754,017)	-
Proceeds from the sale of bonds	-	-	-
Payments to refunded bond escrow agent	(193,140,527)	193,140,527	-
Total other financing sources (uses)	868,013,490	(868,013,490)	-
Excess of revenues and other financing sources over expenditures and other financing uses	123,854,500	(123,854,500)	-
Change in net assets	-	(413,013,944)	(413,013,944)
Fund balance/Net assets (deficit), July 1, 2011	147,388,091	(2,155,675,540)	(2,008,287,449)
Fund balance/Net assets (deficit), June 30, 2012	$ 271,242,591	$ (2,692,543,984)	$ (2,421,301,393)

The accompanying notes are an integral part of the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia College Building Authority (the "Authority") was created by the Virginia College Building Authority Act of 1966, Chapter 3.2, Title 23, *Code of Virginia*. The Authority is a public body corporate and a political subdivision, agency, and instrumentality of the Commonwealth. Under this chapter, the Authority is authorized to issue revenue bonds and notes to finance (i) capital projects under the Authority's Pooled Bond Program, and (ii) capital projects under the Authority's 21st Century College and Equipment Programs for all public institutions of higher education of the Commonwealth.

Under the Pooled Bond Program, the Authority issues its bonds and uses the proceeds thereof to purchase notes of public institutions of higher education in the Commonwealth. Proceeds are used by the institutions to finance or refinance capital projects approved by the General Assembly. Authority bonds issued under the Pooled Bond Program are secured by payments on the notes to which the institutions have pledged their general revenues. Pooled Bond Program bonds have been issued under a Master Indenture of Trust dated as of September 1, 1997 (the "1997 Indenture").

Under the 21st Century College and Equipment Programs, bonds are issued under the Master Indenture of Trust dated December 1, 1996 (the "1996 Indenture"), which provides for the payment of debt service from amounts to be appropriated by the General Assembly through a payment agreement between the Authority and the Treasury Board. Title to the capital projects financed remains with the Commonwealth.

Pursuant to the Educational Facilities Authority Act, Chapter 3.3 of Title 23, *Code of Virginia*, the Authority is authorized to issue revenue bonds and notes and to use the proceeds thereof to finance educational facilities projects through loans to private, non-profit institutions of higher education within the Commonwealth. Such financings are not obligations of the Commonwealth, but are limited obligations of the Authority payable solely from loan payments made by the private, non-profit institutions of higher education. This indebtedness, therefore, is not included in the financial statements. Total debt outstanding under this program at June 30, 2012 was $639,597,000. (Detailed information for this program is presented on page 18 in the Supplementary Information section following the Notes to the Financial Statements.)

A separate report is prepared for the Commonwealth of Virginia, which includes all agencies, boards, commissions, and authorities over which the

Commonwealth exercises or has the ability to exercise oversight authority. The Authority is a component unit of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth.

The accounting and reporting policies of the Authority conform to generally accepted accounting principles applicable to governmental units as prescribed by the Governmental Accounting Standards Board (GASB), the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the Authority's more significant policies.

B. Measurement Focus and Basis of Accounting

The accompanying financial statements are presented using the accounting principles generally accepted in the United States of America as prescribed by GASB. The government-wide statements use the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when they are earned and expenditures are recognized when the related liability is incurred, regardless of the timing of related cash flows.

The accompanying governmental funds financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available to fund current operations. Expenditures are recognized when the related fund liability is incurred, except for principal and interest on long-term debt which is recognized when due.

The Authority uses the cash basis of accounting during the year and reports on the accrual and modified accrual basis for financial statement purposes at the end of the fiscal year.

C. Fund Accounting

The activities of the Authority are accounted for in a Special Revenue Fund. The Special Revenue Fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Special Revenue Fund consists of bond proceeds, bond funds and issuance expense funds. Included are funds established in accordance with the provisions of the 1996 Indenture with the Bank of New York Mellon for the 21^{st} Century College Program and the Equipment Program revenue bonds issued by the Authority, since their consolidation in 1999. Also included are the outstanding bonds issued under the Authority's Pooled Bond Program.

D. Bond Issuance Costs, Premiums, and Discounts

Costs associated with issuing debt are expensed in the year incurred. The original issue premium or discount, for each bond issuance, is also expensed in the year incurred unless it exceeds 1% of the amount of the bonds issued. In that case, the original issue premium or discount is deferred and amortized, on a straight-line basis, over the life of the outstanding debt.

E. Budget to Actual Statement

Due to the nature of activity accounted for by the Authority, a budget is not prepared. Therefore, a Statement of Revenues, Expenditures, and Changes in Balances – Budget to Actual is not included in the financial statements.

F. Adjustments

The adjustments column represents the recording of bonds payable liabilities on the Statement of Net Assets and the related effect of these transactions on the Statement of Activities. Governmental fund statements do not reflect bonds payable. The non-current portion of bonds payable includes those payments that are not due and payable in the current period.

2. DETAILED NOTES

A. Cash and Cash Equivalents

The Bank of New York Mellon holds certain deposits and cash equivalents of the Authority as trustee. Other funds of the Authority are invested in the State Treasurer's Local Government Investment Pool. Cash is defined as demand deposits, non-negotiable time deposits and certificates of deposit in accordance with Section 2.2-4401 of the *Code of Virginia*. Cash equivalents are defined as investments with an original maturity of less than three months.

Deposits held by trustees are collateralized in accordance with the Trust Subsidiary Act, Section 6.1-32.8 et seq. of the *Code of Virginia*. Under the Act, the affiliate bank delivers securities to the trust department as collateral that is at least equal to the market value of the trust funds held on deposit in excess of amounts insured by federal deposit insurance.

Under a Master Indenture of Trust dated December 1, 1996, and under a Master Indenture of Trust dated September 1, 1997, the trustee is authorized to invest in the following investments: bonds, notes and other obligations issued or guaranteed by the United States government; bonds, notes and other evidences of indebtedness of any state of the United States of America or any locality of any state of the United States of America that meet the requirements of *Code*

Sections 2.2-4500 and 2.2-4501A.3; and investments made pursuant to the Investment of Public Funds and Local Government Investment Pool Act. At June 30, 2012, The Bank of New York Mellon, which currently serves as trustee for both Indentures, maintained $369,939,176 in cash and cash equivalents for the Authority. The Authority also directly held cash equivalents of $48,475 for a total invested balance of $369,987,651.

At June 30, 2012, the Authority's funds were held in the Local Government Investment Pool, the State Non-Arbitrage Program®, and other money market funds. All investments of the Authority are rated AAA by Standard and Poor's. Details of the Authority's investments are presented in the following schedule.

Summary of Cash and Cash Equivalents
As of June 30, 2012

	Fair Value
Cash and cash equivalents:	
State Non-Arbitrage Program ® (1)	$ 179,615,620
Local Government Investment Pool (2)	188,998,013
Money Market Funds (3)	1,374,018
Total cash and cash equivalents	$ 369,987,651

(1) The Virginia State Non-Arbitrage Program® (SNAP®) offers a professionally-managed money market mutual fund, which provides issuers with a temporary pooled investment vehicle for proceeds pending expenditure, and with record keeping, depository and arbitrage rebate calculation services. SNAP® is an external investment pool registered under the Investment Company Act of 1940.

(2) The Local Government Investment Pool (LGIP) enables governmental entities to maximize their return on investments by providing for a State administered fund where monies can be commingled for investment purposes in order to realize the economies of large-scale investing and professional funds management. The LGIP is not registered with the Securities Exchange Commission (SEC) as an investment company, but maintains a policy to operate in conformity with the SEC's Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended.

(3) The Authority invests certain short-term cash balances held within its accounts in the Fidelity Treasury Money Market. This is an open-ended mutual fund registered under the Investment Company Act of 1940. The fund maintains a policy of investing all their assets in U.S. Treasury obligations and repurchase agreements backed by those obligations.

B. <u>Notes Receivable</u>

Under the Authority's Pooled Bond Program, note payments made by the public institutions of higher education under the terms of note agreements between the Authority and the institutions provide for the payment of debt service on the Pooled Bonds. A summary of future minimum note payments due from the institutions is shown in the schedule on the following page.

Future Minimum Note Payments Due from Institutions
As of June 30, 2012

Year Ending June 30	Principal	Interest	Total
2013	$ 82,400,000	$ 78,067,366	$ 160,467,366
2014	90,095,000	74,505,067	164,600,067
2015	93,905,000	70,148,750	164,053,750
2016	98,100,000	65,624,713	163,724,713
2017	97,635,000	60,942,013	158,577,013
2018 - 2022	500,995,000	233,199,035	734,194,035
2023 - 2027	439,675,000	121,948,334	561,623,334
2028 - 2032	230,820,000	40,872,051	271,692,051
2033 - 2037	59,585,000	12,202,746	71,787,746
2038 - 2041	22,305,000	1,801,848	24,106,848
Total	$ 1,715,515,000	$ 759,311,923	$ 2,474,826,923

C. <u>Due from the Federal Government</u>

The America Recovery and Reinvestment Act of 2009 permits the Authority to issue federally taxable bonds known as “Build America Bonds” to finance capital expenditures. Under the “Build America Bond” program, instead of issuing federally tax-exempt bonds, the Authority can issue federally taxable Build America Bonds and elect to receive a subsidy payment from the federal government equal to 35% of each interest payment due semiannually on such taxable bonds. The Authority has issued three such series of bonds, beginning in fiscal year 2010 (the 21st Century College and Equipment Programs Series 2009F and 2010B, and the Pooled Bond Program Series 2010A). Therefore, the Authority is accruing a receivable from the federal government for the subsidy payments which will be due on August 1, 2012 (21st Century Bonds) and September 1, 2012 (Pooled Bonds). However, it should be noted that the subsidy payments have not been pledged to the payment of the Build America Bonds, and the subsidy payments are not full faith and credit obligations of the United States. As such, future debt service payments have been reflected in these financial statements at their gross amounts, without consideration of possible future subsidy payments.

D. <u>Due to Higher Education Institutions</u>

Bonds were issued under the Pooled Bond Program and the proceeds of these bonds were used to purchase institutional notes from various public institutions of higher education. These institutions in turn will use the proceeds of the notes to finance capital projects. Therefore, the unspent portion of the note proceeds still held by the trustee at June 30, 2012 in the Special Revenue Fund is reflected as “due to higher education institutions” in the government-wide statements. Amounts reflected as “due to higher education institutions” in the fund financial statements represent normal year-end payables to institutions as a result of on-going operations.

E. Allocation Payable

During the current fiscal year, the Authority issued bonds to support the General Assembly allocations of $56,100,972 (FY 2011 allocation) and $56,100,972 (FY 2012 allocation) to finance the purchase of equipment at public institutions of higher education. The Authority is committed by this to reimburse institutions of higher education for the cost of equipment from its cash and investments. Institutions purchased and obtained reimbursement for $54,587,672 in equipment, relating to the FY 2011 appropriation during the current fiscal year, leaving $1,513,300 of this allocation outstanding at June 30, 2012. Additionally, institutions purchased and obtained reimbursement for $8,999,166 in equipment, relating to the FY 2012 appropriation during the current fiscal year, leaving $47,101,806 of this allocation outstanding at June 30, 2012. A portion of this allocation payable is presented in the Special Revenue Fund, which represents the amount that is currently due and payable.

In addition, the institutions purchased and obtained reimbursement for $749,562 of equipment relating to prior years’ appropriations by the General Assembly.

F. Long-Term Indebtedness

Changes in Long-Term Debt - The following is a summary of changes in long-term debt of the Authority for the year ended June 30, 2012.

Bonds payable at July 1, 2011	$ 3,453,015,600
Bonds issued	935,400,000
Bonds retired	(188,765,000)
Bonds refunded	(173,445,000)
Annual amortization of debt defeasance	1,674,100
Bonds payable at June 30, 2012	$ 4,027,879,700

The schedule on the following page reflects the amounts needed to amortize long-term debt.

Annual Requirements to Amortize Long-Term Debt
As of June 30, 2012

Year Ending June 30	Principal	Interest	Total
2013	$ 213,985,000	$ 184,417,638	$ 398,402,638
2014	229,150,000	173,251,811	402,401,811
2015	243,790,000	162,585,572	406,375,572
2016	246,110,000	151,601,250	397,711,250
2017	251,910,000	140,548,114	392,458,114
2018 - 2022	1,135,785,000	540,072,324	1,675,857,324
2023 - 2027	1,026,110,000	291,849,900	1,317,959,900
2028 - 2032	613,470,000	83,260,827	696,730,827
2033 - 2037	59,585,000	12,202,746	71,787,746
2038 - 2041	22,305,000	1,801,848	24,106,848
Less: Deferral on debt defeasance	(14,320,300)	-	(14,320,300)
Total	$4,027,879,700	$1,741,592,030	$ 5,769,471,730

G. Defeasance of Debt

From time to time, when interest rates indicate that it would be favorable to do so, the Authority has issued refunding bonds to defease outstanding bonds. These refundings have placed the proceeds of the new bonds in irrevocable trusts with escrow agents to provide for all future debt service on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included on the Authority's financial statements.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities," the difference between the reacquisition price and the net carrying amount of the bonds defeased with refunding debt is amortized as a component of Interest on Bonds over the remaining life of the refunded debt. However, the deferral amount for the Pooled Bond Program has been allocated to the participating institutions and is therefore not reflected in the Authority's financial statements. Therefore, Bonds Payable has been reduced by $14,320,300 related to 21st Century College Program, to reflect the remaining deferral on debt defeasance at June 30, 2012.

The Authority issued one series of refunding bonds in fiscal year 2012. The schedule on the following page reflects the refunding activity during the year.

Refunding Bonds Issued During Fiscal Year 2012

Program	Refunding Issue	Refunded Issue	Maturities Defeased	Amount Defeased
Pooled	2012A	2003A	2014-2016, 2021-2030	$ 50,695,000
Pooled	2012A	2004A	2015-2027	66,495,000
Pooled	2012A	2005A	2017-2024	56,255,000
		Total Defeased, FY 2012		$ 173,445,000

The issuance of the Authority's Series 2012A Pooled Program refunding bonds refunded three series of the Authority's bonds as reflected on the above schedule. 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 a present value savings of $16,245,212 discounted at the rate of 2.0897277 percent.

At June 30, 2012, $488,435,000 of bonds outstanding are considered defeased for financial reporting purposes.

H. Deficit Net Assets

Generally accepted accounting principles direct that governmental funds recognize revenues in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Under the 21st Century College and Equipment Programs, bonds issued under the Master Indenture of Trust dated December 1, 1996 are secured by General Assembly appropriations through a payment agreement between the Authority and the Treasury Board. Because future appropriations are not considered available and do not constitute a legally binding commitment, the Authority ended the year with a fund deficit of $2,421,301,393. The General Assembly has never failed to appropriate funds to the Authority for payment of debt service on the Authority's bonds.

I. Subsequent Events

The Authority received applications from nine institutions for the 2012 fall pool. The applications are to fund twelve projects totaling $154 million. The related bonds, totaling $141 million, were sold on November 8, 2012 with an expected closing date of November 29, 2012.

The Authority will be issuing approximately $377.6 million in Educational Facilities Revenue Bonds to finance certain capital projects at public institutions of higher education. The bond sale is scheduled for November 28, 2012, with an anticipated closing of December 16, 2012.

J. Risk Management

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

VIRGINIA COLLEGE BUILDING AUTHORITY
SUPPLEMENTARY INFORMATION

Detail of Long-Term Indebtedness

June 30, 2012

(Dollars in Thousands)

Detail of Long-Term Indebtedness by Series

	Dated Date	Bond Program	True Interest Cost ("TIC")	Amount Issued	Institutional Notes Purchased	Outstanding July 1, 2011	Issued (Retired) During Year	Outstanding June 30, 2012 *	Original Maturity
Series 1998A	10/01/98	Pooled	4.56%	50,735	50,735	2,545	(2,545)	-	09/01/18
Series 2001A	10/01/01	Pooled	4.51%	69,365	69,365	2,930	(2,930)	-	09/01/26
Series 2002	05/15/02	21st Century/Equip.	4.55%	130,795	-	3,865	(3,865)	-	02/01/22
Series 2002A	10/15/02	Pooled	4.60%	134,945	134,945	12,185	(5,950)	6,235	09/01/27
Series 2003A	05/15/03	21st Century/Equip.	3.66%	140,250	-	9,880	(4,820)	5,060	02/01/23
Series 2003A	11/01/03	Pooled	4.22%	115,715	115,715	65,605	(55,445)	10,160	09/01/30
Series 2004A	07/01/04	21st Century/Equip.	4.13%	172,745	-	17,010	(5,395)	11,615	02/01/24
Series 2004A	10/01/04	Pooled	4.25%	112,935	112,935	93,245	(70,655)	22,590	09/01/35
Series 2004B Refunding	10/01/04	Pooled	3.75%	103,205	103,205	91,970	(6,860)	85,110	09/01/19
Series 2004B Refunding	12/01/04	21st Century	4.06%	61,395	-	47,320	(7,050)	40,270	02/01/20
Series 2005A	05/15/05	21st Century/Equip.	3.79%	115,785	-	16,330	(2,665)	13,665	02/01/25
Series 2005A	11/03/05	Pooled	4.27%	115,975	115,975	95,635	(60,665)	34,970	09/01/26
Series 2006BC	09/14/06	21st Century/Equip.	VAR	120,000	-	106,120	(5,295)	100,825	02/01/26
Series 2006A	11/30/06	Pooled	4.16%	156,130	156,130	139,600	(5,645)	133,955	09/01/28
Series 2007A Refunding	02/27/07	21st Century	4.08%	59,125	-	59,125	-	59,125	02/01/22
Series 2007A	10/31/07	Pooled	4.38%	216,905	216,905	200,145	(6,935)	193,210	09/01/37
Series 2007B	05/31/07	21st Century/Equip.	4.04%	132,095	-	40,620	(19,760)	20,860	02/01/27
Series 2007B Refunding	10/31/07	Pooled	4.05%	100,765	100,765	97,060	(405)	96,655	09/01/19
Series 2008A	06/12/08	21st Century/Equip.	3.93%	144,075	-	115,495	(10,165)	105,330	02/01/28
Series 2009A	01/21/09	Pooled	4.19%	291,645	291,645	278,600	(13,170)	265,430	09/01/38
Series 2009A	04/28/09	21st Century	4.30%	284,020	-	264,560	(8,555)	256,005	02/01/29
Series 2009B	04/28/09	21st Century	5.04%	84,680	-	67,585	(8,450)	59,135	02/01/18
Series 2009C Refunding	04/28/09	21st Century	2.45%	12,945	-	10,500	(1,915)	8,585	02/01/15
Series 2009D	10/08/09	21st Century/Equip.	2.05%	52,420	-	46,575	(6,905)	39,670	02/01/17
Series 2009E1 Refunding	10/08/09	21st Century	3.01%	134,000	-	134,000	-	134,000	02/01/24
Series 2009E2 Refunding	10/08/09	21st Century	2.80%	74,860	-	74,595	(270)	74,325	02/01/23
Series 2009B	12/09/09	Pooled	4.01%	235,945	235,945	231,680	(6,885)	224,795	09/01/39
Series 2009F1	12/17/09	21st Century	0.91%	53,880	-	41,205	(13,155)	28,050	02/01/14
Series 2009F2	12/17/09	21st Century	3.31%	390,575	-	390,575	-	390,575	02/01/30
Series 2010A	06/02/10	21st Century/Equip.	1.80%	50,350	-	43,325	(6,795)	36,530	02/01/17
Series 2010B-1	10/26/10	21st Century	1.36%	55,815	-	55,815	(10,945)	44,870	02/01/15
Series 2010B-2	10/26/10	21st Century	2.82%	290,600	-	290,600	-	290,600	02/01/30
Series 2010A-1	11/18/10	Pooled	1.83%	65,060	65,060	65,060	(4,460)	60,600	09/01/18
Series 2010A-2	11/18/10	Pooled	3.40%	156,610	156,610	156,610	-	156,610	09/01/40
Series 2010B Refunding	11/18/10	Pooled	2.87%	101,040	101,040	101,040	(3,655)	97,385	09/01/27
Series 2011A	08/16/11	21st Century/Equip.	3.27%	272,515	-	-	272,515	272,515	02/01/32
Series 2011A	11/16/11	Pooled	3.32%	163,335	163,335	-	163,335	163,335	09/01/36
Series 2012A	03/29/12	Pooled	2.25%	164,475	164,475	-	164,475	164,475	09/01/30
Series 2012A	05/03/12	21st Century/Equip.	2.85%	335,075	-	-	335,075	335,075	02/01/32
Total				$ 5,522,785	$ 2,354,785	$ 3,469,010	$ 573,190	$ 4,042,200	

Detail of Long-Term Indebtedness by Program

	Amount Issued	Institutional Notes Purchased	Outstanding July 1, 2,011	Issued (Retired) During Year	Outstanding June 30, 2012 *
21st Century College Program	$ 2,668,645	$ -	$ 1,698,130	$ 432,240	$ 2,130,370
Pooled Bond Program	2,354,785	2,354,785	1,633,910	81,605	1,715,515
Equipment Program	499,355	-	136,970	59,345	196,315
Total	$ 5,522,785	$ 2,354,785	$ 3,469,010	$ 573,190	$ 4,042,200

* Excludes deferral on debt defeasance

VIRGINIA COLLEGE BUILDING AUTHORITY
SUPPLEMENTARY INFORMATION

Schedule of Outstanding Bond Issues for Private Colleges and Universities

June 30, 2012

(Dollars in Thousands)

College/University	Series	Dated Date	Yield (a)	Amount Originally Issued	Amount of Notes Purchased	Outstanding July 1, 2011	Issued (Retired) During Year	Outstanding June 30, 2012	Original Final Maturity
Hampden-Sydney College	2010	05/13/10	2.57%	7,190	7,190	6,325	(910)	5,415	09/01/18
Hampton University	2003	04/16/03	3.64%	16,670	16,670	5,205	(1,660)	3,545	04/01/14
	2005	04/29/05	4.16%	24,500	24,500	21,065	(1,640)	19,425	04/01/20
Liberty University	2010	12/21/10	4.85%	119,705	119,705	119,705	(910)	118,795	03/01/41
Lynchburg College	2010	12/21/10	VAR	8,838	8,838	8,680	(423)	8,257	12/01/34
Marymount University	1998	11/01/98	5.08%	26,015	26,015	18,050	(955)	17,095	07/01/28
	2009	03/04/09	VAR	40,000	40,000	40,000	(300)	39,700	03/01/39
Randolph Macon College	1998	04/01/98	4.59%	9,830	9,830	9,830	-	9,830	03/01/13
Regent University	2006	08/09/06	5.03%	99,105	99,105	88,960	(485)	88,475	06/01/36
Roanoke College	2007	06/06/07	4.64%	20,430	20,430	18,805	(445)	18,360	06/30/37
Shenandoah University	2006	11/16/06	VAR	21,895	21,895	20,400	(20,400)	-	11/01/36
	2011	12/09/11	VAR	36,455	36,455	-	36,455	36,455	12/27/36
University of Richmond	2004A	08/01/04	VAR	46,000	46,000	46,000	-	46,000	08/01/34
	2006	11/08/06	VAR	55,900	55,900	55,900	-	55,900	11/01/36
	2011A	02/01/11	3.14%	27,045	27,045	27,045	(1,690)	25,355	03/01/23
	2011B	02/28/11	3.19%	40,505	40,505	40,505	-	40,505	03/01/21
Washington & Lee University	1998	04/01/98	5.10%	52,205	52,205	52,205	-	52,205	01/01/31
	2001	06/01/01	5.35%	43,000	43,000	43,000	-	43,000	01/01/34
	2006	08/10/06	4.26%	20,045	20,045	12,715	(1,435)	11,280	01/01/26
				$ 715,333	$ 715,333	$ 634,395	$ 5,202	$ 639,597	

(a) "Yield" refers to the NIC in most cases, to the TIC when available, and to the Arbitrage Yield in other cases.

Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

November 15, 2012

The Honorable Robert F. McDonnell
Governor of Virginia

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

Board of Directors
Virginia College Building Authority

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and major special revenue fund of the **Virginia College Building Authority**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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. 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 provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities and major special revenue fund of the Virginia College Building Authority as of June 30, 2012, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Virginia College Building Authority's basic financial statements. The Schedule of Outstanding Bond Issues for Private Colleges and Universities and Detail of Long-Term Indebtedness are presented for the purpose 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 Schedule of Outstanding Bond Issues for Private Colleges and Universities and Detail of Long-Term Indebtedness 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. In our opinion, the Schedule of Outstanding Bond Issues for Private Colleges and Universities and Detail of Long-Term Indebtedness are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated November 15, 2012 on our consideration of the Virginia College Building Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

AUDITOR OF PUBLIC ACCOUNTS

WJK/alh

VIRGINIA COLLEGE BUILDING AUTHORITY
Richmond, Virginia