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, 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 standards require 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. Additionally, in instances where the voting majority is not appointed, the above benefit/burden criteria apply. If the organization's assets are also held for, or can be accessed by, the Commonwealth, the organization is considered part of the reporting entity.

(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 units serve or benefit the primary government almost exclusively. Financial information from these units is combined with that of the primary government. The Commonwealth's blended component units are:

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.

Route 460 Funding Corporation of Virginia (nonmajor enterprise fund) – The Corporation, a private, non-stock nonprofit corporation was created to develop, construct, and provide financing for the U.S. Route 460 Corridor Improvements Project. The Corporation is a blended component unit of the Department of Transportation (VDOT) (primary government) because it is fiscally dependent on the primary government and provides services entirely to the benefit of the Commonwealth. The corporate offices of the Corporation are located at VDOT, 1401 East Broad Street, Richmond, Virginia 23219. Dixon Hughes Goodman, LLP audits the corporation, and a separate report is available from VDOT.

(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. These discrete component units serve or benefit those outside of the primary government.

GASB statements generally require 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."

Due to the implementation of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34,* the criteria for reporting certain component units as major component units has changed. This change now focuses on the nature and significance of the component unit's relationship to the primary government versus other component units.

Discretely presented component units are:

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 Resources Authority (VRA) (major) – 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. Brown, Edwards and Company, LLP audits the Authority, and a separate report is issued.

Virginia College Building Authority (VCBA) (major) – 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 $480.0 million as Program Revenue Capital Grants and Contributions for the 21st Century Program and $66.5 million as Program Revenue Operating Grants and Contributions for equipment. The Authority reported Operating Appropriations from Primary Government of approximately $197.7 million. In addition, the Authority reported approximately $29.4 million in payments from the state-supported colleges and universities for 21st Century and Equipment Program debt service costs and approximately $13.1 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 $675.5 million, is not included in the financial statements.

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 $9.3 million from the primary government. 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 higher education institutions are: the 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; Virginia Commonwealth University, including the Virginia Commonwealth University Health System Authority, 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 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 her 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 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 601 World Trade Center, Norfolk, Virginia 23510. Clifton Larson Allen 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 500, 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, as well as 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 three series of revenue bonds for specific customers, the 2002 Series, the 2013B Series, and the 2013A Series. The 2002 Series variable rate revenue bonds were for a facility built specifically for the United Network for Organ Sharing. The 2013B Series variable rate revenue bonds were for the Virginia Blood Services project. The 2013A Series variable rate revenue bonds were to assist the Institute for Transfusion Medicine (ITxM). 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, Suite 300, 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 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 (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. Didawick and Company audits the Foundation, and a separate report is issued.

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 $26.0 million in bond offerings through the Virginia Public Building Authority to the VCSFA in fiscal year 2009. The administrative offices of the Authority are located at 4111 Monarch Way, Suite 303, 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. The Partnership oversees 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. The Authority ceased to exist during fiscal year 2013.

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 the General Assembly Building, 2nd Floor, 201 North 9th Street, Richmond, VA 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 600 East Main Street, 24th Floor, Richmond, VA 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 1001 East Broad Street, Suite 3300, Richmond, VA 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. Mitchell, Wiggins and

Company, LLP audits the Foundation, and a separate report is issued.

Virginia Health Workforce Development Authority (nonmajor) – The Authority is a legally separate public body corporate and a political subdivision of the Commonwealth created by the General Assembly. The Authority facilitates the development of a statewide health professions pipeline. The Governor appoints a majority of the board members and the primary government is able to impose its will on the Authority. The administrative offices of the Authority are located at 8527 Mayland Drive, Suite 104A, Richmond, Virginia 23294. The Auditor of Public Accounts audits the Authority 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 (nonmajor 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. Brown, Edwards, and Company, LLP 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 Position 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, certain Medicaid reimbursements recorded in the General 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.

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, 2012, or March 31, 2013. Significant intrafund activity/balances between each higher education institution and their foundations have been eliminated.

The following amounts could not be eliminated due to the differing year-ends:

- Old Dominion University (nonmajor component unit):
  - institution liabilities of $69.2 million,
  - foundation assets of $59.1 million, and
  - foundation liabilities of $3.6 million.

- Longwood University (nonmajor component unit):
  - institution assets of $381,383,
  - institution expenses of $3.4 million,
  - foundation assets of $253,525,
  - foundation liabilities of $208,090, and
  - foundation revenues of $3.1 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 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 behavioral 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, 2013, the General Fund had a negative cash balance of $3.7 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 Position, 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)

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.

In addition to inventories maintained as stated above, the following agencies reported donated inventory balances on hand at June 30, 2013:

- Department of Health
- Department of Corrections
- Department of Behavioral Health and Developmental Services
- Department of Juvenile Justice

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 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.

Inventories maintained by Correctional Enterprises (internal service fund) are stated at the lower of cost or market using FIFO. Inventories maintained by the internal service funds except for Correctional Enterprises are stated at cost using FIFO.

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 lower of cost or market using FIFO.

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 Position. 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. The total interest cost incurred during the fiscal year was $11.0 million. Of this amount, $1.4 million was capitalized. 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, 2013. 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, 2013. 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.

Unearned revenue in the internal service funds represents unearned premiums in the Risk Management Fund; the transfer and purchase of assets for transition agencies, as well as advanced customer receipts in the Virginia Information Technologies Agency (VITA) Fund; and prepaid rent and work orders in the Property Management Fund.

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 2013. 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 $890.3 million and estimated underpayments total $410.8 million. This results in deferred taxes of $479.5 million.

Corporate income tax estimated overpayments total $45.6 million and estimated underpayments total $39.1 million. This results in deferred taxes of $6.5 million.

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, 2013. 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 – nonmajor 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 through enabling legislation. 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. Assignments are identified by Commonwealth management pursuant to the delegation of authority granted by the General Assembly and Governor specified in the Appropriations Act.

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

Included in Amounts Due to Other Governments is the Commonwealth's Cash Management Improvement Act (CMIA) interest liability to the federal government, which is calculated in accordance with the interest calculation and exchange provisions of the Federal Cash Management Improvement Act of 1990. The Commonwealth's interest liability is subject to review and final confirmation by the Financial Management Service (FMS) of the U.S. Treasury. The payment is to be made on March 31, 2014. Payment will be made from a sum sufficient appropriation authorized for this purpose by the Appropriation Act. 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 FMS.

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

- The Commonwealth implemented GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for the fiscal year ending June 30, 2013. As a result of this Statement, Deferred Inflow balances were restated by $535.2 million (Note 36).

- Capital Asset balances were restated by $343.6 million as follows: $339.3 million due to the implementation of GASBS No. 60 and $4.3 million due to errors attributable primarily to the Department of Conservation and Recreation that resulted in an understatement of previous balances.

- The Commonwealth Transportation (major special revenue) beginning balance has been restated by $7.3 million due to an understatement of accounts payable in the previous year.

Fund Statements

The fund statement beginning balance restatements resulted from the following:

- The Commonwealth Transportation (major special revenue) fund balance has been restated by $7.3 million as discussed previously.

- The Private Purpose Trust Fund has been restated by $1.8 million to correct errors which resulted from conversion to a new accounts receivable system by the Virginia College Savings Plan.

Beginning Balance Restatement

(Dollars in Thousands)

	Balance as of June 30, 2012	GASBS No. 60 Service Concession Arrangements	Correction of Prior Year Errors	Balance June 30, 2012 as restated
Government-wide Activities:				
Primary Government:				
Governmental Activities	$ 19,322,883	$ (195,944)	$ (2,973)	$ 19,123,966
Business-type Activities	355,944	-	-	355,944
Total Primary Government	$ 19,678,827	$ (195,944)	$ (2,973)	$ 19,479,910
Component Units	$ 21,295,765	$ -	$ -	$ 21,295,765
Fund Statements - Governmental Funds				
Major Governmental Funds:				
General	$ 512,359	$ -	$ -	$ 512,359
Special Revenue Funds:				
Commonwealth Transportation	2,746,594	-	(7,286)	2,739,308
Federal Trust	99,734	-	-	99,734
Literary	97,582	-	-	97,582
Nonmajor Governmental Funds	973,147	-	-	973,147
Total Governmental Funds	$ 4,429,416	$ -	$ (7,286)	$ 4,422,130
Fund Statements - Fiduciary Funds				
Private Purpose Funds	$ 2,311,338	$ -	$ (1,771)	$ 2,309,567
Pension Trust Funds	$ 53,305,438	$ -	$ -	$ 53,305,438
Investment Trust Funds	$ 2,451,888	$ -	$ -	$ 2,451,888

3. NET POSITION/FUND BALANCE CLASSIFICATIONS

Net Position

The Commonwealth implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* effective for fiscal year 2013. This Statement modified the terms “net assets” to “net position” and “Invested in Capital Assets, Net of Related Debt” to “Net Investment in Capital Assets.”

Fund Balance

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 No. 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 through enacted legislation. 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 delegation of authority granted by the General Assembly and Governor specified in the Appropriations Act. 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, 2013, 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	$ 43,730	$ 70,752	$ 15,921	$ -	$ 5,174	$ 135,577
Prepaid Items	76,654	6,637	1,819	-	17,977	103,087
Permanent Funds	-	-	-	-	30,622	30,622
Total Nonspendable	120,384	77,389	17,740	-	53,773	269,286
Restricted						
Agriculture and Forestry	-	-	-	-	1,406	1,406
Capital Projects/Construction/Capital Acquisition	-	-	-	-	213,818	213,818
Debt Service	-	-	-	-	35,173	35,173
Economic and Technological Development	-	-	-	-	971	971
Educational and Training Programs	-	-	-	-	8,243	8,243
Environmental Quality and Natural Resource Preservation	-	-	-	-	13,170	13,170
Gifts and Grants	-	93,822	90,109	-	2,217	186,148
Government Operations:						
Legislative Services	-	-	-	-	10	10
Administrative Services	-	-	-	-	4,611	4,611
Health and Public Safety	-	-	-	-	112,682	112,682
Literary Fund	-	-	-	63,778	-	63,778
Lottery Proceeds Fund	23,350	-	-	-	-	23,350
Revenue Stabilization Fund	927,786	-	-	-	-	927,786
Transportation Activities	-	197,098	-	-	-	197,098
Virginia Water Supply Assistance Grant Fund	10,693	-	-	-	-	10,693
Total Restricted	961,829	290,920	90,109	63,778	392,301	1,798,937
Committed						
Agriculture and Forestry	125	-	-	-	22,685	22,810
Amount Required for Mandatory Reappropriation	134,657	-	-	-	-	134,657
Amount Required for Reappropriation of 2013 Unexpended Balances for Capital Outlay	25,998	-	-	-	-	25,998
Capital Projects/Construction/Capital Acquisition	642	-	-	-	660	1,302
Central Capital Planning Fund	11,616	-	-	-	-	11,616
Communications Sales and Use Tax	1,948	-	-	-	-	1,948
Contract and Debt Administration	-	16,312	-	-	-	16,312
Economic and Technological Development	16,481	-	-	-	34,791	51,272
Educational and Training Programs	640	3,822	-	-	6,199	10,661
Environmental Quality and Natural Resource Preservation	3,435	-	-	-	98,698	102,133
Federal Action Contingency Trust Fund	22,500	-	-	-	-	22,500
Government Operations:						
Legislative Services	-	-	-	-	367	367
Administrative Services	141	-	-	-	40,344	40,485
Governor's Opportunity Fund	39,400	-	-	-	-	39,400
Health and Public Safety	7,203	2,063	-	-	178,988	188,254
Natural Disaster Sum Sufficient	34,519	-	-	-	-	34,519
Regulatory Oversight	-	-	-	-	121,176	121,176
Transportation Activities	-	2,023,275	-	-	6,826	2,030,101
Virginia Health Care Fund	71,504	-	-	-	-	71,504
Virginia Water Quality Improvement Fund	131,841	-	-	-	-	131,841
Total Committed	502,650	2,045,472	-	-	510,734	3,058,856
Assigned						
Educational and Training Programs	-	-	-	-	4,101	4,101
Environmental Quality and Natural Resource Preservation	-	-	-	-	1,259	1,259
Government Operations:						
Administrative Services	-	-	-	-	3,238	3,238
Health and Public Safety	-	-	-	-	5,823	5,823
Total Assigned	-	-	-	-	14,421	14,421
Unassigned	(946,919)	-	-	-	-	(946,919)
Total Fund Balance	$ 637,944	$ 2,413,781	$ 107,849	$ 63,778	$ 971,229	$ 4,194,581

4. DEFICIT FUND BALANCES/NET POSITION

The State Lottery (major enterprise fund), the Department of Alcoholic Beverage Control (nonmajor enterprise fund), the Department of Environmental Quality's Title V and Air Pollution Permit Fund (nonmajor enterprise fund), and the Payroll Service Bureau (internal service fund) ended the year with deficit net position of $11.6 million, $36.5 million, $3.2 million, and $444,000, 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 Risk Management Fund (nonmajor enterprise fund) ended the year with a deficit net position balance of $6.7 million. The deficit was a result of increasing claims liability for constitutional officers' programs.

The Route 460 Funding Corporation of Virginia (nonmajor enterprise fund) ended the year with a deficit net position balance of $6.3 million. The deficit was a result of the fund only having interest revenues, while the Virginia Department of Transportation contributions are used to fund the capital expenditures.

The Virginia Information Technologies Agency (internal service fund) ended the year with a deficit net position balance of $24.3 million. The deficit was a result of operating expenses exceeding revenues in previous years.

The Enterprise Application Fund (internal service fund) ended the year with a deficit net position balance of $2.3 million. This deficit was the result of high capital expenses in the newly established internal service fund.

The Health Care Fund (internal service fund) ended the year with a deficit net position balance of $59.3 million. This deficit was the result of incurred but not paid liabilities.

The Property Management Fund (internal service fund) ended the year with a deficit net position balance of $25.7 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 2013, the Property Management Fund entered into three energy leases where the asset is reported in the governmental fund and the liability is recorded in the internal service fund.

The Risk Management Fund (internal service fund) ended the year with a deficit net position balance of $515.4 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 position balance of $40.7 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 College Building Authority (major component unit) ended the year with a deficit net position balance of $2.8 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.

The Virginia Economic Development Partnership (nonmajor component unit) ended the year with a deficit net position balance of $2.5 million. This deficit occurs because the partnership's Statement of Net Position reflects $6.4 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.

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. A deposit of $132.7 million was made during fiscal year 2013 as required by Section 2.2-1829 of the *Code of Virginia*. There was no withdrawal made in fiscal year 2013.

Under the provisions of Article X, Section 8 of the *Constitution of Virginia*, 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.

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 2013.

The Revenue Stabilization Fund has principal and interest on deposit of $440.0 million restricted as a part of General Fund balance. Pursuant to the constitutional amendment of Article X, Section 8, effective January 1, 2012, the amount on deposit cannot exceed 15.0 percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years. As of June 30, 2013, the Constitutional maximum is $2.2 billion.

6. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2013, the carrying amount of cash for the primary government was $3.1 billion and the bank balance was $322.6 million. The carrying amount of cash for component units was $1.7 billion and the bank balance was $824.1 million. Cash equivalents are investments with an original maturity of 90 days or less. Cash and cash equivalents for foundations (component units) totaled $391.6 million 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 50.0 percent to 100.0 percent for financial institutions choosing the pooled method of collateralization, and from 105.0 percent to 130.0 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, 2013, 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 custodial credit risk pertaining to the Commonwealth's securities lending program are found in the securities lending section of this note.

As of June 30, 2013, the primary government had $3.6 billion of cash equivalents and investments that were exposed to custodial risk as uninsured and uncollateralized. The majority of this amount, held by the System, 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 $2.3 billion of the total. The remainder was for various types of debt securities. The component units had $5.4 million of cash equivalents and investments that were exposed to custodial risk as uninsured and uncollateralized. Fixed income and commingled funds represented $1.7 million, common and preferred stocks represented $1.5 million of the total, and the remainder was for various types of debt and equity securities.

As of June 30, 2013, the investments of the Pension and Other Employee Benefit Trust Funds were approximately 80.0 percent of the primary government investments, and 99.9 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, 2013, 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	$ 4,802,590	$ 479,639	$ 3,047,928	$ 729,278	$ 545,745
Corporate Bonds and Notes	12,026,053	4,139,654	3,675,981	2,541,559	1,668,859
Corporate Mortgage-Backed Securities	81,895	-	518	152	81,225
Commercial Paper	2,096,068	2,096,068	-	-	-
Negotiable Certificates of Deposit	3,531,276	3,530,543	376	357	-
Repurchase Agreements	3,472,812	3,472,812	-	-	-
Municipal Securities	175,437	18,345	19,576	58,989	78,527
Asset-Backed Securities	233,159	106,201	50,859	33,701	42,398
Agency Mortgage-Backed Securities	3,396,562	79,488	1,830,741	1,275,429	210,904
Agency Unsecured Bonds and Notes	1,955,287	1,365,285	530,183	37,010	22,809
Mutual and Money Market Funds (Includes SNAP)	1,533,843	1,533,843	-	-	-
The Boston Company Polled Employee Trust Fund	20,397	20,397	-	-	-
Guaranteed Investment Contracts	534,680	-	534,680	-	-
Fixed Income and Commingled Funds	1,284,915	40	32,745	549,467	702,663
Investments held by broker-dealers under securities loans					
U. S. Government and Agency Securities	650	204	224	222	-
Corporate Notes	-	-	-	-	-
Corporate Bonds	1,072	205	659	208	-
Other	724,199	210,257	300,165	110,161	103,616
Total	$ 35,870,895	$ 17,052,981	$ 10,024,635	$ 5,336,533	$ 3,456,746

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	$ 940,653	$ 313,193	$ 200,603	$ 25,619	$ 401,238
Corporate Bonds and Notes	440,247	76,876	277,549	76,810	9,012
Corporate Mortgage-Backed Securities	15,181	-	-	-	15,181
Commercial Paper	541,118	541,118	-	-	-
Negotiable Certificates of Deposit	284,935	273,255	11,680	-	-
Repurchase Agreements	449,512	449,512	-	-	-
Municipal Securities	3,654,672	38,277	87,532	105,229	3,423,634
Asset-Backed Securities	185,481	10,572	106,038	18,081	50,790
Agency Unsecured Bonds and Notes	319,203	250,291	54,036	14,581	295
Agency Mortgage-Backed Securities	150,891	10,508	42,866	18,517	79,000
Mutual and Money Market Funds (Includes SNAP)	924,785	771,437	36,494	79,512	37,342
Guaranteed Investment Contracts	67,611	2,070	14,572	18,493	32,476
Fixed Income and Commingled Funds	13,560	1,651	979	10,930	-
Other	72,954	70,295	2,572	87	-
Total	$ 8,060,803	$ 2,809,055	$ 834,921	$ 367,859	$ 4,048,968

Foundation Investments

(Dollars in Thousands)

Investment Type	Fair Value
U.S. Treasury and Agency Securities	$ 659,235
Common & Preferred Stocks	819,478
Corporate Bonds and Notes	146,841
Negotiable Certificates of Deposit	9,898
Municipal Securities	9,006
Repurchase Agreements	26,216
Asset Backed Securities	6,849
Agency Mortgage Backed	8,052
Mutual Funds	437,392
Real Estate	549,752
Index Funds	11,294
Others	6,786,141
Total	$ 9,470,154

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 Investors Service (Moody's) and A-1, Standard & Poor's (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 10.0 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, 2013. The ratings presented below are using S&P and Moody's rating scales. Within the primary government, the investments presented in the table represented 84.9 percent of the total debt securities, 23.0 percent of which were invested in corporate unrated investments. Within the component units, the investments presented in the table represented 86.2 percent of the total debt securities, 42.3 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.

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
U. S. Treasury and Agency Securities	$ 4,802,558	N/A	N/A	13.29%
Negotiable Certificates of Deposit	2,605,506	Moody's	P-1	7.21%
Corporate Bonds and Notes	2,505,466	Moody's	Aaa	6.93%
Corporate Bonds and Notes	2,105,004	N/A	N/A	5.82%
Agency Mortgage Backed Securities	2,032,397	Moody's	Aaa	5.62%
Repurchase Agreements	1,890,000	Standard & Poor's	AA+	5.23%
Commercial Paper	1,833,008	Moody's	P-1	5.07%
Agency Unsecured Bonds and Notes	1,671,408	Standard & Poor's	AA+	4.62%
Agency Mortgage Backed Securities	1,090,882	N/A	N/A	3.02%
Corporate Bonds and Notes	1,086,850	Moody's	Baa2	3.01%
Repurchase Agreements	965,566	Moody's	NR	2.67%
Corporate Bonds and Notes	925,243	Moody's	Baa1	2.56%
Negotiable Certificates of Deposit	892,164	Standard & Poor's	A-1	2.47%
Mutual and Money Market Funds (Include SNAP)	781,272	Standard & Poor's	A-3	2.16%
Corporate Bonds and Notes	749,657	Moody's	Baa3	2.07%
Corporate Bonds and Notes	731,292	Moody's	Aa3	2.02%
Mutual and Money Market Funds (Include SNAP)	635,973	Standard & Poor's	AAA	1.76%
Fixed Income and Commingled Funds	574,899	Moody's	Baa	1.59%
Corporate Bonds and Notes	538,934	Moody's	A3	1.49%
Guaranteed Investment Contracts	534,680	N/A	N/A	1.48%
Corporate Bonds and Notes	500,836	Moody's	Aa2	1.39%
Other Debt Securities	452,795	Moody's	Aaa	1.25%
Fixed Income and Commingled Funds	426,009	N/A	N/A	1.18%
Corporate Bonds and Notes	368,393	Moody's	A2	1.02%

Credit Rating - Component Units

(Dollars in Thousands)

Investment	Amount	Rating Agency	Rating	Percent of Portfolio
Municipal Securities	$ 3,409,174	N/A	N/A	42.29%
U. S. Treasury and Agency Securities	940,652	N/A	N/A	11.67%
Mutual and Money Market Funds (Include SNAP)	558,061	Standard & Poor's	AAA	6.92%
Repurchase Agreements	355,000	Standard & Poor's	BBB-	4.40%
Commercial Paper	292,928	Moody's	P-1	3.63%
Negotiable Certificates of Deposit	270,007	Moody's	P-1	3.35%
Mutual and Money Market Funds	239,675	N/A	N/A	2.97%
Commercial Paper	228,951	N/A	N/A	2.84%
Agency Unsecured Bonds and Notes	227,136	Moody's	Aaa	2.82%
Repurchase Agreements	94,512	N/A	N/A	1.17%
Mutual and Money Market Funds (Include SNAP)	90,486	Moody's	Aaa	1.12%
Asset Backed Securities	89,737	Moody's	Aaa	1.11%
Agency Mortgage Backed Securities	81,605	Standard & Poor's	AA+	1.01%
Agency Unsecured Bonds and Notes	75,351	Standard & Poor's	AA+	0.93%

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 5.0 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 4.0 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 4.0 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 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.

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, 2013.

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, 2013.

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
Euro Currency Unit	$ 25,710	$ 1,071,504	$ (22,419)	$ 880,599	$ (23,428)	$ -	$ 1,931,966
Japanese Yen	19,148	989,722	(22,334)	-	(734)	-	985,802
Hong Kong Dollar	6,176	755,414	-	-	6,463	-	768,053
British Pound Sterling	14,427	878,813	(12,235)	1,421	(124,852)	-	757,574
U.S. Dollar	-	-	-	-	-	483,762	483,762
South Korean Won	2,311	447,838	(142)	-	-	-	450,007
Brazil Real	3,027	245,721	71,641	-	2,737	-	323,126
New Taiwan Dollar	5,762	304,902	-	-	-	-	310,664
Canadian Dollar	7,326	223,009	(1,251)	-	6,836	-	235,920
Australian Dollar	1,562	223,547	(714)	-	476	-	224,871
South African Comm Rand	1,691	169,808	31,673	-	-	-	203,172
Swiss Franc	5,681	182,945	(14)	-	1,555	-	190,167
Thailand Baht	198	128,923	23,560	-	-	-	152,681
Indian Rupee	1,873	142,214	2,663	-	-	-	146,750
Mexican New Peso	4,053	68,056	68,234	-	492	-	140,835
New Turkish Lira	536	91,294	42,579	-	-	-	134,409
Malaysian Ringgit	780	70,935	28,087	-	-	-	99,802
Norwegian Krone	1,421	82,519	3	-	-	-	83,943
Indonesian Rupiah	732	52,710	29,883	-	-	-	83,325
Danish Krone	464	63,223	-	-	-	-	63,687
Polish Zloty	1,266	20,858	34,456	-	-	-	56,580
Russian Ruble (New)	23	-	53,438	-	-	-	53,461
Philippine Peso	952	36,023	8,242	-	-	-	45,217
Swedish Krona	2,641	24,792	-	136	-	-	27,569
Nigerian Naira	96	-	15,387	-	-	-	15,483
Chilean Peso	69	14,772	234	-	-	-	15,075
Hungarian Forint	743	5,086	8,058	-	-	-	13,887
Colombian Peso	113	-	10,640	-	-	-	10,753
Costa Rican Colon	-	-	10,514	-	-	-	10,514
Sri Lanka Rupee	-	-	7,527	-	-	-	7,527
Uruguayan Peso	-	-	7,273	-	-	-	7,273
Turkish Lira	7,189	-	-	-	-	-	7,189
Czech Koruna	83	6,764	-	-	-	-	6,847
Romanian Leu	239	-	5,295	-	-	-	5,534
Perunvian Nuevo Sol	-	-	5,233	-	-	-	5,233
Ghanaian Cedi	-	-	4,763	-	-	-	4,763
Egyptian Pound	85	3,532	-	-	-	-	3,617
UAE Dirham	201	2,669	-	-	-	-	2,870
Omani Rial	-	1,746	-	-	-	-	1,746
Chinese Yuan Renminbi	-	15	(10)	-	-	-	5
Moroccan Dirham	1	-	-	-	-	-	1
Singapore Dollar	2,059	(3,300)	6	-	-	-	(1,235)
New Zealand Dollar	307	(1,784)	-	-	-	-	(1,477)
Israeli Shekel	611	(9,154)	-	-	-	-	(8,543)
Total	$ 119,556	$ 6,295,116	$ 410,270	$ 882,156	$ (130,455)	$ 483,762	$ 8,060,405

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	$ 1,392	$ -	$ -	$ -	$ -	$ -	$ 1,392
Euro Currency Unit	2,806	-	-	-	-	-	2,806
Japanese Yen	26	-	-	-	-	-	26
Other	2	-	-	-	-	-	2
Total	$ 4,226	$ -	$ -	$ -	$ -	$ -	$ 4,226

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 and recoveries of prior period losses during this reporting period were $16,689.

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, approximately 12.7 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, 2013, all collateral received was in the form of cash.

Securities loaned for the Treasurer's cash collateral reinvestment pool, which consisted of 77.3 percent general account funds and 22.7 percent State Lottery funds as of June 30, 2013, had a carrying value of $572.2 million and a fair value of $638.8 million. The fair value of the collateral received was $650.9 million providing for coverage of 101.9 percent. All securities are marked to market daily. The carrying value of the cash collateral reinvestment pool received was $651.0 million and the fair value of the investments purchased with the cash collateral was $650.5 million. As of June 30, 2013, the Treasurer's cash collateral reinvestment pool had an unrealized loss of $389,311, 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, 2013, the cash collateral reinvestment portfolio had a weighted average maturity of three 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 220 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 1.9 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, 2013, the majority of cash collateral reinvestments were in indemnified repurchase agreements, and asset-backed (including mortgage-backed) floating rate securities.

At June 30, 2013, $10.1 million or 1.5 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 $10.1 million of out of compliance securities are $8.0 million asset-backed securities that Treasury has reason to believe are other than temporarily impaired. Treasury has written off $4.3 million of these securities as of June 30, 2013. These securities are not in default and are making principal payments. Approximately 77.3 percent of these out of compliance securities are part of the general account portion of the securities lending program and the other 22.7 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 102.0 percent of the market value for domestic securities and 105.0 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 35 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, 2013 was $7.4 billion. The June 30, 2013 balance was composed of U.S. Government and agency securities of $2.3 billion, corporate and other bonds of $253.6 million and common and preferred stocks of $4.9 billion. The value of collateral (cash and non-cash) at June 30, 2013, was $7.8 billion.

At June 30, 2013, the invested cash collateral had a market value of $4.0 billion and was composed of commercial paper of $812.5 million, certificates of deposit of $719.8 million, floating rate notes of $1.3 billion, asset-backed securities of $14.3 million, agencies of $48.5 million, time deposits of $500.4 million and repurchase agreements of $601.6 million.

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, 2013:

	Accounts Receivable	Loans / Mortgage Receivable	Interest Receivable	Taxes Receivable	Prepaid Tuition Contributions Receivable
Primary Government:					
General	$ 962,336	$ 675	$ 370,941	$ 1,904,890	$ -
Major Special Revenue Funds:					
Commonwealth Transportation	112,654	55,428	-	149,346	-
Federal Trust	801,723	228	-	-	-
Literary	237,608	194,203	21,817	-	-
Nonmajor Governmental Funds	129,493	-	10,988	6,325	-
Major Enterprise Funds:					
State Lottery	59,485	-	-	-	-
Virginia College Savings Plan	10,602	-	3,218	-	228,378
Unemployment Compensation	186,464	-	-	-	-
Nonmajor Enterprise Funds	45,362	-	-	-	-
Internal Service Funds	15,059	-	-	-	-
Private Purpose Trust Funds	1	8	1,554	-	-
Pension and Other Employee Benefit Trust (1)	239,359	-	191,877	-	-
Investment Trust Fund	-	-	626	-	-
Agency Funds	286	-	-	137,077	-
Total Primary Government (2)	$ 2,800,432	$ 250,542	$ 601,021	$ 2,197,638	$ 228,378
Discrete Component Units:					
Virginia Housing Development Authority (3)	$ -	$ 7,366,537	$ 35,237	$ -	$ -
Virginia Public School Authority	-	-	45,769	-	-
Virginia Resources Authority	-	4,108,457	30,554	-	-
Virginia College Building Authority	-	-	26,043	-	-
Nonmajor Component Units (4)	1,313,645	174,675	4,851	6,265	-
Total Component Units	$ 1,313,645	$ 11,649,669	$ 142,454	$ 6,265	$ -

Note (1): Other Receivables of the Pension and Other Employee Benefit Trust Fund of $146,134 (dollars in thousands) are made up of $136,635 (dollars in thousands) in pending investment transactions, including $87,724 (dollars in thousands) futures margins receivable, $46,678 (dollars in thousands) in margin deposits, $1,640 (dollars in thousands) in securities lending, and $593 (dollars in thousands) in other investment receivable; as well as $9,499 (dollars in thousands) in other receivables related to benefit plans.

Note (2): Fiduciary net receivables in the amount of $1,713,180 (dollars in thousands) are not included in the Government-wide Statement of Net Position.

Note (3): The Virginia Housing Development Authority (major component unit) reports $7,098,574 (dollars in thousands) as Restricted Loans Receivable, $33,921 (dollars in thousands) as Restricted Interest Receivable, and $2,214 (dollars in thousands) as Restricted Other Receivables.

Note (4): Other Receivables of the nonmajor component units are primarily comprised of pledges receivable of $14,061 (dollars in thousands) reported by the University of Virginia; sponsors accounts receivable of $23,321 (dollars in thousands) reported by the Virginia Commonwealth University; premium receivables of $62,908 (dollars in thousands) and third-party settlements and non-patient receivables of $18,636 (dollars in thousands) reported by the Virginia Commonwealth University Health System Authority (blended component unit of Virginia Commonwealth University); grants and contracts receivable of $25,060 (dollars in thousands) reported by George Mason University; and $62,533 (dollars in thousands) reported by foundations of the higher education institutions representing FASB reporting entities defined in Note 1.B.; and $34,905 (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
$ -	$ -	$ (1,511,934)	$ 1,726,908	$ 346,607
-	-	(24,753)	292,675	58,603
-	-	(15,272)	786,679	33
-	-	(231,519)	222,109	175,289
-	1	(59,179)	87,628	1,483
-	-	-	59,485	-
-	-	-	242,198	174,089
-	-	(45,377)	141,087	-
-	-	(558)	44,804	-
-	-	(465)	14,594	-
-	-	-	1,563	-
1,054,252	146,134	-	1,631,622	-
-	-	-	626	-
-	-	(57,994)	79,369	7,279
$ 1,054,252	$ 146,135	$ (1,947,051)	$ 5,331,347	$ 763,383
$ -	$ 12,883	$ (190,943)	$ 7,223,714	$ 7,169,300
-	-	-	45,769	-
-	1,115	(145)	4,139,981	3,903,998
-	-	-	26,043	-
-	252,804	(634,554)	1,117,686	252,015
$ -	$ 266,802	$ (825,642)	$ 12,553,193	$ 11,325,313

8. CONTRIBUTIONS RECEIVABLE, NET

The following schedule details the contributions receivable for foundations[1] included with the nonmajor component units, as of June 30, 2013. The major component units reported no contributions receivable for fiscal year 2013.

(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:							
Nonmajor Component Units	$ 125,530	$ 183,006	$ 68,823	$ 377,359	$ (22,581)	$ (21,950)	$ 332,828
Total Component Units	$ 125,530	$ 183,006	$ 68,823	$ 377,359	$ (22,581)	$ (21,950)	$ 332,828

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, 2013.

Schedule of Due from/to Other Funds

June 30, 2013

(Dollars in Thousands)

Due From	Amount	Due To	Amount
Primary Government		**Primary Government**	
General Fund	$ 35,046	Major Special Revenue Funds:	
		Federal Trust	$ 944
		Major Enterprise Funds:	
		State Lottery	22,200
		Nonmajor Enterprise Funds	10,709
		Internal Service Funds	1,193
Major Special Revenue Funds:			
Commonwealth Transportation	21,706	General Fund	21,706
Federal Trust	2,622	Major Enterprise Funds:	
		Unemployment Compensation	2,622
Nonmajor Governmental Funds	8,232	Major Special Revenue Funds:	
		Commonwealth Transportation	4,715
		Federal Trust	2,636
		Major Enterprise Funds:	
		Unemployment Compensation	164
		Nonmajor Enterprise Funds	717
Major Enterprise Funds:			
Unemployment Compensation	1,312	General Fund	943
		Major Special Revenue Funds:	
		Commonwealth Transportation	52
		Federal Trust	164
		Nonmajor Governmental Funds	133
		Major Enterprise Funds:	
		Virginia College Savings Plan	6
		Nonmajor Enterprise Funds	12
		Internal Service Funds	2
Nonmajor Enterprise Funds	22,724	General Fund	278
		Major Special Revenue Funds:	
		Commonwealth Transportation	21,919
		Federal Trust	433
		Nonmajor Governmental Funds	30
		Nonmajor Enterprise Funds	4
		Internal Service Funds	60
Internal Service Funds	49,961	General Fund	24,740
		Major Special Revenue Funds:	
		Commonwealth Transportation	12,005
		Federal Trust	6,334
		Nonmajor Governmental Funds	4,709
		Major Enterprise Funds:	
		State Lottery	128
		Virginia College Savings Plan	56
		Nonmajor Enterprise Funds	1,453
		Internal Service Funds	536
Private Purpose Trust	5	Private Purpose Trust	21
Pension and Other Employee Benefit Trust	14,899	Pension and Other Employee Benefit Trust	14,883
Total Primary Government	$ 156,507	Total Primary Government	$ 156,507

Schedule of Due from/to Internal/External Parties
June 30, 2013

(Dollars in Thousands)

Due From	Amount	Due To	Amount
Primary Government		**Primary Government**	
General Fund	$ 12	Private Purpose Trust	$ 12
Nonmajor Governmental Funds	91	Agency	91
Major Enterprise Funds:			
Unemployment Compensation	65	Agency	65
Internal Service Funds	161	Private Purpose Trust	21
		Pension and Other Employee Benefit Trust	140
Pension and Other Employee Benefit Trust	19,978	General Fund	12,468
		Major Special Revenue Funds:	
		Commonwealth Transportation	2,933
		Federal Trust	1,516
		Nonmajor Governmental Funds	2,258
		Major Enterprise Funds:	
		State Lottery	103
		Virginia College Savings Plan	37
		Nonmajor Enterprise Funds	404
		Internal Service Funds	259
Total Primary Government	$ 20,307	Total Primary Government	$ 20,307

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, 2013. There were no Interfund Receivables/Payables for the component units as of June 30, 2013.

Interfund Receivables/Payables
June 30, 2013

(Dollars in Thousands)

Receivable From:	Amount	Payable To:	Amount
Primary Government		**Primary Government**	
Nonmajor Governmental Funds	$ 125,663	General Fund	$ 13,151
		Major Special Revenue Funds:	
		Commonwealth Transportation	26,000
		Federal Trust	6,409
		Nonmajor Enterprise Funds	31,265
		Internal Service Funds	48,838
Total	$ 125,663	**Total**	$ 125,663

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.

A $273,564 due from primary government amount represents an amount due from the Federal Trust Special Revenue Fund (major governmental fund) to the Virginia Resources Authority (major component unit) for federal receivables. 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 (major component unit) of $4.1 million is for interest on Build America Bonds (BABs).

A $15.8 million due from primary government amount represents General Fund (major governmental fund) appropriation available amounts that are due from the General Fund to the nonmajor component units. The General Fund reports $393,644 in the fund financial statements and $15.4 million in the government-wide financial statements. In addition, the due from primary government amount of $5.4 million represents amounts due from the General Fund (major governmental fund) to the nonmajor component units related to interest/rebate allocations.

A $9,355 due from primary government amount represents an amount due from a nonmajor governmental fund related to the Department of the Treasury's reimbursement programs to nonmajor component units.

A $1.2 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 $14.5 million due from component units in the Health Care Fund (internal service fund) represents amounts due from the nonmajor component units.

A $780,871 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 $115.5 million due from component units amount represents amounts due from the Virginia College Building Authority (major component unit) for the Department of the Treasury's reimbursement programs to higher education institutions (nonmajor component units). There is a due to component units of $3.1 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 $76,322 due to component units from the Tobacco Indemnification and Community Revitalization Commission (nonmajor component unit) to the Virginia Economic Development Partnership (nonmajor component unit).

Due from/to Component Units and Fiduciary Funds

A $26.9 million due from component units in the Pension and Other Employee Benefit Trust Funds (fiduciary funds) represents amounts due from nonmajor component units.

Loans Receivable/Payable Between Primary Government and Component Units

The College of William and Mary (nonmajor component unit) loan of $20.5 million and the Virginia Military Institute (nonmajor component unit) loan of $240,000 were used to fund construction projects until bonds were issued. The College of William and Mary (nonmajor component unit) loan of $129,092 was used to fund equipment trust fund expenditures of Richard Bland College pending reimbursement. The Virginia Community College System (nonmajor component unit) loan of $6.5 million was used primarily to advance fund federally-funded grant programs. The Virginia Commercial Space Flight Authority (nonmajor component unit) loan of $5.0 million was used to fund work on the Wallops Flight Facility's Mid-Atlantic Regional Spaceport (MARS). This amount is due to the Commonwealth Transportation Special Revenue Fund (major governmental fund) and is reported entirely in the government-wide statements.

The $165.7 million in loans receivable from primary government represents loans from the Virginia Public School Authority (VPSA) (major component unit) 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, 2013:

(Dollars in Thousands)

	Cash and Travel Advances	Unamortized Bond Issuance Expense	Other Assets	Total Other Assets
Primary Government:				
General	$ 968	$ -	$ -	$ 968
Major Special Revenue Funds:				
Commonwealth Transportation	422	-	-	422
Federal Trust	3,223	-	-	3,223
Nonmajor Governmental Funds	911	-	1,023	1,934
Major Enterprise Funds:				
State Lottery	1	-	-	1
Nonmajor Enterprise Funds	209	2,682	-	2,891
Internal Service Funds (1)	4	-	3,489	3,493
Agency Funds (2)	-	-	49	49
Total Primary Government (2)	$ 5,738	$ 2,682	$ 4,561	$ 12,981
Discrete Component Units:				
Virginia Housing Development Authority	$ -	$ 2,932	$ 7,086	$ 10,018
Virginia Resources Authority	-	74,009	17	74,026
Nonmajor Component Units	2,509	19,745	68,532	90,786
Total Component Units	$ 2,509	$ 96,686	$ 75,635	$ 174,830

Note (1): Of the $3,489 (dollars in thousands) shown above, $3,485 (dollars in thousands) 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 Position.

Note (2): Other Assets of the Agency Funds represent prepaid expenses and advances to third party agents. The $49 (dollars in thousands) shown above is not included in the Government-wide Statement of Net Position.

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 $1.0 billion in restricted assets related to bond agreements.

The Virginia Housing Development Authority, the Virginia Public School Authority, and the Virginia College Building Authority (all major component units) reported restricted assets totaling $1.3 billion, $106.9 million, and $41.6 million, respectively. These major component units' assets are restricted for debt service under a bond indenture agreement or other agreements.

The Virginia Resources Authority (major component unit) reported restricted assets of $625.1 million. Of this amount, $617.6 million is restricted for loans to local governments, bond indentures, or federal and state regulations for various revolving funds, and $7.5 million is restricted for the Operating Reserve Fund for the Virginia Pooled Financing Program.

The Virginia Port Authority (nonmajor component unit) reported restricted assets of $122.9 million primarily for debt service under bond agreements, construction and other project funds.

The Tobacco Indemnification and Community Revitalization Commission (nonmajor component unit) reported restricted assets of $246.8 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 $179.6 million. Of this amount, $23.8 million is for debt service and $155.8 million is revenue bond construction funds.

The Virginia Small Business Financing Authority (nonmajor component unit) reported restricted assets of $28.2 million for gifts and grants.

The higher education institutions (nonmajor component units) reported restricted assets totaling approximately $4.1 billion primarily for endowment and other contractual obligations. Included in this amount is approximately $3.4 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 $235.0 million and $15.5 million, respectively, primarily for donor-imposed restricted endowments.

The remaining $4.6 million is spread among the following nonmajor component units: the Virginia Outdoors Foundation, the Virginia Horse Center Foundation, the Fort Monroe Authority, the Virginia Arts Foundation, the Library of Virginia Foundation, the Danville Science Center, and the Virginia Health Workforce Development Authority.

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	$ 2,662,896	$ 165,499	$ (80,031)	$ 2,748,364
Water Rights and/or Easements	48,450	8,839	-	57,289
Infrastructure	322,741	-	-	322,741
Construction-in-Progress	3,524,676	1,963,374	(1,698,082)	3,789,968
Total Nondepreciable Capital Assets	6,558,763	2,137,712	(1,778,113)	6,918,362
Depreciable Capital Assets:				
Buildings (2)	3,564,521	240,816	(9,775)	3,795,562
Equipment	1,018,408	54,756	(24,166)	1,048,998
Infrastructure	26,411,364	2,921,832	(271,056)	29,062,140
Software	385,229	43,160	(1,202)	427,187
Total Capital Assets being Depreciated	31,379,522	3,260,564	(306,199)	34,333,887
Less Accumulated Depreciation for:				
Buildings	1,162,609	83,093	(9,234)	1,236,468
Equipment	548,704	51,987	(20,104)	580,587
Infrastructure	11,702,311	750,304	(22,703)	12,429,912
Software	165,877	28,055	(452)	193,480
Total Accumulated Depreciation	13,579,501	913,439	(52,493)	14,440,447
Total Depreciable Capital Assets, Net	17,800,021	2,347,125	(253,706)	19,893,440
Total Capital Assets, Net	$ 24,358,784	$ 4,484,837	$ (2,031,819)	$ 26,811,802

Note (1): Beginning balances have been restated by $343,633 (dollars in thousands) as discussed in Note 2. Additionally, there was a reclassification between depreciable infrastructure and land for $33,730 (dollars in thousands). There have also been reclassifications in the beginning balances of certain line items above.

Note (2): Includes temporarily impaired assets with a carrying value of $10,553 (dollars in thousands).

Depreciation Expense Charged to Functions of the Primary Government
June 30, 2013

(Dollars in Thousands)

Governmental Activities:		
General Government	$	15,132
Education		9,481
Transportation		775,265
Resources and Economic Development		12,440
Individual and Family Services		48,926
Administration of Justice		38,795
Capital Assets held by the Internal Service Funds are charged to various functions		13,400
Total	$	913,439

Schedule of Changes in Capital Assets
Business-type Activities

(Dollars in Thousands)

	Balance July 1, as restated (1)	Increases	Decreases	Balance June 30
Nondepreciable Capital Assets:				
Land	$ 1,977	$ -	$ -	$ 1,977
Construction-in-Progress	734	56,620	(381)	56,973
Total Nondepreciable Capital Assets	2,711	56,620	(381)	58,950
Depreciable Capital Assets:				
Buildings	30,708	-	(71)	30,637
Equipment	61,179	3,613	(3,649)	61,143
Software	2,418	1,496	-	3,914
Total Capital Assets being Depreciated	94,305	5,109	(3,720)	95,694
Less Accumulated Depreciation for:				
Buildings	11,466	560	-	12,026
Equipment	43,941	5,565	(3,590)	45,916
Software	797	600	-	1,397
Total Accumulated Depreciation	56,204	6,725	(3,590)	59,339
Total Depreciable Capital Assets, Net	38,101	(1,616)	(130)	36,355
Total Capital Assets, Net	$ 40,812	$ 55,004	$ (511)	$ 95,305

Note (1): Beginning balance for buildings has been restated by $6,453 (dollars in thousands) due to a change in capital lease assets and obligations by the Virginia College Savings Plan (VCSP). The VCSP beginning net position is not restated because both capital assets and obligations have been restated.

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	$ 535,083	$ 19,327	$ (958)	$ 553,452	$ 277,357	$ 830,809
Construction-in-Progress	1,734,693	1,206,786	(1,446,379)	1,495,100	230,001	1,725,101
Inexhaustible Works of Art/Historical Treasures	76,523	1,030	-	77,553	19,770	97,323
Livestock	833	75	-	908	2,237	3,145
Total Nondepreciable Capital Assets	2,347,132	1,227,218	(1,447,337)	2,127,013	529,365	2,656,378
Depreciable Capital Assets:						
Buildings	11,921,117	1,242,051	(42,240)	13,120,928	1,042,408	14,163,336
Infrastructure	2,768,020	149,491	(89)	2,917,422	6,564	2,923,986
Equipment	2,796,542	260,203	(125,355)	2,931,390	139,721	3,071,111
Improvements Other Than Buildings	432,067	39,988	(11)	472,044	70,689	542,733
Library Books	772,790	32,276	(8,824)	796,242	-	796,242
Software	377,481	9,847	(1,010)	386,318	-	386,318
Other Intangible Assets	2,000	-	-	2,000	-	2,000
Total Capital Assets being Depreciated	19,070,017	1,733,856	(177,529)	20,626,344	1,259,382	21,885,726
Less Accumulated Depreciation for:						
Buildings	3,589,758	358,821	(20,325)	3,928,254	251,245	4,179,499
Infrastructure	1,257,256	80,325	(88)	1,337,493	2,923	1,340,416
Equipment	1,797,884	224,786	(104,630)	1,918,040	88,614	2,006,654
Improvements Other Than Buildings	242,267	20,386	(11)	262,642	38,465	301,107
Library Books	636,074	33,970	(8,692)	661,352	-	661,352
Software	231,530	31,811	(954)	262,387	-	262,387
Other Intangible Assets	1,067	133	-	1,200	-	1,200
Total Accumulated Depreciation	7,755,836	750,232	(134,700)	8,371,368	381,247	8,752,615
Total Depreciable Capital Assets, Net	11,314,181	983,624	(42,829)	12,254,976	878,135	13,133,111
Total Capital Assets, Net	$ 13,661,313	$ 2,210,842	$ (1,490,166)	$ 14,381,989	$ 1,407,500	$ 15,789,489

Note (1): 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.

Virginia College Savings Plan (VCSP)

GASB Statement No. 53 defines stable value investment vehicles as synthetic guaranteed investment contracts. Stable value funds are invested in a high quality, diversified, intermediate term, fixed income portfolio that is protected against interest rate volatility by wrap or investment contracts from banks and insurance companies that guarantee the payment of benefits at book value (cost plus accrued interest) which enables the entire investment to be carried at its book value. The VCSP utilizes stable value investments in both the Virginia College Savings Plan (major enterprise fund) and Education Savings Trust Fund (private purpose fund). VCSP's stable value investments meet the definition of fully benefit-responsive synthetic guaranteed investment contracts and are reported at fair value. At June 30, 2013, VCSP had the following stable value investments outstanding in the respective programs as shown in the table below.

Fund	Wrap Provider	Notional Amount	Effective Date	Maturity Date	Credit Rate	June 30, 2013 Fair Value	June 30, 2012 Fair Value
Enterprise	ING Life & Annuity	$ 47,116,564	12/2/2002	Open ended	2.11%	$ 89,975,201	$ 90,043,502
	State Street Bank	22,830,297	5/1/2002	Open ended	2.52%		
	Transamerica Life Ins.	17,164,676	3/5/2003	Open ended	3.08%		
Private Purpose	Aviva Life & Annuity Co.	$ 158,145,019	5/1/2012	Open ended	1.15%	$ 454,724,878	$ 324,832,058
	ING Life & Annuity	132,434,013	12/3/2002	Open ended	2.69%		
	ING Life & Annuity	108,524,564	10/5/2012	Open ended	0.78%		
	State Street Bank	48,464,824	5/1/2002	Open ended	2.80%		

The following two tables contain information relating fair value, changes in fair value, notional value and credit risk relating to these derivative instruments. In aggregate, the fair value of these derivatives was $293,334 as of June 30, 2013. Concentration of credit risk relating to these derivatives did not equate to a significant percentage of the agency's total assets.

Investment Derivatives - Credit Default Swaps

	Changes in Fair Value		Fair Value at June 30, 2013		
Fund	Classification	Amount	Classification	Amount	Notional Amount
Enterprise	Revenue	$ 117,611	Investment	$ 230,137	$ 5,375,000
Private Purpose	Revenue	52,633	Investment	63,198	2,125,000

Aggregate Credit Risk by Counterparty as of June 30, 2013

Counterparty	Fair Value	Collateral	Credit Rating (S&P)
Bank of America, N.A.	$ 263,594	$ 351,456	A
Barclays Bank, PLC	29,740	-	A+
Total	$ 293,334	$ 351,456	

Virginia Retirement System

The Virginia Retirement System (the System) is a party, 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, 2013, 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, 2013 and 2012 is shown in the following table.

Futures Contracts
as of June 30
(Dollars in Thousands)

	2013	2012
Cash & Cash Equivalent Derivatives Futures:		
Short	$ (86,971)	$ (143,472)
Equity Derivatives Futures:		
Long	601,441	474,687
Fixed Income Derivatives Futures:		
Long	367,692	17,818
Short	(262,406)	(66,863)
Total Futures	$ 619,756	$ 282,170

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, 2013 and 2012 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 2013	Market Value 2012
Australian Dollar	$ (270,312)	$ 80,191	$ (347,273)	$ (267,082)	$ (602,208)
Brazil Real	(27,122)	20,935	(47,260)	(26,325)	(9,176)
British Pound Sterling	(852,342)	232,668	(1,077,945)	(845,277)	(786,539)
Canadian Dollar	(463,783)	53,209	(513,108)	(459,899)	(90,127)
Chilean Peso	250	537	(302)	235	193
Chinese Yuan Renminbi	(79)	5,643	(5,654)	(11)	5,939
Columbian Peso	(3,021)	396	(3,466)	(3,070)	(635)
Czech Koruna	153	7,533	(7,533)	-	-
Danish Krone	(7,690)	52,576	(60,164)	(7,588)	(22,294)
Euro Currency Unit	(836,596)	318,494	(1,150,516)	(832,022)	(2,230,133)
Hong Kong Dollar	(14,180)	152,276	(166,385)	(14,109)	(82,086)
Hungarian Forint	(3,833)	1,130	(4,993)	(3,863)	11,328
Indian Rupee	3,065	9,811	(7,149)	2,662	414
Indonesian Rupian	3,342	7,921	(4,679)	3,242	9,580
Israeli Shekel	(51,163)	-	(50,917)	(50,917)	(14,385)
Japanese Yen	(1,124,117)	75,881	(1,188,869)	(1,112,988)	(875,275)
Malaysian Ringgit	9,895	15,917	(5,972)	9,945	31,105
Mexican New Peso	(1,594)	23,602	(25,197)	(1,595)	(20,430)
New Turkish Lira	14,541	15,233	(1,381)	13,852	8,360
New Zealand Dollar	(5,925)	95,456	(102,094)	(6,638)	(112,944)
Norwegian Krone	1,407	74,072	(73,349)	723	267,170
Peruvian Nuevo Sol	(9,508)	1,290	(10,590)	(9,300)	258
Philippine Peso	3,884	4,622	(756)	3,866	(2,611)
Polish Zloty	10,243	11,261	(1,349)	9,912	2,996
Romanian Leu	826	921	(132)	789	-
Russian Ruble (New)	8,141	13,932	(6,170)	7,762	9,549
Singapore Dollar	(7,328)	14,286	(20,312)	(6,026)	(19,932)
South African Comm Rand	(151,465)	16,538	(167,520)	(150,982)	(22,913)
South Korean Won	(123)	1,513	(1,655)	(142)	2,187
Swedish Krona	(158,900)	30,223	(185,755)	(155,532)	110,356
Swiss Franc	(424,713)	60,576	(481,289)	(420,713)	(260,971)
Thailand Baht	17,327	23,340	(6,314)	17,026	4,995
U.S. Dollar	4,340,722	5,793,657	(1,452,935)	4,340,722	4,646,227
Total Forwards Subject to Foreign Currency Risk				$ 36,657	$ (42,002)

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, 2013 and 2012 is shown in the following table.

Options Contracts
as of June 30
(Dollars in Thousands)

	2013	2012
Cash and Cash Equivalent Options:		
Call	$ (10)	$ -
Put	-	-
Equity Options:		
Call	-	-
Put	-	-
Fixed Income Options:		
Call	-	-
Put	-	-
Sw aptions:		
Call	(2)	(978)
Put	(379)	(118)
Total Options	$ (391)	$ (1,096)

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 indexes. 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 2013, the System entered into credit defaults, inflation, interest rate and total return swaps. Information on the System's swap balances at June 30, 2013 and 2012 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 2013	Market Value 2012
Credit Default Swaps:								
Barclays PLC	$ 24,697			12/20/2017	Buying	1.000%	104	-
Barclays PLC	5,600			3/20/2018	Buying	1.000%	(114)	-
Barclays PLC	5,000			3/20/2018	Buying	1.000%	(97)	-
Barclays PLC	4,400			3/20/2018	Buying	1.000%	(98)	-
Barclays PLC	4,100			3/20/2018	Selling	5.000%	546	-
Barclays PLC	3,200			6/20/2018	Selling	5.000%	426	-
Barclays PLC	2,800			3/20/2018	Buying	1.000%	(77)	-
Barclays PLC	1,400			3/20/2018	Buying	1.000%	(29)	-
Barclays PLC	1,300			3/20/2018	Buying	1.000%	29	-
Barclays PLC	1,175			3/20/2018	Buying	1.000%	(26)	-
Barclays PLC	1,000			6/20/2018	Selling	5.000%	80	-
Barclays PLC	900			6/20/2018	Selling	5.000%	54	-
Credit Suisse Group AG	58,150			12/20/2017	Buying	5.000%	(2,604)	-
Credit Suisse Group AG	26,500			6/20/2018	Selling	1.000%	163	-
Credit Suisse Group AG	14,298			12/20/2017	Buying	1.000%	330	-
Credit Suisse Group AG	13,025			9/20/2017	Selling	1.000%	(340)	-
Credit Suisse Group AG	8,000			12/20/2016	Buying	1.000%	(112)	157
Credit Suisse Group AG	6,250			12/20/2016	Buying	1.000%	(103)	(49)
Credit Suisse Group AG	3,700			6/20/2017	Selling	1.000%	(29)	(61)
Credit Suisse Group AG	2,800			3/20/2018	Buying	1.000%	144	-
Credit Suisse Group AG	2,800			3/20/2018	Buying	5.000%	(332)	-
Credit Suisse Group AG	2,800			3/20/2018	Buying	1.000%	98	-
Credit Suisse Group AG	2,750			12/20/2017	Buying	1.000%	(35)	-
Credit Suisse Group AG	2,600			3/20/2018	Buying	1.000%	117	-
Credit Suisse Group AG	2,600			9/20/2017	Buying	1.000%	2	-
Credit Suisse Group AG	2,000			6/20/2018	Selling	5.000%	87	-
Credit Suisse Group AG	1,850			9/20/2017	Buying	1.000%	(21)	-
Credit Suisse Group AG	1,000			3/20/2018	Buying	1.000%	(10)	-
Credit Suisse Group AG	900			6/20/2018	Buying	5.000%	(27)	-
Credit Suisse Group AG	800			12/20/2016	Selling	1.000%	5	(1)
Credit Suisse Group AG	400			3/20/2018	Buying	1.000%	20	-
Credit Suisse Group AG	200			12/20/2016	Selling	1.000%	-	(5)
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	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	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	500			12/20/2012	Selling	1.000%	-	1
Credit Suisse Group AG	475			6/20/2017	Buying	1.000%	-	31
Deutsche Bank AG	5,800			6/20/2018	Selling	5.000%	462	-
Deutsche Bank AG	5,600			3/20/2018	Buying	1.000%	(155)	-
Deutsche Bank AG	3,500			9/20/2013	Selling	1.000%	(1)	-
Deutsche Bank AG	3,150			12/20/2016	Buying	1.000%	(56)	42
Deutsche Bank AG	3,000			9/20/2014	Selling	1.000%	(11)	-
Deutsche Bank AG	3,000			9/20/2014	Selling	1.000%	(15)	-
Deutsche Bank AG	2,675			9/20/2017	Buying	1.000%	(4)	-
Deutsche Bank AG	2,675			9/20/2017	Buying	1.000%	(3)	-
Deutsche Bank AG	2,675			9/20/2017	Buying	1.000%	(4)	-
Deutsche Bank AG	2,675			9/20/2017	Buying	1.000%	(4)	-
Deutsche Bank AG	2,450			9/20/2017	Buying	1.000%	2	-
Deutsche Bank AG	2,300			3/20/2018	Buying	1.000%	(75)	-
Deutsche Bank AG	2,300			9/20/2014	Selling	1.000%	(9)	-
Deutsche Bank AG	2,300			9/20/2013	Selling	1.000%	1	9
Deutsche Bank AG	1,800			3/20/2018	Buying	1.000%	(50)	-
Deutsche Bank AG	1,500			12/20/2013	Selling	5.000%	28	(4)
Deutsche Bank AG	1,200			12/20/2016	Selling	1.000%	8	(1)
Deutsche Bank AG	900			6/20/2018	Selling	5.000%	54	-
Deutsche Bank AG	700			6/20/2015	Selling	1.000%	(3)	-
Deutsche Bank AG	700			6/20/2018	Selling	1.000%	(27)	-
Deutsche Bank AG	500			9/20/2014	Selling	1.000%	-	-
Deutsche Bank AG	350			12/20/2017	Selling	5.000%	26	-
Deutsche Bank AG	101			3/20/2018	Selling	1.000%	(4)	-
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

Continued on next page

(Dollars in Thousands)

Counterparty	Notional Amount	VRS Rate	Counterparty Rate	Maturity Date	Buying/ Selling Protection	Pay/ Receive Rate	Market Value 2013	Market Value 2012
Credit Default Swaps *(continued)* **:**								
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	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%	-	-
Goldman Sachs Group Inc	11,699			12/20/2017	Buying	1.000%	270	-
Goldman Sachs Group Inc	8,400			6/20/2018	Selling	10.000%	(144)	-
Goldman Sachs Group Inc	7,400			6/20/2018	Selling	5.000%	590	-
Goldman Sachs Group Inc	6,889			12/20/2016	Buying	1.000%	32	-
Goldman Sachs Group Inc	5,940			12/20/2016	Buying	Variable Rate	44	-
Goldman Sachs Group Inc	5,940			12/20/2016	Buying	Variable Rate	54	-
Goldman Sachs Group Inc	5,850			9/20/2017	Selling	1.000%	(153)	-
Goldman Sachs Group Inc	5,350			9/20/2018	Selling	0.890%	121	-
Goldman Sachs Group Inc	4,600			3/20/2018	Selling	5.000%	(322)	-
Goldman Sachs Group Inc	3,900			6/20/2018	Buying	Variable Rate	96	-
Goldman Sachs Group Inc	3,900			6/20/2018	Buying	3.000%	134	-
Goldman Sachs Group Inc	3,150			12/20/2016	Buying	1.000%	(43)	1
Goldman Sachs Group Inc	3,100			3/20/2018	Selling	5.000%	413	-
Goldman Sachs Group Inc	2,950			12/20/2017	Selling	5.000%	174	-
Goldman Sachs Group Inc	2,860			3/20/2018	Buying	1.000%	(18)	-
Goldman Sachs Group Inc	2,600			3/20/2018	Buying	1.000%	65	-
Goldman Sachs Group Inc	2,500			12/20/2016	Buying	1.000%	37	165
Goldman Sachs Group Inc	2,000			3/20/2018	Selling	5.000%	(140)	-
Goldman Sachs Group Inc	1,400			9/20/2016	Selling	5.000%	111	46
Goldman Sachs Group Inc	1,200			12/20/2017	Selling	5.000%	89	-
Goldman Sachs Group Inc	975			12/20/2016	Selling	1.000%	(138)	-
Goldman Sachs Group Inc	600			3/20/2015	Selling	1.000%	(2)	-
Goldman Sachs Group Inc	300			9/20/2019	Selling	5.000%	22	-
Goldman Sachs Group Inc	101			12/20/2017	Selling	1.000%	(4)	-
Goldman Sachs Group Inc	101			3/20/2018	Selling	1.000%	(4)	-
Goldman Sachs Group Inc	11,100			6/20/2017	Selling	1.000%	-	(67)
Goldman Sachs Group Inc	7,750			6/20/2017	Selling	5.000%	-	752
Goldman Sachs Group Inc	6,726			12/20/2016	Buying	1.000%	-	370
Goldman Sachs Group Inc	6,600			3/20/2013	Selling	5.000%	-	169
Goldman Sachs Group Inc	6,000			12/20/2016	Selling	1.000%	-	(7)
Goldman Sachs Group Inc	5,800			12/20/2016	Buying	Variable Rate	-	398
Goldman Sachs Group Inc	5,800			12/20/2016	Buying	Variable Rate	-	459
Goldman Sachs Group Inc	5,400			12/20/2016	Buying	1.000%	-	108
Goldman Sachs Group Inc	5,275			6/20/2017	Selling	0.250%	-	(182)
Goldman Sachs Group Inc	5,000			12/20/2016	Buying	1.000%	-	174
Goldman Sachs Group Inc	4,375			6/20/2013	Selling	1.000%	-	(75)
Goldman Sachs Group Inc	4,000			12/20/2016	Selling	1.000%	-	(195)
Goldman Sachs Group Inc	3,950			9/20/2017	Selling	1.000%	-	(349)
Goldman Sachs Group Inc	3,200			12/20/2016	Selling	1.000%	-	(26)
Goldman Sachs Group Inc	3,160			3/20/2014	Selling	5.000%	-	91
Goldman Sachs Group Inc	2,900			12/20/2016	Selling	5.000%	-	(229)
Goldman Sachs Group Inc	2,650			6/20/2017	Selling	1.000%	-	(132)
Goldman Sachs Group Inc	2,500			12/20/2016	Selling	5.000%	-	(28)
Goldman Sachs Group Inc	2,000			9/20/2017	Buying	1.000%	-	21
Goldman Sachs Group Inc	2,000			9/20/2017	Buying	1.000%	-	36
Goldman Sachs Group Inc	2,000			12/20/2016	Selling	1.000%	-	(206)
Goldman Sachs Group Inc	1,800			12/20/2016	Selling	1.000%	-	(348)
Goldman Sachs Group Inc	1,777			3/20/2017	Buying	3.000%	-	119
Goldman Sachs Group Inc	1,600			3/20/2014	Selling	5.000%	-	46
Goldman Sachs Group Inc	1,500			12/20/2012	Selling	1.000%	-	1
Goldman Sachs Group Inc	1,500			3/20/2014	Selling	5.000%	-	60
Goldman Sachs Group Inc	1,300			12/20/2013	Selling	5.000%	-	37
Goldman Sachs Group Inc	1,269			9/20/2017	Buying	1.000%	-	72
Goldman Sachs Group Inc	1,269			9/20/2017	Buying	1.000%	-	72
Goldman Sachs Group Inc	1,000			9/20/2017	Buying	1.000%	-	75
Goldman Sachs Group Inc	1,000			9/20/2017	Buying	1.000%	-	38
Goldman Sachs Group Inc	952			12/20/2016	Selling	1.000%	-	(197)
Goldman Sachs Group Inc	900			6/20/2017	Selling	5.000%	-	(25)
Goldman Sachs Group Inc	800			12/20/2012	Selling	1.000%	-	2

Continued on next page

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 2013	Market Value 2012
Credit Default Swaps *(continued)* **:**								
Goldman Sachs Group Inc	800			12/20/2012	Selling	1.000%	-	2
Goldman Sachs Group Inc	300			12/20/2012	Selling	1.000%	-	-
HSBC Holdings PLC	1,900			3/20/2015	Selling	1.000%	(7)	-
HSBC Holdings PLC	700			6/20/2018	Selling	1.000%	(27)	-
HSBC Holdings PLC	200			3/20/2023	Selling	1.000%	(26)	-
HSBC Holdings PLC	100			3/20/2023	Selling	1.000%	(13)	-
UBS AG	7,350			6/20/2017	Buying	1.000%	(200)	(42)
UBS AG	3,200			9/20/2017	Buying	1.000%	3	-
UBS AG	2,800			3/20/2018	Buying	1.000%	(58)	-
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%	-	-
Total Credit Default Swaps	691,459						(733)	3,632
Interest Rate Swaps:								
Barclays PLC	5,794	Brazil Cetip Interbank Deposit	10.91%	1/2/2017			(8)	-
BlackRock Inc	783	Mexico Interbank 28-day Index	5.00%	2/26/2018			(21)	-
Credit Suisse Group AG	13,807	Brazil Cetip Interbank Deposit	8.50%	1/2/2017			(745)	-
Credit Suisse Group AG	13,128	Brazil Cetip Interbank Deposit	10.45% CDI	1/2/2017			(214)	-
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
Deutsche Bank AG	11,370	Mexico Interbank 28-day Index	5.00%	2/22/2023			(1,446)	-
Deutsche Bank AG	10,252	6-month Australian BBR-BBSW	4.00%	3/15/2023			(238)	-
Deutsche Bank AG	4,074	Brazil Cetip Interbank Deposit	8.29%	1/2/2017			(241)	-
Deutsche Bank AG	3,531	Brazil Cetip Interbank Deposit	8.485% CDI	1/2/2015			(50)	-
Deutsche Bank AG	1,551	Klibor Interbank Offered Rate	3.335%	4/19/2018			(19)	-
Deutsche Bank AG	1,100	2.75%	3-month LIBOR	6/19/2043			143	-
Deutsche Bank AG	844	5.25%	Mexican Interbank Equlibrium	9/6/2019			(38)	-
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
HSBC Holdings PLC	2,150	Mexico Interbank 28-day Index	5.75%	6/5/2023			(153)	-
HSBC Holdings PLC	622	Mexico Interbank 28-day Index	5.50%	2/22/2023			(54)	-
HSBC Holdings PLC	136	Brazil Cetip Interbank Deposit	8.32% CDI	1/2/2017			(8)	-
UBS AG	22,408	Brazil Cetip Interbank Deposit	8.2% CDI	1/2/2017			(1,369)	-
UBS AG	11,132	Mexico Interbank 28-day Index	5.80%	6/8/2016			240	-
UBS AG	1,358	Brazil Cetip Interbank Deposit	9.13%	1/2/2017			(43)	-
UBS AG	1,222	Brazil Cetip Interbank Deposit	8.59%	1/2/2017			(66)	-
UBS AG	230	5.25%	Mexican Interbank Equlibrium	9/6/2019			(11)	-
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
Total Interest Rate Swaps	497,833						(4,341)	5,448
Return Swaps:								
Goldman Sachs Group Inc	451,410	0.47%	MSCI AC World Index IMI	4/2/2013			(160)	-
Goldman Sachs Group Inc	125,296	3-month LIBOR + 42 bps	MSCI Daily Small Cap	8/20/2014			19	-
Goldman Sachs Group Inc	7,181	3-month LIBOR	Kuraray Co Ltd	8/20/2014			5	-
Goldman Sachs Group Inc	6,696	3-month LIBOR	Shionogi Co Ltd	8/20/2014			5	-
Goldman Sachs Group Inc	5,895	3-month LIBOR	MSAD Insurance Group	8/20/2014			4	-
Goldman Sachs Group Inc	5,730	3-month LIBOR	Canon Inc	8/20/2014			4	-
Goldman Sachs Group Inc	5,418	3-month LIBOR	Itochu Corp	8/20/2014			4	-
Goldman Sachs Group Inc	4,853	3-month LIBOR	Trend Micro Inc	8/20/2014			3	-
Goldman Sachs Group Inc	4,831	3-month LIBOR	Takeda Pharmaceutica	8/20/2014			3	-
Goldman Sachs Group Inc	4,794	3-month LIBOR	Daiichi Sankyo Co	8/20/2014			3	-

Continued on next page

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 2013	Market Value 2012
Return Swaps *(continued)* **:**								
Goldman Sachs Group Inc	4,440	3-month LIBOR	Dai Nippon Printing	8/20/2014			3	-
Goldman Sachs Group Inc	4,369	3-month LIBOR	Asahi Glass Co Ltd	8/20/2014			3	-
Goldman Sachs Group Inc	4,353	3-month LIBOR	Eisai Co Ltd	8/20/2014			3	-
Goldman Sachs Group Inc	4,310	3-month LIBOR	Mitsui Co Ltd	8/20/2014			3	-
Goldman Sachs Group Inc	4,200	3-month LIBOR	NKSJ Holdings Inc	8/20/2014			3	-
Goldman Sachs Group Inc	4,119	3-month LIBOR	Sumitomo Corp	8/20/2014			3	-
Goldman Sachs Group Inc	3,862	3-month LIBOR	Shiseido Co Ltd	8/20/2014			2	-
Goldman Sachs Group Inc	3,757	3-month LIBOR	Mitsubishi Corp	8/20/2014			2	-
Goldman Sachs Group Inc	3,635	3-month LIBOR	Fast Retailing Co Ltd	8/20/2014			2	-
Goldman Sachs Group Inc	3,502	3-month LIBOR	Sharp Corp	8/20/2014			2	-
Goldman Sachs Group Inc	3,388	3-month LIBOR	Nippon Telegraph	8/20/2014			2	-
Goldman Sachs Group Inc	3,025	3-month LIBOR	Marubeni Corp	8/20/2014			2	-
Goldman Sachs Group Inc	2,968	3-month LIBOR	JX Holdings Inc	8/20/2014			2	-
Goldman Sachs Group Inc	2,967	3-month LIBOR	Alps Electric Co Ltd	8/20/2014			2	-
Goldman Sachs Group Inc	2,931	3-month LIBOR	Sumitomo Mitsui Trus	8/20/2014			2	-
Goldman Sachs Group Inc	2,802	3-month LIBOR	Nippon Electric Glas	8/20/2014			2	-
Goldman Sachs Group Inc	2,758	3-month LIBOR	Sumitomo Mitsui Fin	8/20/2014			2	-
Goldman Sachs Group Inc	2,402	3-month LIBOR	Show a Shell Sekiyu	8/20/2014			2	-
Goldman Sachs Group Inc	2,206	3-month LIBOR	Oji Paper Co Ltd	8/20/2014			1	-
Goldman Sachs Group Inc	2,131	3-month LIBOR	Sumitomo Chemical Co	8/20/2014			1	-
Goldman Sachs Group Inc	2,013	3-month LIBOR	NTN Corp	8/20/2014			1	-
Goldman Sachs Group Inc	1,739	3-month LIBOR	Aozora Bank Ltd	8/20/2014			1	-
Goldman Sachs Group Inc	1,507	3-month LIBOR	Denki Kagaku Kogyo	8/20/2014			1	-
Goldman Sachs Group Inc	1,197	3-month LIBOR	Mizuho Financial Grp	8/20/2014			1	-
Goldman Sachs Group Inc	1,052	3-month LIBOR	NTT Docomo Inc	8/20/2014			1	-
Goldman Sachs Group Inc	937	3-month LIBOR	Mitsui Engineer Ship	8/20/2014			1	-
Goldman Sachs Group Inc	926	3-month LIBOR	Chubu Electric Pow er	8/20/2014			1	-
Goldman Sachs Group Inc	849	3-month LIBOR	Toyobo Co Ltd	8/20/2014			1	-
Goldman Sachs Group Inc	780	3-month LIBOR	Kansai Electric Pow er	8/20/2014			1	-
Goldman Sachs Group Inc	674	3-month LIBOR	Nippon Suisan Kaisha	8/20/2014			-	-
Goldman Sachs Group Inc	704,400	0.47%	MSCI AC World Index IMI	4/2/2013			-	(340)
Total Return Swaps	1,406,303						(57)	(340)
Total Swaps	**$ 2,595,595**						**(5,131)**	**8,740**

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 $44.5 million notional value and a fair value of $1.8 million as of June 30, 2013. This amount is reported as part of investment earnings and other liabilities.

Hedging Derivative Instruments

At June 30, 2013, the University of Virginia (UVA) (nonmajor) had two fixed-payer interest rate swaps totaling $100.0 million 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 $78.6 million of the variable rate Series 2003A bonds maturing in June 2034 and $21.4 million of outstanding commercial paper which may have various maturities of no greater than 270 days each. UVA pays fixed rates of 4.2 percent and 4.1 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, 2013, was 0.1 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, 2013, the negative market value of the swaps of $18.7 million is included in other liabilities in the accompanying financial statements. For the year ended June 30, 2013, the change in fair value of UVA's swaps was a decrease of $16.4 million to the prior year's deferred outflows of $35.1 million resulting in deferred outflows of resources as of June 30, 2013 of $18.7 million 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, 2013, UVA had no credit risk related to its swaps. As of June 30, 2013, 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, 2013, 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) (nonmajor) 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. In November 2012, VCU refunded the Series 2006A and Series 2006B bonds associated with these swaps with General Revenue Pledge bonds, Series 2012A and 2012B, which also carry variable interest rates. At that time the hedging relationship between the interest rate swaps and the Series 2006A and 2006B bonds was terminated. The accumulated change in fair value of the interest rate swaps at the time of the refunding was negative $14.1 million and was included in the calculation of the deferred loss on refunding. Concurrently, VCU reestablished hedge accounting by designating the Series 2012A and 2012B bonds as hedged debt. At June 30, 2013, the swap has a notional amount of $65.5 million which declines over time to $4.8 million at the termination date of November 1, 2030. VCU pays a fixed rate of 3.4 percent and the counterparty pays 67.0 percent of the London Interbank Offered Rate (LIBOR) (0.1 percent as of June 30, 2013). 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 bonds. The swap has a notional amount of $75.0 million, which declines over time to $8.0 million at the maturity date of July 1, 2030. The notional amount as of June 30, 2013, was $70.6 million. MCVH pays a fixed rate of 3.5 percent and the counterparty pays 67.0 percent of LIBOR (0.1 percent as of June 30, 2013). 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 bonds. The swaps have a combined notional amount of $125.0 million, which declines over time to $15.7 million at the termination date of July 1, 2037. The notional amount as of June 30, 2013 was $121.3 million. MCVH pays a fixed rate of 3.8 percent and the counterparty pays 67.0 percent of LIBOR (0.1 percent as of June 30, 2013). The payments are settled monthly at the first of each month. In June 2013, MCVH refunded the Series 2005 and Series 2008 bonds associated with these swaps with Series 2013A and Series 2013B bonds, which also carry variable interest rates. At that time the hedging relationship between the interest rate swap agreements and the Series 2005 and 2008 bonds was terminated. The accumulated change in fair value of the interest rate swaps at the time of the refunding was negative $42.1 million and was included in the calculation of the deferred loss on refunding. In June, 2013, MCVH reestablished hedge accounting by designating the Series 2013A and 2013B bonds as hedged debt. At June 30, 2013, the negative market value of VCU's swap of $9.5 million and MCVH's swaps of $42.1 million are included in other liabilities in the accompanying financial statements. At June 30, 2013, the change in fair market value of VCU's swap, since reestablishing hedge accounting, of $4.6 million is included in deferred inflows of resources in the accompanying financial statements. At June 30, 2013, the change in fair value of MCVH's swaps was $22.0 million.

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 $334.4 million and UVA's short-term debt (commercial paper) of $21.4 million 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
2014	$ 2,520,000	$ 2,054,298	$ 13,037,652	$ 17,611,950
2015	4,785,000	1,995,632	12,878,390	19,659,022
2016	4,990,000	1,961,588	12,712,302	19,663,890
2017	5,690,000	1,914,476	12,522,567	20,127,043
2018	5,920,000	1,869,379	12,325,468	20,114,847
2019-2023	33,180,000	8,612,049	58,402,488	100,194,537
2024-2028	57,640,000	6,832,317	50,744,978	115,217,295
2029-2033	122,850,000	4,111,103	37,928,557	164,889,660
2034-2038	96,844,000	1,176,918	10,907,954	108,928,872
2039-2043	21,361,000	31,824	865,120	22,257,944
Total	$ 355,780,000	$ 30,559,584	$ 222,325,476	$ 608,665,060

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 2013 were $2.5 billion with a reserve balance available for benefits of $54.9 billion. At June 30, 2013, the VRS had 826 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. Under the VRS Plan 2, the multiplier for general employees was reduced to 1.65 percent beginning January 1, 2013. 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 allowance (COLA), based on changes in the Consumer Price Index and limited to 5.0 percent per year for VRS Plan 1 and 3.0 percent for VRS Plan 2, is granted on July 1 of the second calendar year after retirement and is effective each July 1 thereafter. 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.

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 2013 were $31.6 million, $30.0 million, and $67.7 million, and reserved balances available for benefits were $625.6 million, $388.8 million, and $992.0 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 2013 were based on the actuary's valuation as of June 30, 2011. Employer contributions by the Commonwealth to VRS, SPORS, VaLORS, and JRS were 8.8 percent, 24.7 percent, 14.8 percent, and 45.4 percent, respectively. These rates were lower than the actuary's recommended rates to VRS, SPORS, VaLORS, and JRS of 13.1 percent, 32.6 percent, 19.5 percent, 54.1 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		
	2013	2012	2011	2013	2012	2011
Annual required contribution	$ 589,379	$ 423,268	$ 383,620	$ 45,217	$ 38,178	$ 34,402
Interest on net pension obligation	121,800	108,029	85,192	12,339	11,265	9,285
Adjustment to annual required contribution	(105,445)	(114,626)	(90,255)	(10,682)	(11,928)	(9,831)
Annual pension cost	605,734	416,671	378,557	46,874	37,515	33,856
Contributions made	(324,349)	(117,296)	(73,874)	(26,193)	(11,441)	(7,460)
Increase in net pension obligation	281,385	299,375	304,683	20,681	26,074	26,396
Net pension obligation, beginning of year	1,740,001	1,440,626	1,135,943	176,268	150,194	123,798
Net pension obligation, end of year	$ 2,021,386	$ 1,740,001	$ 1,440,626	$ 196,949	$ 176,268	$ 150,194
Percentage of annual pension cost contributed	53.5%	28.2%	19.5%	55.9%	30.5%	22.0%

	JRS			VaLORS		
	2013	2012	2011	2013	2012	2011
Annual required contribution	$ 39,419	$ 35,804	$ 34,907	$ 93,553	$ 86,052	$ 79,596
Interest on net pension obligation	8,356	7,720	6,427	31,292	29,037	24,469
Adjustment to annual required contribution	(7,234)	(8,174)	(6,806)	(27,090)	(30,746)	(25,910)
Annual pension cost	40,541	35,350	34,528	97,755	84,343	78,155
Contributions made	(27,027)	(18,907)	(17,303)	(50,393)	(24,481)	(17,255)
Increase in net pension obligation	13,514	16,443	17,225	47,362	59,862	60,900
Net pension obligation, beginning of year	119,366	102,923	85,698	447,022	387,160	326,260
Net pension obligation, end of year	$ 132,880	$ 119,366	$ 102,923	$ 494,384	$ 447,022	$ 387,160
Percentage of annual pension cost contributed	66.7%	53.5%	50.1%	51.6%	29.0%	22.1%

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 following nonmajor component units: the Virginia Economic Development Partnership, the Virginia Tourism Authority, and the Fort Monroe Authority of $4.1 million, $2.1 million, and $638,952, respectively. The table also excludes the non-VRS pension liability of $99.8 million for all other component units and includes the fiduciary pension liability of $13.6 million.

The contribution rates were determined during the actuarial valuation conducted as of June 30, 2011.

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 nine years for the deferred contributions from fiscal years 2011 and 2012, and 29 years for the balance of the UAAL. 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, 2012, 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)			
2012	$ 51,212	$ 77,859	$ 26,647	65.8%	$ 14,880	179.1%
			State Police Officers' Retirement System (SPORS)			
2012	$ 587	$ 1,013	$ 426	57.9%	$ 104	409.0%
			Virginia Law Officers' Retirement System (VaLORS)			
2012	$ 909	$ 1,753	$ 844	51.9%	$ 345	244.8%
			Judicial Retirement System (JRS)			
2012	$ 361	$ 582	$ 221	62.0%	$ 57	388.6%

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. 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 8.8 percent 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, 2013, the total contributions to this plan were $1.1 million.

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, 2013, there were three participants in this plan. Total contributions to the plan for fiscal year 2013 were $75,315.

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, 2013, there were two participants in this plan. There were no contributions to the plan for fiscal year 2013.

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, and Fidelity Investments, Inc. 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 2013 were 8.5 percent except the employer contributions for the University of Virginia (nonmajor) were 8.9 percent. During the year ended June 30, 2013, the total contributions to these plans were:

	Plan 1	Plan 2		
	Employer	Employer	Employee	Total
TIAA-CREF	$ 73,897,616	$ 9,992,459	$ 5,978,908	$ 89,868,983
Fidelity Investments	34,594,340	9,332,898	5,240,422	49,167,660
Total	$ 108,491,956	$ 19,325,357	$ 11,219,330	$ 139,036,643

University of Virginia Medical Center (part of the University of Virginia – nonmajor) 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, 2013, the total employer contributions to this plan were $12.9 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 2013 were $139,686.

The Virginia Commonwealth University Health System Authority (Authority) (a blended component unit of the Virginia Commonwealth University – nonmajor) 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, 2013, were approximately $18.5 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, 2013, there were four actively employed participants in the HCP plan. Total contributions to the HCP plan for the year ended June 30, 2013, were approximately $31,000.

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, 2013, were approximately $3.6 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 $12.3 million for the year ended June 30, 2013.

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 (Safe Harbor contribution) and may make additional contributions (Profit Sharing contributions) at the option of the Board of Directors. During 2013, VA Premier made Profit Sharing contributions equal to 2.0 percent of each eligible employee's compensation. VA Premier makes both of these contributions in an annual installment at the end of the year. 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 2013 was approximately $1.4 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, 214 faculty members have elected to enroll in the plan. As of June 30, 2013, 71 participants remain, including 15 new participants who retired under this plan during fiscal year 2013. 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 $2.0 million of the fiscal year 2014 plan contribution in 2013.

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 $527,149 in fiscal year 2013.

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 (major), 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 Virginia 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, 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 $2.8 million in fiscal year 2013.

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

	2013	2012	2011
Service cost - benefits earned during the year	$ 3,574,000	$ 3,386,700	$ 3,589,900
Interest cost on projected benefit obligation	4,668,100	5,248,100	4,886,100
Expected return on assets	(5,094,600)	(5,017,000)	(4,212,000)
Net amortization and deferral and gain	3,719,400	2,283,500	3,589,200
FAS88 Special Termination Benefits	-	1,150,500	-
Annual pension cost	6,866,900	7,051,800	7,853,200
Contributions made	(7,035,000)	(2,583,300)	-
Increase (Decrease) in prepaid pension obligation	(168,100)	4,468,500	7,853,200
Prepaid pension obligation, beginning of year	4,074,900	(393,600)	(8,246,800)
Prepaid pension obligation, end of year	$ 3,906,800	$ 4,074,900	$ (393,600)

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, 2012, 2011 and 2010, 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, 2013, 2012, and 2011.

Trend Information

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
2013	$ 6,866,900	102 %	$ 3,906,800
2012	$ 7,051,800	37 %	$ 4,074,900
2011	$ 7,853,200	- %	$ (393,600)

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

	2013	2012	2011
Service cost - benefits earned during the year	$ 884,733	$ 965,081	$ 1,101,909
Interest cost on projected benefit obligation	66,355	72,381	82,643
Expected return on assets	(164,432)	(134,104)	(109,452)
Net amortization and deferral	232,017	215,428	171,448
Annual pension cost	1,018,673	1,118,786	1,246,548
Contributions made	(1,358,196)	(1,523,156)	(1,575,234)
Increase (Decrease) in pension obligation	(339,523)	(404,370)	(328,686)
Pension obligation, beginning of year	(2,192,422)	(1,788,052)	(1,459,366)
Prepaid pension obligation, end of year	$ (2,531,945)	$ (2,192,422)	$ (1,788,052)

The annual pension cost for the current year was determined as part of the July 2013 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, 2013, 2012, and 2011.

Trend Information

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
2013	$ 1,018,673	133 %	$ (2,531,945)
2012	$ 1,118,786	136 %	$ (2,192,422)
2011	$ 1,246,548	126 %	$ (1,788,052)

The Authority also sponsors two noncontributory supplemental plans covering certain key employees. The plans had assets of $2.6 million and an accrued liability of $3.4 million. No contributions were made to the plans for the year ended June 30, 2013.

As of January 1, 2005, the Virginia Resources Authority (major) 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, 2013, the Authority's annual pension cost of $90,783 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, 2013 and 2012, 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 $155,820 for the fiscal year ended June 30, 2013. 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 $23,521 liability related to this agreement for the year ended June 30, 2013. Contributions made to the plan were $12,611 in 2013 and $9,458 in 2012.

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 $13,579 in 2013.

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 357,053 members participate in the program at June 30, 2013.

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 66,482 members were covered under this program at June 30, 2013.

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 74,378 members were covered under the program at June 30, 2013.

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 2013, there were no monies appropriated for administration of the program. At June 30, 2013, there were 1,689 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, 2012, 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 149,926 retirees in the Basic Group Life Insurance Program and 2,469 retirees were covered under the Optional Group Life Insurance Program in fiscal year 2013.

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 103,952 retired members were covered under this program at June 30, 2013. 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 2,757 former members receiving benefits from the program during fiscal year 2013. 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 838 retirees and 839 other participants in the program in fiscal year 2013. 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 7,861 retirees in the program in fiscal year 2013.

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, 2013 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 $150.0 million, $161.1 million, and $748.5 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		
	2013	2012	2011	2013	2012	2011
Annual required contribution	$ 60,457	$ 15,483	$ 13,360	$ 67,804	$ 65,412	$ 58,785
Interest on net OPEB obligation	-	-	-	9,626	5,934	1,922
Adjustment to annual required contribution	-	-	-	(8,336)	(5,341)	(1,728)
Annual OPEB cost	60,457	15,483	13,360	69,094	66,005	58,979
Contributions made	(60,457)	(15,483)	(13,360)	(56,636)	(7,667)	(5,383)
Increase in net OPEB obligation	-	-	-	12,458	58,338	53,596
Net OPEB obligation (asset), beginning of year	-	-	-	137,568	79,230	25,634
Net OPEB obligation (asset), end of year	$ -	$ -	$ -	$ 150,026	$ 137,568	$ 79,230
Percentage of annual OPEB cost contributed	100.0%	100.0%	100.0%	82.0%	11.6%	9.1%

	Disability Insurance Trust Fund			Line of Duty Death and Disability		
	2013	2012	2011	2013 (3)	2012 (2)	2011 (1)
Annual required contribution	$ 29,862	$ 37,578	$ 33,643	$ 5,925	$ 2,901	$ -
Interest on net OPEB obligation	10,247	8,204	5,650	-	-	-
Adjustment to annual required contribution	(8,900)	(7,387)	(5,082)	-	-	(15,607)
Annual OPEB cost	31,209	38,395	34,211	5,925	2,901	(15,607)
Contributions made	(16,986)	(1,092)	-	(5,925)	(2,901)	-
Increase in net OPEB obligation	14,223	37,303	34,211	-	-	(15,607)
Net OPEB obligation (asset), beginning of year	146,893	109,590	75,379	-	-	15,607
Net OPEB obligation (asset), end of year	$ 161,116	$ 146,893	$ 109,590	$ -	$ -	$ -
Percentage of annual OPEB cost contributed	54.4%	2.8%	0.0%	100.0%	100.0%	0.0%

	Pre-Medicare Retiree Healthcare		
	2013	2012	2011
Annual required contribution	$ 182,566	$ 172,532	$ 166,637
Interest on net OPEB obligation	23,274	19,149	13,304
Adjustment to annual required contribution	(24,117)	(19,268)	(13,356)
Annual OPEB cost	181,723	172,413	166,585
Contributions made	(15,479)	(36,600)	(29,583)
Increase in net OPEB obligation	166,244	135,813	137,002
Net OPEB obligation (asset), beginning of year	582,223	446,410	309,408
Net OPEB obligation (asset), end of year	$ 748,467	$ 582,223	$ 446,410
Percentage of annual OPEB cost contributed	8.5%	21.2%	17.8%

(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.

(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.

(3) During fiscal year 2013, the required annual contributions of $5.9 million were paid by the Commonwealth. Additionally, the loan increased to $14.9 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 following nonmajor component units: the Virginia Economic Development Partnership, the Virginia Tourism Authority, the Fort Monroe Authority, and the Virginia Outdoors Foundation of $1.5 million, $787,366, $236,289, and $45,749, respectively. The table also excludes non-Commonwealth sponsored OPEB liabilities of $34.7 million for all other component units and includes the fiduciary OPEB liability of $5.0 million.

The annual required contributions for the current year were determined during the actuarial valuations conducted as of June 30, 2011, 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 1.2 percent, 1.0 percent, and 0.5 percent, respectively, of covered payrolls for FY 2013. 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 4.0 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 4.8 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 the June 30, 2012 valuation, was 29 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 3.8 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, 2012, 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			
2012	$ 756	$ 2,458	$ 1,702	30.7%	$ 16,697	10.2%
			Retiree Health Insurance Credit Fund			
2012	$ 130	$ 2,258	$ 2,128	5.8%	$ 14,211	15.0%
			Disability Insurance Trust Fund			
2012	$ 305	$ 262	$ (43)	116.6%	$ 3,433	(1.3%)
			Line of Duty Death and Disability			
2012	$ 6	$ 226	$ 220	2.7%	N/A	N/A
			Pre-Medicare Retiree Healthcare			
2012	$ -	$ 1,351	$ 1,351	-	$ 3,709	36.4%

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 (nonmajor) 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, 2013, the Authority's Annual OPEB cost was $493,044; the percentage of Annual OPEB Cost Contributed was 254.0 percent; and the ending Net OPEB asset was $1.2 million.

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 2013, the Commission's annual OPEB cost was $2.1 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, 2013, the Authority's annual OPEB cost was $64,744; contribution towards OPEB cost was $248,566; the percentage of annual OPEB cost contributed was 383.7 percent; and the ending net OPEB obligation was $1,594.

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 $1.7 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, 2013, was $302.5 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 2013 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 $12.5 million for fiscal year 2013.

The deferred compensation plan for the University of Virginia Medical Center (part of the University of Virginia – nonmajor 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 $1.8 million for fiscal year 2013.

The Virginia Housing Development Authority (major component unit) and the Virginia Resource Authority (major 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 $109,907 for the fiscal year ended June 30, 2013. Further, the rights 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 $299,005 for the fiscal year ended June 30, 2013.

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 $2.5 billion are not included in the financial statements.

19. COMMITMENTS

A. Construction Projects

Primary Government

Highway Projects

At June 30, 2013, the Department of Transportation had contractual commitments of approximately $4.8 billion for construction of various highway projects. Funding for these expenditures is expected to be provided as follows: (1) federal funds – approximately 33.0 percent or $1.6 billion, (2) state funds – approximately 42.0 percent or $2.0 billion, and (3) Proceeds from Bonds – approximately 25.0 percent or $1.2 billion.

At June 30, 2013 the Route 460 Funding Corporation of Virginia (nonmajor enterprise fund) had contractual commitments of approximately $184.7 million for the U.S Route 460 Corridor Improvements Project.

Mass Transit Projects

At June 30, 2013, the Department of Rail and Public Transportation had contractual commitments of approximately $166.4 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 86.7 percent or $144.3 million, and (2) Federal Funds – approximately 13.3 percent or $22.1 million.

Wastewater Treatment Projects

At June 30, 2013, 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 $66.3 million provided by bond proceeds and the Water Quality Improvement Fund.

Other Construction Projects

At June 30, 2013, the Department of Behavioral Health and Developmental Services had construction commitments of approximately $36.8 million.

At June 30, 2013, the Department of Forensic Science had non-contractual commitments of approximately $29.6 million for construction and energy performance contracts.

At June 30, 2013, the Virginia State Police had construction commitments of approximately $21.2 million for a driver training facility.

At June 30, 2013, the Jamestown-Yorktown Foundation had construction commitments of approximately $17.9 million for the Yorktown Museum Project.

At June 30, 2013, the Department of Game and Inland Fisheries had construction commitments of approximately $8.7 million for a new headquarters building.

Component Units

Port Projects

At June 30, 2013, the Virginia Port Authority (nonmajor) was committed to construction contracts totaling $75.0 million.

Wallops Island Project

At June 30, 2013, the Virginia Commercial Space Flight Authority (nonmajor) was committed to construction programs totaling $6.8 million.

Higher Education Institutions

Colleges and universities had contractual commitments as of June 30, 2013, of approximately $568.6 million primarily for construction contracts. Higher education foundations' commitments total approximately $59.9 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, 2013, was $66.3 million for governmental activities (including internal service funds) and $22.8 million for business-type activities. Rental expense for the discrete component units (excluding foundations) for the year ended June 30, 2013, was $133.9 million. The Commonwealth has, as of June 30, 2013, the following minimum rental payments due under the above leases (dollars in thousands):

	Primary Government		
	Governmental Activities	Business-type Activities	Component Units (1)
2014	$ 61,973	$ 21,424	$ 113,292
2015	50,856	17,656	108,640
2016	40,717	14,104	100,704
2017	31,662	9,320	96,191
2018	23,895	5,221	96,502
2019-2023	41,132	4,356	460,173
2024-2028	6,279	-	517,826
2029-2033	150	-	237,612
2034-2038	23	-	823
2039-2043	23	-	823
2044-2048	23	-	823
2049-2053	9	-	165
Total	$ 256,742	$ 72,081	$ 1,733,574

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

	Foundations (2)
2014	$ 3,319
2015	2,386
2016	1,948
2017	1,462
2018	1,009
Thereafter	3,670
Total	$ 13,794

Note (2): Foundations represent FASB reporting entities defined in Note 1.B. Rental expense for the year ended June 30, 2013, was approximately $3.4 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, 2013, amounted to $4.4 billion.

D. Tobacco Grants

The Tobacco Indemnification and Community Revitalization Commission (nonmajor component unit) had $191.0 million in grant award commitments not reflected in the accompanying financial statements since eligibility requirements were not met as of June 30, 2013, in accordance with GASB Statement No. 33.

The Virginia Foundation for Healthy Youth (nonmajor component unit) had $12.5 million in grant commitments and outstanding contracts not reflected in these statements since eligibility requirements were not met as of June 30, 2013, in accordance with GASB Statement No. 33.

E. Other Commitments

Primary Government

At June 30, 2013, the Department of Motor Vehicles had contractual commitments of approximately $33.6 million for security technology services.

At June 30, 2013, the Department of Corrections had contractual commitments of approximately $5.9 million for teacher services.

At June 30, 2013, the Virginia Department of Health had commitments of approximately $27.6 million to localities, trauma centers, trainers, grants to rescue squads, and water supply assistance grants.

At June 30, 2013, the Virginia College Savings Plan (major enterprise fund) had $129.7 million in private equity commitments.

At June 30, 2013, the Virginia Employment Commission (major enterprise fund) had contractual commitments of approximately $16.4 million and non-contractual commitments of approximately $12.8 million for an information systems modernization project. The agency also had approximately $6.4 million in other contractual commitments.

The Virginia Wireless E-911 (nonmajor enterprise fund) had $2.8 million in outstanding grants awarded but not yet disbursed to localities as of June 30, 2013, 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 $423.7 million in commitments to fund new loans as of June 30, 2013, since all of the eligibility criteria have not been met in accordance with GASB Statement No. 33.

The Virginia Resource Authority (major) was obligated to disburse $172.7 million in loan commitments to various localities and other governmental entities in the Commonwealth of Virginia as of June 30, 2013, 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 $15,000 in loan commitments to banks and borrowers as of June 30, 2013, 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 Position (see Note 25). All amounts related to the fiduciary funds are recognized in those funds.

The liability at June 30, 2013, 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 $3.5 million, of which $2.9 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, lead contamination and remediation relating to superfund state contracts.

Agencies involved in remediation include:

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

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, 2013:

- Department of Behavioral Health and Developmental Services (DBHDS) relating to asbestos and groundwater contamination
- Department of Emergency Management (VDEM) relating to cleanup of an emergency fuel storage facility
- 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, 2013, $116.4 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)
2012-2013	$ 109,591	$ 1,085,886	$ (1,079,045)	$ 116,432
2011-2012	$ 81,480	$ 1,012,254	$ (984,143)	$ 109,591

(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, 2013, $622.8 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, 2013, is $926.2 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)
2012-2013	$ 608,714	$ 84,681	$ (70,560)	$ 622,835
2011-2012	$ 488,188	$ 194,898	$ (74,372)	$ 608,714

(1) Of the balance shown above, $85.1 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 is assumed at the maximum per occurrence recovery limited stated in Section 8.01-581.15 of the *Code of Virginia*. 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 – nonmajor 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)
2012-2013	$ 23,467	$ 5,797	$ (5,333)	$ 23,931
2011-2012	$ 23,501	$ 5,052	$ (5,086)	$ 23,467

(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 (2)	Claims Settled	Balance June 30, (1)
2012-2013	$ 17,527	$ (355)	$ (2,091)	$ 15,081
2011-2012	$ 18,409	$ 597	$ (1,479)	$ 17,527

(1) Of the balance shown above, $2.1 million is due within one year.
(2) This column represents workers' compensation expense, net of actuarial adjustments.

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, 2013, the amount of these liabilities is approximately $52.4 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 $5.5 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 319 local government units participating in the pool. This includes 35 school districts, 39 counties, 111 cities/towns, and 134 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, 2013, $31.2 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, 2013, there were 489 units of local government in the pool, including 2 cities, 25 towns, and 30 counties. The remaining 432 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, 2013, $25.5 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, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Unpaid Claims and Claim Adjustment Expenses at Beginning of Fiscal Year	$ 26,507	$ 18,656	$ 24,533	$ 19,799
Incurred Claims and Claim Adjustment Expenses:				
Provision for Insured Events of the Current Fiscal Year	279,842	244,788	(1,684)	1,409
Changes in Provision for Insured Events of Prior Fiscal Years	-	-	2,431	2,832
Total Incurred Claims and Adjustment Expenses	279,842	244,788	747	4,241
Payments:				
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Fiscal Year	275,124	236,937	335	1,677
Total Payments	275,124	236,937	335	1,677
Change in Provision for Discounts	-	-	578	626
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Discounted) (1) (2) (3)	$ 31,225	$ 26,507	$ 25,523	$ 22,989
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Undiscounted)	$ 31,225	$ 26,507	$ 27,404	$ 24,533

Note (1): The entire balance for Local Choice Health Care, $31,225 (dollars in thousands) is due within one year.

Note (2): Of the balance shown above for Risk Management, $7,231 (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, 2013.

	Vendor	Salary/ Wage	Retainage	Other	Foundations (1)	Total
Primary Government:						
General	$ 161,522	$ 91,316	$ 182	$ -	$ -	$ 253,020
Major Special Revenue Funds:						
Commonwealth Transportation	286,299	29,015	3,862	-	-	319,176
Federal Trust	113,295	15,384	3,710	-	-	132,389
Literary	34	-	-	-	-	34
Nonmajor Governmental Funds	27,167	21,562	8,274	196	-	57,199
Major Enterprise Funds:						
State Lottery (2)	2,009	1,144	-	3,853	-	7,006
Virginia College Savings Plan (2)	88	378	-	325	-	791
Unemployment Compensation	144	-	-	-	-	144
Nonmajor Enterprise Funds	61,990	5,341	-	-	-	67,331
Internal Service Funds	57,644	2,889	337	-	-	60,870
Private Purpose Trust Funds	254	150	-	1,803	-	2,207
Pension and Other Employee Benefit Trust (3)	265	1,732	-	37,761	-	39,758
Agency Funds	1,677	-	-	3,568	-	5,245
Total Primary Government (4)	$ 712,388	$ 168,911	$ 16,365	$ 47,506	$ -	$ 945,170
Discrete Component Units:						
Virginia Housing Development Authority	$ 1,797	$ 2,117	$ -	$ 17,728	$ -	$ 21,642
Virginia Public School Authority	45	-	-	-	-	45
Virginia Resources Authority	187	10	-	-	-	197
Virginia College Building Authority	9	-	-	-	-	9
Nonmajor Component Units	441,131	363,547	46,715	12,150	114,923	978,466
Total Component Units	$ 443,169	$ 365,674	$ 46,715	$ 29,878	$ 114,923	$ 1,000,359

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 $23,629 (dollars in thousands) in investment management expense, $14,132 (dollars in thousands) in program benefit liabilities.

Note (4): Fiduciary liabilities of $47,210 (dollars in thousands) are not included in the Government-wide Statement of Net Position. In addition, governmental fund liabilities of $126,539 (dollars in thousands) are included in the Government-wide Statement of Net Position, but excluded from the above amounts.

24. OTHER LIABILITIES

The following table (dollars in thousands) summarizes Other Liabilities as of June 30, 2013.

	Primary Government				
	General	Commonwealth Transportation	Federal Trust	Nonmajor Governmental Funds	State Lottery
Lottery Prizes Payable	$ -	$ -	$ -	$ -	$ 124,810
Due to Program Participants, Escrows, and Providers	-	-	-	-	-
Medicaid Payable	341,196	-	344,465	-	-
Family Access to Medical Insurance Security Payable	5,062	-	9,400	-	-
Accrued Interest Payable	-	-	-	-	-
Tax Refunds Payable	375,974	-	-	-	-
Insurance Carrier Surety Deposit	-	-	-	-	-
Deposits Pending Distribution	6,591	7,690	-	2,191	-
Car Tax Payable	263,025	-	-	-	-
Other Liabilities	192	9	11	631	-
Total Other Liabilities	$ 992,040	$ 7,699	$ 353,876	$ 2,822	$ 124,810

	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	248	39,825	-	-	2,982
Medicaid Payable	-	-	-	-	-
Family Access to Medical Insurance Security Payable	-	-	-	-	-
Accrued Interest Payable	-	-	6,221	-	-
Tax Refunds Payable	-	-	-	-	-
Insurance Carrier Surety Deposit	-	-	-	-	-
Deposits Pending Distribution	-	-	178	54	-
Car Tax Refund Payable	-	-	-	-	-
Other Liabilities	-	-	193	6,286	-
Total Other Liabilities	$ 248	$ 39,825	$ 6,592	$ 6,340	$ 2,982

Note (1): The Other Liabilities amount of $6,286 (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	$ -	$ -	$ 124,810
Due to Program Participants, Escrows, and Providers	-	36,605	79,660
Medicaid Payable	-	-	685,661
Family Access to Medical Insurance Security Payable	-	-	14,462
Accrued Interest Payable	-	-	6,221
Tax Refunds Payable	-	-	375,974
Insurance Carrier Surety Deposit	-	434,448	434,448
Deposits Pending Distribution	-	57,777	74,481
Car Tax Refund Payable	-	-	263,025
Other Liabilities	169,472	1,556	178,350
Total Other Liabilities	$ 169,472	$ 530,386	$ 2,237,092

Note (2): Other Liabilities of $169,472 (dollars in thousands) reported in pension and other employee benefit trust funds are made up of $31,410 (dollars in thousands) in funds held for the Commonwealth Health Research Fund; $22,852 (dollars in thousands) in other funds managed by the System; $80,869 (dollars in thousands) in pending investment transactions, including $80,849 (dollars in thousands) for futures contract, $20 (dollars in thousands) in other investment payables; $1,396 (dollars in thousands) in other payable related to the System benefit plans; $2,876 (dollars in thousands) in foreign taxes payables related to the System benefit plans, and $30,069 (dollars in thousands) in interest and dividends payable related to the System benefit plans.

Note (3): Fiduciary liabilities of $702,840 (dollars in thousands) are not included in the Government-wide Statement of Net Position. Governmental fund liabilities of $571,447 (dollars in thousands) are included in the Government-wide Statement of Net Position, but excluded from the above amounts.

	Component Units					
	Virginia Housing Development Authority	Virginia Public School Authority	Virginia Resources Authority	Virginia College Building Authority	Nonmajor Component Units	Total Component Units
Accrued Interest Payable	$ 74,720	$ 60,132	$ 26,820	$ 76,093	$ 62,693	$ 300,458
Other Liabilities	134	-	3,041	147	264,026	267,348
Deposits Pending Distribution	-	-	-	-	480,973	480,973
Short-term Debt	-	-	-	-	182,834	182,834
Grants Payable	-	-	-	-	8,217	8,217
Total Other Liabilities	$ 74,854	$ 60,132	$ 29,861	$ 76,240	$ 998,743	$ 1,239,830

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, 2013, the estimated liability related to Medicaid claims totaled $685.7 million. Of this amount, $341.2 million is reflected in the General Fund (major) and $344.5 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, 2013, the estimated liability related to claims totaled $14.5 million. Of this amount, $5.1 million is reflected in the General Fund (major) and $9.4 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, 2012, and on business tax returns filed for corporate fiscal years ending on or before June 30, 2013. 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 2013, the Commonwealth laid off 89 employees. The affected employees had the option of volunteering for enhanced retirement benefits or severance benefits. The enhanced retirement benefits option was elected by 5 employees, and the remaining 84 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 2013 and will end no later than June 30, 2014. The benefit cost expended and the outstanding liability as of June 30, 2013, are $1.1 million and $629,399, 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 2013, the primary government's agencies did not participate in short-term borrowings with external parties.

Various higher education institutions and foundations (nonmajor component units) have short-term debt totaling $182.8 million. Of this amount, $146.0 million provides bridge financing for capital projects. The remaining short-term debt is for working capital, property acquisition, construction costs, operating costs, and refinancing. The Library of Virginia Foundation (nonmajor component unit) has a $45,000 note with a related party. During the year ended June 30, 2013, $8,000 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 and credit of the Commonwealth. No other long-term debt obligations are backed by the full faith and credit of the Commonwealth.

Section 9(d) bonds are revenue bonds that are not backed by the full faith and credit of the Commonwealth. These bonds are not general obligation bonds and are not deemed to constitute a legal liability of the Commonwealth. However, 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) and the Commonwealth Transportation Board (primary government). 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 (nonmajor component units).

The 9(d) Route 460 Funding Corporation Bonds (primary government) are special, limited obligations of the Corporation, secured by a gross revenue pledge and payable solely from revenues.

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 bonds and short-term debt for which debt service payments are made or are ultimately pledged to be made from tax revenues (net of sinking fund requirements).

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. In certain limited cases, the Commonwealth has made a moral obligation pledge. A government's moral obligation pledge provides a deficiency make-up for bondholders in the event pledged revenues prove to be insufficient. If a revenue deficiency exists, monies held in a debt service reserve fund are used to pay bondholders. The issuer then requests that the legislative body provide an appropriation to replenish the reserve fund before subsequent debt service is due. The legislative body may, but is not legally required to, replenish the reserve fund.

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 Position.

Total Long-term Liabilities
June 30, 2013

(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)	$ 752,493	$ 65,980
9(c) Parking Facilities (3)	17,538	806
9(c) Transportation Facilities (3)	21,961	2,290
Total General Obligation Bonds	791,992	69,076
Nongeneral Obligation Bonds - 9(d):		
Transportation Debt (3) (4)	3,058,881	152,375
Virginia Public Building Authority (3)	2,534,347	168,170
Total Nongeneral Obligation Bonds	5,593,228	320,545
Other Long-term Obligations:		
Pension Liability	1,875,011	-
OPEB Liability	493,443	-
Compensated Absences	317,528	136,843
Capital Lease Obligations	71,835	11,478
Pollution Remediation Obligations	3,494	2,850
Regional Jail Financing Payable	837	837
Notes Payable	29,083	20,554
Installment Purchase Obligations	106,367	10,398
Economic Development Authority Obligations (3)	77,472	4,270
Other Liabilities	29,606	4,400
Total Other Long-term Obligations	3,004,676	191,630
Total Governmental Activities (3)	9,389,896	581,251
Business-type Activities: (1) (5)		
Nongeneral Obligation Bonds - 9(d):		
Route 460 Funding Corporation of Virginia Bonds	314,662	-
Other Long-term Obligations:		
Pension Liability	48,798	-
OPEB Liability	15,688	-
Compensated Absences	9,727	4,733
Capital Lease Obligations	6,453	534
Tuition Benefits Payable	2,189,079	209,131
Lottery Prizes Payable	172,474	28,586
Total Other Long-term Obligations	2,442,219	242,984
Total Business-type Activities	2,756,881	242,984
Total Primary Government	12,146,777	824,235

Total Long-term Liabilities
June 30, 2013

(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)	877,858	47,482
Nongeneral Obligation Bonds:		
Higher Education Institutions - 9(d) (3) (5)	1,538,395	20,910
Virginia College Building Authority (3)	2,725,259	164,238
Innovation and Entrepreneurship Investment Authority	1,220	1,220
Virginia Port Authority (3) (6)	505,435	16,025
Virginia Housing Development Authority (3) (5)	5,742,689	302,780
Virginia Resources Authority (3) (7)	3,419,579	148,674
Virginia Public School Authority (3) (5)	3,483,366	226,298
Hampton Roads Sanitation District Commission (5)	790,503	54,225
Virginia Biotechnology Research Park Authority (3)	35,284	3,313
Foundations (5) (8)	878,435	36,027
Total Nongeneral Obligation Bonds	19,120,165	973,710
Other Long-term Obligations:		
Pension Liability (9)	924,512	-
OPEB Liability (10)	582,714	-
Compensated Absences	265,246	179,305
Capital Lease Obligations	85,631	5,177
Notes Payable (5)	2,179,181	301,313
Installment Purchase Obligations	86,315	16,164
Trust and Annuity Obligations (5) (11)	3,058	-
Other Liabilities (5)	282,755	87,109
Total Other Long-term Obligations (Excluding Foundations)	4,409,412	589,068
Other Long-term Obligations (Foundations): (5) (8)		
Pension Liability	90,252	-
OPEB Liability	-	-
Compensated Absences	9,567	8,198
Capital Lease Obligations	2,899	457
Notes Payable	340,297	44,051
Trust and Annuity Obligations (11)	78,377	2,986
Other Liabilities	183,351	17,791
Total Other Long-term Obligations - Foundations	704,743	73,483
Total Other Long-term Obligations	5,114,155	662,551
Total Component Units	25,112,178	1,683,743
Total Long-term Liabilities	$ 37,258,955	$ 2,507,978

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 $1.7 billion.
3. Amounts are net of any unamortized discounts, premiums, and deferrals.
4. This debt includes $563.6 million that is not supported by taxes.
5. This debt is not supported by taxes.
6. This debt includes $276.8 million that is not supported by taxes.
7. This debt is not supported by taxes; however, $836.7 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 $2.2 million and Virginia Port Authority of $7.3 million. It does not include pension obligations from fiduciary funds of $13.6 million.
10. This includes OPEB obligations that do not relate to the Virginia Retirement System from University of Virginia of $34.7 million and Virginia Port Authority of $1,594. It does not include OPEB obligations from fiduciary funds of $5.0 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 $22.0 million of Section 9(c) general obligation bonds and $3.1 billion of Transportation Facilities Section 9(d) debt. The Section 9(d) debt includes $2.5 billion of Section 9(d) revenue bonds, $89.8 million of outstanding Commonwealth of Virginia Federal Highway Reimbursement Anticipation Notes, and $473.7 million 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 $3.2 million. 9(d) Principal and interest requirements for the current year totaled $339.3 million. 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 3.0 percent to 5.0 percent and the issuance date was September 28, 2005. The GARVEES were issued to finance various Federal Aid Transportation projects throughout the Commonwealth. The interest rates for these bonds range from 3.0 percent to 5.0 percent and the issuance dates range from March 15, 2012 to July 26, 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 an interest subsidy to reimburse interest payments of $118.5 million 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
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	2,730,000	463,400	3,193,400
2019-2023	8,855,000	717,400	9,572,400
Less: Deferral on Debt Defeasance	(33,200)	-	(33,200)
Add: Unamortized Premium	574,525	-	574,525
Total	$ 21,961,325	$ 4,101,550	$ 26,062,875

9(d) TRANSPORTATION FACILITIES DEBT
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2014	$ 152,375,000	$ 130,484,022	$ 282,859,022
2015	159,845,000	123,456,316	283,301,316
2016	166,920,000	115,691,791	282,611,791
2017	143,515,000	108,361,001	251,876,001
2018	149,555,000	101,569,344	251,124,344
2019-2023	649,750,354	412,921,684	1,062,672,038
2024-2028	589,064,917	266,503,915	855,568,832
2029-2033	466,740,000	142,880,375	609,620,375
2034-2038	322,380,000	30,650,710	353,030,710
Less: Unamortized Discount	(105,228)	-	(105,228)
Add: Accretion on Capital Appreciation Bonds	18,496,838	-	18,496,838
Unamortized Premium	240,343,887	-	240,343,887
Total	$ 3,058,880,768	$ 1,432,519,158	$ 4,491,399,926

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 4.3 percent to 5.0 percent and the issue date was April 12, 2006. The principal and interest requirements for current year totaled $7.8 million. 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
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	5,195,000	2,635,438	7,830,438
2019-2023	29,805,000	9,338,713	39,143,713
2024-2028	21,420,000	2,064,400	23,484,400
Unamortized Premium	2,641,594	-	2,641,594
Total	$ 77,471,594	$ 26,937,803	$ 104,409,397

Route 460 Funding Corporation of Virginia Debt

At June 30, 2013, Route 460 Funding Corporation of Virginia (nonmajor enterprise) bonds included $231.6 million of Current Interest bonds, $61.8 million of Capital Appreciation bonds, and $1.6 million of accreted value in Capital Appreciation bonds. No principal or interest payments were required for fiscal year 2013; however, the first interest payment of $6.2 million is due July 1, 2013, and is therefore recorded as accrued interest payable. On December 20, 2012, the Route 460 Funding Corporation of Virginia issued $231.6 million of Toll Road Senior Revenues Bonds (Current Interest Bonds), Series 2012A. Series 2012A will be maturing in annual installments on July 1 in the years 2045 to 2052 and interest is payable on January 1 and July 1 at rates varying from 5.0 percent to 5.3 percent beginning July 1, 2013 through July 1, 2052. The proceeds of the series 2012A bonds will be used to pay a portion of the costs of the design, construction, and financing of the Project including, without limitation, to pay interest payable on the series 2012A bonds through January 1, 2018, and to pay certain costs of issuance of the Series 2012 Senior Lien Bonds or as otherwise permitted by the Indenture. On December 20, 2012, the Route 460 Funding Corporation of Virginia issued $61.8 million of Toll Road Senior Revenues Bonds (Capital Appreciation Bonds), Series 2012B. Series 2012B will be maturing in annual installments on July 1 in the years 2024 to 2045. The Series 2012B Bonds will not bear current interest but each Series 2012B will accrete in value, compounded semiannually from its date of issuance on January 1 and July 1 at interest rates varying from 3.9 percent to 5.2 percent and interest will be payable only upon maturity or early redemption date. The proceeds of the series 2012B bonds will be used to pay a portion of the costs of the design, construction, and financing of the Project including, without limitation, and to pay certain costs of issuance of the Series 2012 Senior Lien Bonds or as otherwise permitted by the Indenture.

9(d) ROUTE 460 FUNDING CORPORATION OF VIRGINIA BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2014	$ -	$ 12,084,204	$ 12,084,204
2015	-	11,725,913	11,725,913
2016	-	11,725,913	11,725,913
2017	-	11,725,913	11,725,913
2018	-	11,725,913	11,725,913
2019-2023	-	58,629,562	58,629,562
2024-2028	7,410,000	58,629,562	66,039,562
2029-2033	28,400,000	58,629,562	87,029,562
2034-2038	49,325,000	58,629,562	107,954,562
2039-2043	75,125,000	58,629,562	133,754,562
2044-2048	109,505,000	55,417,982	164,922,982
2049-2053	176,100,000	23,578,369	199,678,369
Less: Unaccreted Capital Appreciation Bonds	(150,876,219)	-	(150,876,219)
Add: Unamortized Premium	19,672,759	-	19,672,759
Total	$ 314,661,540	$ 431,132,017	$ 745,793,557

Public Facilities Bonds

Section 9(b) general obligation bonds consist of Public Facilities Bonds, Series 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, Series 2012A Refunding, and Series 2013B Refunding. Bonds were issued to fund construction projects for higher educational institutions, mental health, and/or park facilities. 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. The Series 2013B bonds were issued to advance refund outstanding Series 2005A, Series 2006B, Series 2007A, and Series 2007B. Principal and interest requirements for the current year totaled $105.9 million. The interest rates for all bonds range from 1.2 percent to 5.5 percent and the issuance dates range from August 4, 2004, to March 6, 2013. 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 an interest subsidy to reimburse interest payments of $5.0 million 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
2014	$ 65,980,000	$ 32,807,063	$ 98,787,063
2015	68,240,000	29,754,223	97,994,223
2016	60,715,000	26,569,473	87,284,473
2017	53,120,000	23,622,745	76,742,745
2018	49,830,000	21,031,403	70,861,403
2019-2023	245,430,000	70,382,135	315,812,135
2024-2028	160,425,000	19,337,971	179,762,971
2029-2033	6,375,000	291,625	6,666,625
Less: Deferral on Debt Defeasance	(32,179,200)	-	(32,179,200)
Add: Unamortized Premium	74,556,931	-	74,556,931
Total	$ 752,492,731	$ 223,796,638	$ 976,289,369

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 $1.6 million.

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
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	940,000	623,110	1,563,110
2019-2023	5,436,256	2,366,894	7,803,150
2024-2028	5,087,789	1,015,389	6,103,178
2029-2033	1,080,000	54,000	1,134,000
Less: Deferral on Debt Defeasance	(499,900)	-	(499,900)
Add: Unamortized Premium	2,228,041	-	2,228,041
Total	$ 17,537,726	$ 6,955,242	$ 24,492,968

Virginia Public Building Authority

Virginia Public Building Authority (VPBA) Section 9(d) bonds consist of Series 2003A Refunding, 2004A Refunding, 2004B, 2004C Refunding, 2004D Refunding, 2005A Refunding, 2005B Refunding, 2005C, 2005D, 2006A, 2006B, 2007A, 2008B, 2009A, 2009B, 2009C, 2009D Refunding, 2010A, 2010B-1, 2010B-2, 2010B-3 Refunding, 2011AB, 2012A Refunding, 2013A, and 2013B 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 Series 2013B bonds were issued to advance refund 2006A and 2006B revenue bonds. The interest rates for all fixed rate bonds range from 2.0 percent to 5.8 percent and the issuance dates range from January 20, 2003, to February 21, 2013. 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 $294.2 million. 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 an interest subsidy to reimburse interest payments of $97.0 million 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
2014	$ 168,170,000	$ 108,228,639	$ 276,398,639
2015	182,730,000	100,195,667	282,925,667
2016	180,165,000	91,552,071	271,717,071
2017	164,445,000	83,473,443	247,918,443
2018	147,490,000	75,999,075	223,489,075
2019-2023	637,115,000	286,319,611	923,434,611
2024-2028	614,565,000	142,097,596	756,662,596
2029-2033	292,520,000	25,145,935	317,665,935
2034-2038	10,130,000	151,950	10,281,950
Less: Deferral on Debt Defeasance	(28,320,705)	-	(28,320,705)
Add: Unamortized Premium	165,337,178	-	165,337,178
Total	$ 2,534,346,473	$ 913,163,987	$ 3,447,510,460

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 $2.6 million.

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*
2014	$ 837,165	$ (646,925)	$ 190,240
Total	$ 837,165	$ (646,925)	$ 190,240

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	$ 1,269,149
College and university debt backed exclusively by pledged revenues of an institution	269,246
Total Higher Education Institution 9(d) debt	$ 1,538,395

The interest rates for these bonds range from 0.1 percent to 6.2 percent and the issuance dates range from April 23, 1982, to March 6, 2013. The VCBA Series 2006B and 2006C bonds, the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University) Series 2013A and 2013B 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 an interest subsidy to reimburse interest payments of $381.6 million 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*
2014	$ 45,529,396	$ 37,157,607	$ 82,687,003
2015	48,922,157	35,058,050	83,980,207
2016	48,787,907	32,769,664	81,557,571
2017	48,255,000	30,634,072	78,889,072
2018	45,280,000	28,435,252	73,715,252
2019-2023	225,408,744	112,711,026	338,119,770
2024-2028	221,847,211	63,073,128	284,920,339
2029-2033	119,715,000	22,152,983	141,867,983
2034-2038	32,455,000	3,917,740	36,372,740
2039-2043	3,515,000	249,100	3,764,100
Less: Deferral on Debt Defeasance	(22,633,400)	-	(22,633,400)
Add: Unamortized Premium	60,776,169	-	60,776,169
Total	$ 877,858,184	$ 366,158,622	$ 1,244,016,806

9(d) HIGHER EDUCATION INSTITUTION BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest (1)*	*Total*
2014	$ 20,913,747	$ 63,800,294	$ 84,714,041
2015	24,910,177	62,957,026	87,867,203
2016	24,975,524	62,047,194	87,022,718
2017	19,718,431	61,169,573	80,888,004
2018	20,490,417	60,587,331	81,077,748
2019-2023	98,870,467	293,454,538	392,325,005
2024-2028	112,311,638	278,268,212	390,579,850
2029-2033	187,809,200	262,882,019	450,691,219
2034-2038	328,814,000	236,241,699	565,055,699
2039-2043	712,860,000	84,128,438	796,988,438
Less: Deferral on Debt Defeasance	(73,563,215)	-	(73,563,215)
Add: Unamortized Premium	60,284,274	-	60,284,274
Total	$ 1,538,394,660	$ 1,465,536,324	$ 3,003,930,984

Note (1): The future interest requirements exclude any net payments associated with hedging derivative instruments. See Note 13 for more details on hedging derivative instruments.

9(d) VIRGINIA COLLEGE BUILDING AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2014	$ 148,905,000	$ 114,291,468	$ 263,196,468
2015	162,005,000	105,716,516	267,721,516
2016	160,675,000	98,722,420	259,397,420
2017	167,505,000	91,791,235	259,296,235
2018	153,025,000	84,442,760	237,467,760
2019-2023	699,655,000	326,283,312	1,025,938,312
2024-2028	672,590,000	171,492,250	844,082,250
2029-2033	388,345,000	35,088,017	423,433,017
Less: Deferral on Debt Defeasance	(12,646,200)	-	(12,646,200)
Add: Unamortized Premium	185,199,761	-	185,199,761
Total	$ 2,725,258,561	$ 1,027,827,978	$ 3,753,086,539

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*
2014	$ 36,028,070
2015	24,193,116
2016	28,028,479
2017	26,688,760
2018	104,277,378
Thereafter	659,219,488
Total	$ 878,435,291

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*
2014	$ 1,220,000	$ 91,744	$ 1,311,744
Total	$ 1,220,000	$ 91,744	$ 1,311,744

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 3.4 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. Series 2012B and 2012C bonds were issued to pay the cost of refunding all or a portion of the Series 2005A and 2005B bonds, and to pay costs of issuance of the 2012B and 2012C 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*
2014	$ 15,725,000	$ 20,713,678	$ 36,438,678
2015	16,290,000	20,369,316	36,659,316
2016	16,820,000	19,978,854	36,798,854
2017	17,235,000	19,426,594	36,661,594
2018	16,320,000	18,916,675	35,236,675
2019-2023	90,040,000	85,805,304	175,845,304
2024-2028	108,335,000	66,873,050	175,208,050
2029-2033	101,670,000	42,702,314	144,372,314
2034-2038	105,050,000	14,581,663	119,631,663
2039-2043	13,130,000	1,006,000	14,136,000
Less: Deferral on Debt Defeasance	(6,430,218)	-	(6,430,218)
Add: Unamortized Premium	11,250,489	-	11,250,489
Total	$ 505,435,271	$ 310,373,448	$ 815,808,719

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 0.3 percent to 6.9 percent and the origination dates range from March 20, 2002, to May 30, 2013. 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*
2014	$ 302,779,770	$ 221,480,983	$ 524,260,753
2015	247,530,000	213,283,313	460,813,313
2016	254,355,000	204,192,554	458,547,554
2017	258,825,000	194,784,789	453,609,789
2018	249,865,000	184,798,274	434,663,274
2019-2023	1,133,760,000	772,591,424	1,906,351,424
2024-2028	840,555,000	572,292,066	1,412,847,066
2029-2033	810,438,168	399,929,172	1,210,367,340
2034-2038	743,687,933	252,607,579	996,295,512
2039-2043	861,780,141	148,369,474	1,010,149,615
2044-2048	22,200,000	1,716,106	23,916,106
Add: Unamortized Premium	16,912,566	-	16,912,566
Total	$ 5,742,688,578	$ 3,166,045,734	$ 8,908,734,312

Virginia Resources Authority

The Virginia Resources Authority (VRA) (major) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 1.0 percent to 6.3 percent and the origination dates range from March 1, 2000, to June 20, 2013. 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
2014	$ 132,363,450	$ 142,387,472	$ 274,750,922
2015	141,920,000	138,625,255	280,545,255
2016	147,645,000	132,529,178	280,174,178
2017	162,840,000	125,820,614	288,660,614
2018	172,580,000	118,307,554	290,887,554
2019-2023	780,005,000	482,028,596	1,262,033,596
2024-2028	746,695,000	303,880,597	1,050,575,597
2029-2033	550,460,000	144,018,681	694,478,681
2034-2038	262,770,000	54,657,382	317,427,382
2039-2043	127,670,000	12,363,445	140,033,445
Less: Unaccreted Capital Appreciation Bonds	(39,724,097)	-	(39,724,097)
Add: Unamortized Premium	234,354,212	-	234,354,212
Total	$ 3,419,578,565	$ 1,654,618,774	$ 5,074,197,339

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 0.1 percent to 6.0 percent, and the origination dates range from December 21, 2001, to May 9, 2013. 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 an interest subsidy to reimburse interest payments of $211.6 million for Qualified School Construction Bonds (QSCBs) issued. The QSCBs are applicable to Series 2010-1, 2011-1, and 2012-1 Revenue Bonds.

9(d) VIRGINIA PUBLIC SCHOOL AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2014	$ 223,520,000	$ 150,573,596	$ 374,093,596
2015	222,475,000	140,842,833	363,317,833
2016	222,144,060	130,163,595	352,307,655
2017	217,733,003	119,623,820	337,356,823
2018	212,710,000	109,219,868	321,929,868
2019-2023	952,225,000	403,514,521	1,355,739,521
2024-2028	892,050,000	201,863,930	1,093,913,930
2029-2033	418,605,000	50,007,728	468,612,728
2034-2038	63,645,000	4,380,780	68,025,780
2039-2043	4,225,000	273,819	4,498,819
Less: Deferral on Debt Defeasance	(97,440,300)	-	(97,440,300)
Add: Unamortized Premium	151,474,458	-	151,474,458
Total	$ 3,483,366,221	$ 1,310,464,490	$ 4,793,830,711

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 0.3 percent to 5.9 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
2014	$ 27,739,000	$ 31,851,000	$ 59,590,000
2015	28,424,000	31,059,000	59,483,000
2016	27,858,000	30,274,000	58,132,000
2017	22,595,000	29,545,000	52,140,000
2018	23,055,000	28,831,000	51,886,000
2019-2023	127,864,000	129,825,000	257,689,000
2024-2028	147,040,000	101,101,000	248,141,000
2029-2033	150,191,000	67,141,000	217,332,000
2034-2038	139,145,000	32,226,000	171,371,000
2039-2043	67,310,000	5,187,000	72,497,000
2044-2048	5,400,000	216,000	5,616,000
Add: Unamortized Premium	23,882,000	-	23,882,000
Total	$ 790,503,000	$ 487,256,000	$ 1,277,759,000

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 5.0 percent.

VIRGINIA BIOTECH RESEARCH PARTNERSHIP AUTHORITY
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
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	3,815,000	938,550	4,753,550
2019-2023	17,245,000	1,778,625	19,023,625
Less: Unamortized Discount	(502,418)	-	(502,418)
Deferral on Debt Defeasance	(2,189,213)	-	(2,189,213)
Add: Unamortized Premium	3,070,514	-	3,070,514
Total	$ 35,283,883	$ 7,894,325	$ 43,178,208

Total principal outstanding at June 30, 2013, on all component unit bonds amounted to $20.0 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 as restated (3)	Issuances and Other Increases	Retirements and Other Decreases	Subtotal June 30
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	$ 784,917	$ 128,250	$ (203,052)	$ 710,115
Parking Facilities Bonds	16,565	-	(755)	15,810
Transportation Facilities Bonds	23,605	-	(2,185)	21,420
Add: Unamortized Premium	65,931	25,138	(13,710)	77,359
Less: Deferral on Debt Defeasance	(17,277)	1,181	(16,616)	(32,712)
Total General Obligation Bonds	873,741	154,569	(236,318)	791,992
Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Transportation Facilities Bonds	2,885,066	120,625	(205,545)	2,800,146
Virginia Public Building Authority Bonds	2,442,785	215,770	(261,225)	2,397,330
Regional Jails Financing Payable	2,748	-	(1,911)	837
Economic Development Authority Obligations	78,900	-	(4,070)	74,830
Add: Unamortized Premium	387,368	59,737	(38,782)	408,323
Accretion on Capital Appreciation Bonds	16,339	2,158	-	18,497
Less: Unamortized Discount	(110)	5	-	(105)
Deferral on Debt Defeasance	(25,153)	5,192	(8,360)	(28,321)
Installment Purchase Obligations	114,959	28,223	(36,815)	106,367
Notes Payable - Transportation	8,000	-	-	8,000
Notes Payable - Aviation	1,050	-	(286)	764
Notes Payable - Tax Refund	40,639	-	(20,320)	20,319
Compensated Absences	315,176	7,312	(4,960)	317,528
Capital Lease Obligations	77,400	4,670	(10,235)	71,835
Pension Liability	1,660,768	225,758	(11,515)	1,875,011
OPEB Liability	406,969	89,672	(3,198)	493,443
Pollution Remediation Liability	5,171	614	(2,291)	3,494
Other	27,647	6,003	(4,044)	29,606
Total Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth	8,445,722	765,739	(613,557)	8,597,904
Total Governmental Activities	9,319,463	920,308	(849,875)	9,389,896
Business-type Activities:				
Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Debt:				
Non-General Obligation Bonds - 9(d)				
Route 460 Funding Corporation of Virginia Bonds (5)	-	314,662	-	314,662
Capital Lease Obligations	6,902	-	(449)	6,453
Compensated Absences	9,267	2,732	(2,272)	9,727
Pension Liability	42,249	6,680	(131)	48,798
OPEB Liability	12,751	2,941	(4)	15,688
Lottery Prizes Payable	194,481	5,217	(27,224)	172,474
Tuition Benefits Payable	2,175,296	111,994	(98,211)	2,189,079
Total Business-type Activities	2,440,946	444,226	(128,291)	2,756,881
Total Primary Government	$ 11,760,409	$ 1,364,534	$ (978,166)	$ 12,146,777

Foundations (4)	Balance June 30	Due Within One Year
$ -	$ 710,115	$ 65,980
-	15,810	806
-	21,420	2,290
-	77,359	-
-	(32,712)	-
-	791,992	69,076
-	2,800,146	152,375
-	2,397,330	168,170
-	837	837
-	74,830	4,270
-	408,323	-
-	18,497	-
-	(105)	-
-	(28,321)	-
-	106,367	10,398
-	8,000	-
-	764	235
-	20,319	20,319
-	317,528	136,843
-	71,835	11,478
-	1,875,011	-
-	493,443	-
-	3,494	2,850
-	29,606	4,400
-	8,597,904	512,175
-	9,389,896	581,251
-	314,662	-
-	6,453	534
-	9,727	4,733
-	48,798	-
-	15,688	-
-	172,474	28,586
-	2,189,079	209,131
-	2,756,881	242,984
$ -	$ 12,146,777	$ 824,235

Continued on next page

Schedule of Changes in Long-term Debt and Obligations (1) (2)
(continued)

(Dollars in Thousands)

	Balance July 1 as restated	Issuances and Other Increases	Retirements and Other Decreases	Subtotal June 30
Component Units				
Long-term Debt Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
General Obligation Bonds - Higher Education 9(c) (6)	$ 906,474	$ 126,746	$ (155,362)	$ 877,858
Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Bonds (6)	17,813,398	5,004,777	(4,576,445)	18,241,730
Installment Purchase Obligations	100,161	15,291	(29,137)	86,315
Capital Lease Obligations	91,166	-	(5,535)	85,631
Notes Payable	2,070,152	422,530	(313,501)	2,179,181
Compensated Absences	253,845	246,297	(234,896)	265,246
Pension Liability	785,472	145,009	(5,969)	924,512
OPEB Liability	470,661	112,451	(398)	582,714
Trust and Annuity Obligations	2,508	550	-	3,058
Other	293,405	843,561	(854,211)	282,755
Total Component Units	$ 22,787,242	$ 6,917,212	$ (6,175,454)	$ 23,529,000

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) Beginning balances have been restated by $6,453 (dollars in thousands) for the Virginia College Savings Plan (VCSP) (major enterprise) due to a revaluation of a capital lease obligation. The VCSP beginning net position is not restated because both capital assets and obligations have been restated.

Note (4) Foundations represent FASB reporting entities defined in Note 1.B.

Note (5) Reflected in the Statement of Cash Flows partly as capitalized interest accrued.

Note (6) Amounts are net of any unamortized discounts, premiums, and deferrals.

Foundations (4)	Balance June 30	Due Within One Year
$ -	$ 877,858	$ 47,482
878,435	19,120,165	973,710
-	86,315	16,164
2,899	88,530	5,634
340,297	2,519,478	345,364
9,567	274,813	187,503
90,252	1,014,764	-
-	582,714	-
78,377	81,435	2,986
183,351	466,106	104,900
$ 1,583,178	$ 25,112,178	$ 1,683,743

Bond Defeasance

Primary Government

On February 21, 2013, the Virginia Public Building Authority issued $72.4 million of Series 2013B Public Facilities Revenue refunding bonds. The bonds refunded were $24.3 million of Series 2006A and $54.1 million of Series 2006B Public Facilities Revenue Bonds. The net proceeds from the sale of the refunding bonds of $89.8 million 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 $8.4 million. 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 12 years will be reduced by $6.6 million, resulting in an economic gain of $6.6 million discounted at the rate of 1.7 percent.

On March 6, 2013, the Commonwealth issued $217.8 million General Obligation Refunding Bonds, Series 2013B, pursuant to Sections 9(b) and 9(c) of Article X of the *Constitution of Virginia*, with a true interest cost (TIC) of 2.1 percent to refund $223.8 million of certain outstanding bonds. The bonds that were refunded include $15.1 million of outstanding Higher Education Institution Bonds, Series 2005A, $25.2 million of Higher Education Institution Bonds, Series 2006B, $12.6 million of Higher Education Institution Bonds, Series 2007A, $38.9 million of Higher Education Institution Bonds, Series 2007B, $17.6 million of Public Facilities Bonds, Series 2005A, $30.2 million of Public Facilities Bonds, Series 2006B, $56.2 million of Public Facilities Bonds, Series 2007A, and $28.0 million of Public Facilities Bonds, Series 2007B. The net proceeds from the sale of the Refunding Bonds of $258.5 million (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 $28.2 million. It will, however, reduce total debt service payments over the next 17 years by $17.1 million, resulting in an economic gain of $15.9 million discounted at the rate of 1.9 percent.

Component Units

Various higher education institutions (nonmajor component units) refunded General Revenue Pledge 9d bonds during fiscal year 2013. University of Virginia issued $230.4 million of Series 2013A and 2013B to refund $15.8 million of Series 2003B, $131.5 million of Series 2005, and converted $100.0 million of commercial paper to long-term debt. Virginia Commonwealth University (VCU) issued $65.7 million of Series 2012A and 2012B to refund $65.5 million of Series 2006A and 2006B and also issued $14.8 million of Series 2013 to refund $15.9 million of Series 2003A. Virginia Commonwealth University Health System Authority (blended component unit of VCU) issued $69.5 million of Series 2013A to refund Series 2005A and 2005C and issued $120.9 million of Series 2013B to refund Series 2008A, 2008B, and 2008C. In addition, the Authority made a payment to pay off the Series

2005B of $20.8 million. Virginia Polytechnic Institute and State University used a portion of the Virginia College Building Authority Pooled Bond Series 2012B of $32.4 million to refund a portion of the General Revenue Pledge bond Series 2004D of $33.7 million. For additional information regarding these refundings, see the institution's individually published financial statements.

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, 2013, there were $486.8 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 $1.3 billion in bonds outstanding considered defeased from the component units.

Energy Lease Refinancings

The Treasury Board of the Commonwealth of Virginia (the Board) entered into a Master Lease Agreement with Banc of America Public Capital Corp dated October 31, 2012 for the purpose of refinancing certain outstanding leases (installment purchase obligations) under the Board's Energy Leasing Program.

Primary Government

The leases refinanced totaled $15.4 million. The energy leases and amounts that were refinanced include the following governmental agencies (non-major governmental): Science Museum of Virginia $864,924, Virginia Museum of Fine Arts $2.0 million, Virginia Department for the Blind and Vision Impaired $1.2 million, Catawba Hospital $1.9 million, and Department of Forensic Science $9.5 million. The aggregate difference in debt service between the refinanced debt service and the refinancing debt service is $3.1 million. The present value savings for each individual lease was calculated using the new lease rate. The aggregate present value savings is $2.8 million or 18.2 percent of the refinanced principal.

Component Units

The leases refinanced totaled $12.0 million. The energy leases and amounts that were refinanced include the following higher education institutions (nonmajor component units): Richard Bland College (part of the College of William and Mary) $1.5 million, Virginia State University $1.8 million, George Mason University $5.6 million, Virginia Community College System $2.4 million, and Southwest Virginia Higher Education Center $654,748. The aggregate refinanced amount of $12.1 million includes $29,545 of accrued interest, $98,872 in prepayment penalties and a credit in the amount of $2,948 for proceeds that remained in a Virginia Community College escrow account. The refinancing reduced the total debt service for each institution over the remaining term. The aggregate difference in debt service between the refinanced debt service and the refinancing debt service is $2.3 million. The present value savings for each individual lease was calculated using the new lease rate. The aggregate present value savings is $2.1 million or 17.8 percent of the refinanced principal.

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, 2013, the Commonwealth has recognized a government-wide liability of $1.2 million and the Virginia Resources Authority (major component unit) has recognized a liability of $2.5 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 2013, a rebate payment in the amount of $236,850 was made on the Commonwealth's Series 2007A 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.

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, 2013, are shown in the following table (dollars in thousands).

	Governmental Activities	Business-Type Activities	Component Units (1)
2014	$ 16,400	$ 534	$ 8,413
2015	16,097	542	8,115
2016	15,920	561	8,027
2017	8,911	575	6,357
2018	7,976	589	6,186
2019-2023	24,239	3,172	28,131
2024-2028	2,983	480	25,905
2029-2033	2,076	-	23,968
2034-2038	2,253	-	1,825
2039-2043	1,750	-	1,254
2044-2048	-	-	639
2049-2053	-	-	577
Total Gross Minimum Lease Payments	98,605	6,453	119,397
Less: Amount Representing Executory Costs	(8,761)	-	-
Net Minimum Lease Payments	89,844	6,453	119,397
Less: Amount Representing Interest	(18,009)	-	(33,766)
Present Value of Net Minimum Lease Payments	$ 71,835	$ 6,453	$ 85,631

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

	Foundations (2)
2014	$ 459
2015	443
2016	434
2017	324
2018	302
Thereafter	1,310
Net Minimum Lease Payments	3,272
Less: Amount Representing Interest	(373)
Present Value of Net Minimum Lease Payments	$ 2,899

Note (2): Foundations represent FASB reporting entities defined in Note 1.B.

At June 30, 2013, 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	$ 169,693	$ 3,736	$ 173,429
Less: Accumulated Depreciation	(65,076)	(1,513)	(66,589)
Total Governmental Activities	$ 104,617	$ 2,223	$ 106,840
Business-Type Activities:			
Gross Capital Assets	$ 8,800	$ -	$ 8,800
Less: Accumulated Depreciation	(463)	-	(463)
Total Business-Type Activities	$ 8,337	$ -	$ 8,337
Component Units:			
Gross Capital Assets	$ 131,872	$ 1,705	$ 133,577
Less: Accumulated Depreciation	(39,571)	(1,703)	(41,274)
Subtotal (excluding Foundations)	92,301	2	92,303
Foundations:			
Gross Capital Assets	2,655	649	3,304
Less: Accumulated Depreciation	(284)	(155)	(439)
Subtotal Foundations	2,371	494	2,865
Total Component Units (3)	$ 94,672	$ 496	$ 95,168

Note (3): Land purchased under capital leases by the University of Virginia (nonmajor) 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	764
Installment Notes	106,367
Tax Refund Note	20,319
Total Primary Government	135,450
Component Units	
Virginia Public School Authority	165,720
Virginia Housing Development Authority	151,047
Virginia Resources Authority	2,384
Nonmajor Component Units	1,860,030
Installment Notes	86,315
Subtotal (excluding Foundations)	2,265,496
Foundations:	
Notes Payable	340,297
Subtotal - Foundations	340,297
Total Component Units	2,605,793
Total Notes Payable	$ 2,741,243

The Transportation (primary government) Note represents an interest free note payable to Chesterfield County, Virginia, of $8.0 million 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 (major component unit) with an outstanding balance of $763,525. 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 $20.3 million 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 $165.7 million 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 $151.0 million 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 (major component unit) notes of $2.4 million are Equipment and Term Financing loans.

An additional amount of $1.9 billion is comprised primarily of higher education institutions' (nonmajor component unit) promissory notes with the Virginia College Building Authority (VCBA) (major component unit) to finance the construction of various higher education facilities. Interest rates range from 2.1 percent to 5.8 percent and shall be paid semi-annually. The final principal payment is due in 2041. The University of Virginia (nonmajor component unit) has notes payable of $153,000 for software. Virginia State University (nonmajor component unit) has a note payable of $1.4 million, 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 Virginia Biotechnology Research Partnership Authority (nonmajor component unit) has notes payable in the amount of $955,254 used for refunding the 1998 bonds issued for BioTech One, making tenant improvements to BioTech Six and purchasing two pieces of land.

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, 2013, are shown in the following table (dollars in thousands).

Foundations' Notes Payable (Component Units) (1)

Maturity	Principal
2014	$ 44,068
2015	35,732
2016	148,120
2017	65,132
2018	9,153
Thereafter	38,092
Total	$ 340,297

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 $192.7 million of the total outstanding debt of the Commonwealth. Presented in the following tables are repayment schedules for installment purchase obligations as of June 30, 2013.

Installment Purchase Obligations - Governmental Funds
June 30, 2013

Maturity	Principal	Interest	Total
2014	$ 10,397,911	$ 3,075,433	$ 13,473,344
2015	10,595,042	2,784,226	13,379,268
2016	10,438,682	2,518,009	12,956,691
2017	9,948,659	2,239,079	12,187,738
2018	9,395,463	1,966,589	11,362,052
2019-2023	36,871,203	6,107,833	42,979,036
2024-2028	18,719,673	1,153,621	19,873,294
Total	$ 106,366,633	$ 19,844,790	$ 126,211,423

Installment Purchase Obligations - Component Units

Maturity	Principal	Interest	Total
2014	$ 16,164,734	$ 1,790,484	$ 17,955,218
2015	14,369,058	1,258,686	15,627,744
2016	11,224,891	1,017,967	12,242,858
2017	10,877,439	818,741	11,696,180
2018	13,161,115	619,279	13,780,394
2019-2023	17,732,402	1,165,248	18,897,650
2024-2028	2,785,783	132,644	2,918,427
Total	$ 86,315,422	$ 6,803,049	$ 93,118,471

The various foundations (component units) had no installment purchase obligations as of June 30, 2013.

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, 2013, are shown in the following table:

	Jackpot	Win For Life	Total
Due within one year	$ 23,685,913	$ 4,900,520	$ 28,586,433
Due in subsequent years	80,194,199	63,693,768	143,887,967
Total (present value)	103,880,112	68,594,288	172,474,400
Add:			
Interest to Maturity	35,603,888	39,996,712	75,600,600
Lottery Prizes Payable at Maturity	$ 139,484,000	$ 108,591,000	$ 248,075,000

Tuition Benefits Payable

The Virginia College Savings Plan administers the Virginia 529 prePAID Program. Virginia 529 prePAID 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, 2013, tuition benefits payable of $2.2 billion have been recorded for the Virginia 529 prePAID Program on the balance sheet for the actuarially determined present value of future obligations anticipated for payment of benefits and administrative expenses for the Virginia 529 prePAID program. In addition, a receivable in the amount of $228.4 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, 2013.

	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	$ 828	$ 222,476	$ 15,813	$ 473	$ 25,410
Major Special Revenue Funds:					
Commonwealth Transportation	17,534	11,310	59,889	6,713	2,396
Federal Trust	-	10,812	-	-	477
Literary	-	69,057	-	-	-
Nonmajor Governmental Funds	106,623	52,024	65,602	7,690	6,720
Major Enterprise Funds:					
Virginia College Savings Plan	-	-	-	-	-
Nonmajor Enterprise Funds	-	13,140	-	-	-
Private Purpose Trust Funds	-	-	-	-	-
Pension and Other Employee Benefit Trust	-	-	-	-	-
Total Primary Government	$ 124,985	$ 378,819	$ 141,304	$ 14,876	$ 35,003

	Tobacco Master Settlement	Taxes	E-Z Pass	Other (1)	Total Other Revenue
Primary Government:					
General	$ 74,010	$ -	$ -	$ 231,751	$ 570,761
Major Special Revenue Funds:					
Commonwealth Transportation	-	-	9,421	27,080	134,343
Federal Trust	-	-	-	138,852	150,141
Literary	-	-	-	76,008	145,065
Nonmajor Governmental Funds	-	-	-	111,415	350,074
Major Enterprise Funds:					
Virginia College Savings Plan	-	-	-	841	841
Nonmajor Enterprise Funds	-	3,787	-	886	17,813
Private Purpose Trust Funds	-	-	-	20	20
Pension and Other Employee Benefit Trust	-	-	-	2,814	2,814
Total Primary Government	$ 74,010	$ 3,787	$ 9,421	$ 589,667	$ 1,371,872

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, 2013.

(Dollars in Thousands)

	Insurance Claims	Lottery Prize Expense	Total Prizes and Claims
Proprietary Funds:			
Major Enterprise Funds:			
State Lottery	$ -	$ 1,013,183	$ 1,013,183
Unemployment Compensation	584,433	-	584,433
Nonmajor Enterprise Funds	288,478	-	288,478
Total Enterprise Funds	$ 872,911	$ 1,013,183	$ 1,886,094
Internal Service Funds	$ 1,162,212	$ -	$ 1,162,212

28. OTHER EXPENSES

The following table summarizes Other Expenses for the fiscal year ended June 30, 2013.

(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	$ -	$ 397	$ 2,013	$ 2,410
Nonmajor Enterprise Funds	82	2,733	1,009	3,824
Total Enterprise Funds	$ 82	$ 3,130	$ 3,022	$ 6,234
Internal Service Funds	$ 1,605	$ 4,289	$ 7,349	$ 13,243
Pension and Other Employee Benefit Trust (2)	$ -	$ -	$ 6,877	$ 6,877

Note (1): $6,141 (dollars in thousands) can be attributed to expenses related to closing cases in the Risk Management internal service fund. $2,013 (dollars in thousands) can be attributed to the SOAR scholarship program for Virginia College Savings Plan Fund.

Note (2): Fiduciary expenses of $6,877 (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, 2013.

(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	$ -	$ (270)	$ -	$ -	$ 425	$ 155
Virginia College Savings Plan	-	-	(140)	-	-	(140)
Unemployment Compensation	-	-	-	(2,444)	-	(2,444)
Nonmajor Enterprise Funds	-	-	(6,176)	-	8,327	2,151
Total Enterprise Funds	$ -	$ (270)	$ (6,316)	$ (2,444)	$ 8,752	$ (278)
Internal Service Funds	$ 84	$ (2)	$ (3,245)	$ -	$ 612	$ (2,551)

Note (1): Other Non-Operating Revenue/Expenses of the nonmajor enterprise funds are comprised of $8,344 (dollars in thousands) reported by the Department of Alcoholic Beverage Control, $23 (dollars in thousands) reported by the Science Museum of Virginia, and offset by $40 (dollars in thousands) of expenses reported by the Route 460 Funding Corporation of Virginia.

30. SPECIAL ITEM

The Commonwealth authorized an Internal Service Fund to account for the activities associated with the development and operation of the Commonwealth's Performance Budgeting and Cardinal (General Ledger replacement) Systems. Prior to the authorized establishment of the Internal Service Fund, the related activities were reported in the Other Special Revenue Fund (nonmajor governmental fund). The transfer of the assets and working capital advance occurred in July 2012 as a result of this authorized reporting change.

31. TRANSFERS

The following table summarizes Transfers In and Transfers Out for the fiscal year ended June 30, 2013 (dollars in thousands).

	Transfers In (Reported In):				
Transfers Out (Reported In):	**General**	**Commonwealth Transportation**	**Federal Trust**	**Literary**	**Nonmajor Governmental Funds**
Primary Government					
General	$ -	$ 87,540	$ 513	$ -	$ 421,840
Major Special Revenue Funds:					
Commonwealth Transportation	26,827	-	443	-	304,344
Federal Trust	80	21,802	-	-	15,503
Nonmajor Governmental Funds	52,820	-	4,134	16	1,552
Major Enterprise Funds:					
State Lottery	486,528	-	-	11,992	-
Virginia College Savings Plan	291	-	-	-	-
Unemployment Compensation	-	-	12,709	-	-
Nonmajor Enterprise Funds	143,718	-	-	3	16,735
Internal Service Funds	781	-	-	-	15,228
Total Primary Government	$ 711,045	$ 109,342	$ 17,799	$ 12,011	$ 775,202

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 $8.9 million to the General Fund as required by Chapter 806, 2013 Acts of Assembly.

Nonmajor Enterprise Funds	Internal Service Funds	Total Primary Government
$ -	$ 638	$ 510,531
-	363	331,977
24	-	37,409
1,604	-	60,126
-	-	498,520
-	-	291
-	-	12,709
-	-	160,456
-	-	16,009
$ 1,628	$ 1,001	$ 1,628,028

32. ON-BEHALF PAYMENTS

Higher education institutions (component units) received various on-behalf payments from foundations primarily for salary supplements and stipends during fiscal year 2013. Since the foundations are included as part of the higher education entity, most on-behalf payments were considered intrafund and were eliminated from the financial statements. On-behalf payments not eliminated for fiscal year 2013 totaled $27,405 and were recorded as program revenue – operating grants and contributions with corresponding expenses.

33. ENDOWMENTS

Donor restricted endowments reside primarily within the higher education institutions. The net appreciation available for expenditure is $1.1 billion. Of this amount, $1.2 million is reported as unrestricted net position and the remainder is reported as restricted net position. 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.

34. CASH FLOWS – ADDITIONAL DETAILED INFORMATION

The following table (dollars in thousands) summarizes specific cash flows for the fiscal year ended June 30, 2013.

	State Lottery	Virginia College Savings Plan	Unemployment Compensation	Nonmajor Enterprise Funds
Cash Flows Resulting from:				
Payments for Prizes, Claims, and Loss Control:				
Lottery Prizes	$ (983,843)	$ -	$ -	$ -
Claims and Loss Control	-	-	(601,605)	(283,398)
Total	$ (983,843)	$ -	$ (601,605)	$ (283,398)
Other Operating Revenue:				
Other Operating Revenue	$ -	$ 841	$ -	$ 4,884
Total	$ -	$ 841	$ -	$ 4,884
Other Operating Expense:				
Other Operating Expenses (1)	$ -	$ (2,023)	$ -	$ (2,676)
Total	$ -	$ (2,023)	$ -	$ (2,676)
Other Noncapital Financing Receipt Activities:				
Advances/Contributions from the Commonwealth	$ -	$ -	$ 48,000	$ 31,265
Receipts from Taxes	-	-	2,704	192,466
Other Noncapital Financing Receipt Activities (2)	574	-	134,231	255
Total	$ 574	$ -	$ 184,935	$ 223,986
Other Noncapital Financing Disbursement Activities:				
Repayments of Advances/Contributions from the Commonwealth	$ -	$ -	$ (48,000)	$ (28,489)
Other Noncapital Financing Disbursement Activities (3)	-	-	(134,231)	(834)
Total	$ -	$ -	$ (182,231)	$ (29,323)
Other Capital and Related Financing Disbursement Activities:				
Other Capital and Related Financing Disbursement Activities	$ -	$ -	$ -	$ (2,673)
Total	$ -	$ -	$ -	$ (2,673)

Note (1): $2,023 (dollars in thousands) can be attributed to disbursements related to Virginia College Savings Plan for the SOAR scholarship. Also, $6,141 (dollars in thousands) can be attributed to disbursements related to closing cases in the Risk Management internal service fund.

Note (2): $134,231 (dollars in thousands) can be attributed to Federal repayable advances under Title XII of the Social Security Act. Also, $16 (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): $134,231 (dollars in thousands) can be attributed to repayments of Federal repayable advances under Title XII of the Social Security Act.

Total Enterprise Funds		Internal Service Funds	
$	(983,843)	$	-
	(885,003)		(1,148,320)
$	(1,868,846)	$	(1,148,320)
$	5,725	$	-
$	5,725	$	-
$	(4,699)	$	(8,074)
$	(4,699)	$	(8,074)
$	79,265	$	-
	195,170		-
	135,060		563
$	409,495	$	563
$	(76,489)	$	(7,991)
	(135,065)		-
$	(211,554)	$	(7,991)
$	(2,673)	$	(632)
$	(2,673)	$	(632)

35. 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) (nonmajor component unit), 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) (nonmajor component unit). 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.

Additionally, the General Assembly created two special non-reverting funds. The Tobacco Settlement monies were accounted for in these funds and in the General Fund. Of the Settlement monies, 50.0 percent was deposited into the Tobacco Indemnification and Community Revitalization Fund at the Commission and 10.0 percent continues to be deposited into the Virginia Tobacco Settlement Fund at the Foundation. The remaining 40.0 percent continues to be reported in the General Fund.

Pursuant to Purchase and Sale Agreements executed in 2005 and 2007, the Commonwealth, acting as an agent on behalf of the Commission, sold 25.0 percent of its future right, title and interest in the Tobacco Settlement Revenues (TSRs) to the Tobacco Settlement Financing Corporation (Corporation) (related organization) in each Agreement. After the 2007 Agreement was executed, the entire 50.0 percent originally provided to the Commission is received by the Corporation.

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. Bonds issued by the Corporation to finance the purchase price are asset-backed instruments secured solely by the TSRs, and the Corporation's right to receive TSRs. At the time of issuance these revenues were expected to produce sufficient funds to repay the bond obligations issued by the Corporation.

The Commission is a nonmajor component unit of the Commonwealth, and the Corporation is disclosed as a related organization.

36. SERVICE CONCESSION ARRANGEMENTS

The Commonwealth implemented GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, during fiscal year 2013. GASB Statement No. 60 describes the criteria for when an arrangement is classified as a Service Concession Arrangement (SCA). The basic criteria are: the operator of the capital asset owned by the transferor has the right to provide services in exchange for significant consideration; the operator's revenue must come from a third party; the transferor must retain some level of control over the asset; and the transferor must receive significant residual interest at the conclusion of the arrangement.

The Commonwealth of Virginia has two SCAs as of June 30, 2013: Pocahontas 895 and the 495 Express Lanes. They are both related to highway construction and operation and were established per the Public-Private Transportation Act of 1995, as amended (PPTA). PPTA project goals are to provide highway projects to the public in a timely and cost effective manner with private funding and support.

Pocahontas 895

On June 21, 2006, the Pocahontas Parkway Association (Association – previously reported as a blended component unit of the Virginia Department of Transportation (VDOT), part of primary government) signed an agreement with Transurban (895) LLC (Transurban). Under the terms of the agreement, all assets and rights of the Association under the Comprehensive Agreement with VDOT were transferred to Transurban. In exchange for the existing toll road and other assets, Transurban transferred sufficient funds and securities to pay or defease all outstanding bonds of the Association and pay all other outstanding obligations owed to VDOT. Additionally, Transurban agreed to construct an enhancement to the original toll road, and this enhancement was completed and placed in service in 2011.

During the 99-year agreement term, VDOT will have fee title or good and valid interest in the asset. VDOT retains the right of inspection of the asset and has outlined maximum toll charges and increases in the terms of the agreement. Capital assets of $337.0 million and deferred inflow balances of $529.5 million are included in the government-wide financial statements. No contractual liabilities exist for this arrangement as of June 30.

Subsequent to June 30, the Transurban Board has approved the transfer of Pocahontas 895 to the lenders of the asset due to lower revenues than anticipated. Transfer discussions have commenced with the lenders, however the final structure has not yet been approved.

495 Express Lanes

On December 19, 2007, VDOT signed an 80-year public-private partnership agreement with Capital Beltway Express, LLC. The purpose of this agreement is to build new express lanes to provide users with a faster and more reliable travel option. The construction of the express lanes was completed in November 2012.

During the 80-year agreement, VDOT maintains regulatory control and jurisdiction of the express lanes. VDOT will have fee title or good and valid interest in the express lanes. The lanes will remain open for the public as long as the applicable tolls are paid. Capital assets of $1.1 billion and deferred inflows of $1.1 billion are included in the government-wide financial statements. Liabilities are contingent on specific events occurring per the agreement, and no events occurred during fiscal year 2013.

37. 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 Systems Corporation (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, 2012, and 2013. The contract term expires June 30, 2019.

Expenses associated with the CIA in fiscal year 2013 are $277.7 million, including payments to Northrop Grumman of $225.3 million. The Commonwealth expects to spend an additional $1.6 billion over the next six 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 75.0 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.

38. 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 2014 cost allocation plan, which is based on fiscal year 2012 data. The Commonwealth believes this liability has the potential to total $2.3 million as of June 30, 2013.

Virginia's combined overpayment and underpayment SNAP error rate for fiscal year 2012 was 1.8 percent. The national performance measure (national average payment error rate) for fiscal year 2012 was 3.4 percent. Information for fiscal year 2013 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. Virginia was notified that fiscal year 2012 fell within the tolerance level and therefore will not count as a first year for the Virginia Department of Social Services.

The Virginia Tourism Authority (nonmajor component unit) had unclaimed awards totaling $1.4 million payable to awardees upon submission of proper claims for reimbursement for the Marketing Leverage Program. Additionally, the Authority had unclaimed awards totaling $96,256 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 $2.8 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, 2013, the bailment inventory was valued at $33.2 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, 2013, there was approximately $287,843 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, 2013, the loan guaranty program has guarantees outstanding of $8.1 million.

F. Other

Pursuant to the Second Memorandum of Understanding (MOU) by and among the Virginia Commercial Space Flight Authority (the Authority), the Commonwealth of Virginia, and Orbital Sciences Corporation (Orbital) executed in September 2012, the Commonwealth of Virginia purchased certain Launch Pad 0A improvements from Orbital, on behalf of the Authority, for the total sum of $25.6 million. The Second MOU also provides for the Commonwealth of Virginia, under HB1301, to purchase, on behalf of the Authority, additional Launch Pad 0A assets up to $16.5 million subject to an independent third party review of the utility of those additional assets. The parties dispute the effect of this review, and Orbital has filed a civil complaint relating to the dispute. The complaint has not been formally served, and the parties are in ongoing discussions for resolution.

Following the completion of an Orbital test mission in April 2013, the Authority invoiced Orbital for $1.5 million as a test launch fee for its use of Launch Pad 0A, as provided for in the Second MOU. In June 2013, Orbital made a partial payment of $549,518 and made another payment of $460,000, leaving a balance of $490,482 in accounts receivable. Orbital has disputed a portion of the costs, and the parties are also in ongoing discussions over payment of the amount remaining in accounts receivable.

Additionally, under the terms of the Second MOU, the VSCFA has waived $18.0 million in bond payments to be received from Orbital. In return, Orbital is required to use the VCSFA's launch pad for ten scheduled launches. If Orbital fails to adhere to the terms of the Second MOU, Orbital will be required to resume bond payments.

G. Virginia Horse Center Foundation Going Concern

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. In February 2013, the Center failed to make $168,705 of the payments then due to the USDA. In addition, resources have not been segregated to support temporarily restricted activities, causing doubt about the ability of the Center to fulfill the terms of the gifts. Management is actively developing plans in regard to these matters.

39. PENDING GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS

The GASB has issued Statement No. 67 (GASB No. 67), *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25,* and Statement No. 68 (GASB No. 68), *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. Both statements will significantly impact the Commonwealth's reporting disclosures and accrued pension liability amounts. The Virginia Retirement System will implement GASB Statement No. 67 in fiscal year 2014. The Commonwealth will implement GASB Statement No. 68 in fiscal year 2015.

40. SUBSEQUENT EVENTS

Primary Government

Debt

On November 21, 2013, $273.4 million Commonwealth Transportation Board, Commonwealth of Virginia Federal Transportation Grant Anticipation Revenue Notes, Series 2013A were issued. Bond proceeds were used to finance certain eligible transportation projects in the Commonwealth.

Other

Subsequent to June 30, Moody's revised the Commonwealth's credit outlook to stable. The previous negative outlook assigned in August 2011 followed Moody's placing the rating of the U. S. government on negative outlook. It was due to the Commonwealth's close economic linkages to the federal employment and uncertainties surrounding the federal budget. The stable rating for Virginia follows the move to a stable outlook for the U. S. government.

Component Units

Debt

Subsequent to June 30, 2013, the Virginia Housing Development Authority (VHDA) issued $82.2 million of Bank of America, N.A., Revolving Credit Agreement, Series E Non-AMT, and Series F Non-AMT Bonds. In July 2013, VHDA repaid $59.1 million in Homeownership Mortgage Bonds 2009 B-1, B-2, B-3, and B-4. Additionally, in July 2013, VHDA remarked $90.0 million in CMB 2012 Series C Non-AMT Subseries C-5 Bonds.

On July 31, 2013, the Virginia Public School Authority (VPSA) issued its Special Obligation School Financing Bonds, Prince William County Series, 2013 in the amount of $60.0 million. The Bonds will be used by the County to finance a portion of the costs of certain capital improvements to the County school system.

On November 21, 2013, the VPSA issued $45.1 million of School Financing Bonds (1997 Resolution) Series 2013B to purchase certain general obligation local school bonds to finance capital projects for public schools.

Subsequent to June 30, 2013, the Virginia Resources Authority issued bonds in the amount of $66.5 million. The interest rates range from 1.8 percent to 5.0 percent with a final due date of November 1, 2043.

On August 9, 2013, Treasury Board of the Commonwealth of Virginia on behalf of Old Dominion University refinanced its $1.4 million outstanding energy lease originally financed under the Board's Energy Leasing Program for debt service savings. The refinanced amount includes $1,552 in accrued interest. The present value savings is $171,105 or 11.9 percent of the refinanced principal.

On September 26, 2013, the Virginia College Building Authority (VCBA) issued its Educational Facilities Revenue Bonds (21st Century College and Equipment Programs) Series 2013A in the amount of $331.8 million. Bond proceeds were used to finance certain capital projects and acquire equipment at public institutions of higher education.

On November 19, 2013, VCBA issued its $74.9 million Educational Facilities Revenue Bonds, Series 2013A and $12.4 million Educational Facilities Federally Taxable Revenue Bonds, Series 2013B under the Public Higher Education Financing Program (the Pool Program). The Authority will use the proceeds of the Series 2013A Bonds to acquire Institutional Notes from participating public institutions of higher education. Each participating Institution will use the proceeds of its Institutional Note to finance capital projects approved by the General Assembly. The Authority will use the proceeds of the Series 2013B Bonds to refund portions of maturities of prior Authority Bonds.

In October 2013, the Virginia Port Authority issued $37.9 million of Virginia Port Authority Port Facilities Revenue Refunding Bond, Series 2013, with registered owner Banc of America Preferred Funding Corporation. This bond had not been registered under the Securities Act of 1933. Series 2013 Bonds issued in the principal amount of $37.9 million are payable in annual installments beginning July 1, 2016 in amounts ranging from $610,000 to $9.8 million with interest of 3.1 percent, payable semiannually, the first interest installment due January 1, 2014 and the final installment due July 1, 2028. The bonds are payable from the net revenues of the Authority.