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# Notes to the Financial Statements

June 30, 2012

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Basis of Presentation

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

### B. Reporting Entity

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

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

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

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

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

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

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

Discretely presented component units are:

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

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

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

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

Only the activity of the Authority that relates to the financing of capital projects and equipment purchases by state-supported colleges and universities is included in the financial statements. The state-supported colleges and universities reported revenue from the Authority of \$461.5 million as Program Revenue Capital Grants and Contributions for the 21<sup>st</sup> Century Program and \$71.1 million as Program Revenue Operating Grants and Contributions for equipment. The Authority reported approximately \$27.2 million in payments from the state-supported colleges

and universities for debt service costs and approximately \$13.6 million in interest on Build America Bonds. The Authority assists private institutions of higher education in the financing and refinancing of a broad range of facilities. The Authority is authorized to issue obligations and lend the proceeds to private institutions; however, such financings or refinancings are not obligations of the primary government nor the Authority, but are payable solely from the revenues pledged by the respective private institution. This indebtedness, totaling \$639.6 million, is not included in the financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Danville Science Center, Inc.** (nonmajor) – The Center is non-profit corporation formed for the purpose of implementing and funding those programs, projects and operations which are

authorized and approved by the trustees of the Science Museum of Virginia (part of primary government). The administrative offices of the Center are located at 677 Craghead Street, Post Office Box 167, Danville, Virginia 24541. Dixon Hughes Goodman, LLP, audits the Center, and a separate report is issued.

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

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

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

audits the Foundation, and a separate report is issued.

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

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

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

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

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

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

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

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

audits the Foundation, and a separate report is issued.

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

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

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

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

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

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

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

#### C. Government-wide and Fund Financial Statements

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

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

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

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

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

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

**Governmental Fund Financial Statements** – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current

period. For this purpose, the primary government considers revenues to be available if they are collected within 60 days of the end of the current fiscal year (or one year for Medicaid). Significant revenues subject to accrual include federal grants and income and sales taxes. Income tax revenues for tax underpayments are only recognized to the extent of the primary government's estimated refunds for tax overpayments received. Revenues that the primary government earns by incurring obligations are recognized in the same period as when the obligations are recognized.

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

The primary government reports the following major governmental funds:

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

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

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

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

**Proprietary Funds, Fiduciary Funds, and Component Units Financial Statements** – The financial statements of the proprietary funds, fiduciary funds, and component units are reported using the economic resources measurement focus and the full accrual basis of accounting. As with the government-wide statements, revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of

the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds have no measurement focus since they only report assets and liabilities.

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

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

Foundations' (component units) financial statements are prepared using the economic resources measurement focus and the full accrual basis of accounting. The financial statements are prepared under FASB rather than GASB standards. In some instances, activities of the foundations (component units) are reported separately within the footnotes because of the different reporting standards. Also, some foundations (component units) have a December 31<sup>st</sup> or March 31<sup>st</sup> year-end rather than a fiscal year-end. Foundations (component units) with different year-ends are included in these financial statements for the year ending December 31, 2011, or March 31, 2012.

Significant intrafund activity/balances between each higher education institution and their foundations have been eliminated. However, Old Dominion University (nonmajor component unit) reported the following intrafund balances that could not be eliminated because of differing year-ends: institution liabilities of \$68.9 million, and foundation assets of \$60.8 million and liabilities of \$2.9 million. Longwood University (nonmajor component unit) reported the following intrafund balances that could not be eliminated because of differing year-ends: institution expenses of \$2.8 million and assets of \$0.4 million, and foundation assets of \$0.3 million, liabilities of \$0.2 million, and revenues of \$2.9 million.

The primary government reports the following major enterprise funds:

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

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

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

Additionally, the primary government reports the following fund types:

#### **Governmental Fund Types:**

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

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

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

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

## Proprietary Fund Types:

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

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

## Fiduciary Fund Types:

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

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

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

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

## E. Budgetary Process

Budgetary amounts shown in the Required Supplementary Information and Combining and Individual Fund Statements and Schedules Sections represent the total of the original budgeted amounts and all supplemental appropriations. The Commonwealth's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be reappropriated for expenditure in the following fiscal year. The Governor, as required by the *Code of Virginia*, submits a budget composed of all proposed expenditures for the Commonwealth, and of estimated revenues and borrowing for a biennium, to the General Assembly. Budgets are adopted for

the General and Special Revenue Funds, except for the Literary – Special Revenue (major). Formal budgetary integration is not employed for the Capital Projects (nonmajor), Debt Service (nonmajor), Permanent Funds (nonmajor), and the Literary – Special Revenue (major) because effective budgetary control is alternatively achieved through the General Fund and the remaining Special Revenue Funds.

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

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

## F. Cash, Cash Equivalents, and Investments

### Cash

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

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

### Cash Equivalents

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

### Investments

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

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

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

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

#### **Derivatives**

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

#### **G. Receivables**

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

#### **H. Contributions Receivable, Net**

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

#### **I. Internal Balances**

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

#### **J. Inventory**

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

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

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

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

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

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

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

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

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

**K. Prepaid Items**

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

**L. Interfund Loans Receivable/Payable**

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

**M. Other Assets**

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

**N. Capital Assets**

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

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

some items that cost less than those thresholds. Infrastructure, including highways, bridges, and rights-of-way, is capitalized using the historical approach and includes any assets acquired prior to fiscal year 1980.

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

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

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

- (1) They extend the asset life, improve productivity, or improve the quality of service; and,
- (2) They fall into the planning, acquisition, construction, improvement, renovation, repair, replacement, relocation, or demolition phase of the asset life.

The estimated lives of capital assets are as follows:

	<u>Years</u>
Buildings	10–75
Equipment	2–50
Infrastructure	5–50
Software	5–35

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

**O. Accounts Payable**

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

## **P. Unearned and Deferred Revenue**

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

## **Q. Deferred Taxes**

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

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

## **R. Obligations Under Securities Lending Program**

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

## **S. Other Liabilities**

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

## **T. Claims Payable**

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

## **U. Long-Term Liabilities**

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

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

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

#### **V. Nonspendable Fund Balances**

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

#### **W. Restricted Fund Balances**

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

#### **X. Committed Fund Balances**

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

#### **Y. Assigned Fund Balances**

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

#### **Z. Unassigned Fund Balances**

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

#### **AA. Cash Management Improvement Act**

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

#### **BB. Investment Income**

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

#### **CC. Intrafund Eliminations**

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

#### **DD. Interfund Activity**

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

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

## 2. RESTATEMENT OF BEGINNING BALANCES

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

### **Governmental Activities**

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

## **Fund Statements**

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

**Beginning Balance Restatement**

*(Dollars in Thousands)*

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

### 3. FUND BALANCE CLASSIFICATIONS

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

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

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

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

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

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

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

**Governmental Fund Balance Classifications**

*(Dollars in Thousands)*

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

#### 4. DEFICIT FUND BALANCES/NET ASSETS

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

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

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

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

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

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

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

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

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

#### 5. REVENUE STABILIZATION FUND

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

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

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

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

## 6. CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

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

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

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

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

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

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

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

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

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

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

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

## Custodial Risk

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

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

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

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

## Interest Rate Risk

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

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

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

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

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

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

**Primary Government Investments**  
(Dollars in Thousands)

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

**Component Unit Investments**  
(Dollars in Thousands)

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

## Foundation Investments

(Dollars in Thousands)

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

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

### Credit Risk

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

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

- Dollar denominated obligations of sovereign governments: Aaa, Moody's and AAA, S&P
- Commercial Mortgage-Backed Securities (CMBS) and Collateralized Mortgage Obligations (CMOs): AAA by two nationally recognized rating agencies, one of which must be Moody's or S&P

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

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

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

**Credit Rating - Primary Government**  
(Dollars in Thousands)

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

**Credit Rating - Component Units**  
(Dollars in Thousands)

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

## **Concentration of Credit Risk**

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

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

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

## **Foreign Currency Risk**

### **Primary Government**

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

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

### **Component Units**

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

**Foreign Currency Exposures by Asset Class - Primary Government**

*(Dollars in Thousands)*

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

**Foreign Currency Exposures by Asset Class - Component Units**

*(Dollars in Thousands)*

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

## Securities Lending

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

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

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

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

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

Securities loaned for the Treasurer's cash collateral reinvestment pool, which consisted of 86.5 percent general account funds and 13.5 percent State Lottery funds as of June 30, 2012, had a carrying value of \$1,372,764,688 and a fair value of \$1,486,209,404. The fair value of the collateral received was \$1,515,962,463 providing for coverage of 102.0 percent. As a result, the State Treasury assumes no credit risk on securities loaned. The carrying value of the cash collateral reinvestment pool received was \$1,516,055,107 and the

fair value of the investments purchased with the cash collateral was \$1,513,991,572. As of June 30, 2012, the Treasurer's cash collateral reinvestment pool had an unrealized loss of \$1,970,891, and is recorded in the General Fund as stated in Note 1.BB. This amount is included in the total Treasurer's Portfolio discussed earlier in this note.

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

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

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

Under authorization of the Board, the Virginia Retirement System (the System) lends its fixed income and equity securities to various broker-dealers on a temporary basis. This program is administered through an agreement with the System's custodial agent bank. All security loan agreements are collateralized by cash, securities, or an irrevocable letter of credit issued by a major bank, and have a market value equal to at least 102 percent of the market value for domestic securities and 105 percent for international securities. Securities received as collateral cannot be pledged or sold by the System unless the borrower defaults. Contracts require the lending agents to indemnify the System if the borrowers fail to return the securities lent. All securities

loans can be terminated on demand by either the System or the borrowers. The majority of loans are open loans, meaning the rebate is set daily. This results in a maturity of one or two days on average, although securities are often on loan for longer periods. The maturity of loans generally does not match the maturity of collateral investments, which averages 43 days. At year-end, the System has no credit risk exposure to borrowers because the amounts it owes the borrowers exceeded the amounts the borrowers owe the System. All securities are marked to market daily and carried at market value. The market value of securities on loan at June 30, 2012 was \$3,913,126,000. The June 30, 2012 balance was composed of corporate and other bonds of \$59,324,000 and common and preferred stocks of \$3,853,802,000. The value of collateral (cash and non-cash) at June 30, 2012, was \$4,074,754,000.

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

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

## 7. RECEIVABLES

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

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

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

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

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

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

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

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

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

## 8. CONTRIBUTIONS RECEIVABLE, NET

The following schedule details the contributions receivable for foundations<sup>(1)</sup> included with the major component units, and aggregated nonmajor component units, as of June 30, 2012:

*(Dollars in Thousands)*

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

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

Note (2): The discount rate used to determine present value ranges from 0.15 percent to 8.00 percent.

## 9. INTERFUND AND INTER-ENTITY ASSETS/LIABILITIES

### Due from/to Other Funds

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

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

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

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

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

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

**Schedule of Due from/to Other Funds**

June 30, 2012

*(Dollars in Thousands)*

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

**Schedule of Due from/to Internal/External Parties**

June 30, 2012

*(Dollars in Thousands)*

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

**Interfund Receivables/Payables**

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

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

**Interfund Receivables/Payables**

June 30, 2012

*(Dollars in Thousands)*

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

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

### **Due from/to Primary Government and Component Units**

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

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

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

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

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

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

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

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

### **Due from/to Component Units and Fiduciary Funds**

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

### **Loans Receivable/Payable Between Primary Government and Component Units**

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

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

## 10. OTHER ASSETS

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

(Dollars in Thousands)

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

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

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

## 11. RESTRICTED ASSETS

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

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

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

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

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

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

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

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

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

## 12. CAPITAL ASSETS

The following schedule presents the changes in the Capital Assets:

### Schedule of Changes in Capital Assets Governmental Activities

(Dollars in Thousands)

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

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

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

**Depreciation Expense Charged to Functions of the Primary Government**

June 30, 2012

*(Dollars in Thousands)*

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

**Schedule of Changes in Capital Assets  
Business-type Activities**

*(Dollars in Thousands)*

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

**Schedule of Changes in Capital Assets  
Component Units**

(Dollars in Thousands)

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

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

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

### 13. DERIVATIVES

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

#### Primary Government

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

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

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

#### Futures Contracts

Futures contracts are contracts to deliver or receive securities at a specified future date and at a specified price or yield. Futures contracts are traded on organized

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

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

#### Currency Forwards

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

**Currency Forwards**  
as of June 30

(Dollars in Thousands)

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

## Options Contracts

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

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

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

<b>Options Contracts</b>		
as of June 30		
<i>(Dollars in Thousands)</i>		
	<u>2012</u>	<u>2011</u>
Cash and Cash Equivalent Options:		
Put	\$ -	\$ 40
Equity Options:		
Call	-	(182)
Put	-	(95)
Fixed Income Options:		
Call	-	87
Put	-	144
Swaptions:		
Call	(978)	(5,557)
Put	(118)	601
Total Options	<u>\$ (1,096)</u>	<u>\$ (4,962)</u>

## Swap Agreements

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

**Swap Agreements**  
as of June 30

(Dollars in Thousands)

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

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**Swap Agreements**  
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(Dollars in Thousands)

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

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**Swap Agreements**  
as of June 30  
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(Dollars in Thousands)

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

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

### Component Units

#### Investment Derivative Instruments

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

#### Hedging Derivative Instruments

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

The fair value was determined by using the quoted SIFMA index curve at the time of market valuation. UVA would be exposed to the credit risk of its swap

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

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

In December 2005, Virginia Commonwealth University (VCU) (major) entered into an interest rate swap

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

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

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

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

Additional information is available in the individually published financial statements of the higher education institution.

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

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

#### 14. RETIREMENT AND PENSION SYSTEMS

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

##### A. Administration

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

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

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

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

### **Basis of Accounting**

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

### **Method Used to Value Investments**

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

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

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

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

## **C. Plan Description**

### **Retirement Plans**

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

### **Single-employer Retirement Plans**

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

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

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

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

Annual retirement benefits are payable monthly for life in an amount equal to 1.7 percent of eligible members' average final compensation (AFC) for each year of service credit. AFC is the average of the member's 36 consecutive months of highest creditable compensation for members under the VRS Plan 1. Under the VRS Plan 2, member's AFC

is the average of the member's 60 consecutive months of highest creditable compensation. The benefit for members of SPORS is calculated using a 1.85 percent multiplier. Members of SPORS also are eligible for a hazardous duty supplement, paid monthly, until they reach full Social Security retirement age.

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

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

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

As required by Title 51.1 of the *Code of Virginia*, as amended, members contribute 5.0 percent of their annual compensation to the defined benefits plans. Employers may assume the 5.0 percent member contribution. If a member leaves covered employment, the accumulated contributions plus earned interest may be refunded to the member. Each participating employer is required by state statute to contribute the remaining amounts necessary to fund the retirement plans using the entry age normal actuarial cost method adopted by the Board of Trustees. Contributions for fiscal year 2012 were \$16.6 million, \$21.9 million, and \$42.2 million, and reserved balances available for benefits were \$575.5 million, \$354.3 million, and \$894.9 million, for SPORS, JRS, and VaLORS, respectively. State statute may be amended only by the General Assembly. When funding rates are

lower than required, the Commonwealth incurs a Net Pension Obligation liability which is reported in the accompanying financial statements as a component of Long-term Liabilities Due in More than One Year.

#### D. Funding Policy

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

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

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

## E. Annual Pension Cost and Net Pension Obligation

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

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

  

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

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

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

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

#### F. Funded Status and Funding Progress

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

*(Dollars in Millions)*

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

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

**G. Defined Contribution Plan for Political Appointees**

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

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

**H. Defined Contribution Plan for Public School Superintendents**

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

**I. Virginia Supplemental Retirement Plan**

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

**J. Higher Education Fund (Component Unit)**

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

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

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

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

Previously, the MCV Associated Physicians (MCVAP) (a component unit of the Authority) sponsored the MCVAP 403(b) Retirement Fund (the 403(b) Plan), a defined contribution plan which

covered substantially all non-medical employees of MCVAP. As of January 1, 2002, no additional contributions were made to this plan.

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

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

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

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

Effective January 1, 1997, James Madison University (nonmajor) established a Supplemental Retirement Plan for tenured faculty members. The plan was designed to provide flexibility in the allocation of faculty positions. The plan is a qualified plan within the meaning of section 401(c) of the Internal Revenue Code of 1986 (the Code) and is a governmental plan within the meaning of section 414(d) of the Code. Since it is a governmental plan, the plan is not subject to the Employee Retirement Income Security Act of 1974 as amended. Since inception, 199 faculty members

have elected to enroll in the plan. As of June 30, 2012, 69 participants remain, including 16 new participants who retired under this plan during fiscal year 2012. In order to satisfy IRS requirements, a trust fund has been established as a means to make the payments to the plan participants. The University prepaid approximately \$1.9 million of the fiscal year 2013 plan contribution in 2012.

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

#### **K. Other Component Units**

Note 1.B. outlines the component units included in the Commonwealth's reporting entity. The Virginia Public Building Authority (blended - primary government), the Virginia Public School Authority (major), the Virginia College Building Authority (nonmajor), the Virginia University Research Partnership (nonmajor), and the Virginia School for the Deaf and Blind Foundation (nonmajor) have no employees. The Virginia Economic Development Partnership, the Small Business Financing Authority, the Hampton Roads Sanitation District Commission, the Virginia Biotechnology Research Partnership Authority, the A. L. Philpott Manufacturing Extension Partnership, the Virginia Tourism Authority, the Tobacco Indemnification and Community Revitalization Commission, the Virginia Foundation for Healthy Youth, the Virginia Land

Conservation Foundation, the Virginia Arts Foundation, the Virginia National Defense Industrial Authority, and the Library of Virginia Foundation (all nonmajor) contribute solely to the VRS, a mixed-agent and cost-sharing multiple-employer retirement plan. The System issues a separate stand-alone report that is publicly available as previously discussed.

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

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

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

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

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

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

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

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

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

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

**Trend Information**

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

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

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

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

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

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

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

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

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

## 15. OTHER EMPLOYMENT BENEFITS

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

### Group Life Insurance

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

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

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

depending on the option chosen by the member. An additional accidental death and dismemberment benefit is payable for death or bodily injuries. Approximately 65,605 members were covered under this program at June 30, 2012.

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

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

### Virginia Sickness and Disability Program

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

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

Full-time permanent salaried state employees, including state police officers and other Virginia law and correctional officers, are automatically enrolled in the VSDP. Part-time permanent salaried state employees who work at least 20 hours a week and accrue leave also are automatically enrolled. Teaching, administrative and research faculty of Virginia public colleges and universities who elect VRS as their retirement plan must make an irrevocable election to participate in either the VSDP or the institution's

disability program. If there is no institution program, the faculty member is covered under VSDP.

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

#### **Volunteer Firefighters' and Rescue Squad Workers' Fund**

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

## **16. OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

### **A. Virginia Retirement System (The System) Administered Plans**

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

### **Group Life Insurance Benefits**

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

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

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

### **Retiree Health Insurance Credit Program**

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

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

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

#### **Disability Insurance Trust Fund**

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

#### **Line of Duty Death and Disability**

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

#### **B. Pre-Medicare Retiree Healthcare**

The Commonwealth provides a healthcare plan established by Title 2.2, Chapter 28 of the *Code of Virginia* for retirees who are not yet eligible to participate in Medicare. For a retiree to participate in the Plan, the participant must be eligible for a

monthly annuity from the VRS or a periodic benefit from one of the qualified Optional Retirement Plan (ORP) vendors, and:

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

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

#### **C. Annual OPEB Cost and Net OPEB Obligation**

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

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

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

  

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

  

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

- (1) Line of Duty Death and Disability became a cost sharing plan effective July 1, 2010. Accordingly, the net OPEB obligation at the beginning of the transition period has been reduced to zero. Fiscal year 2011 activity was funded with a \$10.7 million loan that will be repaid in future periods with contributions received. This amount is reflected as both a receivable and a contribution in the accompanying statements.
- (2) During fiscal year 2012, the required annual contributions of \$2.9 million were paid by the Commonwealth. Additionally, the loan increased to \$13.9 million that will be repaid in future periods with contributions received. This amount is reflected as both a receivable and a contribution in the accompanying statements.

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

The annual required contributions for the current year were determined during the actuarial valuations conducted as of June 30, 2009, as that is the most recent report that reflects the current funding policies. Employer contributions by the Commonwealth for Group Life Insurance, Retiree Health Insurance Credit and Disability Insurance were 0.28 percent, 0.10 percent, and less than 0.01 percent, respectively, of covered payrolls for the period of July 1, 2011 through June 15, 2012 and 1.02 percent, 0.99 percent, and 0.66 percent, respectively for the last half of June 2012. The valuations were prepared using the entry age normal cost method for all plans except for the Disability Insurance trust fund and the Line of Duty Act trust fund for which the Projected Unit Credit actuarial cost method was used. The Pre-Medicare Retiree Healthcare plan uses a 4.30 percent investment rate of return, per year compounded

annually, which approximates the projected rate of return on the Treasurer's Portfolio. The Group Life Insurance, Retiree Health Insurance Credit and Disability Insurance use a 7.0 percent investment rate of return, per year compounded annually. The Line of Duty Act trust fund uses a 4.75 percent rate of return compounded annually. The actuarial assumptions for all but the Pre-Medicare Retiree Healthcare plan included a projected salary increase of 3.0 percent, including a 2.5 percent inflation component. Valuation techniques were applied to smooth the effects of short-term volatility in the market value of investments over a five year period. The remaining open amortization period at June 30, 2012, was 30 years. The actuarial assumptions for the Pre-Medicare Retiree Healthcare plan as to current claim cost, projected increases in health insurance costs, mortality, turnover, retirement, disability and discount rate include (a) projected salary increases ranging from 3.75 percent to 5.6 percent, including a 2.5 percent inflation component; and, (b) assumption that there is no liability associated with those retirees eligible for Medicare, as costs for members aged 65 and older are not subsidized by the active population (no implicit subsidy), participants pay 100.0 percent of the costs, and the liability associated with the health insurance credit is measured and held by the Virginia Retirement System. Initial healthcare costs trend rates used were 10.0 percent, 11.0 percent, and 6.0 percent for medical, pharmacy, and dental benefits, respectively. The ultimate trend rates used were 5.0 percent, 5.0 percent, and 4.0 percent for medical, pharmacy, and dental benefits, respectively. The remaining open amortization period at June 30, 2012 was 30 years.

#### D. Funded Status and Funding Progress

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

(Dollars in Millions)

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

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

#### E. Higher Education Fund (Component Unit)

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

the individually published financial statements of the University.

#### F. Other Component Units

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

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

annual covered payroll. For 2012, the Commission's annual OPEB cost was \$2.2 million; the percentage of annual OPEB cost contributed was 100.0 percent.

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

## 17. DEFERRED COMPENSATION PLANS

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

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

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

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

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

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

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

## 18. STATE NON-ARBITRAGE POOL

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

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

## 19. COMMITMENTS

### A. Construction Projects

#### Primary Government

##### Highway Projects

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

##### Mass Transit Projects

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

## Wastewater Treatment Projects

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

### Component Units

#### Port Projects

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

#### Wallops Island Project

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

### Higher Education Institutions

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

### B. Operating Leases

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

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

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

<b>Foundations (2)</b>	
2013	\$ 2,612
2014	2,134
2015	1,858
2016	1,728
2017	1,375
Thereafter	4,635
Total	<u>\$ 14,342</u>

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

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

### C. Investment Commitments – Virginia Retirement System

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

### D. Tobacco Grants

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

The Virginia Foundation for Healthy Youth (nonmajor component unit) had \$13.0 million in grant commitments and outstanding contracts not

reflected in these statements since eligibility requirements were not met as of June 30, 2012, in accordance with GASB Statement No. 33.

### E. Other Commitments

#### Primary Government

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

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

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

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

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

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

#### Component Units

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

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

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

## 20. ACCRUED LIABILITY FOR COMPENSATED ABSENCES

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

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

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

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

## 21. POLLUTION REMEDIATION OBLIGATIONS

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

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

Agencies involved in remediation include:

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

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

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

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

## 22. INSURANCE

### A. Self-Insurance

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

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

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

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

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

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

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

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

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

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

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

**Estimated Workers' Compensation Losses**

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

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

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

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

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

**B. Public Entity Risk Pools**

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

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

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

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

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

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

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

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

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

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

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

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

## 23. ACCOUNTS PAYABLE

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

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

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

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

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

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

## 24. OTHER LIABILITIES

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

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

	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, Escrow s, and Providers	30	34,715	-	-	1,145
Medicaid Payable	-	-	-	-	-
Family Access to Medical Insurance Security Payable	-	-	-	-	-
Tax Refunds Payable	-	-	-	-	-
Insurance Carrier Surety Deposit	-	-	-	-	-
Deposits Pending Distribution	-	-	179	78	-
Car Tax Refund Payable	-	-	-	-	-
Other Liabilities	30	-	188	5,026	-
Total Other Liabilities	<u>\$ 60</u>	<u>\$ 34,715</u>	<u>\$ 367</u>	<u>\$ 5,104</u>	<u>\$ 1,145</u>

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

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

Note (2): Other Liabilities of \$150,319 (dollars in thousands) reported in pension and other employee benefit trust funds are made up of \$29,106 (dollars in thousands) in funds held for the Commonwealth Health Research Fund; \$14,980 (dollars in thousands) in other funds managed by the System; \$101,354 (dollars in thousands) in pending investment transactions, including \$25,699 (dollars in thousands) for securities lending, \$75,630 (dollars in thousands) for net foreign exchange contracts, \$25 (dollars in thousands) in other investment payables; \$997 (dollars in thousands) in other payable related to the System benefit plans; \$2,300 (dollars in thousands) in foreign taxes payables related to the System benefit plans, and \$1,582 (dollars in thousands) in interest and dividends payable related to the System benefit plans.

Note (3): Fiduciary liabilities of \$680,182 (dollars in thousands) are not included in the Government-wide Statement of Net Assets. Governmental fund liabilities of \$541,710 (dollars in thousands) are included in the Government-wide Statement of Net Assets, but excluded from the above amounts.

	<b>Component Units</b>				
	<b>Virginia Housing Development Authority</b>	<b>Virginia Public School Authority</b>	<b>University of Virginia (4)</b>	<b>Virginia Polytechnic Institute &amp; State University</b>	<b>Virginia Commonwealth University (4)</b>
Accrued Interest Payable	\$ 88,152	\$ 59,087	\$ 6,286	\$ 5,069	\$ 9,088
Other Liabilities	1,183	82	63,530	29,136	189,379
Deposits Pending Distribution	-	-	369,229	14,596	31,739
Short-term Debt	-	-	154,063	13,300	3,811
Grants Payable	-	-	-	-	-
Total Other Liabilities	<u>\$ 89,335</u>	<u>\$ 59,169</u>	<u>\$ 593,108</u>	<u>\$ 62,101</u>	<u>\$ 234,017</u>

	<b>Component Units</b>	
	<b>Nonmajor Component Units</b>	<b>Total Component Units</b>
Accrued Interest Payable	\$ 139,759	\$ 307,441
Other Liabilities	35,654	318,964
Deposits Pending Distribution	32,024	447,588
Short-term Debt	22,338	193,512
Grants Payable	9,230	9,230
Total Other Liabilities	<u>\$ 239,005</u>	<u>\$ 1,276,735</u>

Note (4): Other Liabilities of \$35,053 (dollars in thousands) for the University of Virginia and \$78,362 (dollars in thousands) for the Virginia Commonwealth University represent hedging derivative instruments reported in accordance with GASBS No. 53 (see Note 13 for additional information).

## Medicaid Payable

Medicaid Payable represents services rendered but not billed by providers and potential liability resulting from cost reports not settled as of year-end. Providers subject to cost settlement are paid in the interim based on established per diem or diagnosis related group rates for services.

The Department of Medical Assistance Services (DMAS) estimates, based on past experience, the total amount of Medicaid claims that will be paid from the Medicaid program in the future which relate to services provided before year-end. At June 30, 2012, the estimated liability related to Medicaid claims totaled \$685.9 million. Of this amount, \$341.3 million is reflected in the General Fund (major) and \$344.6 million in the Federal Trust Special Revenue Fund (major).

## Family Access to Medical Insurance Security Payable

DMAS estimates the total amount of claims that will be paid from the Family Access to Medical Insurance Security program in the future which relate to services provided before year-end. At June 30, 2012, the estimated liability related to claims totaled \$13.0 million. Of this amount, \$4.6 million is reflected in the General Fund (major) and \$8.4 million in the Federal Trust Special Revenue Fund (major).

## Tax Refunds Payable

Tax refunds payable represent refunds due on individual tax returns filed for the calendar year ended on or before December 31, 2011, and on business tax returns filed for corporate fiscal years ending on or before June 30, 2012. The individual tax return filing deadline is May 1 of each year for the preceding calendar year. The corporate tax return filing deadline is the 15th day of the fourth month following the close of the corporate fiscal year.

## Car Tax Refund Payable

During the year ended June 30, 1998, the General Assembly passed the Personal Property Tax Relief Act. Under the terms of this legislation, the Commonwealth assumed financial responsibility for a portion, ranging from 12.5 percent to 70.0 percent, of the personal property taxes assessed by localities.

During 2004, the General Assembly modified this legislation. Chapter 1 of Special Session 1 (2004) established a \$950.0 million limit on the amount the Commonwealth would appropriate for personal property tax relief, beginning in tax year 2006. It further established that each county, city, and town would receive a fixed percentage of the \$950.0 million, with payments to begin on or after July 1, 2006 (fiscal year 2007). The accrued liability amount of \$263.0 million reflects payments owed to localities as of June 30 and paid in July.

## Termination Benefits

During fiscal year 2012, the Commonwealth laid off 86 employees. The affected employees had the option of volunteering for enhanced retirement benefits or severance benefits. The enhanced retirement benefits option was elected by 12 employees, and the remaining 74 employees elected severance benefits. The severance benefits include salary payments based on years of service and insurance premium payments for health and life insurance. All severance benefits were initiated during fiscal year 2012 and will end no later than June 30, 2013. The benefit cost expended and the outstanding liability as of June 30, 2012, is \$1.2 million and \$637,376, respectively. Since the severance benefits last for a maximum of 12 months, discounting of future cash flows is unnecessary. Additionally, the estimated payments are calculated using the Department of Human Resources' Termination Benefits Calculator and actual costs.

## Short-term Debt

Short-term debt results from borrowings from anticipation notes, lines of credit, and similar loans with parties external to the primary government. The primary government's policy is to disclose activity related to short-term borrowings occurring during the fiscal year. For fiscal year 2012, the primary government's agencies did not participate in short-term borrowings with external parties.

Various higher education institutions' foundations (component units) have short-term debt. University of Virginia foundations (major component unit) report \$26.6 million, Virginia Commonwealth University foundations (major component unit) report approximately \$3.8 million, and nonmajor component unit foundations report approximately \$22.3 million. This short-term debt is for working capital, property acquisition, construction costs, operating costs, and refinancing. The University of Virginia (major component unit) has commercial paper of approximately \$127.5 million and the Virginia Polytechnic Institute and State University (major component unit) reports \$13.3 million of commercial paper that provides bridge financing for capital projects. The Library of Virginia Foundation (nonmajor component unit) has a \$50,000 note with a related party. During the year ended June 30, 2012, \$5,000 of the loan was forgiven and has been recognized as a contribution.

The balance of Other Liabilities is spread among various other funds.

## 25. LONG-TERM LIABILITIES

Commonwealth bonds are issued pursuant to Section 9 of Article X of the *Constitution of Virginia*. Section 9(a) bonds have been issued to redeem previous debt obligations. Section 9(b) bonds have been authorized by the citizens of Virginia through bond referenda to finance capital projects. These bonds are retired through the use of state appropriations. Section 9(c) bonds are issued to finance capital projects which, when completed, will generate revenue to repay the debt. Section 9(a), 9(b), and 9(c) bonds are tax-supported general obligation bonds and are backed by the full faith, credit, and taxing power of the Commonwealth. No other long-term debt or obligations are backed by the full faith, credit, and taxing power of the Commonwealth.

Section 9(d) bonds are revenue bonds and are not backed by the full faith, credit and taxing power of the Commonwealth. These bonds are not general obligation bonds and are not deemed to constitute a legal liability of the Commonwealth. This debt may be supported by state appropriations in whole or in part, as in the case of certain debt of the Virginia Port Authority (nonmajor component unit). Other 9(d) revenue bonds are payable from general revenues of the component units, or from revenues of specific revenue-producing capital projects such as the teaching hospitals, dormitories, student centers, and dining halls at the various colleges and universities (component units). Additionally, the 9(d)

Transportation Bonds (primary government) are payable solely from revenues or earnings, and other available sources of funds appropriated by the General Assembly.

Certain 9(d) bonds are considered, with 9(a), 9(b), and 9(c) bonds, to be tax-supported debt of the Commonwealth. Tax-supported debt includes all bond issues and short-term debt supported by tax revenues (net of sinking fund requirements), for which debt service payments are made or are ultimately pledged to be made from general governmental funds.

Other 9(d) revenue bonds are considered debt not supported by taxes. For this debt, the Commonwealth has no direct or indirect pledge of tax revenues. However, in some cases, the Commonwealth has made a moral obligation pledge. A government's moral obligation pledge provides a deficiency make-up for bondholders should underlying project revenues prove insufficient. The mechanics involve funding a debt service reserve fund when the bonds are issued. If a revenue deficiency exists, reserve fund monies are used to pay bondholders. The issuer then informs the legislative body requesting that it replenish the reserve fund before subsequent debt service is due. The legislative body may, but is not legally required to, replenish the reserve fund. These bonds are considered to be moral obligation debt.

The following schedule presents the total long-term liabilities of the Commonwealth, and the portion of these amounts which are due within one year, as reported on the Government-wide Statement of Net Assets.

<b>Total Long-term Liabilities</b>		
June 30, 2012		
<i>(Dollars in Thousands)</i>	<b>Balance At June 30</b>	<b>Amount Due Within One Year</b>
<b>Primary Government:</b>		
Governmental Activities: (1)		
<b>General Obligation Bonds: (2)</b>		
9(b) Public Facilities (3)	\$ 831,148	\$ 71,067
9(c) Parking Facilities (3)	18,383	756
9(c) Transportation Facilities (3)	24,210	2,185
Total General Obligation Bonds	<u>873,741</u>	<u>74,008</u>
<b>Nongeneral Obligation Bonds - 9(d):</b>		
Transportation Debt (3) (4)	3,136,659	203,025
Virginia Public Building Authority (3)	2,566,789	182,830
Total Nongeneral Obligation Bonds	<u>5,703,448</u>	<u>385,855</u>
<b>Other Long-term Obligations:</b>		
Pension Liability	1,660,768	-
OPEB Liability	406,969	-
Compensated Absences	315,176	143,967
Capital Lease Obligations	77,400	10,564
Pollution Remediation Obligations	5,171	2,591
Regional Jail Financing Payable	2,748	1,911
Notes Payable	49,689	20,606
Installment Purchase Obligations	114,959	9,342
Economic Development Authority Obligations (3)	81,747	4,070
Other Liabilities	27,647	4,000
Total Other Long-term Obligations	<u>2,742,274</u>	<u>197,051</u>
Total Governmental Activities (3)	<u>9,319,463</u>	<u>656,914</u>
Business-type Activities: (1) (5)		
<b>Other Long-term Obligations:</b>		
Pension Liability	42,249	-
OPEB Liability	12,751	-
Compensated Absences	9,267	4,994
Capital Lease Obligations	449	449
Tuition Benefits Payable	2,175,296	192,471
Lottery Prizes Payable	194,481	35,670
Total Other Long-term Obligations	<u>2,434,493</u>	<u>233,584</u>
Total Business-type Activities	<u>2,434,493</u>	<u>233,584</u>
<b>Total Primary Government</b>	<u>11,753,956</u>	<u>890,498</u>

**Total Long-term Liabilities**

June 30, 2012

	<b>Balance At June 30</b>	<b>Amount Due Within One Year</b>
<i>(Dollars in Thousands)</i>		
<b>Component Units:</b>		
<b>General Obligation Bonds: (2)</b>		
Higher Education Fund - 9(c) Bonds (3)	906,474	47,343
<b>Nongeneral Obligation Bonds:</b>		
Higher Education Institutions - 9(d) (3) (5)	1,541,802	23,633
Virginia College Building Authority (3)	2,470,589	145,283
Innovation and Entrepreneurship Investment Authority	2,375	1,155
Virginia Port Authority (3) (6)	519,299	13,604
Virginia Housing Development Authority (3) (5)	5,945,174	278,878
Virginia Resources Authority (3) (7)	3,279,627	125,341
Virginia Public School Authority (3) (5)	3,378,084	202,148
Hampton Roads Sanitation District Commission (5)	639,286	47,814
Virginia Biotechnology Research Park Authority (3)	37,162	1,878
Foundations (5) (8)	975,148	20,789
Total Nongeneral Obligation Bonds	<u>18,788,546</u>	<u>860,523</u>
<b>Other Long-term Obligations:</b>		
Pension Liability (9)	785,472	-
OPEB Liability (10)	470,661	-
Compensated Absences	253,845	173,339
Capital Lease Obligations	91,166	5,376
Notes Payable (5)	2,070,152	251,702
Installment Purchase Obligations	100,161	16,217
Trust and Annuity Obligations (5) (11)	2,508	-
Other Liabilities (5)	293,405	93,721
Total Other Long-term Obligations (Excluding Foundations)	<u>4,067,370</u>	<u>540,355</u>
<b>Other Long-term Obligations (Foundations): (5) (8)</b>		
Pension Liability	98,259	-
OPEB Liability	30	-
Compensated Absences	8,382	7,931
Capital Lease Obligations	432	114
Notes Payable	211,556	8,774
Trust and Annuity Obligations (11)	72,630	2,822
Other Liabilities	204,010	13,358
Total Other Long-term Obligations - Foundations	<u>595,299</u>	<u>32,999</u>
Total Other Long-term Obligations	<u>4,662,669</u>	<u>573,354</u>
<b>Total Component Units</b>	<u>24,357,689</u>	<u>1,481,220</u>
<b>Total Long-term Liabilities</b>	<u>\$ 36,111,645</u>	<u>\$ 2,371,718</u>

- Pursuant to GASB Statement No. 34, governmental activities include internal service funds. Business-type activities are considered enterprise funds.
- Total general obligation debt of the Commonwealth is \$1.8 billion.
- Amounts are net of any unamortized discounts, premiums, and deferrals.
- This debt includes \$481.2 million that is not supported by taxes.
- This debt is not supported by taxes.
- This debt includes \$282.0 million that is not supported by taxes.
- This debt is not supported by taxes; however, \$801.4 million is considered moral obligation debt.
- Foundations represent FASB reporting entities defined in Note 1.B.
- This includes pension obligations that do not relate to the Virginia Retirement System from Virginia Commonwealth University of \$3.5 million and Virginia Port Authority of \$7.8 million. It does not include pension obligations from fiduciary funds of \$11.3 million.
- This includes OPEB obligations that do not relate to the Virginia Retirement System from University of Virginia of \$25.3 million and Virginia Port Authority of \$185,386. It does not include OPEB obligations from fiduciary funds of \$3.9 million.
- These generally represent split-interest agreements that represent donor contributed assets with the requirement that an annual distribution be made to the donor or specified beneficiary. The annual distributions are usually for a fixed dollar amount or a fixed percentage of the trust's fair market value. The present value of these commitments is reported as Trust and Annuity Obligations.

**Primary Government**

**Transportation Facilities Debt**

Transportation Facilities Bonds include \$24,210,496 of Section 9(c) general obligation bonds and \$3,136,659,265 of Transportation Facilities Section 9(d) debt. The Section 9(d) debt includes \$2,655,481,504 of Section 9(d) revenue bonds, \$182,449,414 of outstanding Commonwealth of Virginia Federal Highway Reimbursement Anticipation Notes, and \$298,728,347 of Grant Anticipation Revenue Vehicles (GARVEES) in addition to the outstanding Section 9(d) revenue bonds. 9(c) Principal and interest requirements for the current year totaled \$3,193,850. 9(d) Principal and interest requirements for the current year totaled \$258,344,895. The Section 9(c) Transportation Facilities Bonds were issued to fund the construction and improvement of the George P. Coleman Bridge. The Section 9(d) Transportation Facilities Bonds were issued to fund the construction of State Route 28, U.S. Route 58, the Northern Virginia Transportation District Program, and the Oak Grove Connector (Chesapeake). The Commonwealth of Virginia Federal Highway Reimbursement Anticipation Notes were issued to finance various capital transportation projects throughout the Commonwealth. The interest rates for these bonds range from 2.00 percent to 5.25 percent and the issuance dates range from October 10, 2002, to May 23, 2012. The GARVEES were issued to finance various Federal Aid Transportation projects throughout the Commonwealth. The interest rates for these bonds range from 3.00 percent to 5.00 percent and the issuance date was March 15, 2012.

The following schedules detail the annual funding requirements necessary to amortize Transportation Facilities 9(c) bonds and 9(d) debt. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth will receive a 35.0 percent interest subsidy to reimburse interest payments of \$126,765,808 for Build America Bonds (BABs) issued. The BABs are applicable to Commonwealth of Virginia Transportation Series 2010A Capital Project Revenue Bonds and Series 2009A Northern Virginia Transportation District Revenue Bonds.

**9(c) TRANSPORTATION FACILITIES BONDS  
Debt Service Requirements to Maturity**

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2013	\$ 2,185,000	\$ 1,009,850	\$ 3,194,850
2014	2,290,000	900,600	3,190,600
2015	2,405,000	786,100	3,191,100
2016	2,520,000	665,850	3,185,850
2017	2,620,000	568,200	3,188,200
2018-2022	11,585,000	1,180,800	12,765,800
Less:			
Deferral on Debt Defeasance	(41,600)	-	(41,600)
Add:			
Unamortized Premium	647,096	-	647,096
<b>Total</b>	<b>\$ 24,210,496</b>	<b>\$ 5,111,400</b>	<b>\$ 29,321,896</b>

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

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2013	\$ 203,025,000	\$ 130,097,729	\$ 333,122,729
2014	146,845,000	124,809,123	271,654,123
2015	153,510,000	118,029,291	271,539,291
2016	160,780,000	110,564,641	271,344,641
2017	136,430,000	103,485,276	239,915,276
2018-2022	637,035,003	424,369,351	1,061,404,354
2023-2027	562,350,268	287,340,201	849,690,469
2028-2032	463,885,000	165,183,890	629,068,890
2033-2037	421,205,000	49,990,460	471,195,460
Less:			
Unamortized Discount	(110,037)	-	(110,037)
Add:			
Accretion on Capital Bonds	16,338,961	-	16,338,961
Unamortized Premium	235,365,070	-	235,365,070
<b>Total</b>	<b>\$ 3,136,659,265</b>	<b>\$ 1,513,869,962</b>	<b>\$ 4,650,529,227</b>

**Fairfax Economic Development Authority  
Obligations**

In fiscal year 2006, the Fairfax County Economic Development Authority (EDA) issued Section 9(d) revenue bonds to pay for the Commonwealth's (VDOT) costs of the planning, design and construction of a transportation infrastructure and related public safety operations complex to be developed on the contiguous sites in the county commonly referred to as "Camp 30" for the joint use of VDOT and the county. The Commonwealth's obligation is set out in a payment agreement between Fairfax County EDA and the Commonwealth of Virginia, Department of Transportation, in which the Commonwealth agrees to make payments equal to the debt service from amounts appropriated by the General Assembly. The interest rates for these bonds range from 4.25 percent to 5.00 percent and the issue date was April 12, 2006. The principal and interest requirements for current year totaled \$7,828,188. The following schedule details the annual funding requirements necessary to repay these bonds.

**FAIRFAX COUNTY ECONOMIC DEVELOPMENT AUTHORITY  
Debt Service Requirements to Maturity**

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2013	\$ 4,070,000	\$ 3,759,438	\$ 7,829,438
2014	4,270,000	3,555,938	7,825,938
2015	4,485,000	3,342,438	7,827,438
2016	4,710,000	3,118,188	7,828,188
2017	4,945,000	2,882,688	7,827,688
2018-2022	28,480,000	10,663,500	39,143,500
2023-2027	27,940,000	3,375,050	31,315,050
Add:			
Unamortized Premium	2,846,608	-	2,846,608
<b>Total</b>	<b>\$ 81,746,608</b>	<b>\$ 30,697,240</b>	<b>\$ 112,443,848</b>

## Public Facilities Bonds

Section 9(b) general obligation bonds consist of Public Facilities Bonds, Series 2003A, 2004A, Series 2004B Refunding, Series 2005A, Series 2006A Refunding, Series 2006B, Series 2007A, Series 2007B, Series 2008A, Series 2008B, Series 2008B Refunding, Series 2009A, Series 2009D Refunding, Series 2009E, and Series 2012A Refunding. Bonds were issued to fund construction projects for higher educational institutions, mental health, and/or park facilities. The Series 2003A bonds were issued to advance refund outstanding Series 1993A and B, Series 1994, and Series 1996 bonds. The Series 2004B bonds were issued to advance refund outstanding Series 1997, Series 1998, and Series 1999A bonds. The Series 2006A bonds were issued to advance refund outstanding Series 1996 bonds. The Series 2008B bonds were issued to advance refund outstanding Series 1998 refunding bonds. The Series 2009D bonds were issued to advance refund outstanding Series 2004A, Series 2005A, and Series 2006B bonds. The Series 2012A bonds were issued to advance refund outstanding Series 2002, Series 2003A, Series 2004A, and Series 2005A bonds. Principal and interest requirements for the current year totaled \$118,289,014. The interest rates for all bonds range from 1.2 percent to 5.5 percent and the issuance dates range from June 30, 2003, to March 7, 2012. The following schedule details the annual funding requirements necessary to repay these bonds. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth will receive a 35.0 percent interest subsidy to reimburse interest payments of \$5,582,311 for Build America Bonds (BABs) issued. The BABs are applicable to Series 2009E Public Facilities Revenue Bonds.

9(b) PUBLIC FACILITIES BONDS  
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2013	\$ 71,067,178	\$ 36,594,976	\$ 107,662,154
2014	72,540,000	33,305,063	105,845,063
2015	68,240,000	29,924,223	98,164,223
2016	60,550,000	26,739,473	87,289,473
2017	52,945,000	23,800,995	76,745,995
2018-2022	244,835,000	83,462,171	328,297,171
2023-2027	192,075,000	28,951,806	221,026,806
2028-2032	22,665,000	1,323,763	23,988,763
Less:			
Deferral on Debt Defeasance	(16,635,800)	-	(16,635,800)
Add:			
Unamortized Premium	62,867,930	-	62,867,930
Total	<u>\$ 831,149,308</u>	<u>\$ 264,102,470</u>	<u>\$ 1,095,251,778</u>

## Parking Facilities Bonds

Section 9(c) general obligation bonds consist of Parking Facilities Bonds, Series 2004A, 2009B, and 2009D Refunding, and 2012A Refunding. The Series 2004A bonds were issued to fund the renovation of the 9th and Franklin Street parking deck. The Series 2009B bonds were issued to fund the construction of a new 1,000 vehicle parking structure at 7th and Franklin Streets. The Series 2009D Refunding bonds were issued to advance refund outstanding Series 2004A and 2006B

Refunding bonds. The Series 2012A Refunding bonds were issued to advance refund outstanding Series 2002 Refunding and Series 2004A bonds. The interest rates for these bonds range from 2.5 percent to 5.5 percent and the issuance dates range from August 4, 2004, to March 7, 2012. Current year principal and interest requirements totaled \$1,575,167.

The following schedule details the annual funding requirements necessary to repay these bonds.

9(c) PARKING FACILITIES BONDS  
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2013	\$ 755,892	\$ 795,905	\$ 1,551,797
2014	805,604	780,730	1,586,334
2015	847,843	743,436	1,591,279
2016	722,093	704,073	1,426,166
2017	890,000	667,610	1,557,610
2018-2022	5,185,000	2,622,052	7,807,052
2023-2027	5,249,045	1,277,842	6,526,887
2028-2032	2,110,000	159,500	2,269,500
Less:			
Deferral on Debt Defeasance	(599,400)	-	(599,400)
Add:			
Unamortized Premium	2,417,036	-	2,417,036
Total	<u>\$ 18,383,113</u>	<u>\$ 7,751,148</u>	<u>\$ 26,134,261</u>

## Virginia Public Building Authority

Virginia Public Building Authority (VPBA) Section 9(d) bonds consist of Series 2002A, 2003A Refunding, 2004A Refunding, 2004B, 2004C Refunding, 2004D Refunding, 2005A Refunding, 2005B Refunding, 2005C, 2005D, 2006A, 2006B, 2007A, 2008A Refunding, 2008B, 2009A, 2009B, 2009C, 2009D Refunding, 2010A, 2010B-1, 2010B-2, 2010B-3 Refunding, 2011AB, and 2012A Refunding. All bonds were issued for the purpose of constructing, improving, furnishing, maintaining, and acquiring public buildings for the use of the Commonwealth and also to reimburse localities, regional jail authorities or other combination of localities under the Regional Jail Financing Program. The Series 2003A and 2004A bonds were issued to advance refund outstanding Series 1993A, 1994A, 1995, and 1997A bonds. The Series 2004C and 2005A bonds were issued to refinance certain capital lease obligations of the Commonwealth. The Series 2004D bonds were issued to advance refund outstanding Series 1997A, Series 1999B, and Series 2000A bonds. The Series 2005B bonds were issued to advance refund outstanding Series 1996A, Series 1998B, and Series 1999A bonds. The Series 2008A bonds were issued to advance refund outstanding series 1998A Refunding bonds. The Series 2009D bonds were issued to advance refund outstanding series 2001A and 2002A Revenue bonds. The Series 2010B-3 bonds were issued to advance refund outstanding series 2002A and 2004B Revenue bonds. The Series 2012A bonds were issued to advance refund outstanding series 2004B and 2005C Revenue bonds. The interest rates for all fixed rate bonds range from 2.0 percent to 5.75 percent and the issuance dates range from August 1, 2002, to February 23, 2012. The Series 2005D bonds are variable rate bonds and the rates are reset weekly by

the remarketing agent. Current year principal and interest requirements totaled \$283,157,424. The following schedule details the annual funding requirements necessary to repay these bonds. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth will receive a 35.0 percent interest subsidy to reimburse interest payments of \$105,348,837 for Build America Bonds (BABs) issued. The BABs are applicable to Series 2010 Revenue Bonds.

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

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2013	\$ 182,830,000	\$ 111,466,849	\$ 294,296,849
2014	174,040,000	103,092,707	277,132,707
2015	178,290,000	94,479,027	272,769,027
2016	175,520,000	86,040,356	261,560,356
2017	159,565,000	78,199,853	237,764,853
2018-2022	630,410,000	294,171,712	924,581,712
2023-2027	600,010,000	155,475,401	755,485,401
2028-2032	342,120,000	35,078,121	377,198,121
Less:			
Deferral on Debt Defeasance	(25,153,157)	-	(25,153,157)
Add:			
Unamortized Premium	149,157,725	-	149,157,725
<b>Total</b>	<b>\$ 2,566,789,568</b>	<b>\$ 958,004,026</b>	<b>\$ 3,524,793,594</b>

**Regional Jail Financing Program**

The Regional Jail Financing Program of the Commonwealth of Virginia Treasury Board was created during the 1993 Session of the General Assembly to establish a method of reimbursing localities, regional jail authorities or other combination of localities for a portion of the capital and financing costs of a jail project, made pursuant to Sections 53.1-80, 53.1-81, or 53.1-82 of the *Code of Virginia*. The General Assembly, upon recommendation from the Department of Planning and Budget, may determine to reimburse localities for approved capital costs over time through a contractual reimbursement agreement between the localities or authority and the Treasury Board. The Board of Corrections determines the amount of reimbursable capital costs. If approved for reimbursement over time, the Treasury Board determines the amount of reimbursable financing costs and calculates the periodic reimbursement payments.

In 1996, the General Assembly adopted legislation that authorized funding of jail project reimbursements through bonds issued by the Virginia Public Building Authority (VPBA). As of June 30, 1998, all future jail reimbursements were approved for funding through the VPBA as opposed to the Treasury Board. All reimbursements whether up front or over time, are subject to appropriation by the General Assembly. Current year principal and interest requirements totaled \$2,635,715.

The following schedule details the annual funding requirements necessary to repay these obligations.

<b>REGIONAL JAILS FINANCING</b>			
<b>Financial Obligations to Maturity</b>			
<i>Calendar Year</i>	<i>Capital</i>	<i>Financing</i>	
<i>Obligations</i>	<i>Costs</i>	<i>Costs</i>	<i>Total</i>
2013	\$ 1,911,009	\$ 725,511	\$ 2,636,520
2014	837,165	(646,925)	190,240
<b>Total</b>	<b>\$ 2,748,174</b>	<b>\$ 78,586</b>	<b>\$ 2,826,760</b>

**Component Units**

**Higher Education Institution Bonds**

Higher Education Institution Bonds are comprised of both 9(c) general obligation bonds and 9(d) revenue bonds. Section 9(d) bonds are from several sources as shown on the following schedule (dollars in thousands).

College and university bonds backed by pledge of general revenue or revenue from specific revenue-producing capital projects	\$ 1,205,869
College and university debt backed exclusively by pledged revenues of an institution	335,933
<b>Total Higher Education Institution 9(d) debt</b>	<b>\$ 1,541,802</b>

The interest rates for these bonds range from 0.04 percent to 6.2 percent and the issuance dates range from November 17, 1981, to March 7, 2012. The VCBA Series 2006B and 2006C bonds, the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University) Series 2005 and 2008 bonds, and the UVA Series 2003A bonds are variable rate bonds and the rates are reset weekly by the remarketing agent.

The following schedules detail the annual funding requirements necessary to amortize Higher Education Institution 9(c) and 9(d) bonds. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth will receive a 35 percent interest subsidy to reimburse interest payments of \$403,629,901 for Build America Bonds (BABs) issued. The BABs are applicable to General Obligation Series 2010A Bonds, Series 2009F and 2010B 21<sup>st</sup> 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**

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2013	\$ 45,241,930	\$ 38,861,829	\$ 84,103,759
2014	44,909,396	36,824,488	81,733,884
2015	48,292,157	34,737,331	83,029,488
2016	48,102,907	32,480,445	80,583,352
2017	47,705,000	30,379,103	78,084,103
2018-2022	222,760,000	122,079,577	344,839,577
2023-2027	224,420,955	72,836,908	297,257,863
2028-2032	137,600,000	28,011,878	165,611,878
2033-2037	44,585,000	5,947,705	50,532,705
2038-2042	5,190,000	493,030	5,683,030
Less:			
Deferral on			
Debt Defeasance	(11,692,000)	-	(11,692,000)
Add:			
Unamortized Premium	49,359,024	-	49,359,024
Total	<u>\$ 906,474,369</u>	<u>\$ 402,652,294</u>	<u>\$ 1,309,126,663</u>

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

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2013	\$ 23,557,379	\$ 60,854,606	\$ 84,411,985
2014	23,221,381	62,115,202	85,336,583
2015	26,655,503	61,159,064	87,814,567
2016	26,874,749	60,093,030	86,967,779
2017	21,249,125	59,023,213	80,272,338
2018-2022	109,403,843	282,657,225	392,061,068
2023-2027	128,355,000	262,811,382	391,166,382
2028-2032	157,195,000	242,866,779	400,061,779
2033-2037	287,674,000	222,083,302	509,757,302
2038-2042	720,715,000	100,456,313	821,171,313
Less:			
Deferral on			
Debt Defeasance	(14,123,688)	-	(14,123,688)
Add:			
Unamortized Premium	31,024,194	-	31,024,194
Total	<u>\$ 1,541,801,486</u>	<u>\$ 1,414,120,116</u>	<u>\$ 2,955,921,602</u>

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

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2013	\$ 131,585,000	\$ 106,342,488	\$ 237,927,488
2014	139,055,000	98,739,467	237,794,467
2015	149,885,000	92,429,254	242,314,254
2016	148,010,000	85,968,691	233,978,691
2017	154,275,000	79,597,925	233,872,925
2018-2022	634,790,000	306,827,277	941,617,277
2023-2027	586,435,000	169,857,733	756,292,733
2028-2032	382,650,000	42,388,776	425,038,776
Less:			
Deferral on			
Debt Defeasance	(14,320,300)	-	(14,320,300)
Add:			
Unamortized Premium	158,224,662	-	158,224,662
Total	<u>\$ 2,470,589,362</u>	<u>\$ 982,151,611</u>	<u>\$ 3,452,740,973</u>

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**

<i>Maturity</i>	<i>Principal</i>
2013	\$ 20,789,420
2014	35,342,526
2015	24,035,802
2016	27,859,614
2017	26,268,414
Thereafter	840,851,962
Total	<u>\$ 975,147,738</u>

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**

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2013	\$ 1,155,000	\$ 178,600	\$ 1,333,600
2014	1,220,000	91,744	1,311,744
Total	<u>\$ 2,375,000</u>	<u>\$ 270,344</u>	<u>\$ 2,645,344</u>

## Virginia Port Authority

The Virginia Port Authority (VPA) (nonmajor) has issued Section 9(d) revenue bonds and notes pursuant to powers provided to its board of commissioners by the *Code of Virginia*. The interest rates for these bonds range from 3.375 percent to 5.5 percent and the issuance dates range from July 23, 2002, to January 25, 2012. Series 2006A bonds were issued to advance refund \$22.9 million of outstanding Series 1996 bonds. Series 2010 bonds were issued to currently refund in full the outstanding principal amount of the Authority's Series 2009 Bond Anticipation Note. Series 2012 bonds were issued to currently refund in full the outstanding principal amount of the Authority's Commonwealth Port Fund Revenue Bonds and to pay all or a portion of the expenses incurred with respect to the issuance of the Series 2012 Bonds and the refunding of the Series 2002 Bonds. The following schedule details the annual funding requirements necessary to amortize VPA bonds.

### 9(d) VIRGINIA PORT AUTHORITY DEBT Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2013	\$ 12,935,000	\$ 23,433,923	\$ 36,368,923
2014	15,090,000	21,854,582	36,944,582
2015	15,580,000	21,369,260	36,949,260
2016	16,105,000	20,836,311	36,941,311
2017	16,515,000	20,261,559	36,776,559
2018-2022	84,605,000	92,102,370	176,707,370
2023-2027	103,450,000	73,246,997	176,696,997
2028-2032	103,075,000	49,677,388	152,752,388
2033-2037	123,450,000	23,339,450	146,789,450
2038-2042	17,095,000	2,189,000	19,284,000
Less:			
Deferral on Debt Defeasance	(969,200)	-	(969,200)
Add:			
Unamortized Premium	12,368,074	-	12,368,074
Total	\$ 519,298,874	\$ 348,310,840	\$ 867,609,714

## Virginia Housing Development Authority

The Virginia Housing Development Authority (VHDA) (major) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 0.184 percent to 8.18 percent and the origination dates range from January 9, 2001, to September 27, 2011. The following schedule details the annual funding requirements necessary to amortize these bonds.

### 9(d) VIRGINIA HOUSING DEVELOPMENT AUTHORITY BONDS Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2013	\$ 278,877,856	\$ 275,400,045	\$ 554,277,901
2014	271,400,000	264,007,815	535,407,815
2015	265,995,000	253,607,786	519,602,786
2016	265,070,000	242,861,950	507,931,950
2017	262,430,000	231,882,225	494,312,225
2018-2022	1,235,485,000	984,034,731	2,219,519,731
2023-2027	997,540,000	719,157,687	1,716,697,687
2028-2032	987,292,004	466,171,500	1,453,463,504
2033-2037	750,037,878	244,716,771	994,754,649
2038-2042	552,234,250	59,061,170	611,295,420
2043-2047	47,430,000	3,759,346	51,189,346
Add:			
Unamortized Premium	31,381,758	-	31,381,758
Total	\$ 5,945,173,746	\$ 3,744,661,026	\$ 9,689,834,772

## Virginia Resources Authority

The Virginia Resources Authority (VRA) (nonmajor) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 1.25 percent to 8.70 percent and the origination dates range from October 15, 1999, to June 13, 2012. The following schedule details the annual funding requirements necessary to amortize these bonds.

### 9(d) VIRGINIA RESOURCES AUTHORITY BONDS Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2013	\$ 113,711,100	\$ 141,892,119	\$ 255,603,219
2014	126,923,450	139,057,487	265,980,937
2015	134,475,000	133,784,088	268,259,088
2016	140,415,000	127,906,117	268,321,117
2017	154,405,000	121,446,747	275,851,747
2018-2022	754,830,000	501,663,009	1,256,493,009
2023-2027	713,105,000	329,971,357	1,043,076,357
2028-2032	588,515,000	166,100,268	754,615,268
2033-2037	281,375,000	59,876,341	341,251,341
2038-2042	112,330,000	14,535,534	126,865,534
2043-2047	9,870,000	223,425	10,093,425
Less:			
Unaccrued Capital Appreciation Bonds	(39,276,094)	-	(39,276,094)
Add:			
Unamortized Premium	188,948,095	-	188,948,095
Total	\$ 3,279,626,551	\$ 1,736,456,492	\$ 5,016,083,043

## Virginia Public School Authority

The Virginia Public School Authority (VPSA) (major) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 0.05 percent to 5.95 percent, and the origination dates range from December 21, 2001, to February 24, 2012. The following schedule details the annual funding requirements necessary to amortize these bonds. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth will receive a 100.0 percent interest subsidy to reimburse interest payments of \$204,759,508 for Qualified School Construction Bonds (QSCBs) issued. The QSCBs are applicable to Series 2010-1 and 2011-1 Revenue Bonds.

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

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2013	\$ 199,050,000	\$ 149,240,426	\$ 348,290,426
2014	218,820,000	140,149,301	358,969,301
2015	212,930,000	129,805,044	342,735,044
2016	211,914,060	119,515,757	331,429,817
2017	206,733,003	109,425,232	316,158,235
2018-2022	922,425,000	407,439,196	1,329,864,196
2023-2027	877,540,000	216,624,015	1,094,164,015
2028-2032	425,785,000	58,499,541	484,284,541
2033-2037	44,850,000	4,657,394	49,507,394
2038-2042	905,000	20,363	925,363
Less:			
Deferral on			
Debt Defeasance	(108,385,900)	-	(108,385,900)
Add:			
Unamortized Premium	165,517,693	-	165,517,693
Total	<u>\$ 3,378,083,856</u>	<u>\$ 1,335,376,269</u>	<u>\$ 4,713,460,125</u>

## Hampton Roads Sanitation District Commission

The Hampton Roads Sanitation District Commission (nonmajor) issued bonds under a Master Trust Indenture and a Trust Agreement dated December 1, 1993, and March 1, 2003. The interest cost for these bonds range from 2.38 percent to 5.86 percent. The following schedule details the annual funding requirements necessary to amortize these bonds.

### HAMPTON ROADS SANITATION DISTRICT COMMISSION Debt Service Requirements to Maturity

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2013	\$ 22,603,000	\$ 28,010,000	\$ 50,613,000
2014	24,029,000	27,027,000	51,056,000
2015	24,604,000	26,086,000	50,690,000
2016	24,143,000	25,163,000	49,306,000
2017	18,947,000	24,346,000	43,293,000
2018-2022	104,241,000	109,827,000	214,068,000
2023-2027	120,962,000	85,436,000	206,398,000
2028-2032	122,329,000	56,309,000	178,638,000
2033-2037	109,109,000	26,810,000	135,919,000
2038-2042	63,625,000	3,033,000	66,658,000
Add:			
Unamortized Premium	4,694,000	-	4,694,000
Total	<u>\$ 639,286,000</u>	<u>\$ 412,047,000</u>	<u>\$ 1,051,333,000</u>

## Virginia Biotechnology Research Partnership Authority

The Virginia Biotechnology Research Partnership Authority (nonmajor) consists of Series 2009 Commonwealth of Virginia Lease Revenue bonds. Coupon interest rates range from 3.0 percent to 6.4 percent.

### VIRGINIA BIOTECH RESEARCH PARTNERSHIP AUTHORITY Debt Service Requirements to Maturity

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2013	\$ 1,835,000	\$ 1,563,475	\$ 3,398,475
2014	3,270,000	1,486,900	4,756,900
2015	3,385,000	1,370,150	4,755,150
2016	3,525,000	1,231,950	4,756,950
2017	3,665,000	1,088,150	4,753,150
2018-2022	21,060,000	2,717,175	23,777,175
Less:			
Unamortized			
Discount	(559,836)	-	(559,836)
Deferral on			
Debt Defeasance	(2,439,409)	-	(2,439,409)
Add:			
Unamortized Premium	3,421,431	-	3,421,431
Total	<u>\$ 37,162,186</u>	<u>\$ 9,457,800</u>	<u>\$ 46,619,986</u>

Total principal outstanding at June 30, 2012, on all component unit bonds amounted to \$19.7 billion.

The following schedule summarizes the changes in long-term liabilities:

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

(Dollars in Thousands)

	Balance July 1, 2011	Issuances and Other Increases	Retirements and Other Decreases	Subtotal June 30, 2012
<b>Primary Government</b>				
<b>Governmental Activities:</b>				
<b>Long-term Debt Bearing the Pledge of the Full Faith and Credit of the Commonwealth:</b>				
General Obligation Bonds - 9(b) and 9(c):				
Public Facilities Bonds	\$ 873,489	\$ 71,065	\$ (159,637)	\$ 784,917
Parking Facilities Bonds	17,322	1,143	(1,900)	16,565
Transportation Facilities Bonds	25,685	-	(2,080)	23,605
Add: Unamortized Premium	60,358	16,781	(11,208)	65,931
Less: Deferral on Debt Defeasance	(16,480)	2,303	(3,100)	(17,277)
Total General Obligation Bonds	<u>960,374</u>	<u>91,292</u>	<u>(177,925)</u>	<u>873,741</u>
<b>Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:</b>				
Transportation Facilities Bonds	2,157,564	1,072,340	(344,838)	2,885,066
Virginia Public Building Authority Bonds	2,320,885	370,915	(249,015)	2,442,785
Regional Jails Financing Payable	4,617	-	(1,869)	2,748
Economic Development Authority Obligations	82,775	-	(3,875)	78,900
Add: Unamortized Premium	231,325	200,587	(44,544)	387,368
Accretion on Capital Appreciation Bonds	19,865	-	(3,526)	16,339
Less: Unamortized Discount	(115)	5	-	(110)
Deferral on Debt Defeasance	(24,708)	17,092	(17,537)	(25,153)
Installment Purchase Obligations (3)	101,014	34,373	(20,428)	114,959
Notes Payable - Transportation	8,000	-	-	8,000
Notes Payable - Aviation	1,336	-	(286)	1,050
Notes Payable - Tax Refund	60,959	-	(20,320)	40,639
Compensated Absences	311,523	6,785	(3,132)	315,176
Capital Lease Obligations	87,219	1,136	(10,955)	77,400
Pension Liability	1,405,714	255,054	-	1,660,768
OPEB Liability	301,771	105,198	-	406,969
Pollution Remediation Liability	4,772	652	(253)	5,171
Other	24,308	7,893	(4,554)	27,647
Total Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth	<u>7,098,824</u>	<u>2,072,030</u>	<u>(725,132)</u>	<u>8,445,722</u>
<b>Total Governmental Activities</b>	<u>8,059,198</u>	<u>2,163,322</u>	<u>(903,057)</u>	<u>9,319,463</u>
<b>Business-type Activities:</b>				
<b>Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:</b>				
Capital Lease Obligations	918	-	(469)	449
Compensated Absences	9,044	2,310	(2,087)	9,267
Pension Liability	34,054	8,195	-	42,249
OPEB Liability	9,099	3,652	-	12,751
Lottery Prizes Payable	216,408	9,588	(31,515)	194,481
Tuition Benefits Payable	2,215,261	93,316	(133,281)	2,175,296
<b>Total Business-type Activities</b>	<u>2,484,784</u>	<u>117,061</u>	<u>(167,352)</u>	<u>2,434,493</u>
<b>Total Primary Government</b>	<u>\$ 10,543,982</u>	<u>\$ 2,280,383</u>	<u>\$ (1,070,409)</u>	<u>\$ 11,753,956</u>

<u>Foundations (5)</u>	<u>Balance June 30, 2012</u>	<u>Due Within One Year</u>
\$ -	\$ 784,917	\$ 71,067
-	16,565	756
-	23,605	2,185
-	65,931	-
-	(17,277)	-
-	<u>873,741</u>	<u>74,008</u>
-	2,885,066	203,025
-	2,442,785	182,830
-	2,748	1,911
-	78,900	4,070
-	387,368	-
-	16,339	-
-	(110)	-
-	(25,153)	-
-	114,959	9,342
-	8,000	-
-	1,050	286
-	40,639	20,320
-	315,176	143,967
-	77,400	10,564
-	1,660,768	-
-	406,969	-
-	5,171	2,591
-	27,647	4,000
-	<u>8,445,722</u>	<u>582,906</u>
-	<u>9,319,463</u>	<u>656,914</u>
-	449	449
-	9,267	4,994
-	42,249	-
-	12,751	-
-	194,481	35,670
-	2,175,296	192,471
-	<u>2,434,493</u>	<u>233,584</u>
<u>\$ -</u>	<u>\$ 11,753,956</u>	<u>\$ 890,498</u>

*Continued on next page*

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

*(continued)*

*(Dollars in Thousands)*

	<b>Balance July 1, 2011 as restated (6)</b>	<b>Issuances and Other Increases</b>	<b>Retirements and Other Decreases</b>	<b>Subtotal June 30, 2012</b>
<b>Component Units</b>				
<b>Long-term Debt Bearing the Pledge of the Full Faith and Credit of the Commonwealth:</b>				
General Obligation Bonds - Higher Education 9(c) (4)	\$ 765,280	\$ 212,778	\$ (71,584)	\$ 906,474
<b>Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:</b>				
Bonds (4)	16,834,461	3,426,546	(2,447,609)	17,813,398
Installment Purchase Obligations	118,277	1,291	(19,407)	100,161
Capital Lease Obligations	99,569	-	(8,403)	91,166
Notes Payable	2,403,627	980,915	(1,314,390)	2,070,152
Compensated Absences	248,148	234,662	(228,965)	253,845
Pension Liability	644,481	144,525	(3,534)	785,472
OPEB Liability	342,066	128,618	(23)	470,661
Trust and Annuity Obligations	2,376	132	-	2,508
Other	335,307	837,380	(879,282)	293,405
<b>Total Component Units</b>	<u>\$ 21,793,592</u>	<u>\$ 5,966,847</u>	<u>\$ (4,973,197)</u>	<u>\$ 22,787,242</u>

Note (1) Pursuant to GASB Statement No. 34, governmental activities include internal service funds. Business-type activities are considered enterprise funds.

Note (2) Payments on bonded debt that pertain to the Commonwealth's governmental activities are made through the debt service funds. Payments for installment purchases, compensated absences, capital leases, pension, and other obligations that pertain to the Commonwealth's governmental activities are made through the general and special revenue funds. Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for these funds are included as part of the total for governmental activities. Enterprise funds, or business-type activities, are self-supporting funds. Accordingly, long-term liabilities are paid from each respective fund.

Note (3) Included in the installment purchase obligation is \$17.4 million for which the property management fund (internal service) is contractually obligated for which there is no offsetting internal service fund asset. Accordingly, this activity is excluded from the Noncash Investing, Capital, and Financing Activities reported on page 61.

Note (4) Amounts are net of any unamortized discounts, premiums, and deferrals.

Note (5) Foundations represent FASB reporting entities defined in Note 1.B.

Note (6) Beginning balances have been restated by \$19,950 (dollars in thousands) for the University of Virginia (major component unit) due to the elimination of an intrafund capital lease with its foundation.

## Bond Defeasance

### Primary Government

On February 23, 2012, the Virginia Public Building Authority issued \$72,415,000 of Series 2012A Public Facilities Revenue refunding bonds. The bonds refunded were \$48,285,000 of Series 2004B and \$31,390,000 of Series 2005C Public Facilities Revenue Bonds. The net proceeds from the sale of the refunding bonds of \$89,956,103 were deposited in an irrevocable trust with an escrow agent to provide for all future debt service on the defeased bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$7,431,355. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt which is shorter than the life of the new debt issued. Total debt service payments over the next 13 years will be reduced by \$11,183,480 resulting in an economic gain of \$9,832,709 discounted at the rate of 1.724 percent.

On February 23, 2012, the Commonwealth Transportation Board of the Commonwealth of Virginia issued \$86,430,000 in Transportation Revenue Refunding Bonds Series 2012A and \$37,700,000 in Transportation Revenue Refunding Bonds Series 2012B with a varying interest rate of 2 to 5 percent. The bonds that were refunded with the Series 2001A Transportation Refunding Bonds include \$15,380,000. The bonds that were refunded with the Series 2001B Transportation Refunding Bonds include \$3,565,000. The bonds that were refunded with the Series 2002A Transportation Refunding Bonds include \$81,130,000. The bonds that were refunded with the Series 2002B Transportation Refunding Bonds include \$36,640,000. The net proceeds from the sale of the Refunding Bonds of \$141,299,388 (after payment of underwriter's fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service and redemption premiums on the refunded bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$3,305,298. This amount is being netted against the new debt and amortized over the remaining life the refunded debt or the new debt, whichever is shorter. Total debt service payments will be reduced by \$24,741,687 resulting in an economic gain of \$25,860,645, discounted at a rate of 1.33 percent.

On March 7, 2012, the Commonwealth issued \$95,490,000 General Obligation Refunding Bonds, Series 2012A, pursuant to Sections 9(b) and 9(c) of Article X of the *Constitution of Virginia*, with a true interest cost (TIC) of 1.58 percent to refund \$108,035,000 of certain outstanding bonds. The bonds that were refunded include \$14,385,000 of outstanding Higher Education Institution Refunding Bonds, Series 2002, \$1,065,000 of Higher Education Institution Bonds, Series 2002A, \$3,910,000 of Higher Education Institution Bonds, Series 2004A, \$6,600,000 of Higher Education Institution Bonds, Series 2005A, \$19,910,000 of Public Facilities Refunding Bonds, Series 2002, \$25,235,000 of Public Facilities Bonds, Series 2003A, \$24,190,000 of Public Facilities Bonds, Series 2004A, \$11,580,000 of Public Facilities Bonds, Series 2005A, \$95,000 of Parking Facilities Refunding Bonds, Series

Foundations (5)	Balance June 30, 2012	Due Within One Year
\$ -	\$ 906,474	\$ 47,343
975,148	18,788,546	860,523
-	100,161	16,217
432	91,598	5,490
211,556	2,281,708	260,476
8,382	262,227	181,270
98,259	883,731	-
30	470,691	-
72,630	75,138	2,822
204,010	497,415	107,079
<u>\$ 1,570,447</u>	<u>\$ 24,357,689</u>	<u>\$ 1,481,220</u>

2002, and \$1,065,000 of Parking Facilities Bonds, Series 2004A. The net proceeds from the sale of the Refunding Bonds of \$116,184,421 (after payment of underwriter's fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service and redemption premiums on the refunded bonds. The debt defeasance resulted in an accounting loss of \$3,310,000. It will, however, reduce total debt service payments over the next 14 years by \$13,153,182 resulting in an economic gain of \$12,700,398 discounted at the rate of 1.56 percent.

On May 23, 2012, the Commonwealth Transportation Board of the Commonwealth of Virginia issued \$50,620,000 in Transportation Contract Revenue Refunding Bonds Series 2012 with a varying interest rate of 2.0 to 5.0 percent. The bonds that were refunded with the Series 2002 CIB Transportation Refunding Bonds include \$9,608,396. The bonds that were refunded with the Series 2002 CAB Transportation Refunding Bonds include \$38,390,000. The net proceeds from the sale of the Refunding Bonds of \$55,024,253 (after payment of underwriter's fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service and redemption premiums on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$6,800,759. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt or the new debt, whichever is shorter. Total debt service payments will be reduced by \$20,107,139 resulting in an economic gain of \$12,297,449 discounted at a rate of 2.72 percent.

### **Component Units**

On October 12, 2011, the University of Virginia (major) issued \$4,691,000 of Taxable Commercial Paper and on October 13, 2011, issued Series 2011 Bonds of \$73,950,000 to advance refund \$82,215,000 of Series 2003B Bonds. The advance refunding reduced the aggregate debt service by \$12,435,451 resulting an economic gain of \$8,589,746 and an accounting loss of \$7,993,477 discounted at the rate of 3.33 percent.

In March 2012, the Virginia College Building Authority (nonmajor) issued \$164,475,000 of Series 2012A Pooled Bond Program refunding bonds. The bonds refunded were \$50,695,000 of series 2003A, \$66,495,000 of series 2004A, and \$56,255,000 of series 2005A Pooled Bond Program bonds. The net proceeds from the sale of the refunding bonds of \$193,140,527 were deposited in irrevocable trusts with escrow agents to provide for all future debt service on the defeased bonds. This defeasance resulted in an accounting loss of \$17,579,000. Total debt service payments over the next 19 years will be reduced by \$19,384,966 resulting in an economic gain of \$16,245,212 discounted at the rate of 2.09 percent.

In March 2012, the Virginia Public School Authority (major) issued \$282,230,000 of Series 2012A refunding

bonds ("Refunding Bonds"). The bonds refunded were \$7,595,000 of series 2001B, \$14,830,000 of series 2003A bonds, \$24,625,000 of series 2004A, \$54,330,000 of series 2004B, \$79,810,000 of series 2005C, and \$118,490,000 of series 2005D. The net proceeds of \$337,082,264 from the sale of the Refunding Bonds were placed with an escrow agent to provide for all future debt service on the defeased bonds. This defeasance resulted in an accounting loss of \$37,402,000. Total debt service payments over the next 19 years will be reduced by \$22,210,383 resulting in an economic gain of \$21,973,019 discounted at the rate of 2.08 percent.

GASB Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt*, provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of June 30, 2012, there were \$334.9 million in bonds from the primary government that have been refunded and defeased in-substance from the governmental activities column by placing existing assets and the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments. In addition, there were \$1.2 billion in bonds outstanding considered defeased from the component units.

### **Arbitrage Rebate**

The Tax Reform Act of 1986 requires that governmental entities issuing tax-exempt debt subsequent to August 1986 calculate and rebate arbitrage earnings to the federal government. The U.S. Treasury has issued regulations on calculating the rebate amount and complying with the provisions of the Tax Reform Act of 1986. Governmental issuers must comply with the rebate regulations in order for their bonds to maintain tax-exempt status. The regulations require the excess of the aggregate amount earned on investments purchased with bond proceeds over the amount that would have been earned if the proceeds were invested at a rate equal to the bond yield, to be rebated to the federal government. Income earned on excess earnings is also subject to rebate. Rebate liability, if any, must be paid every five years over the life of the bonds. Governmental issuers may elect to pay a penalty in lieu of rebate. Some bonds may be exempt from the rebate requirements if they qualify for certain regulatory exceptions. If the issuer meets one of the exceptions, the issuer retains any arbitrage earnings. Rebate and penalty payments are calculated and paid as required by law on bond issues that do not qualify for an exception.

Although rebatable arbitrage need only be calculated for tax purposes every fifth year that debt is outstanding, and consistent with modified accrual basis of accounting, is not recognized as a liability in governmental funds until amounts actually become due and payable, a liability is recognized in accrual basis government-wide statements as soon as the underlying event has occurred. Accordingly, as of June 30, 2012, the Commonwealth has recognized a government-wide liability of \$1.2 million and the Virginia Resources Authority (nonmajor component unit) has recognized a liability of \$3.1 million.

Amounts remitted to the federal government for rebate liability are generally paid from earnings derived from the issue. However, if all proceeds (including earnings) have been expended and depending on the type of issue, it may be necessary to use project revenues or general or nongeneral fund appropriations to satisfy any rebate liability. During fiscal year 2012, a rebate payment in the amount of \$1.4 million was made on the Commonwealth's Series 2006B General Obligation Bonds. No rebate payments were owed on bonds of the Virginia Public Building Authority, Commonwealth Transportation Board, or the Virginia College Building Authority 21<sup>st</sup> Century or Pooled Bond Programs.

Rebate liability on bonds of the Virginia Public School Authority (major component unit) is payable from earnings on related bond funds and from local issuers whose local school bonds were purchased by the VPSA. During the year, \$972,263 was paid to the federal government for rebate on various VPSA school financing bonds.

### Capital Leases

The Commonwealth leases buildings and equipment under various agreements that are accounted for as capital leases. The lease agreements are for various terms and all leases contain nonappropriation clauses indicating that continuation of the lease is subject to funding by the General Assembly.

Gross minimum lease payments, together with the present value of the net minimum lease payments as of June 30, 2012, are shown in the following table (dollars in thousands).

	Governmental Activities	Business-Type Activities	Component Units (1)
2013	\$ 15,614	\$ 588	\$ 8,623
2014	16,031	-	8,566
2015	15,725	-	8,071
2016	15,559	-	7,985
2017	8,545	-	6,316
2018-2022	29,432	-	29,002
2023-2027	1,618	-	25,704
2028-2032	-	-	25,245
2033-2037	-	-	5,403
2038-2042	-	-	1,557
2043-2047	-	-	622
2048-2052	-	-	1,157
Total Gross Minimum Lease Payments	102,524	588	128,251
Less: Amount Representing Executory Costs	(7,325)	-	-
Net Minimum Lease Payments	95,199	588	128,251
Less: Amount Representing Interest	(17,799)	(139)	(37,085)
Present Value of Net Minimum Lease Payments	\$ 77,400	\$ 449	\$ 91,166

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

	Foundations (2)
2013	\$ 117
2014	115
2015	95
2016	86
2017	27
Net Minimum Lease Payments	440
Less: Amount Representing Interest	(8)
Present Value of Net Minimum Lease Payments	\$ 432

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

At June 30, 2012, assets purchased under capital leases were included in depreciable capital assets as follows (dollars in thousands). The amounts are net of accumulated depreciation where applicable. For a portion of these assets, ownership will pass to the Commonwealth at the end of the lease term.

	Buildings	Equipment	Total
<b>Governmental Activities:</b>			
Gross Capital Assets	\$ 170,559	\$ 3,529	\$ 174,088
Less: Accumulated Depreciation	(64,854)	(845)	(65,699)
<b>Total Governmental Activities</b>	<b>\$ 105,705</b>	<b>\$ 2,684</b>	<b>\$ 108,389</b>
<b>Business-Type Activities:</b>			
Gross Capital Assets	\$ 2,347	\$ -	\$ 2,347
Less: Accumulated Depreciation	(225)	-	(225)
<b>Total Business-Type Activities</b>	<b>\$ 2,122</b>	<b>\$ -</b>	<b>\$ 2,122</b>
<b>Component Units:</b>			
Gross Capital Assets	\$ 165,267	\$ 1,705	\$ 166,972
Less: Accumulated Depreciation	(41,388)	(1,701)	(43,089)
Subtotal (excluding Foundations)	123,879	4	123,883
Foundations:			
Gross Capital Assets	-	458	458
Less: Accumulated Depreciation	-	(58)	(58)
Subtotal Foundations	-	400	400
<b>Total Component Units (3)</b>	<b>\$ 123,879</b>	<b>\$ 404</b>	<b>\$ 124,283</b>

Note (3): Land purchased under capital leases by the University of Virginia (major) is \$8,095 (dollars in thousands).

## Notes Payable

Notes Payable consist of several items as shown in the following schedule (dollars in thousands):

<b>Primary Government</b>	
Transportation Note	\$ 8,000
Aviation Note	1,050
Installment Notes	114,959
Tax Refund Note	40,639
<b>Total Primary Government</b>	<u>164,648</u>
<b>Component Units</b>	
Virginia Public School Authority	161,170
Virginia Housing Development Authority	109,500
University of Virginia	45,771
Virginia Polytechnic Institute and State University	237,691
Virginia Commonwealth University	299,784
Nonmajor Component Units	1,216,236
Installment Notes	100,161
Subtotal (excluding Foundations)	<u>2,170,313</u>
Foundations:	
Notes Payable	211,556
Subtotal - Foundations	<u>211,556</u>
<b>Total Component Units</b>	<u>2,381,869</u>
<b>Total Notes Payable</b>	<u>\$ 2,546,517</u>

The Transportation (primary government) Note represents an interest free note payable to Chesterfield County, Virginia, of \$8,000,000 for the repayment of the Powhite Parkway Extension Toll Road from surplus net revenues of the project prior to the retirement of all the bonds issued.

The Aviation (primary government) Note represents a loan agreement with the Virginia Resources Authority (nonmajor component unit) with an outstanding balance of \$1,050,000. The purpose of the loan was to finance and refinance grants-in-aid made to the Peninsula Airport Commission to provide funding for capital improvements at the Newport News/Williamsburg International Airport. The principal amount shall be paid semi-annually with the final payment due in 2017.

The Tax Refund (primary government) Note of \$40,639,103 is owed to a taxpayer and will be paid in four annual installments. Variable interest not to exceed 4.0 percent will be included in the annual payments.

The Virginia Public School Authority (major component unit) notes of \$161,170,000 are for the School Equipment Financing Notes Educational Technology program. The note proceeds were used to make grants to school divisions for the purchase of educational technology equipment. The notes will be repaid from appropriations to be made by the Virginia General Assembly from the Literary Fund (major special revenue fund).

The Virginia Housing Development Authority (major component unit) has notes payable of \$109,500,000 representing a credit agreement with the Federal Home Loan Bank of Atlanta. The proceeds along with the bond proceeds are used to make mortgage loans.

The Virginia Resources Authority (nonmajor component unit) notes of \$4,094,949 are Equipment and Term Financing loans.

The Virginia Biotechnology Research Partnership Authority (nonmajor component unit) has notes payable in the amount of \$1,853,437 used for refunding the 1998 bonds issued for BioTech One, making tenant improvements to BioTech Six and purchasing two pieces of land.

An additional amount of \$1,793,534,000 is comprised primarily of higher education (component unit) promissory notes with the Virginia College Building Authority (VCBA) (nonmajor component unit) to finance the construction of various higher education facilities. The VCBA principal amount net of unamortized accruals is as follows: University of Virginia (major component unit) \$45,517,595; Virginia Polytechnic Institute and State University (major component unit) \$237,691,223; Virginia Commonwealth University (major component unit) \$299,664,357; and nonmajor component units \$1,207,870,019. Interest rates range from 2.1 percent to 5.75 percent and shall be paid semi-annually. The final principal payment is due in 2041.

The higher education institutions (component units) also have notes payable. The University of Virginia (major component unit) has notes payable of \$253,000 for a GPS system and software. The Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University – major component unit) has a notes payable of \$119,390 regarding a parking deck. Virginia State University (nonmajor component unit) has a note payable of \$1,496,539, which is the result of a loan agreement with the U.S. Department of Housing and Urban Development to repair seven dormitories. The loan is to be repaid over 30 years at 3.0 percent interest per annum, and is secured by a lien on the net revenues from the ownership, operation, and use of the seven dormitories under repair. The Radford University Property Acquisition Corporation (blended component unit of Radford University – nonmajor component unit) has a notes payable of \$922,153 to purchase land and a building. The terms include an interest rate of 5.53 percent, payable in monthly installments with a final payment in 2022.

Various foundations (component units) have notes outstanding as of year-end. The purpose of a majority of these notes is for property acquisition, working capital, and construction. Future principal payments as of June 30, 2012, are shown in the following table (dollars in thousands).

<b>Foundations' Notes Payable (Component Units) (1)</b>	
June 30, 2012	
<b>Maturity</b>	<b>Principal</b>
2013	\$ 9,395
2014	33,903
2015	35,915
2016	4,856
2017	64,869
Thereafter	62,618
<b>Total</b>	<b>\$ 211,556</b>

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

Installment purchase obligations have been entered into by agencies and institutions of the Commonwealth. These agreements, other than those in the component units and certain institutions of higher education, contain nonappropriation clauses indicating that continuation of the installment purchase obligations is subject to funding by the General Assembly. Installment purchase obligations represent \$215,120,511 of the total outstanding debt of the Commonwealth. Presented in the following tables are repayment schedules for installment purchase obligations.

<b>Installment Purchase Obligations - Governmental Funds</b>			
June 30, 2012			
<b>Maturity</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	\$ 9,342,780	\$ 4,109,641	\$ 13,452,421
2014	9,969,300	3,768,894	13,738,194
2015	10,296,157	3,434,361	13,730,518
2016	10,574,487	3,087,897	13,662,384
2017	10,165,037	2,732,544	12,897,581
2018-2022	40,760,474	8,756,571	49,517,045
2023-2027	23,845,604	2,023,277	25,868,881
2028-2032	5,278	8	5,286
<b>Total</b>	<b>\$ 114,959,117</b>	<b>\$ 27,913,193</b>	<b>\$ 142,872,310</b>

<b>Installment Purchase Obligations - Component Units</b>			
June 30, 2012			
<b>Maturity</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	\$ 16,216,708	\$ 3,028,617	\$ 19,245,325
2014	16,238,381	2,616,314	18,854,695
2015	13,672,046	2,146,824	15,818,870
2016	10,662,120	1,736,313	12,398,433
2017	10,422,117	1,408,085	11,830,202
2018-2022	28,626,370	2,964,147	31,590,517
2023-2027	4,323,652	389,485	4,713,137
<b>Total</b>	<b>\$ 100,161,394</b>	<b>\$ 14,289,785</b>	<b>\$ 114,451,179</b>

The various foundations (component units) had no installment purchase obligations as of June 30, 2012.

## Lottery Prizes Payable

Lottery prizes are paid in 20, 25, 26, or 30 installments. The first installment is paid on the day the prize is claimed. The subsequent annual payments are funded with U.S. Treasury STRIPS purchased by the Virginia Lottery. For Life prizes payable represent estimated prizes payable monthly, quarterly or annually for the life of the winner based on life expectancy tables from the Virginia Bureau of Insurance, and funded with a pool of U.S. Treasury STRIPS.

Lottery prizes payable represent the future annual prize payments valued at cost plus accrued interest (present value of securities held to maturity) of the investment securities funding the payments.

Lottery prizes payable for the fiscal year ended June 30, 2012, are shown in the following table:

	<u>Jackpot</u>	<u>Win For Life</u>	<u>Total</u>
Due within one year	\$ 31,065,238	\$ 4,604,416	\$ 35,669,654
Due in subsequent years	<u>98,068,581</u>	<u>60,742,182</u>	<u>158,810,763</u>
Total (present value)	129,133,819	65,346,598	194,480,417
Add:			
Interest to Maturity	<u>42,196,181</u>	<u>40,564,402</u>	<u>82,760,583</u>
Lottery Prizes Payable at Maturity	<u>\$ 171,330,000</u>	<u>\$ 105,911,000</u>	<u>\$ 277,241,000</u>

## Tuition Benefits Payable

The Virginia College Savings Plan administers the Virginia Prepaid Education Program (VPEP). VPEP offers contracts which, for actuarially determined amounts, provide for guaranteed full future tuition payments at state higher education institutions. The contract provisions also allow the benefits to be used for private or out-of-state institutions at a prorated amount based upon the amounts charged by the state's higher education institutions.

At June 30, 2012, tuition benefits payable of \$2.2 billion have been recorded for the VPEP program on the balance sheet for the actuarially determined present value of future obligations anticipated for payment of benefits and administrative expenses for the VPEP program. In addition, a receivable in the amount of \$244.8 million has been recorded to reflect the actuarially determined present value of future payments anticipated from contract holders.

## 26. OTHER REVENUE

The following table (dollars in thousands) summarizes Other Revenue for the fiscal year ended June 30, 2012.

	Assessments and Receipts for Support of Special Services	Fines, Forfeitures, Court Fees, Penalties, and Escheats	Receipts from Cities, Counties, and Towns	Private Gifts, Grants, and Contracts	Sales of Property
<b>Primary Government:</b>					
General	\$ 2,548	\$ 218,784	\$ 16,209	\$ 648	\$ 30,188
Major Special Revenue Funds:					
Commonwealth Transportation	17,874	11,195	22,220	22,422	2,368
Federal Trust	-	735	-	217	370
Literary	-	65,570	-	8	-
Nonmajor Governmental Funds	99,796	52,452	65,475	8,876	7,937
Major Enterprise Funds:					
Virginia College Savings Plan	-	-	-	-	-
Nonmajor Enterprise Funds	-	12,979	-	-	-
Internal Service Funds	-	-	-	-	-
Pension and Other Employee Benefit Trust	-	-	-	-	-
Total Primary Government	<u>\$ 120,218</u>	<u>\$ 361,715</u>	<u>\$ 103,904</u>	<u>\$ 32,171</u>	<u>\$ 40,863</u>

	Tobacco Master Settlement	Taxes	E-Z Pass	Other (1)	Total Other Revenue
<b>Primary Government:</b>					
General	\$ 49,136	\$ -	\$ -	\$ 267,845	\$ 585,358
Major Special Revenue Funds:					
Commonwealth Transportation	-	-	9,724	4,599	90,402
Federal Trust	-	-	-	120,778	122,100
Literary	-	-	-	77,293	142,871
Nonmajor Governmental Funds	-	-	-	161,676	396,212
Major Enterprise Funds:					
Virginia College Savings Plan	-	-	-	18	18
Nonmajor Enterprise Funds	-	3,498	-	932	17,409
Internal Service Funds	-	-	-	1	1
Pension and Other Employee Benefit Trust	-	-	-	4,568	4,568
Total Primary Government	<u>\$ 49,136</u>	<u>\$ 3,498</u>	<u>\$ 9,724</u>	<u>\$ 637,710</u>	<u>\$ 1,358,939</u>

Note (1): \$75,000 (dollars in thousands) of the total amount recorded for the Literary fund is related to unclaimed property.

## 27. PRIZES AND CLAIMS

The following table summarizes Prizes and Claims Expense for the fiscal year ended June 30, 2012.

*(Dollars in Thousands)*

	<b>Insurance Claims</b>	<b>Lottery Prize Expense</b>	<b>Total Prizes and Claims</b>
<b>Proprietary Funds:</b>			
Major Enterprise Funds:			
State Lottery	\$ -	\$ 950,628	\$ 950,628
Unemployment Compensation	637,955	-	637,955
Nonmajor Enterprise Funds	261,814	-	261,814
Total Enterprise Funds	<u>\$ 899,769</u>	<u>\$ 950,628</u>	<u>\$ 1,850,397</u>
Internal Service Funds	<u>\$ 1,219,077</u>	<u>\$ -</u>	<u>\$ 1,219,077</u>

## 28. OTHER EXPENSES

The following table summarizes Other Expenses for the fiscal year ended June 30, 2012.

*(Dollars in Thousands)*

	<b>Grants and Distributions To Localities</b>	<b>Expendable Equipment/ Improvements</b>	<b>Other (1)</b>	<b>Total Other Expenses</b>
<b>Proprietary Funds:</b>				
Major Enterprise Funds:				
Virginia College Savings Plan	\$ -	\$ 445	\$ 2,006	\$ 2,451
Nonmajor Enterprise Funds	119	2,823	821	3,763
Total Enterprise Funds	<u>\$ 119</u>	<u>\$ 3,268</u>	<u>\$ 2,827</u>	<u>\$ 6,214</u>
Internal Service Funds	<u>\$ 1,660</u>	<u>\$ 3,779</u>	<u>\$ 6,886</u>	<u>\$ 12,325</u>
Pension and Other Employee Benefit Trust (2)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,406</u>	<u>\$ 1,406</u>

Note (1): \$5,851 (dollars in thousands) can be attributed to expenses related to closing cases in the Risk Management internal service fund. \$2,006 (dollars in thousands) can be attributed to the SOAR scholarship program for Virginia College Savings Plan Fund.

Note (2): Fiduciary expenses of \$1,406 (dollars in thousands) are not included in the Government-wide Statement of Activities.

## 29. OTHER NON-OPERATING REVENUE/EXPENSES

The following table summarizes Other Non-Operating Revenue/Expenses for the fiscal year ended June 30, 2012.

*(Dollars in Thousands)*

	<b>Loss on Sale of Capital Assets</b>	<b>Expenses for Securities Lending Transactions</b>	<b>Interest Expense</b>	<b>Federal Unemployment Tax Act</b>	<b>Other (1)</b>	<b>Total Other Non- Operating Revenue/ (Expenses)</b>
<b>Proprietary Funds:</b>						
Major Enterprise Funds:						
State Lottery	\$ -	\$ (398)	\$ -	\$ -	\$ 357	\$ (41)
Virginia College Savings Plan	-	-	(106)	-	-	(106)
Unemployment Compensation	-	-	-	68,079	-	68,079
Nonmajor Enterprise Funds	-	(1)	-	-	9,196	9,195
Total Enterprise Funds	<u>\$ -</u>	<u>\$ (399)</u>	<u>\$ (106)</u>	<u>\$ 68,079</u>	<u>\$ 9,553</u>	<u>\$ 77,127</u>
Internal Service Funds	<u>\$ (270)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,298)</u>	<u>\$ (2,568)</u>

Note (1): Other Non-Operating Revenue/Expenses of the nonmajor enterprise funds are comprised of \$9,196 reported by the Department of Alcoholic Beverage Control.

### 30. TRANSFERS

The following table summarizes Transfers In and Transfers Out for the fiscal year ended June 30, 2012 (dollars in thousands).

<b>Transfers In (Reported In):</b>					
<b>Transfers Out (Reported In):</b>	<b>General</b>	<b>Commonwealth Transportation</b>	<b>Federal Trust</b>	<b>Literary</b>	<b>Nonmajor Governmental Funds</b>
<b>Primary Government</b>					
General	\$ -	\$ 194,984	\$ 110	\$ -	\$ 420,855
Major Special Revenue Funds:					
Commonwealth Transportation	28,847	-	1,227	-	278,319
Federal Trust	798	9,114	-	-	11,053
Nonmajor Governmental Funds	146,703	-	17	400	1,760
Major Enterprise Funds:					
State Lottery	487,953	-	-	11,298	-
Virginia College Savings Plan	679	-	-	-	-
Unemployment Compensation	-	-	10,361	-	-
Nonmajor Enterprise Funds	144,654	-	-	1	15,659
Internal Service Funds	3,809	-	758	-	-
<b>Total Primary Government</b>	<b>\$ 813,443</b>	<b>\$ 204,098</b>	<b>\$ 12,473</b>	<b>\$ 11,699</b>	<b>\$ 727,646</b>

Transfers are used to (1) move revenues from the fund that the *Code of Virginia* or budget requires to collect them to the fund that the *Code of Virginia* or budget requires to expend them; (2) move receipts restricted for debt service from the funds holding the resources to the debt service fund as principal and interest payments become due; (3) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; and (4) reimburse the General Fund for expenses incurred on behalf of nongeneral funds.

During the fiscal year, the following significant transfers were made that do not occur on a routine basis or are inconsistent with the activities of the fund making the transfer.

- Various nongeneral funds transferred approximately \$114.3 million to the General Fund as required by Chapter 2, 2012 Acts of Assembly.
- The Department of Motor Vehicles transferred certain fees of approximately \$7.4 million to the General Fund as required by Chapter 2, 2012 Acts of Assembly.

Nonmajor Enterprise Funds	Internal Service Funds	Total Primary Government
\$ 185	\$ -	\$ 616,134
-	363	308,756
74	82	21,121
1,843	-	150,723
-	-	499,251
-	-	679
-	-	10,361
-	-	160,314
-	-	4,567
<u>\$ 2,102</u>	<u>\$ 445</u>	<u>\$ 1,771,906</u>

### 31. ON-BEHALF PAYMENTS

Higher education institutions (component units) received various on-behalf payments from foundations primarily for salary supplements and stipends during fiscal year 2012. Since the foundations are included as part of the higher education entity, the on-behalf payments were considered intrafund and were eliminated from the financial statements.

### 32. ENDOWMENTS

Donor restricted endowments reside primarily within the higher education institutions. The net appreciation available for expenditure is \$1.0 billion. Of this amount, \$1.0 million is reported as unrestricted net assets and the remainder is reported as restricted net assets. The *Code of Virginia* authorizes acceptance of donations. The governing boards of these entities and the donor agreements determine whether net appreciation can be spent and the accepted spending rate. These policies are entity specific and vary with each institution.

### 33. CASH FLOWS – ADDITIONAL DETAILED INFORMATION

The following table (dollars in thousands) summarizes specific cash flows for the fiscal year ended June 30, 2012.

	State Lottery	Virginia College Savings Plan	Unemployment Compensation	Nonmajor Enterprise Funds
Cash Flows Resulting from:				
Payments for Prizes, Claims, and Loss Control:				
Lottery Prizes	\$ (994,554)	\$ -	\$ -	\$ -
Claims and Loss Control	-	-	(639,541)	(244,227)
Total	<u>\$ (994,554)</u>	<u>\$ -</u>	<u>\$ (639,541)</u>	<u>\$ (244,227)</u>
Other Operating Revenue:				
Other Operating Revenue	\$ -	\$ -	\$ -	\$ 3,087
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,087</u>
Other Operating Expense:				
Other Operating Expenses (1)	\$ -	\$ (2,006)	\$ -	\$ (1,840)
Total	<u>\$ -</u>	<u>\$ (2,006)</u>	<u>\$ -</u>	<u>\$ (1,840)</u>
Other Noncapital Financing Receipt Activities:				
Advances/Contributions from the Commonwealth	\$ -	\$ -	\$ -	\$ 28,489
Receipts from Taxes	-	-	61,774	184,065
Other Noncapital Financing Receipt Activities (2)	328	-	263,599	248
Total	<u>\$ 328</u>	<u>\$ -</u>	<u>\$ 325,373</u>	<u>\$ 212,802</u>
Other Noncapital Financing Disbursement Activities:				
Repayments of Advances/Contributions from the Commonwealth	\$ -	\$ -	\$ -	\$ (29,468)
Other Noncapital Financing Disbursement Activities (3)	-	-	(445,818)	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (445,818)</u>	<u>\$ (29,468)</u>
Other Capital and Related Financing Disbursement Activities				
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Note (1): \$2,006 (dollars in thousands) can be attributed to disbursements related to Virginia College Savings Plan for the SOAR scholarship. Also, \$5,851 (dollars in thousands) can be attributed to disbursements related to closing cases in the Risk Management internal service fund.

Note (2): \$263,599 (dollars in thousands) can be attributed to Federal repayable advances under Title XII of the Social Security Act. Also, \$17,385 (dollars in thousands) can be attributed to the Property Management internal service fund related to energy performance contracts where the asset is retained by the primary government.

Note (3): The entire amount can be attributed to repayments of Federal repayable advances under Title XII of the Social Security Act.

### 34. TOBACCO SETTLEMENT AND SECURITIZATION

Total Enterprise Funds	Internal Service Funds
\$ (994,554)	\$ -
(883,768)	(1,058,674)
<u>\$ (1,878,322)</u>	<u>\$ (1,058,674)</u>
\$ 3,087	\$ -
<u>\$ 3,087</u>	<u>\$ -</u>
\$ (3,846)	\$ (10,199)
<u>\$ (3,846)</u>	<u>\$ (10,199)</u>
\$ 28,489	\$ -
245,839	-
264,175	17,791
<u>\$ 538,503</u>	<u>\$ 17,791</u>
\$ (29,468)	\$ (9,545)
(445,818)	-
<u>\$ (475,286)</u>	<u>\$ (9,545)</u>
\$ -	\$ (632)
<u>\$ -</u>	<u>\$ (632)</u>

On November 23, 1998, 46 states' Attorneys General and the major tobacco companies signed a proposed settlement that reimburses states for smoking-related medical expenses paid through Medicaid and other health care programs. At the time of the settlement, it was estimated that the Commonwealth could receive approximately \$4.1 billion over the duration of the settlement. The settlement was approved in a Consent Decree in December 1998. On March 29, 1999, the General Assembly enacted a law approving the establishment of the Virginia Tobacco Indemnification and Community Revitalization Commission (Commission), in compliance with the Consent Decree, to help communities in Virginia hurt by the decline of tobacco.

The Commission was established for the purposes of determining the appropriate recipients of monies in the Tobacco Indemnification and Community Revitalization Fund. The monies are to be used to provide payments to tobacco farmers as compensation for the tobacco equipment and barns and lost tobacco production opportunities associated with a decline in quota. The monies are also to be used to revitalize tobacco dependent communities.

The General Assembly also created the Virginia Foundation for Healthy Youth (Foundation). The purpose of the Foundation is to determine the appropriate recipients of monies in the Virginia Tobacco Settlement Fund. The Foundation will also be responsible for distributing monies for the purposes provided in the legislation. Disbursements can be made to assist in financing efforts to restrict the use of tobacco products by minors, through educational and awareness programs describing the health effects of tobacco use on minors, and laws restricting the distribution of tobacco products to minors. The Commission and the Foundation are included in the Comprehensive Annual Financial Report as component units.

Additionally, the General Assembly created two special non-reverting funds. The Tobacco Settlement monies are accounted for in these funds and the General Fund. Fifty percent of the Settlement monies will be deposited into the Tobacco Indemnification and Community Revitalization Fund. Ten percent of the Settlement monies will be deposited into the Virginia Tobacco Settlement Fund. The remaining 40.0 percent will be reported in the General Fund.

In May 2005, pursuant to a Purchase and Sale Agreement with the Commonwealth, acting as an agent on behalf of the Tobacco Indemnification and Community Revitalization Commission (Commission), the Commonwealth sold to the Tobacco Settlement Financing Corporation (Corporation) 25.0 percent of its future right, title and interest in the Tobacco Settlement Revenues (TSRs). In May 2007, pursuant to a Purchase and Sale Agreement with the Commonwealth, acting as an agent on behalf of the Commission, the Commonwealth sold to the Corporation the remaining 25.0 percent of its future right, title and interest in the TSRs. Specifically, these rights include the 50.0 percent share of the TSRs received by the Commission

starting May 15, 2005, and in perpetuity under the Master Settlement Agreement.

Consideration paid by the Corporation to the Commission for TSRs consisted of a cash amount deposited into an endowment to fund the long-term spending plan approved by the Commission. The bonds of the Corporation are asset-backed instruments secured solely by the TSRs, and the Corporation's right to receive TSRs is expected to produce funding for its obligations.

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

### **35. INFORMATION TECHNOLOGY INFRASTRUCTURE PARTNERSHIP – NORTHROP GRUMMAN**

The Comprehensive Infrastructure Agreement (CIA) is a contract, executed on November 13, 2005, between the Commonwealth of Virginia (Commonwealth) acting through the Virginia Information Technologies Agency (VITA) and Northrop Grumman Information Technology, Inc (NG). The Commonwealth's primary goal is to significantly improve the Commonwealth's IT infrastructure and the manner in which such infrastructure is operated, supported, and maintained for the following service towers: Cross-Functional Services; Desktop Computing Services; Data Network Services; Voice and Video Telecom Services; Mainframe and Server Services; Help Desk Services; Messaging Services; Security Services; Internal Application Services; and Data Center facilities.

On March 31, 2010, contract revisions to the CIA were completed between the Commonwealth and Northrop Grumman. As a result of the contract changes, the Commonwealth renewed the contract for an additional three years, the parties established the products and services covered in the contractual cap including the baseline quantities to be billed and the prices at which those quantities will be billed, a shortened formula for contract year ten cost of living adjustment, and increased resolution and disentanglement fees. These contract changes are intended to provide improved performance to the VITA customer agencies, provide greater accountability and operational efficiencies for the services provided, and resolve outstanding financial issues. Additional contract revisions to the CIA were completed between the Commonwealth and Northrop Grumman during fiscal years 2011 and 2012. The contract term expires June 30, 2019.

Expenses associated with the CIA in fiscal year 2012 are \$267.2 million, including payments to Northrop Grumman of \$210.2 million. The Commonwealth expects to spend an additional \$1.8 billion over the next seven fiscal years.

The Commonwealth may terminate the CIA due to a variety of reasons including the Commonwealth's convenience; a significant change of control in the equity interests in NG; NG's failure to implement satisfactory improvements; or, NG's failure to prevent service interruption of 15 days or more. In these

instances, the Commonwealth will be required to pay exit and resolution fees as outlined in the CIA. Additional causes for termination that do not require the payment of exit or resolution fees are NG's default on the CIA terms, the Commonwealth's lack of funds, or NG's incurrence of liabilities equal to or more than 75 percent of the direct damages cap. NG may terminate the CIA only if the Commonwealth owes an aggregate amount in excess of \$100.0 million that is more than 30 days past due and not being disputed in good faith. The Commonwealth may be required to pay exit and resolution fees, as outlined in the CIA, if NG terminates the CIA. Fees resulting from the termination of the agreement are expected to be significant to the Commonwealth. However, exit fees are subject to the appropriation, allocation and availability of Commonwealth funds. Further, if the Commonwealth and NG terminate the business relationship at the conclusion of the CIA term, the Commonwealth could incur significant costs to obtain and transition the IT infrastructure necessary to continue the Commonwealth's operations.

### **36. CONTINGENCIES**

#### **A. Grants and Contracts**

The Commonwealth has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the Commonwealth.

Institutions of higher education (component units) and other state agencies are required to comply with various federal regulations issued by the Office of Management and Budget, if such agencies are recipients of federal grants, contracts, or other sponsored agreements. Failure to comply with certain requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. It is believed that the ultimate disallowance pertaining to these regulations, if any, will be immaterial to the overall financial condition of the Commonwealth.

The U.S. Department of Health and Human Services (DHHS) Office of the Inspector General conducted a review and indicated that the Commonwealth's Statewide Indirect Cost Allocation Plan rates have allowed over-recoveries and transfers in the internal service funds. The U.S. DHHS has received the 2013 cost allocation plan, which is based on fiscal year 2011 data. The Commonwealth believes this liability has the potential to total \$1.2 million as of June 30, 2012.

Virginia's combined overpayment and underpayment SNAP error rate for federal fiscal year 2011 was 3.41 percent. The national performance measure (national average payment

error rate) for fiscal 2011 was 3.80 percent. Information for fiscal year 2012 is not yet available.

Under the Food and Nutrition Act of 2008 (the Act), a 2-year liability system for excessive payment error rates is in place. Under this system, a liability amount shall be established when, for the second or subsequent consecutive fiscal year, FNCS (Food, Nutrition, and Consumer Services) determines that there is a 95.0 percent statistical probability that a State's payment error rate exceeds 105.0 percent of the national performance measure for payment error rates. For fiscal year 2010, the FNCS determined that there was a 95.0 percent statistical probability that Virginia's payment error rate of 5.87 percent exceeded 105.0 percent of the national performance measure for fiscal year 2010. On June 16, 2011, Virginia was notified that fiscal year 2010 was the first year of two possible consecutive years of excessive payment error rates. For fiscal year 2011, VDSS fell within the tolerance level and fiscal year 2011 will not count as a first year or a second year for excessive payment error rates and a liability amount will not be established.

The Virginia Tourism Authority (nonmajor component unit) had unclaimed awards totaling \$1.5 million payable to awardees upon submission of proper claims for reimbursement for the Marketing Leverage Program. Also, the Authority received a donation of land from King George County to be used as the Gateway Welcome Center on highway U.S. 301 at the Virginia Maryland border. The deed requires the land to revert to the U.S. government if needed for national defense. The book value of the land is \$824,000. Additionally, the Authority had unclaimed awards totaling \$84,004 payable to awardees' upon submission of proper claims for reimbursement for the Sesquicentennial Marketing Program.

## **B. Litigation**

The Commonwealth is named as a party in legal proceedings and investigations that occur in the normal course of governmental operations, some involving substantial amounts. It is not possible at the present time to estimate the ultimate outcome or liability, if any, of the Commonwealth in respect to the various proceedings; however, it is believed that any ultimate liability resulting from these suits or investigations will not have a material, adverse effect on the financial condition of the Commonwealth.

## **C. Subject to Appropriation**

Both the primary government and the discretely presented component units enter into agreements and issue debt secured solely by future appropriations from the General Fund of the Commonwealth. The primary government has leases and other agreements of such debt of \$2.7 billion. The discretely presented component units have such debt of \$2.5 billion.

## **D. Bailment Inventory**

The Department of Alcoholic Beverage Control (ABC) houses and controls bailment inventory in the warehouse and is therefore responsible for the exercise of reasonable care to preserve the inventory until it is purchased by ABC or returned to the supplier. ABC uses the bailment system for payment of merchandise for resale. ABC initiates payments to the vendors based on shipments from the ABC warehouse to the retail stores, rather than receipt of invoice from the vendor. At June 30, 2012, the bailment inventory was valued at \$37.1 million.

## **E. Loan Guarantees**

The Assistive Technology Loan Fund Authority (nonmajor component unit) has an alternative financing program which provides guarantees of loans made and serviced by its banking partner. As of June 30, 2012, there was approximately \$421,494 of guaranteed loans held by the Authority's banking partner.

The Virginia Small Business Financing Authority (nonmajor component unit) has a loan guaranty program which provides guarantees up to the lesser of \$500,000 or 75.0 percent of a bank loan for lines of credit and short-term working capital loans for small businesses. As of June 30, 2012, the loan guaranty program has guarantees outstanding of \$5.4 million.

## **F. Other**

The Virginia Horse Center Foundation (nonmajor component unit) has incurred recurring losses from operations and is in violation of selected covenants contained in agreements with the USDA and with the Commonwealth. Bank notes outstanding were not renewed when due and a forbearance agreement is under negotiation. Management is actively developing plans in regard to these matters.

## **37. SUBSEQUENT EVENTS**

### **Primary Government**

#### **Other**

Title XII of the Social Security Act provides for interest bearing repayable advances to States for the purpose of payment of unemployment compensation claims in the event the state Unemployment Trust Fund reserves are reduced to zero. These advances are repayable from future collections of employer contributions to the Unemployment Trust Fund. Federal advances are anticipated for the months of January 2013 through May 2013. Also, the Trust Fund received approval for short-term Commonwealth Treasury loans in the amount of \$63.0 million through December 2012. Of this authorized amount, \$18.0 million has been drawn down.

## Debt

In July 2012, the Commonwealth Transportation Board issued \$120.6 million Commonwealth of Virginia Federal Transportation Grant Anticipation Revenue Notes Series 2012B. The 2012B bonds will provide funding costs associated with the Interstate 95 HOV/HOT Lanes Project in Northern Virginia and the Downtown Tunnel/Midtown Tunnel/Martin Luther King Freeway Extension Project in Hampton Roads.

## Component Units

### Debt

Subsequent to June 30, 2012, the Virginia Resources Authority (nonmajor) issued bonds in the amount of \$79.1 million. The interest rates range from 2.0 percent to 5.0 percent with a final due date of November 1, 2041.

Subsequent to June 30, 2012, the Virginia Housing Development Authority (VHDA) (major) issued \$125.1 million of Bank of America, N.A., Revolving Credit Agreement and Series 2012B Rental Housing Bonds. Additionally, in September 2012, VHDA repaid \$60.1 million of 2003B Rental Housing Bonds and VHDA General Purpose Bonds, Series 2002Y and 2002Z.

In April 2012, the Virginia Secretary of Transportation received an unsolicited proposal to operate the facilities of the Virginia Port Authority (nonmajor). Under Virginia law, the state was required to open up the bidding to alternative proposals. Subsequent to year-end, interested vendors were required to submit proposals. The Virginia Transportation Secretary will oversee the process of proposal selection and make recommendations, but the final decision rests with the Governor and the Virginia Port Authority Board of Commissioners. No decision has been made to date.

In August 2012, the Virginia Public School Authority (VPSA) (major) issued its \$65.7 million Special Obligation School Financing Bonds Prince William County Series 2012 as part of its stand-alone bond program. The proceeds will be used to purchase general obligation bonds issued by Prince William County to pay the costs of various capital school improvement projects for the County.

In September 2012, the Commonwealth agreed to purchase of certain improvements to Launch Pad 0-A from Orbital Sciences Corporation (Orbital), on behalf of the Virginia Commercial Space Flight Authority (VCSF) (nonmajor), in the amount of \$25.6 million. The Commonwealth also has the option to purchase, on behalf of the VCSF, additional improvements up to \$16.5 million. Additionally, the Commonwealth agreed to provide funding to VCSF for completion of these improvements. VCSF will provide Orbital future access to Launch Pad 0-A, in return for a fixed fee arrangement of \$1.5 million per covered mission plus bulk commodities at cost.

In September 2012, the Virginia Port Authority (VPA) (nonmajor) issued \$45.2 million of Virginia Port Authority, Commonwealth Port Fund Revenue Bonds, Series 2012B (Taxable), and \$4.8 million of Virginia Port Authority, Commonwealth Port Fund Revenue Bonds, Series 2012C. Serial bonds issued in the principal amount of \$45.2 million are payable in annual installments beginning July 1, 2013, in amounts ranging from \$635,000 to \$3.6 million with interest ranging from 0.4 percent to 3.4 percent payable semiannually, the first interest installment due January 1, 2013 and the final installment due July 1, 2029. Serial bonds issued for the 2012C series in the principal amount of \$4.8 million are payable in annual installments beginning July 1, 2029, in amounts ranging from \$780,000 to \$4.0 million with interest ranging from 3.0 percent to 5.0 percent payable semiannually, the first interest installment due January 1, 2013 and the final installment due July 1, 2030. Proceeds will be used to defease all or portions of the Commonwealth Port Fund Revenue Bonds, Series 2005B (Non-AMT) for debt service savings.

In November 2012, the Virginia Public School Authority (VPSA) (major) sold two different series of bonds. First, VPSA issued \$66.0 million of School Financing Series 2012C bonds. The proceeds will be used to purchase general obligation school bonds issued by certain Virginia localities for capital projects for their public schools. Second, VPSA sold \$23.3 million in School Tax Credit Bonds, a portion of which will be issued as direct payment "qualified school construction bonds" and the remainder as "qualified zone academy bonds" Series 2012-1. VPSA will irrevocably elect to receive interest subsidy payments from the United States Treasury rather than to provide a tax credit to the owners of the 2012-1 bonds. VPSA will transfer the interest subsidy payments received to the 2012-1 local issuers.

In November 2012, VCBA sold its Educational Facilities Revenue Bonds (Public Higher Education Financing Program) \$141.1 million Series 2012B. The proceeds were used to buy Institutional Notes of nine higher education institutions to fund capital projects at those institutions.

In November 2012, VCBA issued its Educational Facilities Revenue Bonds (21st Century College and Equipment Programs) \$377.6 million Series 2012B. The proceeds were used to fund certain capital projects and to acquire equipment at higher education institutions.