

VIRGINIA COLLEGE BUILDING AUTHORITY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013



VIRGINIA COLLEGE BUILDING AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2013

Table of Contents

| | |
|--|----|
| Management’s Discussion and Analysis | 1 |
| Basic Financial Statements: | |
| Statement of Net Position and Governmental Funds Balance Sheet | 6 |
| Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balance..... | 7 |
| Notes to the Financial Statements..... | 8 |
| Supplementary Information: | |
| Detail of Long-Term Indebtedness | 17 |
| Schedule of Outstanding Bond Issues for Private Colleges and Universities | 18 |
| Independent Auditor’s Report..... | 19 |
| Authority Officials | 22 |

VIRGINIA COLLEGE BUILDING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

This section of the annual financial report of the Virginia College Building Authority (the Authority) presents an analysis of the Authority's financial performance during the fiscal year that ended on June 30, 2013. This information should be considered in conjunction with the information contained in the financial statements, which follow this section.

Authority Activities and Highlights

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

Under the Pooled Bond Program, bonds of the Authority are secured by notes of participating institutions of higher education to which the general revenues of the college or university have been pledged. During the year, the Authority issued \$141.1 million of bonds under this Program.

The 21st Century Program and the Equipment Program were established in 1996 and 1986, respectively, and provide financing for state-supported institutions of higher education. The 21st Century Program provides funding for capital projects designated by the General Assembly. The Equipment Program provides funding for educational equipment. Bonds for both programs are payable from amounts to be appropriated by the General Assembly, and are frequently issued together as a single 21st Century College and Equipment Programs offering. During the year, the Authority issued \$357.6 million of bonds under this Program.

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

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

VIRGINIA COLLEGE BUILDING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

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

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

Fund Financial Statements

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are presented in the adjustment column in each of the financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements.

VIRGINIA COLLEGE BUILDING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Government-wide Financial Analysis of the Authority

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

Condensed Statement of Net Position
(in millions)

| | 2013 | 2012 |
|------------------------------|------------|------------|
| Current assets | \$ 271 | \$ 451 |
| Noncurrent assets | 1,712 | 1,664 |
| Total assets | 1,983 | 2,115 |
| Current liabilities | 585 | 578 |
| Noncurrent liabilities | 4,242 | 3,958 |
| Total liabilities | 4,827 | 4,536 |
| Net position (deficit): | | |
| Restricted | - | 90 |
| Unrestricted | (2,844) | (2,511) |
| Total net position (deficit) | \$ (2,844) | \$ (2,421) |

Net position decreased by \$423 million, or 17%, in fiscal year 2013 as compared to fiscal year 2012. The 21st Century College and Equipment Programs comprise the majority of the Authority's net position. During the year the Authority spent \$740 million on disbursements to institutions and on bond interest expenses. Offsetting revenues were only \$318 million. The Authority's total assets decreased by \$132 million, or 6%, primarily attributable to a \$149 million decrease in the 21st Century College and Equipment Programs' assets and an \$18 million increase in the Pooled Bond Program's total assets. Decreases in assets were primarily driven by program disbursements exceeding program receipts. Increases in liabilities under the Pooled Bond Program offset the Pooled Bond asset increase, leaving a minimal change in Pooled Bond net position, while liabilities under the 21st Century College and Equipment Programs increased by \$274 million. The increase in 21st Century liabilities is tied to bonds issued. 21st Century bond proceeds are spent almost as fast as they are received, leaving little to no increase in total assets to offset the increase in liabilities which results from the issuance of bonds.

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

VIRGINIA COLLEGE BUILDING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Condensed Statement of Activities
(in millions)

| | 2013 | 2012 |
|--|------------|------------|
| Revenues: | | |
| Appropriations from the Commonwealth | \$ 227 | \$ 190 |
| Other revenues | 91 | 89 |
| Total revenues | 318 | 279 |
| Expenses: | | |
| Interest on long-term debt | 175 | 160 |
| Construction and equipment disbursements | 565 | 529 |
| Other | 1 | 3 |
| Total expenses | 741 | 692 |
| Decrease in net position | (423) | (413) |
| Net position (deficit) July 1 | (2,421) | (2,008) |
| Net position (deficit) June 30 | \$ (2,844) | \$ (2,421) |

The increase in revenues of \$39 million, or 14%, is attributable to a \$39 million increase in debt service-related receipts. The increase in expenditures of \$49 million is primarily due to a \$36 million increase in disbursements to higher education institutions, combined with an increase of \$15 million in debt service-related disbursements.

Financial Analysis of the Authority's Funds

In the Special Revenue Fund, total assets decreased by \$190 million, or 51%, in fiscal year 2013. This is primarily attributable to current period expenditures (comprised of \$762 million in disbursements to institutions and \$401 million in debt service expenditures) exceeding current period receipts (comprised of \$557 million in bond proceeds and \$401 million in receipts for debt service). Liabilities increased by \$16 million, or 16%. This is primarily due to an increase in year-end payables due to the institutions, which fluctuate with construction schedules and reimbursement requests.

Debt Administration

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

VIRGINIA COLLEGE BUILDING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Summary of Authority Bond Obligations
(in millions)

| | 21st Century Program - Capital | 21st Century Program - Equipment | Pooled Bond Program | Total |
|------------------------------|---|---|---------------------------|-----------------|
| Outstanding, 7/1/12 | \$ 2,130 | \$ 196 | \$ 1,716 | \$ 4,042 |
| Issued during year | 358 | - | 141 | 499 |
| Retired during year | (99) | (33) | (83) | (215) |
| Deferral on debt defeasance | (13) | | | (13) |
| Unamortized premium on bonds | 185 | | - | 185 |
| Outstanding, 6/30/13 | <u>\$ 2,561</u> | <u>\$ 163</u> | <u>\$ 1,774</u> | <u>\$ 4,498</u> |

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

Virginia College Building Authority Bond Ratings

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

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

Future Impact to Financial Position

The Authority issued approximately \$332 million in Educational Facilities Revenue Bonds to finance certain capital projects and to acquire equipment at public institutions of higher education. The bond sale occurred on September 17, 2013, and closed on September 26, 2013.

The Authority sold \$74.9 million in Educational Facilities Revenue Bonds and \$12.3 million in Educational Facilities Federally Taxable Revenue Bonds to acquire Institutional Notes from participating public institutions of higher education and to refund portions of maturities of prior Authority bonds. Each participating institution will use these Institutional Notes proceeds to finance capital projects approved by the General Assembly. The bond sale occurred on October 23, 2013, and is anticipated to close of November 19, 2013.

VIRGINIA COLLEGE BUILDING AUTHORITY

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

As of June 30, 2013

| | Special Revenue Fund | Adjustments (Note 1G) | Statement of Net Position |
|---|-------------------------|--------------------------|------------------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 178,915,505 | \$ - | \$ 178,915,505 |
| Short-term notes receivable | - | 92,410,000 | 92,410,000 |
| Interest receivable | 26,528 | - | 26,528 |
| Total current assets | 178,942,033 | 92,410,000 | 271,352,033 |
| Noncurrent assets: | | | |
| Restricted cash and cash equivalents | 1,373,864 | - | 1,373,864 |
| Long-term notes receivable | - | 1,680,780,000 | 1,680,780,000 |
| Restricted interest receivable | 11 | 25,200,850 | 25,200,861 |
| Due from the federal government | - | 4,940,669 | 4,940,669 |
| Total noncurrent assets | 1,373,875 | 1,710,921,519 | 1,712,295,394 |
| Total assets | \$ 180,315,908 | 1,803,331,519 | 1,983,647,427 |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Due to higher education institutions | \$ 63,050,021 | 138,685,207 | 201,735,228 |
| Allocation payable | 51,492,889 | - | 51,492,889 |
| Interest payable | - | 76,092,538 | 76,092,538 |
| Bonds payable (net of deferral on debt defeasance) | - | 239,659,800 | 239,659,800 |
| Premium on bonds sold | - | 16,988,199 | 16,988,199 |
| Accounts payable | - | 8,579 | 8,579 |
| Total current liabilities | 114,542,910 | 471,434,323 | 585,977,233 |
| Noncurrent liabilities: | | | |
| Bonds payable (net of deferral on debt defeasance) | - | 4,073,589,000 | 4,073,589,000 |
| Premium on bonds sold | - | 168,211,562 | 168,211,562 |
| Total noncurrent liabilities | - | 4,241,800,562 | 4,241,800,562 |
| Total liabilities | 114,542,910 | 4,713,234,885 | 4,827,777,795 |
| FUND BALANCE/NET POSITION: | | | |
| Fund balance: | | | |
| Restricted for construction and equipment | 64,399,134 | (64,399,134) | - |
| Restricted for debt service | 1,373,864 | (1,373,864) | - |
| Total fund balance | 65,772,998 | (65,772,998) | - |
| Total liabilities and fund balance | \$ 180,315,908 | | |
| Net position (deficit): | | | |
| Restricted for construction and equipment purchases | | - | - |
| Restricted for debt service | | 1,195 | 1,195 |
| Unrestricted | | (2,844,131,563) | (2,844,131,563) |
| Total net position (deficit) | | \$ (2,844,130,368) | \$ (2,844,130,368) |

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

VIRGINIA COLLEGE BUILDING AUTHORITY

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE For the Fiscal Year Ended June 30, 2013

| | Special Revenue Fund | Adjustments (Note 1G) | Statement of Activities |
|---|-------------------------|---------------------------|----------------------------|
| REVENUES: | | | |
| Interest on investments | \$ 640,133 | \$ (403,778) | \$ 236,355 |
| Interest on bonds | 76,751,098 | 1,201,028 | 77,952,126 |
| Receipt of note principal payments | 83,394,982 | (83,394,982) | - |
| Appropriations from the Commonwealth | 227,084,843 | - | 227,084,843 |
| Interest on Build America Bonds | 13,536,582 | (470,798) | 13,065,784 |
| | <u>401,407,638</u> | <u>(83,068,530)</u> | <u>318,339,108</u> |
| EXPENDITURES/EXPENSES: | | | |
| Current: | | | |
| Legal and financial services | 272,893 | (131,238) | 141,655 |
| Bond rating fees | 365,050 | (110,150) | 254,900 |
| Printing and electronic distributions | 6,579 | (2,533) | 4,046 |
| Equipment allocation | 78,268,339 | - | 78,268,339 |
| Disbursement to higher education institutions | 684,188,653 | (197,818,641) | 486,370,012 |
| Underwriter's discount | 2,277,159 | (1,382,486) | 894,673 |
| Miscellaneous | 152,387 | (149,066) | 3,321 |
| Debt service: | | | |
| Principal retirement | 214,980,000 | (214,980,000) | - |
| Interest and fiscal charges | 185,801,546 | (10,570,409) | 175,231,137 |
| | <u>1,166,312,606</u> | <u>(425,144,523)</u> | <u>741,168,083</u> |
| Total expenditures/expenses | | | - |
| Excess (deficiency) of revenues over (under) expenditures | <u>(764,904,968)</u> | <u>-</u> | <u>-</u> |
| Other financing sources (uses): | | | |
| Bond issuance | 498,675,000 | (498,675,000) | - |
| Bond premium | 60,760,375 | (60,760,375) | - |
| Proceeds from the sale of bonds | - | - | - |
| Payments to refunded bond escrow agent | - | - | - |
| | <u>559,435,375</u> | <u>(559,435,375)</u> | <u>-</u> |
| Total other financing sources (uses) | | | - |
| Excess of revenues and other financing sources over expenditures and other financing uses | (205,469,593) | 205,469,593 | - |
| Change in net position | - | (422,828,975) | (422,828,975) |
| Fund balance/Net position (deficit), July 1, 2012 | <u>271,242,591</u> | <u>(2,692,543,984)</u> | <u>(2,421,301,393)</u> |
| Fund balance/Net position (deficit), June 30, 2013 | <u>\$ 65,772,998</u> | <u>\$ (2,909,903,366)</u> | <u>\$ (2,844,130,368)</u> |

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

VIRGINIA COLLEGE BUILDING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

AS OF JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

Pursuant to the Educational Facilities Authority Act, Chapter 3.3 of Title 23, *Code of Virginia*, the Authority is authorized to issue revenue bonds and notes and to use the proceeds thereof to finance educational facilities projects through loans to private, non-profit institutions of higher education within the Commonwealth. Such financings are not obligations of the Commonwealth, but are limited obligations of the Authority payable solely from loan payments made by the private, non-profit institutions of higher education. This indebtedness, therefore, is not included in the financial statements. Total debt outstanding under this program at June 30, 2013 was \$675,511,000. (Detailed information for this program is presented on page 18 in the Supplementary Information section following the Notes to the Financial Statements.)

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

VIRGINIA COLLEGE BUILDING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

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

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

B. Measurement Focus and Basis of Accounting

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

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

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

C. Fund Accounting

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

VIRGINIA COLLEGE BUILDING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

D. Change in Accounting Principles

The Authority implemented Governmental Accounting Standards Board (GASB) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, or Net Position. The Authority had no deferred outflows or inflows of resources at June 30, 2013.

E. Bond Issuance Costs, Premiums, and Discounts

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

F. Budget to Actual Statement

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

G. Adjustments

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

2. DETAILED NOTES

A. Cash and Cash Equivalents

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

VIRGINIA COLLEGE BUILDING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

Deposits held by trustees are collateralized in accordance with the Trust Subsidiary Act, Section 6.2-1057 et seq. of the *Code of Virginia*. Under the Act, the affiliate bank delivers securities to the trust department as collateral that is at least equal to the market value of the trust funds held on deposit in excess of amounts insured by federal deposit insurance.

Under a Master Indenture of Trust dated December 1, 1996, and under a Master Indenture of Trust dated September 1, 1997, the trustee is authorized to invest in the following investments: bonds, notes and other obligations issued or guaranteed by the United States government; bonds, notes and other evidences of indebtedness of any state of the United States of America or any locality of any state of the United States of America that meet the requirements of *Code* Sections 2.2-4500 and 2.2-4501A.3; and investments made pursuant to the Investment of Public Funds and Local Government Investment Pool Act. At June 30, 2013, The Bank of New York Mellon Trust Company, N.A., which currently serves as trustee for both Indentures, maintained \$180,240,836 in cash and cash equivalents for the Authority. The Authority also directly held cash equivalents of \$48,533 for a total invested balance of \$180,289,369.

At June 30, 2013, the Authority's funds were held in the Local Government Investment Pool, the State Non-Arbitrage Program[®], and other money market funds. All investments of the Authority are rated AAA by Standard and Poor's. Details of the Authority's investments are presented in the following schedule.

Summary of Cash and Cash Equivalents
As of June 30, 2013

| | Fair Value |
|---|----------------|
| Cash and cash equivalents: | |
| State Non-Arbitrage Program [®] (1) | \$ 138,673,500 |
| Local Government Investment Pool ⁽²⁾ | 40,241,067 |
| Money Market Funds ⁽³⁾ | 1,373,993 |
| Cash | 809 |
| Total cash and cash equivalents | \$ 180,289,369 |

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

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

VIRGINIA COLLEGE BUILDING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

policy to operate in conformity with the SEC's Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended.

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

B. Notes Receivable

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

Future Minimum Note Payments Due from Institutions
As of June 30, 2013

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|-------------------------|-----------------------|-------------------------|
| 2014 | \$ 92,410,000 | \$ 80,016,329 | \$ 172,426,329 |
| 2015 | 98,785,000 | 75,527,688 | 174,312,688 |
| 2016 | 103,205,000 | 70,778,425 | 173,983,425 |
| 2017 | 102,995,000 | 65,834,100 | 168,829,100 |
| 2018 | 107,890,000 | 60,837,550 | 168,727,550 |
| 2019 - 2023 | 525,900,000 | 227,933,006 | 753,833,006 |
| 2024 - 2028 | 458,045,000 | 113,106,742 | 571,151,742 |
| 2029 - 2033 | 203,540,000 | 35,706,148 | 239,246,148 |
| 2034 - 2038 | 59,400,000 | 11,069,514 | 70,469,514 |
| 2039 - 2043 | 21,020,000 | 1,461,661 | 22,481,661 |
| Total | <u>\$ 1,773,190,000</u> | <u>\$ 742,271,163</u> | <u>\$ 2,515,461,163</u> |

C. Due from the Federal Government

The America Recovery and Reinvestment Act of 2009 permits the Authority to issue federally taxable bonds known as "Build America Bonds" to finance capital expenditures. Under the "Build America Bond" program, instead of issuing federally tax-exempt bonds, the Authority can issue federally taxable Build America Bonds and elect to receive a subsidy payment from the federal government equal to 35% of each interest payment due semiannually on such taxable bonds. The Authority has issued three such series of bonds, beginning in fiscal year 2010 (the 21st Century College and Equipment Programs Series 2009F and 2010B, and the Pooled Bond Program Series 2010A). Therefore, the Authority is accruing a receivable from the federal government for the

VIRGINIA COLLEGE BUILDING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

subsidy payments which will be due on August 1, 2013 (21st Century Bonds) and September 1, 2013 (Pooled Bonds). As a result of the Federal Sequestration, the actual August 1, 2013 payment was reduced by 8.7% and the corresponding accrual was adjusted to reflect this reduction. It should be noted that the subsidy payments have not been pledged to the payment of the Build America Bonds, and the subsidy payments are not full faith and credit obligations of the United States. As such, future debt service payments have been reflected in these financial statements at their gross amounts, without consideration of possible future subsidy payments.

D. Due to Higher Education Institutions

Bonds were issued under the Pooled Bond Program and the proceeds of these bonds were used to purchase institutional notes from various public institutions of higher education. These institutions in turn will use the proceeds of the notes to finance capital projects. Therefore, the unspent portion of the note proceeds still held by the trustee at June 30, 2013 in the Special Revenue Fund is reflected as “due to higher education institutions” in the government-wide statements. Amounts reflected as “due to higher education institutions” in the fund financial statements represent normal year-end payables to institutions as a result of on-going operations.

E. Allocation Payable

In past fiscal years, the Authority has issued bonds to support the General Assembly allocations to finance the purchase of equipment at public institutions of higher education. The Authority is committed by this to reimburse institutions of higher education for the cost of equipment from its cash and investments. In fiscal year 2013, institutions purchased and obtained reimbursement for \$46,769,271 in equipment, relating to the FY 2012 appropriation, leaving \$332,535 of this allocation outstanding at June 30, 2013. Institutions also purchased and obtained reimbursement for \$1,513,300 in equipment, relating to the FY 2011 appropriation during the current fiscal year, leaving a balance of zero at June 30, 2013.

The allocation payable of the \$51,492,889 presented in the financial statements reflects expenditures related to the FY 2013 allocation to finance the purchase of equipment at public institutions of higher education. Reimbursements will be made to institutions upon the issuance of the Education Facilities Revenue Bonds which closed on September 26, 2013.

VIRGINIA COLLEGE BUILDING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

F. Long-Term Indebtedness

Changes in Long-Term Debt - The following is a summary of changes in long-term debt of the Authority for the year ended June 30, 2013.

| | |
|--|-------------------------|
| Payable at July 1, 2012, revised * | \$ 4,186,104,362 |
| Bonds issued | 498,675,000 |
| Bonds retired | (214,980,000) |
| Premium on bonds sold | 43,608,134 |
| Annual amortization of debt defeasance | 1,674,100 |
| Annual amortization of premium on bonds sold | (16,633,035) |
| Bonds payable at June 30, 2013 | <u>\$ 4,498,448,561</u> |

* The July 1, 2012 amount has been revised to reflect the inclusion of unamortized premiums on bonds sold which had not previously been included in this schedule.

The schedule below reflects the amounts needed to amortize long-term debt.

Annual Requirements to Amortize Long-Term Debt
As of June 30, 2013

| Year Ending June 30 | Principal | Interest | Total |
|--------------------------------------|------------------------|------------------------|-------------------------|
| 2014 | \$ 241,315,000 | \$ 194,310,597 | \$ 435,625,597 |
| 2015 | 260,790,000 | 181,246,195 | 442,036,195 |
| 2016 | 263,880,000 | 169,502,910 | 433,382,910 |
| 2017 | 270,500,000 | 157,627,487 | 428,127,487 |
| 2018 | 260,915,000 | 145,282,548 | 406,197,548 |
| 2019 - 2023 | 1,225,555,000 | 554,228,906 | 1,779,783,906 |
| 2024 - 2028 | 1,130,635,000 | 284,607,808 | 1,415,242,808 |
| 2029 - 2033 | 591,885,000 | 70,794,164 | 662,679,164 |
| 2034 - 2038 | 59,400,000 | 11,069,514 | 70,469,514 |
| 2039 - 2043 | 21,020,000 | 1,461,661 | 22,481,661 |
| Less: Deferral on debt defeasance | (12,646,200) | - | (12,646,200) |
| Add: Unamortized Premium | 185,199,761 | - | 185,199,761 |
| Total | <u>\$4,498,448,561</u> | <u>\$1,770,131,790</u> | <u>\$ 6,268,580,351</u> |

G. Defeasance of Debt

From time to time, when interest rates indicate that it would be favorable to do so, the Authority has issued refunding bonds to defease outstanding bonds. These refundings have placed the proceeds of the new bonds in irrevocable

VIRGINIA COLLEGE BUILDING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

trusts with escrow agents to provide for all future debt service on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included on the Authority's financial statements.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities," the difference between the reacquisition price and the net carrying amount of the bonds defeased with refunding debt is amortized as a component of Interest and Fiscal Charges over the remaining life of the refunded debt. However, the deferral amount for the Pooled Bond Program has been allocated to the participating institutions and is therefore not reflected in the Authority's financial statements. Therefore, Bonds Payable has been reduced by \$12,646,200 related to 21st Century College Program, to reflect the remaining deferral on debt defeasance at June 30, 2013.

There were no refunding bonds issued by the Authority in fiscal year 2013.

At June 30, 2013, \$335,165,000 of bonds outstanding are considered defeased for financial reporting purposes.

H. Deficit Net Position

Generally accepted accounting principles direct that governmental funds recognize revenues in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Under the 21st Century College and Equipment Programs, bonds issued under the Master Indenture of Trust dated December 1, 1996 are secured by General Assembly appropriations through a payment agreement between the Authority and the Treasury Board. Because future appropriations are not considered available and do not constitute a legally binding commitment, the Authority ended the year with a fund deficit of \$2,844,130,368. The General Assembly has never failed to appropriate funds to the Authority for payment of debt service on the Authority's bonds.

I. Subsequent Events

The Authority issued approximately \$332 million in Education Facilities Revenue Bonds to finance certain capital projects and to acquire equipment at public institutions of higher education. The bond sale occurred on September 17, 2013, and closed on September 26, 2013.

The Authority sold \$74.9 million in Educational Facilities Revenue Bonds and \$12.3 million in Educational Facilities Federally Taxable Revenue Bonds to acquire Institutional Notes from participating public institutions of higher education and to refund portions of maturities of prior Authority bonds. Each participating institution will use these Institutional Notes proceeds to finance

VIRGINIA COLLEGE BUILDING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

capital projects approved by the General Assembly. The bond sale occurred on October 23, 2013, and is anticipated to close of November 19, 2013.

J. Risk Management

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

VIRGINIA COLLEGE BUILDING AUTHORITY
SUPPLEMENTARY INFORMATION
Detail of Long-Term Indebtedness
June 30, 2013
(Dollars in Thousands)

Detail of Long-Term Indebtedness by Series

| | Dated Date | Bond Program | True Interest Cost ("TIC") | Amount Issued | Institutional Notes Purchased | Outstanding July 1, 2012 | Issued (Retired) During Year | Outstanding June 30, 2013 * | Original Maturity |
|-------------------------|------------|---------------------|----------------------------|---------------------|-------------------------------|--------------------------|------------------------------|-----------------------------|-------------------|
| Series 2002A | 10/15/02 | Pooled | 4.60% | 134,945 | 134,945 | 6,235 | (6,235) | - | 09/01/27 |
| Series 2003A | 05/15/03 | 21st Century/Equip. | 3.66% | 140,250 | - | 5,060 | (5,060) | - | 02/01/23 |
| Series 2003A | 11/01/03 | Pooled | 4.22% | 115,715 | 115,715 | 10,160 | (4,960) | 5,200 | 09/01/30 |
| Series 2004A | 07/01/04 | 21st Century/Equip. | 4.13% | 172,745 | - | 11,615 | (5,665) | 5,950 | 02/01/24 |
| Series 2004A | 10/01/04 | Pooled | 4.25% | 112,935 | 112,935 | 22,590 | (4,360) | 18,230 | 09/01/35 |
| Series 2004B Refunding | 10/01/04 | Pooled | 3.75% | 103,205 | 103,205 | 85,110 | (14,100) | 71,010 | 09/01/19 |
| Series 2004B Refunding | 12/01/04 | 21st Century | 4.06% | 61,395 | - | 40,270 | (7,420) | 32,850 | 02/01/20 |
| Series 2005A | 05/15/05 | 21st Century/Equip. | 3.79% | 115,785 | - | 13,665 | (2,800) | 10,865 | 02/01/25 |
| Series 2005A | 11/03/05 | Pooled | 4.27% | 115,975 | 115,975 | 34,970 | (4,630) | 30,340 | 09/01/26 |
| Series 2006BC | 09/14/06 | 21st Century/Equip. | VAR | 120,000 | - | 100,825 | (5,525) | 95,300 | 02/01/26 |
| Series 2006A | 11/30/06 | Pooled | 4.16% | 156,130 | 156,130 | 133,955 | (5,940) | 128,015 | 09/01/28 |
| Series 2007A Refunding | 02/27/07 | 21st Century | 4.08% | 59,125 | - | 59,125 | - | 59,125 | 02/01/22 |
| Series 2007A | 10/31/07 | Pooled | 4.38% | 216,905 | 216,905 | 193,210 | (7,305) | 185,905 | 09/01/37 |
| Series 2007B | 05/31/07 | 21st Century/Equip. | 4.04% | 132,095 | - | 20,860 | (1,970) | 18,890 | 02/01/27 |
| Series 2007B Refunding | 10/31/07 | Pooled | 4.05% | 100,765 | 100,765 | 96,655 | (420) | 96,235 | 09/01/19 |
| Series 2008A | 06/12/08 | 21st Century/Equip. | 3.93% | 144,075 | - | 105,330 | (10,675) | 94,655 | 02/01/28 |
| Series 2009A | 01/21/09 | Pooled | 4.19% | 291,645 | 291,645 | 265,430 | (13,790) | 251,640 | 09/01/38 |
| Series 2009A | 04/28/09 | 21st Century | 4.30% | 284,020 | - | 256,005 | (8,965) | 247,040 | 02/01/29 |
| Series 2009B | 04/28/09 | 21st Century | 5.04% | 84,680 | - | 59,135 | (8,760) | 50,375 | 02/01/18 |
| Series 2009C Refunding | 04/28/09 | 21st Century | 2.45% | 12,945 | - | 8,585 | (2,010) | 6,575 | 02/01/15 |
| Series 2009D | 10/08/09 | 21st Century/Equip. | 2.05% | 52,420 | - | 39,670 | (7,245) | 32,425 | 02/01/17 |
| Series 2009E1 Refunding | 10/08/09 | 21st Century | 3.01% | 134,000 | - | 134,000 | - | 134,000 | 02/01/24 |
| Series 2009E2 Refunding | 10/08/09 | 21st Century | 2.80% | 74,860 | - | 74,325 | (4,315) | 70,010 | 02/01/23 |
| Series 2009B | 12/09/09 | Pooled | 4.01% | 235,945 | 235,945 | 224,795 | (7,165) | 217,630 | 09/01/39 |
| Series 2009F1 | 12/17/09 | 21st Century | 0.91% | 53,880 | - | 28,050 | (13,685) | 14,365 | 02/01/14 |
| Series 2009F2 | 12/17/09 | 21st Century | 3.31% | 390,575 | - | 390,575 | - | 390,575 | 02/01/30 |
| Series 2010A | 06/02/10 | 21st Century/Equip. | 1.80% | 50,350 | - | 36,530 | (6,930) | 29,600 | 02/01/17 |
| Series 2010B-1 | 10/26/10 | 21st Century | 1.36% | 55,815 | - | 44,870 | (14,235) | 30,635 | 02/01/15 |
| Series 2010B-2 | 10/26/10 | 21st Century | 2.82% | 290,600 | - | 290,600 | - | 290,600 | 02/01/30 |
| Series 2010A-1 | 11/18/10 | Pooled | 1.83% | 65,060 | 65,060 | 60,600 | (7,540) | 53,060 | 09/01/18 |
| Series 2010A-2 | 11/18/10 | Pooled | 3.40% | 156,610 | 156,610 | 156,610 | - | 156,610 | 09/01/40 |
| Series 2010B Refunding | 11/18/10 | Pooled | 2.87% | 101,040 | 101,040 | 97,385 | (2,580) | 94,805 | 09/01/27 |
| Series 2011A | 08/16/11 | 21st Century/Equip. | 3.27% | 272,515 | - | 272,515 | (7,690) | 264,825 | 02/01/32 |
| Series 2011A | 11/16/11 | Pooled | 3.32% | 163,335 | 163,335 | 163,335 | (3,375) | 159,960 | 09/01/36 |
| Series 2012A | 03/29/12 | Pooled | 2.25% | 164,475 | 164,475 | 164,475 | - | 164,475 | 09/01/30 |
| Series 2012A | 05/03/12 | 21st Century/Equip. | 2.85% | 335,075 | - | 335,075 | (18,635) | 316,440 | 02/01/32 |
| Series 2012B | 11/29/12 | Pooled | 2.55% | 141,070 | 141,070 | - | 140,075 | 140,075 | 09/01/42 |
| Series 2012B | 12/13/12 | 21st Century | 2.42% | 349,255 | - | - | 349,255 | 349,255 | 02/01/33 |
| Series 2012C | 12/13/12 | 21st Century | 1.18% | 8,350 | - | - | 8,350 | 8,350 | 02/01/18 |
| Total | | | | <u>\$ 6,021,460</u> | <u>\$ 2,495,855</u> | <u>\$ 4,042,200</u> | <u>\$ 283,695</u> | <u>\$ 4,325,895</u> | |

Detail of Long-Term Indebtedness by Program

| | Amount Issued | Institutional Notes Purchased | Outstanding July 1, 2012 | Issued (Retired) During Year | Outstanding June 30, 2013 * |
|------------------------------|---------------------|-------------------------------|--------------------------|------------------------------|-----------------------------|
| 21st Century College Program | \$ 3,026,250 | \$ - | \$ 2,130,370 | \$ 259,175 | \$ 2,389,545 |
| Pooled Bond Program | 2,495,855 | 2,495,855 | 1,715,515 | 57,675 | 1,773,190 |
| Equipment Program | 499,355 | - | 196,315 | (33,155) | 163,160 |
| Total | <u>\$ 6,021,460</u> | <u>\$ 2,495,855</u> | <u>\$ 4,042,200</u> | <u>\$ 283,695</u> | <u>\$ 4,325,895</u> |

* Excludes deferral on debt defeasance

VIRGINIA COLLEGE BUILDING AUTHORITY
SUPPLEMENTARY INFORMATION
Schedule of Outstanding Bond Issues for Private Colleges and Universities
June 30, 2013
(Dollars in Thousands)

| College/University | Series | Dated Date | Yield (a) | Amount Originally Issued | Amount of Notes Purchased | Outstanding July 1, 2012 | Issued (Retired) During Year | Outstanding June 30, 2013 | Original Final Maturity |
|-----------------------------|--------|------------|-----------|--------------------------|---------------------------|--------------------------|------------------------------|---------------------------|-------------------------|
| Hampden-Sydney College | 2010 | 05/13/10 | 2.57% | 7,190 | 7,190 | 5,415 | (950) | 4,465 | 09/01/18 |
| Hampton University | 2003 | 04/16/03 | 3.64% | 16,670 | 16,670 | 3,545 | (1,730) | 1,815 | 04/01/14 |
| | 2005 | 04/29/05 | 4.16% | 24,500 | 24,500 | 19,425 | (1,695) | 17,730 | 04/01/20 |
| Liberty University | 2010 | 12/21/10 | 4.85% | 119,705 | 119,705 | 118,795 | (2,055) | 116,740 | 03/01/41 |
| Lynchburg College | 2010 | 12/21/10 | VAR | 8,838 | 8,838 | 8,257 | (447) | 7,810 | 12/01/34 |
| Marymount University | 1998 | 11/01/98 | 5.08% | 26,015 | 26,015 | 17,095 | (990) | 16,105 | 07/01/28 |
| | 2009 | 03/04/09 | VAR | 40,000 | 40,000 | 39,700 | (1,200) | 38,500 | 03/01/39 |
| Randolph Macon College | 1998 | 04/01/98 | 4.59% | 9,830 | 9,830 | 9,830 | (9,830) | - | 03/01/13 |
| Regent University | 2006 | 08/09/06 | 5.03% | 99,105 | 99,105 | 88,475 | (505) | 87,970 | 06/01/36 |
| Roanoke College | 2007 | 06/06/07 | 4.64% | 20,430 | 20,430 | 18,360 | (310) | 18,050 | 06/30/37 |
| Shenandoah University | 2011 | 12/09/11 | VAR | 36,455 | 36,455 | 36,455 | (1,220) | 35,235 | 12/27/36 |
| University of Richmond | 2004A | 08/01/04 | VAR | 46,000 | 46,000 | 46,000 | - | 46,000 | 08/01/34 |
| | 2006 | 11/08/06 | VAR | 55,900 | 55,900 | 55,900 | - | 55,900 | 11/01/36 |
| | 2011A | 02/01/11 | 3.14% | 27,045 | 27,045 | 25,355 | (1,845) | 23,510 | 03/01/23 |
| | 2011B | 02/28/11 | 3.19% | 40,505 | 40,505 | 40,505 | - | 40,505 | 03/01/21 |
| | 2012 | 11/06/12 | 3.39% | 60,000 | 60,000 | - | 60,000 | 60,000 | 03/01/42 |
| Washington & Lee University | 1998 | 04/01/98 | 5.10% | 52,205 | 52,205 | 52,205 | - | 52,205 | 01/01/31 |
| | 2001 | 06/01/01 | 5.35% | 43,000 | 43,000 | 43,000 | - | 43,000 | 01/01/34 |
| | 2006 | 08/10/06 | 4.26% | 20,045 | 20,045 | 11,280 | (1,310) | 9,970 | 01/01/26 |
| | | | | <u>\$ 753,438</u> | <u>\$ 753,438</u> | <u>\$ 639,597</u> | <u>\$ 35,913</u> | <u>\$ 675,510</u> | |

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



Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

December 13, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

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

Board of Directors
Virginia College Building Authority

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and major special revenue fund of the **Virginia College Building Authority**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

www.apa.virginia.gov | (804) 225-3350 | reports@apa.virginia.gov

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major special revenue fund of the Virginia College Building Authority as of June 30, 2013, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Virginia College Building Authority's basic financial statements. The Detail of Long-Term Indebtedness and Schedule of Outstanding Bond Issues for Private Colleges and Universities are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The Detail of Long-Term Indebtedness and Schedule of Outstanding Bond Issues for Private Colleges and Universities are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Detail of Long-Term Indebtedness and Schedule of Outstanding Bond Issues for Private Colleges and Universities are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 13, 2013, on our consideration of the Virginia College Building Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal

control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.


AUDITOR OF PUBLIC ACCOUNTS

SAH/alh

VIRGINIA COLLEGE BUILDING AUTHORITY
Richmond, Virginia

BOARD MEMBERS

As of June 30, 2013

Anne C.H. Conner, Chairman

Jefferson S. Cooper, Vice Chairman

Sylvia Le Torrente

William J. Vakos, III

Joseph S. Testa

John R. Vogt

EX OFFICIO

Manju S. Ganeriwala, Treasurer, State Treasurer

Peter A. Blake, Executive Director, State Council of Higher Education for Virginia

David A. Von Moll, State Comptroller

Daniel S. Timberlake, Director, Department of Planning and Budget