

**VIRGINIA COLLEGE BUILDING AUTHORITY**

**FINANCIAL STATEMENTS (Unaudited)**

**FOR THE YEAR ENDED JUNE 30, 2014**



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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, 2014. 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 21<sup>st</sup> 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 \$87.3 million of bonds under this Program.

The 21<sup>st</sup> Century Program and the Equipment Program were established in 1996 and 1986, respectively, and provide financing for state-supported institutions of higher education. The 21<sup>st</sup> 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 21<sup>st</sup> Century College and Equipment Programs offering. During the year, the Authority issued \$678.8 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.

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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.

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 21<sup>st</sup> 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.

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**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)

	2014	2013
Current assets	\$ 497	\$ 271
Noncurrent assets	1,692	1,712
Total assets	2,189	1,983
Total deferred outflows	11	13
Current liabilities	614	588
Noncurrent liabilities	4,739	4,252
Total liabilities	5,353	4,840
Net position (deficit):		
Restricted	176	-
Unrestricted	(3,329)	(2,844)
Total net position (deficit)	\$ (3,153)	\$ (2,844)

Net position decreased by \$309 million, or 11%, in fiscal year 2014 as compared to fiscal year 2013. The 21<sup>st</sup> Century College and Equipment Programs comprise the majority of the Authority's net position. During the year the Authority spent \$651 million on disbursements to institutions and on bond interest expenses. Offsetting revenues were only \$344 million. The Authority's total assets increased by \$206 million, or 10%, primarily attributable to a \$235 million increase in the 21<sup>st</sup> Century College and Equipment Programs' assets and a \$29 million decrease in the Pooled Bond Program's total assets. Increases in assets were primarily driven by program receipts exceeding program disbursements. Decreases in liabilities under the Pooled Bond Program offset the Pooled Bond asset decrease, leaving a minimal change in Pooled Bond net position, while liabilities under the 21<sup>st</sup> Century College and Equipment Programs increased by \$555 million. The increase in 21<sup>st</sup> Century liabilities is tied to bonds issued. This increase is somewhat offset by the unspent proceeds available at year-end.

Deficit net position reported by the Authority is a function of the reporting of outstanding obligations for the 21<sup>st</sup> 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

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not permit the reporting of these receivables prior to their receipt. The General Assembly has never failed to appropriate funds to the Authority for payment of debt service on the Authority's bonds.

**Condensed Statement of Activities**  
**(in millions)**

	2014	2013
Revenues:		
Appropriations from the Commonwealth	\$ 253	\$ 227
Other revenues	91	91
Total revenues	344	318
Expenses:		
Interest on long-term debt	187	175
Construction and equipment disbursements	464	565
Other	2	1
Total expenses	653	741
Decrease in net position	(309)	(423)
Net position (deficit) July 1	(2,844)	(2,421)
Net position (deficit) June 30	\$ (3,153)	\$ (2,844)

The increase in revenues of \$26 million, or 8%, is attributable to a \$26 million increase in debt service-related receipts. The decrease in expenditures of \$88 million is primarily due to a \$100 million decrease in disbursements to higher education institutions, combined with an increase of \$11 million in debt service-related disbursements.

**Financial Analysis of the Authority's Funds**

In the Special Revenue Fund, total assets increased by \$219 million, or 121%, in fiscal year 2014. This is primarily attributable to current period receipts (comprised of \$795 million in spendable bond proceeds and \$436 million in receipts for debt service) exceeding current period expenditures (comprised of \$560 million in disbursements to institutions and \$436 million in debt service expenditures). Liabilities decreased by \$15 million, or 13%. This is primarily due to a decrease 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

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obligations of the recipient institutions of higher education; other bonds are secured by amounts to be appropriated by the General Assembly. The table below summarizes bond issuance activity during the year under each program.

**Summary of Authority Bond Obligations**  
(in millions)

	21st Century Program - Capital	21st Century Program - Equipment	Pooled Bond Program	Total
Outstanding, 7/1/13	\$ 2,389	\$ 163	\$ 1,774	\$ 4,326
Issued during year	568	111	87	766
Retired during year	(114)	(35)	(92)	(241)
Defeased during year	(30)		(8)	(38)
Unamortized premium on bonds	233			233
Outstanding, 6/30/14	<u>\$ 3,046</u>	<u>\$ 239</u>	<u>\$ 1,761</u>	<u>\$ 5,046</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**

	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fitch</u>
21 <sup>st</sup> 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 (21<sup>st</sup> 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 \$98 million in Educational Facilities Revenue Bonds Series 2014A and \$186 million in Educational Facilities Revenue Refunding Bonds Series 2014B. The 2014A bonds will be used to acquire Institutional Notes from participating public institutions of higher education and to finance capital projects approved by the General Assembly. The 2014B bonds will be used to refund certain maturities of prior Authority bonds. The bond sale occurred on October 22, 2014, and is anticipated to close on November 13, 2014.

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## STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET (Unaudited)

As of June 30, 2014

	Special Revenue Fund	Adjustments (Note 1G)	Statement of Net Position
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 398,063,370	\$ -	\$ 398,063,370
Short-term notes receivable	-	99,090,000	99,090,000
Interest receivable	38,407	-	38,407
Total current assets	<u>398,101,777</u>	<u>99,090,000</u>	<u>497,191,777</u>
Noncurrent assets:			
Restricted cash and cash equivalents	1,296,448	-	1,296,448
Long-term notes receivable	-	1,660,880,000	1,660,880,000
Restricted interest receivable	345	24,791,264	24,791,609
Due from the federal government	-	5,021,841	5,021,841
Total noncurrent assets	<u>1,296,793</u>	<u>1,690,693,105</u>	<u>1,691,989,898</u>
Total assets	<u>\$ 399,398,570</u>	<u>1,789,783,105</u>	<u>2,189,181,675</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charge on refunding		10,775,000	10,775,000
Total deferred charge on refunding		<u>10,775,000</u>	<u>10,775,000</u>
<b>LIABILITIES</b>			
Current liabilities:			
Due to higher education institutions	\$ 57,270,751	122,958,242	180,228,993
Allocation payable	42,232,734	-	42,232,734
Interest payable	-	84,374,972	84,374,972
Bonds payable	-	288,095,000	288,095,000
Premium on bonds sold	-	18,884,101	18,884,101
Accounts payable	-	7,033	7,033
Total current liabilities	<u>99,503,485</u>	<u>514,319,348</u>	<u>613,822,833</u>
Noncurrent liabilities:			
Bonds payable	-	4,524,640,000	4,524,640,000
Premium on bonds sold	-	214,470,252	214,470,252
Total noncurrent liabilities	<u>-</u>	<u>4,739,110,252</u>	<u>4,739,110,252</u>
Total liabilities	<u>99,503,485</u>	<u>5,253,429,600</u>	<u>5,352,933,085</u>
<b>FUND BALANCE/NET POSITION:</b>			
Fund balance:			
Restricted for construction and equipment	298,598,637	(298,598,637)	-
Restricted for debt service	1,296,448	(1,296,448)	-
Total fund balance	<u>299,895,085</u>	<u>(299,895,085)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 399,398,570</u>		
Net position (deficit):			
Restricted for construction and equipment purchases		175,633,017	175,633,017
Restricted for debt service		22,625	22,625
Unrestricted		<u>(3,328,632,052)</u>	<u>(3,328,632,052)</u>
Total net position (deficit)		<u>\$ (3,152,976,410)</u>	<u>\$ (3,152,976,410)</u>

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 (Unaudited) For the Fiscal Year Ended June 30, 2014

	Special Revenue Fund	Adjustments (Note 1G)	Statement of Activities
<b>REVENUES:</b>			
Interest on investments	\$ 337,602	\$ (211,843)	\$ 125,759
Interest on bonds	78,166,028	(409,586)	77,756,442
Receipt of note principal payments	92,409,920	(92,409,920)	-
Appropriations from the Commonwealth	253,242,791	-	253,242,791
Interest on Build America Bonds	12,460,424	81,172	12,541,596
	<b>Total revenues</b>	<b>(92,950,177)</b>	<b>343,666,588</b>
<b>EXPENDITURES/EXPENSES:</b>			
Current:			
Legal and financial services	397,383	(230,246)	167,137
Bond rating fees	500,323	(93,000)	407,323
Printing and electronic distributions	7,841	(2,526)	5,315
Equipment allocation	57,380,707	-	57,380,707
Disbursement to higher education institutions	503,102,751	(96,014,506)	407,088,245
Underwriter's discount	2,195,471	(1,228,182)	967,289
Miscellaneous	10,243	(6,681)	3,562
Debt service:			
Principal retirement	241,315,000	(241,315,000)	-
Interest and fiscal charges	195,062,819	(8,569,767)	186,493,052
	<b>Total expenditures/expenses</b>	<b>(347,459,908)</b>	<b>652,512,630</b>
			-
Excess (deficiency) of revenues over (under) expenditures	(563,355,773)	-	-
Other financing sources (uses):			
Bond issuance	766,125,000	(766,125,000)	-
Bond premium	71,005,745	(71,005,745)	-
Payments to refunded bond escrow agent	(39,652,885)	39,652,885	-
	<b>Total other financing sources (uses)</b>	<b>(797,477,860)</b>	<b>-</b>
			-
Excess of revenues and other financing sources over expenditures and other financing uses	234,122,087	(234,122,087)	-
Change in net position	-	(308,846,042)	(308,846,042)
Fund balance/Net position (deficit), July 1, 2013	65,772,998	(2,909,903,366)	(2,844,130,368)
Fund balance/Net position (deficit), June 30, 2014	\$ 299,895,085	\$ (3,452,871,495)	\$ (3,152,976,410)

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

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NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

AS OF JUNE 30, 2014

**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 21<sup>st</sup> 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 21<sup>st</sup> 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, 2014 was \$660,169,000. (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

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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 21<sup>st</sup> 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.

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**D. Change in Accounting Principles**

The Authority implemented Governmental Accounting Standards Board Statement 65, *Items Previously Reported as Assets and Liabilities*, in the fiscal year ending June 30, 2014. In accordance with GASB Statement 65, the deferred charge on debt refundings is now included in the Deferred Outflows of Resources section of the Statement of Net Position. Previously, the deferral had been included as a reduction to bonds payable. Prior year comparative data in these financial statements has been revised to reflect the current year presentation. The change had no effect on the Authority's net position.

**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.

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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, 2014, The Bank of New York Mellon Trust Company, N.A., which currently serves as trustee for both Indentures, maintained \$399,312,354 in cash and cash equivalents for the Authority. The Authority also directly held cash equivalents of \$47,464 for a total invested balance of \$399,359,818.

At June 30, 2014, the Authority's funds were held in the Local Government Investment Pool, the State Non-Arbitrage Program<sup>®</sup>, 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, 2014

	Fair Value
Cash and cash equivalents:	
State Non-Arbitrage Program <sup>®</sup> (1)	\$ 122,942,714
Local Government Investment Pool <sup>(2)</sup>	275,113,471
Money Market Funds <sup>(3)</sup>	1,296,600
Cash	7,033
Total cash and cash equivalents	\$ 399,359,818

(1) The Virginia State Non-Arbitrage Program<sup>®</sup> (SNAP<sup>®</sup>) 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<sup>®</sup> 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

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

<sup>(3)</sup> 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, 2014

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 99,090,000	\$ 78,470,255	\$ 177,560,255
2016	106,400,000	73,677,486	180,077,486
2017	106,295,000	68,614,737	174,909,737
2018	111,335,000	63,475,662	174,810,662
2019	111,410,000	58,246,968	169,656,968
2020 - 2024	533,325,000	213,965,317	747,290,317
2025 - 2029	447,210,000	101,272,232	548,482,232
2030 - 2034	169,625,000	31,858,448	201,483,448
2035 - 2039	57,090,000	10,006,469	67,096,469
2040 - 2043	18,190,000	1,284,461	19,474,461
Total	<u>\$ 1,759,970,000</u>	<u>\$ 700,872,035</u>	<u>\$ 2,460,842,035</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 21<sup>st</sup> 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

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subsidy payments which will be due on August 1, 2014 (21<sup>st</sup> Century Bonds) and September 1, 2014 (Pooled Bonds). As a result of the Federal Sequestration, the actual August 1, 2014 payment was reduced by 7.2% 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, 2014 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 2014, institutions purchased and obtained reimbursement for \$5,084,327 in equipment, relating to the FY 2014 appropriation, leaving \$59,133,828 of this allocation outstanding at June 30, 2014. Institutions also purchased and obtained reimbursement for \$61,224,000 in equipment related to the FY 2013 allocation, leaving a balance of \$994,155 outstanding at June 30, 2014. The remaining \$332,535 in the FY 2012 allocation was also reimbursed leaving a balance of zero at June 30, 2014. Amounts reflected as “allocation payable” in the government-wide and fund financial statements represent normal year-end payables to institutions as a result of on-going operations.

VIRGINIA COLLEGE BUILDING AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

**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, 2014.

Payable at July 1, 2013, revised *	\$ 4,511,094,761
Bonds issued	766,125,000
Bonds retired	(241,315,000)
Bonds refunded	(37,970,000)
Premium on bonds sold	67,586,116
Annual amortization of premium on bonds sold	(19,431,524)
Bonds payable at June 30, 2014	\$ 5,046,089,353

\* The July 1, 2013 amount has been revised to reflect the removal of the prior year deferral on debt defeasance which had 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, 2014

Year Ending June 30	Principal	Interest	Total
2015	\$ 288,095,000	\$ 215,151,643	\$ 503,246,643
2016	298,830,000	201,234,329	500,064,329
2017	307,140,000	187,654,616	494,794,616
2018	299,355,000	173,514,864	472,869,864
2019	293,370,000	159,794,970	453,164,970
2020 - 2024	1,380,045,000	601,552,744	1,981,597,744
2025 - 2029	1,259,365,000	301,309,688	1,560,674,688
2030 - 2034	611,255,000	74,805,476	686,060,476
2035 - 2039	57,090,000	10,006,469	67,096,469
2040 - 2043	18,190,000	1,284,461	19,474,461
Add: Unamortized			
Premium	233,354,353	-	233,354,353
Total	\$5,046,089,353	\$1,926,309,260	\$ 6,972,398,613

**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 (Unaudited)

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 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.

The Authority issued two series of refunding bonds in fiscal year 2014. The schedule below reflects the refunding activity during the year.

Refunding Bonds Issued During Fiscal Year 2014

Program	Refunding Issue	Refunded Issue	Maturities Defeased	Amount Defeased
Pooled	2013B	2006A	2014-2027	\$ 6,515,000
Pooled	2013B	2009A	2014-2028	1,575,000
21st Century	2014B	2004B	2015-2020	25,040,000
21st Century	2014B	2005A	2025	<u>4,840,000</u>
Total Defeased, FY 2014				<u>\$ 37,970,000</u>

The issuance of the Authority's Series 2013B Pooled Program refunding bonds refunded two series of the Authority's bonds as reflected on the above schedule. This defeasance resulted in an accounting loss of \$850,000. Total debt service payments over the next 16 years will be increased by \$621,356.92 resulting in a present value loss of \$467,345.96 discounted at the rate of 3.5099788 percent.

The issuance of the Authority's Series 2014B 21<sup>st</sup> Century Program refunding bonds refunded two series of the Authority's bonds as reflected on the above schedule. This defeasance resulted in an accounting loss of \$964,000. Total debt service payments over the next 11 years will be reduced by \$2,826,966 resulting in a present value savings of \$2,751,606 discounted at the rate of 2.6870668 percent.

At June 30, 2014, \$190,575,000 of bonds outstanding are considered defeased for financial reporting purposes.

VIRGINIA COLLEGE BUILDING AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

**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 21<sup>st</sup> 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 \$3,152,976,410. 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 \$98 million in Educational Facilities Revenue Bonds Series 2014A and \$186 million in Educational Facilities Revenue Refunding Bonds Series 2014B. The 2014A bonds will be used to acquire Institutional Notes from participating public institutions of higher education and to finance capital projects approved by the General Assembly. The 2014B bonds will be used to refund certain maturities of prior Authority bonds. The bond sale occurred on October 22, 2014, and is anticipated to close on November 13, 2014.

**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 (Unaudited)**  
**June 30, 2014**  
**(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, 2013	Issued (Retired) During Year	Outstanding June 30, 2014	Original Maturity
Series 2003A	11/01/03	Pooled	4.22%	115,715	115,715	5,200	(5,200)	-	09/01/30
Series 2004A	07/01/04	21st Century/Equip.	4.13%	172,745	-	5,950	(5,950)	-	02/01/24
Series 2004A	10/01/04	Pooled	4.25%	112,935	112,935	18,230	(4,575)	13,655	09/01/35
Series 2004B Refunding	10/01/04	Pooled	3.75%	103,205	103,205	71,010	(14,810)	56,200	09/01/19
Series 2004B Refunding	12/01/04	21st Century	4.06%	61,395	-	32,850	(32,850)	-	02/01/20
Series 2005A	05/15/05	21st Century/Equip.	3.79%	115,785	-	10,865	(7,780)	3,085	02/01/25
Series 2005A	11/03/05	Pooled	4.27%	115,975	115,975	30,340	(4,855)	25,485	09/01/26
Series 2006BC	09/14/06	21st Century/Equip.	VAR	120,000	-	95,300	(5,745)	89,555	02/01/26
Series 2006A	11/30/06	Pooled	4.16%	156,130	156,130	128,015	(12,765)	115,250	09/01/28
Series 2007A Refunding	02/27/07	21st Century	4.08%	59,125	-	59,125	(930)	58,195	02/01/22
Series 2007A	10/31/07	Pooled	4.38%	216,905	216,905	185,905	(7,675)	178,230	09/01/37
Series 2007B	05/31/07	21st Century/Equip.	4.04%	132,095	-	18,890	(2,050)	16,840	02/01/27
Series 2007B Refunding	10/31/07	Pooled	4.05%	100,765	100,765	96,235	(435)	95,800	09/01/19
Series 2008A	06/12/08	21st Century/Equip.	3.93%	144,075	-	94,655	(11,210)	83,445	02/01/28
Series 2009A	01/21/09	Pooled	4.19%	291,645	291,645	251,640	(15,975)	235,665	09/01/38
Series 2009A	04/28/09	21st Century	4.30%	284,020	-	247,040	(9,405)	237,635	02/01/29
Series 2009B	04/28/09	21st Century	5.04%	84,680	-	50,375	(9,115)	41,260	02/01/18
Series 2009C Refunding	04/28/09	21st Century	2.45%	12,945	-	6,575	(1,045)	5,530	02/01/15
Series 2009D	10/08/09	21st Century/Equip.	2.05%	52,420	-	32,425	(7,610)	24,815	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	-	70,010	(9,750)	60,260	02/01/23
Series 2009B	12/09/09	Pooled	4.01%	235,945	235,945	217,630	(7,530)	210,100	09/01/39
Series 2009F1	12/17/09	21st Century	0.91%	53,880	-	14,365	(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	-	29,600	(7,070)	22,530	02/01/17
Series 2010B-1	10/26/10	21st Century	1.36%	55,815	-	30,635	(14,945)	15,690	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	53,060	(7,920)	45,140	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	94,805	(8,935)	85,870	09/01/27
Series 2011A	08/16/11	21st Century/Equip.	3.27%	272,515	-	264,825	(13,775)	251,050	02/01/32
Series 2011A	11/16/11	Pooled	3.32%	163,335	163,335	159,960	(7,510)	152,450	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	-	316,440	(15,340)	301,100	02/01/32
Series 2012B	11/29/12	Pooled	2.55%	141,070	141,070	140,075	(2,315)	137,760	09/01/42
Series 2012B	12/13/12	21st Century	2.42%	349,255	-	349,255	(8,180)	341,075	02/01/33
Series 2012C	12/13/12	21st Century	1.18%	8,350	-	8,350	(1,670)	6,680	02/01/18
Series 2013A	09/26/13	21st Century	3.63%	331,705	-	-	331,705	331,705	02/01/34
Series 2013A	11/19/13	Pooled	3.67%	74,925	74,925	-	74,925	74,925	09/01/43
Series 2013B	11/19/13	Pooled	3.24%	12,355	12,355	-	12,355	12,355	09/01/28
Series 2014A	05/15/14	21st Century/Equip.	3.04%	319,155	-	-	319,155	319,155	02/01/34
Series 2014B	05/15/14	21st Century	1.71%	27,985	-	-	27,985	27,985	02/01/25
<b>Total</b>				<b>\$ 6,261,495</b>	<b>\$ 2,328,090</b>	<b>\$ 4,325,895</b>	<b>\$ 486,840</b>	<b>\$ 4,812,735</b>	

**Detail of Long-Term Indebtedness by Program**

	Amount Issued	Institutional Notes Purchased	Outstanding July 1, 2013	Issued (Retired) During Year	Outstanding June 30, 2014
21st Century College Program	\$ 3,323,515	\$ -	\$ 2,389,545	\$ 424,340	\$ 2,813,885
Pooled Bond Program	2,328,090	2,328,090	1,773,190	(13,220)	1,759,970
Equipment Program	609,890	-	163,160	75,720	238,880
<b>Total</b>	<b>\$ 6,261,495</b>	<b>\$ 2,328,090</b>	<b>\$ 4,325,895</b>	<b>\$ 486,840</b>	<b>\$ 4,812,735</b>

**VIRGINIA COLLEGE BUILDING AUTHORITY**  
**SUPPLEMENTARY INFORMATION**  
**Schedule of Outstanding Bond Issues for Private Colleges and Universities (Unaudited)**  
**June 30, 2014**  
**(Dollars in Thousands)**

College/University	Series	Dated Date	Yield (a)	Amount Originally Issued	Amount of Notes Purchased	Outstanding July 1, 2013	Issued (Retired) During Year	Outstanding June 30, 2014	Original Final Maturity
Hampden-Sydney College	2010	05/13/10	2.57%	7,190	7,190	4,465	(980)	3,485	09/01/18
Hampton University	2003	04/16/03	3.64%	16,670	16,670	1,815	(1,815)	-	04/01/14
	2005	04/29/05	4.16%	24,500	24,500	17,730	(1,765)	15,965	04/01/20
Liberty University	2010	12/21/10	4.85%	119,705	119,705	116,740	(2,135)	114,605	03/01/41
Lynchburg College	2010	12/21/10	VAR	8,838	8,838	7,810	(471)	7,339	12/01/34
Marymount University	1998	11/01/98	5.08%	26,015	26,015	16,105	(1,035)	15,070	07/01/28
	2009	03/04/09	VAR	40,000	40,000	38,500	(1,200)	37,300	03/01/39
Regent University	2006	08/09/06	5.03%	99,105	99,105	87,970	(535)	87,435	06/01/36
Roanoke College	2007	06/06/07	4.64%	20,430	20,430	18,050	(870)	17,180	06/30/37
Shenandoah University	2011	12/09/11	VAR	36,455	36,455	35,235	(1,265)	33,970	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	23,510	(1,900)	21,610	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	9,970	(1,370)	8,600	01/01/26
				<u>\$ 743,608</u>	<u>\$ 743,608</u>	<u>\$ 675,510</u>	<u>\$ (15,341)</u>	<u>\$ 660,169</u>	

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

VIRGINIA COLLEGE BUILDING AUTHORITY  
Richmond, Virginia

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