

VIRGINIA PUBLIC BUILDING AUTHORITY

FINANCIAL STATEMENTS (Unaudited)

FOR THE YEAR ENDED JUNE 30, 2015



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

This section of the Virginia Public Building Authority's (the Authority) annual financial report presents an analysis of the Authority's financial performance during the fiscal year that ended on June 30, 2015. This information should be considered in conjunction with the information contained in the financial statements.

Authority Activities and Highlights

The Authority is a political subdivision of the Commonwealth of Virginia (the Commonwealth) and is created under the Virginia Public Building Authority Act of 1981, Article 6, Chapter 22, Title 2.2, *Code of Virginia* of 1950, as amended. The Authority is authorized to issue bonds or notes to construct, improve, furnish, maintain, acquire, finance and refinance certain public facilities for the use of the Commonwealth, its agencies and instrumentalities; to finance or refinance capital projects that benefit the Commonwealth and any of its authorities, agencies, instrumentalities or regional or local authorities; and to finance or refinance reimbursements to localities or governmental entities of the Commonwealth's share of the capital costs for certain authorized projects. All projects financed by the Authority must first be authorized/approved by the General Assembly. The Authority serves exclusively as a financing entity with the sole function of issuing and managing debt. Debt service for all bonds issued by the Authority is secured by appropriations from the Commonwealth, as authorized by the General Assembly.

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.

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.

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 backed by appropriations from the Commonwealth, as authorized by the General Assembly.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Fund Financial Statements

The fund financial statements provide detailed information about the Authority's major fund. 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 flow of 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 financial statements 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 funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental funds and the governmental activities. These reconciliations are presented in the adjustment column in each of the financial statements.

Notes to the Financial Statements

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

Government-wide Financial Analysis of the Authority

The primary purpose of the Authority is to provide a vehicle for financing public facilities for the use of the Commonwealth and its agencies and instrumentalities, and to finance reimbursements of the Commonwealth's share of local or regional jails and juvenile detention facilities costs. 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 primarily from bond proceeds.

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

Statement of Net Position
(in millions)

	2015	2014
Current assets	\$ 297	\$ 60
Deferred Outflows of Resources	41	23
Current liabilities	239	264
Noncurrent liabilities	2,441	2,174
Total liabilities	2,680	2,438
Net position (deficit)	\$ (2,342)	\$ (2,355)

The Authority's net position increased by 0.6% or \$13 million in 2015. The increase is due to several factors. Available cash increased by \$237 million (as a result of bond proceeds on a 2015 issuance) and deferred outflows of resources increased by \$18 million (as a result of deferral on new bond refundings net of current year amortization of the charge on refunding). Amounts due to agencies and localities decreased by \$4 million (as a result of normal fluctuations in project activity), and bond interest payable decreased by \$3 million (as a result of the underlying structure of the outstanding bonds). This activity is offset by an increase in outstanding bonds payable by \$190 million (as a result of new bonds issued in excess of bonds redeemed), and an increase in outstanding bond premiums by \$59 million (due to premium on new bond issuances net of current year premium amortization).

Net position consistently maintains a deficit balance because the Authority includes the bonds payable liability in its financial statements without including the future appropriations expected from the Commonwealth. Future appropriations are not considered available and do not constitute a legally binding commitment and are therefore not eligible to be included in the financial statements. The General Assembly has never failed to appropriate funds to the Authority for payment of debt service on the Authority's bonds.

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

Changes in Net Position
(in millions)

Revenues:	2015	2014
Appropriation from the Commonwealth	\$ 275	\$ 269
Other revenue	8	10
Total revenues	283	279
Expenses:		
Interest on long-term debt	74	92
Disbursements for state and local projects	196	159
Total expenses	270	251
Changes in net assets	13	28
Net position (deficit), July 1	(2,355)	(2,383)
Net position (deficit), June 30	\$ (2,342)	\$ (2,355)

The Authority's revenues increased by 1.4% or \$4 million compared to last year while expenses increased by 7.6% or \$19 million. The increase in revenue is largely due to the increase in the appropriation receipt from the Commonwealth of \$6 million, which resulted from the larger debt service requirement for the year. This increase was offset by a \$2 million receipt from the sale of an asset in 2014 (a similar sale did not occur in 2015). The increase in expenses was attributable to a net increase in distributions for construction projects of \$41 million and a net decrease in reimbursements made to localities for various regional jail projects of \$6 million and interest on long term debt of \$18 million. The remaining variance is reflected in several smaller categories. The fluctuations in revenues and expenses are expected due to the nature of the Authority's operations.

Debt Administration

As a financing entity, the sole 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. All bonds are secured by amounts to be appropriated by the General Assembly.

The following is a summary of changes in long-term debt of the Authority at June 30, 2015:

Payable at July 1, 2014	\$ 2,374,835,622
Bonds issued	828,710,000
Bonds redeemed	(182,730,000)
Bonds defeased	(456,075,000)
Net amortized premium on bonds sold	58,706,840
Payable at June 30, 2015	\$ 2,623,447,462

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

The Authority's outstanding bonds are rated as follows:

Moody's Investors Service (Moody's)	Aa1
Standard and Poor's Rating Service (S&P)	AA+
Fitch Ratings, Inc. (Fitch)	AA+

Since the Authority's bonds are backed by state appropriations, 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 currently does not have any plans to issue bonds in the immediate future.

VIRGINIA PUBLIC BUILDING AUTHORITY
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
(Unaudited)
As of June 30, 2015

	Special Revenue Fund	Adjustments	Statement of Net Position
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 294,569,318	\$ -	\$ 294,569,318
Due from the Federal Government	-	3,088,096	3,088,096
Interest receivable	33,749	-	33,749
Total assets	<u>\$ 294,603,067</u>	<u>3,088,096</u>	<u>297,691,163</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding		40,894,036	40,894,036
Total deferred outflows of resources		<u>40,894,036</u>	<u>40,894,036</u>
LIABILITIES			
Current liabilities:			
Bond interest payable	\$ -	40,427,637	40,427,637
Due to state institutions	16,459,762	-	16,459,762
Bonds payable	-	160,470,000	160,470,000
Premium on bonds sold	-	21,564,333	21,564,333
Accounts payable	76,980	-	76,980
Total current liabilities	<u>16,536,742</u>	<u>222,461,970</u>	<u>238,998,712</u>
Noncurrent liabilities:			
Bonds payable	-	2,256,990,000	2,256,990,000
Premium on bonds sold	-	184,423,129	184,423,129
Total noncurrent liabilities	<u>-</u>	<u>2,441,413,129</u>	<u>2,441,413,129</u>
Total liabilities	<u>16,536,742</u>	<u>2,663,875,099</u>	<u>2,680,411,841</u>
FUND BALANCE/NET POSITION:			
Fund balance:			
Restricted for construction projects	277,972,946	(277,972,946)	-
Restricted for debt service	93,379	(93,379)	-
Total fund balance	<u>278,066,325</u>	<u>(278,066,325)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 294,603,067</u>		
Net position (deficit):			
Unrestricted		<u>(2,341,826,642)</u>	<u>(2,341,826,642)</u>
Total net position (deficit)		<u>\$ (2,341,826,642)</u>	<u>\$ (2,341,826,642)</u>

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

VIRGINIA PUBLIC BUILDING AUTHORITY
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE (Unaudited)
For the Fiscal Year Ended June 30, 2015

	Special Revenue Fund	Adjustments	Statement of Activities
	<u> </u>	<u> </u>	<u> </u>
REVENUES:			
Interest on investments	\$ 211,190	\$ -	\$ 211,190
Interest on Build America Bonds	7,415,429	(3,332)	7,412,097
Appropriations from the Commonwealth	275,722,888	-	275,722,888
	<u> </u>	<u> </u>	<u> </u>
Total revenues	283,349,507	(3,332)	283,346,175
	<u> </u>	<u> </u>	<u> </u>
EXPENDITURES/EXPENSES:			
Current:			
Legal and financial services	256,773	-	256,773
Disbursements to institutions	159,341,845	-	159,341,845
Disbursements to localities	33,981,671	-	33,981,671
Underwriter's discount	1,655,469	-	1,655,469
Bond rating fees	359,470	-	359,470
Miscellaneous expenditures	4,307	-	4,307
Debt service:			
Principal retirement	182,730,000	(182,730,000)	-
Interest and fiscal charges	100,408,316	(26,174,634)	74,233,682
	<u> </u>	<u> </u>	<u> </u>
Total expenditures/expenses	478,737,851	(208,904,634)	269,833,217
	<u> </u>	<u> </u>	<u> </u>
Excess (deficiency) of revenues over (under) expenditures	(195,388,344)	-	-
	<u> </u>	<u> </u>	<u> </u>
Other financing sources (uses):			
Payments to refunded bond escrow agent	(492,628,119)	492,628,119	-
Debt issuance	828,710,000	(828,710,000)	-
Bond premium	100,723,030	(100,723,030)	-
Total other financing sources (uses)	436,804,911	(436,804,911)	-
	<u> </u>	<u> </u>	<u> </u>
Deficiency of revenues and other financing sources under expenditures and other financing uses	241,416,567	(241,416,567)	-
	<u> </u>	<u> </u>	<u> </u>
Change in net position	-	13,512,958	13,512,958
	<u> </u>	<u> </u>	<u> </u>
Fund balance/Net position (deficit), July 1, 2014	36,649,758	(2,391,989,358)	(2,355,339,600)
	<u> </u>	<u> </u>	<u> </u>
Fund balance/Net position (deficit), June 30, 2015	\$ 278,066,325	\$ (2,619,892,967)	\$ (2,341,826,642)
	<u> </u>	<u> </u>	<u> </u>

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Authority was created in 1981 by §2.2-2260 et seq., of the *Code of Virginia*, and is authorized to issue bonds or notes to construct, improve, furnish, maintain, acquire, finance and refinance certain public facilities for the use of the Commonwealth, its agencies and instrumentalities; to finance or refinance capital projects that benefit the Commonwealth and any of its authorities, agencies, instrumentalities or regional or local authorities; and to finance or refinance reimbursements to localities or governmental entities of the Commonwealth's share of the capital costs for certain authorized projects. The Authority is authorized to undertake a project only upon approval of the General Assembly of the Commonwealth.

In 1997 the Authority created the 1997 Master Indenture of Trust (the 1997 Indenture). The 1997 Indenture utilizes a single payment agreement to provide for debt service payments. Debt service payments are subject to General Assembly appropriation. In addition, the 1997 Indenture provides for the issuance of commercial paper bond anticipation notes. All bonds currently outstanding have been issued under the 1997 Indenture and no obligations issued under the Authority's previous 1988 Indenture remain outstanding.

A separate report is prepared for the Commonwealth of Virginia, which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Authority is a component unit of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth.

The accounting and reporting policies of the Authority conform to generally accepted accounting principles (GAAP) 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.

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

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 the GASB. The accompanying government-wide financial statements are presented using 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 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. The fund was established in accordance with the provisions of the Trust Agreement entered into with the trustee for each bond indenture.

D. 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.

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 recorded 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.

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

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.

2. DETAILED NOTES ON ALL FUNDS

A. Cash and Cash Equivalents

Cash and cash equivalents of \$294,569,318 are held by The Bank of New York Mellon, as trustee (successor to Signet Bank), under the 1997 Indenture. Cash is defined as demand deposits, time deposits and certificates of deposit in accordance with §2.2-4401 of the *Code of Virginia*. Cash equivalents represent deposits and short-term investments with original maturities of less than three months.

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the “Act”). Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice will pledge collateral that ranges in amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

In accordance with the Trust Subsidiary Act, §6.2-1057 of the *Code of Virginia*, cash held by the trustee while awaiting investment or distribution is not used by an affiliate bank of the trustee in the conduct of its business unless the affiliate bank delivers securities to the trust department as collateral that is at least equal to the market value of the trust funds held on deposit in excess of amounts insured by federal deposit insurance.

The 1997 Indenture authorizes the trustee, on behalf of the Authority, to invest in legal investments for public sinking funds and other public funds as outlined in §2.2-4500 and §2.2-4501 of the *Code of Virginia* which include repurchase agreements, certificates of deposit, commercial paper, bankers’ acceptances, United States Government and agency securities, and money market funds.

Custodial credit risk for cash and cash equivalents is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of the cash and cash equivalents or collateral securities that are in the possession of an outside party. The Trustee complies with the Trust Subsidiary Act, §6.2-1057 of the *Code of Virginia* with regard to the Authority’s assets. The Authority’s

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

investments at June 30, 2015 were held in the Authority's name by the Authority's custodial banks; therefore, the Authority has no custodial credit risk.

The Authority's cash and cash equivalents at June 30, 2015 are presented below.

	Fair Value
As of June 30, 2015	
Cash and cash equivalents:	
Cash	\$ 76,980
State Non-Arbitrage Program ⁽¹⁾	282,362,897
Local Government Investment Pool ⁽²⁾	12,129,441
	\$ 294,569,318

⁽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. The SNAP[®] fund is rated AAAM by Standard and Poor's.

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

B. Long-Term Debt

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, 2015.

Payable at July 1, 2014	\$ 2,374,835,622
Bonds issued	828,710,000
Bonds redeemed	(182,730,000)
Bonds defeased	(456,075,000)
Net amortized premium on bonds sold	58,706,840
Payable at June 30, 2015	\$ 2,623,447,462

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

Annual Requirements to Amortize Long-Term Debt:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 160,470,000	\$ 101,511,638	\$ 261,981,638
2017	177,020,000	99,321,360	276,341,360
2018	160,770,000	91,145,746	251,915,746
2019	145,340,000	83,775,314	229,115,314
2020	146,580,000	76,881,194	223,461,194
2021-2025	721,355,000	284,395,068	1,005,750,068
2026-2030	636,335,000	124,782,477	761,117,477
2031-2035	252,590,000	22,307,974	274,897,974
2036-2040	17,000,000	340,000	17,340,000
Add: unamortized premium	205,987,462		205,987,462
Total	<u>\$ 2,623,447,462</u>	<u>\$ 884,460,771</u>	<u>\$ 3,507,908,233</u>

C. Defeasance of Debt

In prior years, the Authority defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments 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. At June 30, 2015, \$444,555,000 of bonds outstanding is considered defeased for financial reporting purposes. The detail for those balances and the refinancing activities that resulted in the defeasance of the bonds are presented below.

<u>Refunded State Building Revenue Bonds:</u>	<u>Refunded Amount:</u>	<u>Refunding Series:</u>
Series 2005A (partial)	\$ 10,875,000	2015B
Series 2005B (partial)	\$ 28,385,000	2015B
Series 2005C (partial)	\$ 31,390,000	2012A
Series 2005C (partial)	\$ 4,380,000	2014C
Series 2006A (partial)	\$ 18,410,000	2013B
Series 2006A (partial)	\$ 25,985,000	2014C
Series 2006A (partial)	\$ 3,930,000	2015B
Series 2006B (partial)	\$ 54,115,000	2013B
Series 2006B (partial)	\$ 57,420,000	2014C
Series 2007A (partial)	\$ 116,170,000	2014C
Series 2008B (partial)	\$ 93,495,000	2015B

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NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, the difference between the reacquisition price and the net carrying amount of the bonds defeased with refunding debt is amortized as a component of Interest on Bonds over the remaining life of the refunded debt.

In September 2014, the Commonwealth issued \$298,390,000 of Public Facilities Revenue Refunding Bonds, Series 2014C, for the purpose of refunding certain outstanding maturities (“2014 Refunding Bonds”), pursuant to Section 9(d) of Article X of the Constitution. Bonds were issued with a true interest cost (TIC) of 2.1357 percent to refund \$319,390,000 of outstanding Commonwealth of Virginia Public Facilities Revenue Bonds, Series, 2004A, 2004B, 2004C, 2004D, 2005C, 2006A, 2006B and 2007A (the “2014 Refunded Bonds”). The net proceeds from the sale of the 2014 Refunding Bonds of \$341,124,158 (after payment of underwriter’s fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service and redemption premiums on the 2014 Refunded Bonds. The debt defeasance resulted in an accounting loss of \$10,726,884. It will, however, reduce total debt service payments over the next 14 years by \$27,587,588 resulting in an economic gain of \$27,053,045 discounted at the rate of 2.2594 percent.

In June 2015, the Commonwealth issued \$134,730,000 of Public Facilities Revenue Refunding Bonds, Series 2015B, for the purpose of refunding certain outstanding maturities (“2015 Refunding Bonds”), pursuant to Section 9(d) of Article X of the Constitution. Bonds were issued with a true interest cost (TIC) of 2.4497 percent to refund \$136,685,000 of outstanding Commonwealth of Virginia Public Facilities Revenue Bonds, Series, 2005A, 2005B, 2006A, and 2008B (the “2015 Refunded Bonds”). The net proceeds from the sale of the 2015 Refunding Bonds of \$151,503,961 (after payment of underwriter’s fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service and redemption premiums on the 2015 Refunded Bonds. The debt defeasance resulted in an accounting loss of \$13,652,439. It will, however, reduce total debt service payments over the next 14 years by \$11,834,625 resulting in an economic gain of \$10,151,673 discounted at the rate of 2.9254 percent.

In fiscal year 2014, the Authority received \$1,972,442 from the sale of property. The property had been financed in part with tax-exempt bonds issued by the Authority. These sale proceeds were used to defease outstanding bonds totaling \$1,605,000. Of these defeased bonds, \$50,000 was called during fiscal year 2014. The remaining balance of \$1,555,000 will be held in escrow until the earliest redemption dates.

D. Arbitrage Rebate

The Tax Reform Act of 1986 requires that governmental entities issuing tax-exempt debt subsequent to August 1986 calculate and rebate arbitrage earnings to

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

the federal government. The U.S. Treasury has issued regulations on calculating the rebate amount and complying with the provisions of the Tax Reform Act of 1986. The Authority must comply with the rebate regulations in order for the Authority's bonds to maintain a tax-exempt status. The regulations require the excess of the aggregate amount earned on investments purchased with bond proceeds over the amount that would have been earned if the investments were invested at a rate equal to the bond yield to be rebated to the federal government.

Income earned on excess earnings is also subject to rebate. Rebate payments, if required, are due at least every five years over the life of the bonds. Some bonds of the Authority may be exempt from the rebate regulations if they meet statutory exceptions per the rebate requirements. The Authority may also elect, on or before the date of the bond issue, to pay a penalty in lieu of rebate if it does not meet certain expenditure tests. The Authority would retain any arbitrage earnings. The Authority, to date, has not elected penalty in lieu of rebate.

Rebate and penalty payments are calculated and paid by the Authority as required by law on bond issues that fall under the regulations and do not qualify for exceptions. As of their 5-year installment computation date, the 2010A-1 and 2010A-2 bonds had no arbitrage rebate liabilities due. In fiscal year 2015, no bonds were subject to a 10-year or 15-year installment computation. However, the 2004D bonds, which for federal taxation purposes were deemed a collective issuance with the Virginia College Building Authority's 2004B bonds, were subject to a final rebate payment calculation, but no rebate payment was due. Therefore, no payments were made to the Internal Revenue Service.

E. Fund Balance

Generally accepted accounting principles direct that governmental funds recognize expenditures when the related liability is incurred while revenues are recognized when they become available. Due to the timing of the Authority's bond issuance, available resources at the close of the current year recognized by the Authority exceeded the expenditures recognized by the Authority at the close of the current period resulting in a surplus balance of \$278,066,325.

F. 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. Authority bonds are secured by General Assembly appropriations. Because future appropriations are not considered available and do not constitute a legally binding commitment, the Authority ended the year with a net position deficit of \$2,341,826,642. The General Assembly has never failed to appropriate funds to the Authority for payment of debt service on the Authority's bonds.

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

G. Due from the Federal Government

The American 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 Bonds 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 two such series of bonds, beginning in fiscal year 2010 (Series 2010A-2 Bonds and Series 2010B-2 Bonds). Therefore, the Authority is accruing a receivable from the federal government for the subsidy payments which will be due on August 1, 2015. As a result of the Federal Sequestration, the actual August 1, 2015 payment was reduced by 7.3 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.

H. Subsequent Events

The Authority currently does not have any plans to issue bonds in the immediate future.

I. 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 risk management insurance plans are administered by the Department of 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 Treasury pays premiums to this Department 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 PUBLIC BUILDING AUTHORITY
DETAIL OF LONG-TERM INDEBTEDNESS (Unaudited)
AS OF JUNE 30, 2015
(Dollars in Thousands)

Detail of Long-Term Indebtedness by Series

	Dated Date	True Interest Cost ("TIC")	Amount Issued	Outstanding July 1, 2014	Issued (Retired) During Year	Outstanding June 30, 2015	Original Maturity
Series 2003A Refunding	02/20/03	3.22%	38,810	980	(980)	-	08/01/14
Series 2004A Refunding	03/01/04	3.07%	187,105	56,415	(56,415)	-	08/01/16
Series 2004B	07/15/04	4.20%	207,065	21,800	(21,800)	-	08/01/24
Series 2004C Refunding	08/01/04	3.37%	39,260	8,700	(8,700)	-	08/01/15
Series 2004D Refunding	12/01/04	4.07%	106,460	77,590	(77,590)	-	08/01/20
Series 2005A Refunding	03/01/05	3.73%	47,305	18,970	(14,920)	4,050	08/01/18
Series 2005B Refunding	04/15/05	3.64%	135,675	54,900	(41,315)	13,585	08/01/19
Series 2005C	11/01/05	4.02%	165,810	35,825	(19,710)	16,115	08/01/22
Series 2005D	12/01/05	Variable	50,000	50,000	-	50,000	08/01/25
Series 2006A	08/24/06	4.15%	135,000	60,560	(39,625)	20,935	08/01/26
Series 2006B	11/30/06	4.07%	215,065	93,885	(68,970)	24,915	08/01/26
Series 2007A	10/10/07	4.25%	242,480	176,030	(130,030)	46,000	08/01/27
Series 2008B	12/11/08	4.90%	150,000	125,320	(99,285)	26,035	08/01/28
Series 2009A (Taxable)	04/22/09	5.61%	40,995	29,920	(3,035)	26,885	08/01/21
Series 2009B	06/03/09	3.66%	265,000	218,030	(12,825)	205,205	08/01/29
Series 2009C (Taxable)	06/03/09	4.70%	10,000	7,180	(760)	6,420	08/01/21
Series 2009D Refunding	06/03/09	2.81%	42,745	36,325	(4,670)	31,655	08/01/21
Series 2010A-1	02/24/10	1.21%	60,520	25,595	(12,545)	13,050	08/01/15
Series 2010A-2 (Taxable)	02/24/10	3.36%	256,710	256,710	-	256,710	08/01/30
Series 2010B-1	11/23/10	1.62%	87,510	59,785	(10,805)	48,980	08/01/18
Series 2010B-2 (Taxable)	11/23/10	3.40%	195,310	195,260	-	195,260	08/01/30
Series 2010B-3 Refunding	11/23/10	2.82%	50,780	50,100	(350)	49,750	08/01/22
Series 2011A	10/19/11	3.49%	280,000	262,405	(9,305)	253,100	08/01/31
Series 2011B (Taxable)	10/19/11	3.59%	18,500	17,085	(730)	16,355	08/01/31
Series 2012A Refunding	02/23/12	1.74%	72,415	72,415	-	72,415	08/01/24
Series 2013A	02/21/13	2.70%	143,400	143,400	(4,440)	138,960	08/01/33
Series 2013B Refunding	02/21/13	1.74%	72,370	72,370	-	72,370	08/01/23
Series 2014A	09/17/14	2.93%	132,875	-	132,875	132,875	08/01/34
Series 2014B (Taxable)	09/17/14	3.22%	29,735	-	29,735	29,735	08/01/34
Series 2014C Refunding	09/17/14	2.14%	298,390	-	298,390	298,390	08/01/27
Series 2015A	06/09/15	3.28%	232,980	-	232,980	232,980	08/01/35
Series 2015B Refunding	06/09/15	2.45%	134,730	-	134,730	134,730	08/01/28
Total			<u>\$ 4,145,000</u>	<u>\$ 2,227,555</u>	<u>\$ 189,905</u>	<u>\$ 2,417,460</u>	

VIRGINIA PUBLIC BUILDING AUTHORITY
Richmond, Virginia

BOARD MEMBERS
As of June 30, 2015

John A. Mahone, Chairman

Sarah B. Williams, Vice Chairman

F. Dudley Fulton

Robert C. Maddux

Kevin M. O'Neil

EX OFFICIO

Manju S. Ganeriwala, Secretary/Treasurer, State Treasurer

David A. Von Moll, State Comptroller