

VIRGINIA PUBLIC BUILDING AUTHORITY

FINANCIAL STATEMENTS (Unaudited)

FOR THE YEAR ENDED JUNE 30, 2019



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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, 2019. 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 was 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, deferred outflows of resources, and liabilities, with net position representing the difference between these elements. 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)

	2019	2018
Current assets	\$ 348	\$ 207
Deferred Outflows of Resources	35	41
Current liabilities	303	257
Noncurrent liabilities	2,673	2,481
Total liabilities	2,976	2,738
Net position (deficit)	\$ (2,593)	\$ (2,490)

The Authority's net position decreased by 4.1% or \$103 million in 2019. The decrease is due to several factors. Deferred outflows of resources decreased by \$6 million (as a result of current year amortization of the charge on refunding). The amounts due to agencies and localities increased by \$35 million (as a result of normal fluctuations in project activity). Outstanding bonds payable increased by \$180 million (due to new bond issuances). Outstanding bond premiums increased by \$20 million (due to premium on new bond issuances net of current year premium amortization). Bond interest payable increased by \$2 million (as a result of the underlying structure of the outstanding bonds). This activity is offset by an increase in available cash by \$140 million (as a result of bond proceeds on new issuances in excess of project disbursements).

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:	2019	2018
Appropriation from the Commonwealth	\$ 254	\$ 269
Other revenue	11	22
Total revenues	265	291
Expenses:		
Interest on long-term debt	85	83
Disbursements for state and local projects	283	230
Total expenses	368	313
Loss on property sale defeasance	-	1
Changes in net position	(103)	(23)
Net position (deficit), July 1	(2,490)	(2,467)
Net position (deficit), June 30	\$ (2,593)	\$ (2,490)

The Authority's revenues decreased by 8.9% or \$26 million compared to last year while expenses increased by 17.6% or \$55 million. The decrease in revenues is due to a decrease of \$15 million in the appropriation receipt from the Commonwealth (as a result of the smaller debt service requirement for the year) and an \$11 million receipt from the sale of an asset in 2018 (a similar sale did not occur in 2019). The increase in expenses is attributable to an increase in distributions for state construction projects of \$63 million and interest on long term debt of \$2 million. This activity is offset by a decrease in reimbursements made to localities for various regional jail projects of \$9 million and cost of issuance expenses of \$1 million. There was also a decrease of \$1 million in loss on property sale defeasance as there were no property sales this year. 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.

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

The following is a summary of changes in long-term debt of the Authority at June 30, 2019:

Payable at July 1, 2018	\$ 2,663,808,123
Bonds issued	336,950,000
Bonds redeemed	(157,140,000)
Net unamortized premium on bonds sold	20,042,353
Payable at June 30, 2019	<u>\$ 2,863,660,476</u>

The Authority's outstanding bonds are rated as follows:

Moody's Investors Service (Moody's)	Aa1
S&P Global Ratings (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, 2019

	<u>Special Revenue Fund</u>	<u>Adjustments (Note 1D)</u>	<u>Statement of Net Position</u>
ASSETS			
Current assets:			
Cash and cash equivalents (Note 2A)	\$ 344,166,337	\$ -	\$ 344,166,337
Due from the Federal Government (Note 2G)	-	2,861,259	2,861,259
Interest receivable	736,060	-	736,060
Total assets	<u>\$ 344,902,397</u>	<u>2,861,259</u>	<u>347,763,656</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding (Note 2C)		35,742,348	35,742,348
Total deferred outflows of resources		<u>35,742,348</u>	<u>35,742,348</u>
LIABILITIES			
Current liabilities:			
Bond interest payable	\$ -	45,927,348	45,927,348
Due to state agencies	65,658,065	-	65,658,065
Due to localities	1,236,530	-	1,236,530
Bonds payable (Note 2B)	-	164,670,000	164,670,000
Premium on bonds sold (Note 2B)	-	25,847,968	25,847,968
Total current liabilities	<u>66,894,595</u>	<u>236,445,316</u>	<u>303,339,911</u>
Noncurrent liabilities:			
Bonds payable (Note 2B)	-	2,433,140,000	2,433,140,000
Premium on bonds sold (Note 2B)	-	240,002,508	240,002,508
Total noncurrent liabilities	<u>-</u>	<u>2,673,142,508</u>	<u>2,673,142,508</u>
Total liabilities	<u>66,894,595</u>	<u>2,909,587,824</u>	<u>2,976,482,419</u>
FUND BALANCE/NET POSITION:			
Fund balance:			
Restricted for construction projects	278,007,802	(278,007,802)	-
Total fund balance (Note 2E)	<u>278,007,802</u>	<u>(278,007,802)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 344,902,397</u>		
Net position (deficit):			
Unrestricted		(2,592,976,415)	(2,592,976,415)
Total net position (deficit) (Note 2F)		<u>\$ (2,592,976,415)</u>	<u>\$ (2,592,976,415)</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, 2019

	<u>Special Revenue Fund</u>	<u>Adjustments (Note 1D)</u>	<u>Statement of Activities</u>
REVENUES:			
Interest on investments	\$ 4,803,434	\$ -	\$ 4,803,434
Interest on Build America Bonds	6,952,412	(71,158)	6,881,254
Appropriations from the Commonwealth	<u>253,752,933</u>	<u>-</u>	<u>253,752,933</u>
Total revenues	<u>265,508,779</u>	<u>(71,158)</u>	<u>265,437,621</u>
EXPENDITURES/EXPENSES:			
Current:			
Legal and financial services	103,858	-	103,858
Printing and electronic distributions	7,734	-	7,734
Disbursements to state agencies	280,697,121	-	280,697,121
Disbursements to localities	1,535,258	-	1,535,258
Underwriter's discount	615,452	-	615,452
Bond rating fees	90,042	-	90,042
Debt service:			
Principal retirement	157,140,000	(157,140,000)	-
Interest and fiscal charges	<u>103,591,366</u>	<u>(18,659,484)</u>	<u>84,931,882</u>
Total expenditures/expenses	<u>543,780,831</u>	<u>(175,799,484)</u>	<u>367,981,347</u>
Deficiency of revenues under expenditures	<u>(278,272,052)</u>	-	-
Other financing sources (uses):			
Debt issuance	336,950,000	(336,950,000)	-
Bond premium	<u>46,467,899</u>	<u>(46,467,899)</u>	-
Total other financing sources (uses)	<u>383,417,899</u>	<u>(383,417,899)</u>	-
Excess of revenues and other financing sources over expenditures and other financing uses	105,145,847	(105,145,847)	-
Change in net position	-	(102,543,726)	(102,543,726)
Fund balance/Net position (deficit), July 1, 2018	<u>172,861,955</u>	<u>(2,663,294,644)</u>	<u>(2,490,432,689)</u>
Fund balance/Net position (deficit), June 30, 2019 (Note 2E and Note 2F)	<u>\$ 278,007,802</u>	<u>\$ (2,870,984,217)</u>	<u>\$ (2,592,976,415)</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. For financial reporting purposes, the Authority defines payables as those items which have been identified by the submitting agencies as payable at June 30 and which have been presented to the Authority for payment by the annually established submission date.

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 primarily represents the recording of bonds payable-related assets and liabilities on the Statement of Net Position and the effect of these transactions on the Statement of Activities. Governmental fund statements do not reflect bonds payable and related activity, but do reflect debt service payments that were made during the current period. 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 par amount of the bonds issued. In that case,

VIRGINIA PUBLIC BUILDING AUTHORITY
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the original issue premium or discount is deferred and amortized, on a straight-line basis, over the life of the outstanding debt.

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 \$344,166,337 are held by The Bank of New York Mellon, as trustee 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.

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 investments at June 30, 2019 were held in the Authority's name by the Authority's custodial banks; therefore, the Authority has no custodial credit risk.

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

Details of the Authority's cash and cash equivalents are presented below.

As of June 30, 2019

Cash and cash equivalents:

State Non-Arbitrage Program ⁽¹⁾	\$ 309,017,256
Local Government Investment Pool ⁽²⁾	<u>35,149,081</u>
	<u>\$ 344,166,337</u>

⁽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 in compliance with all of the standards of GASB Statement No. 79 and elects to report its investments for financial reporting at amortized cost. Participants in SNAP® should also report their investments in SNAP® at amortized cost. SNAP® is rated 'AAAm' by S&P's rating service.

⁽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 managed in accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 79. The LGIP is in compliance with all of the standards of GASB Statement No. 79 and elects to report its investments for financial reporting at amortized cost. Participants in the LGIP should also report their investments in the LGIP at amortized cost. The LGIP is rated AAAM by S&P's rating service.

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, 2019.

Payable at July 1, 2018	\$ 2,663,808,123
Bonds issued	336,950,000
Bonds redeemed	(157,140,000)
Net unamortized premium on bonds sold	<u>20,042,353</u>
Payable at June 30, 2019	<u>\$ 2,863,660,476</u>

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>
2020	\$ 164,670,000	\$ 110,691,470	\$ 275,361,470
2021	173,205,000	105,287,590	278,492,590
2022	172,240,000	97,122,538	269,362,538
2023	176,820,000	88,868,130	265,688,130
2024	182,555,000	80,543,817	263,098,817
2025-2029	860,295,000	277,527,756	1,137,822,756
2030-2034	561,160,000	111,155,132	672,315,132
2035-2039	283,735,000	26,508,750	310,243,750
2040-2044	23,130,000	462,600	23,592,600
Add: unamortized premium	265,850,476		265,850,476
Total	<u>\$ 2,863,660,476</u>	<u>\$ 898,167,783</u>	<u>\$ 3,761,828,259</u>

Demand Bonds - Included in long-term debt is \$50,000,000 of Series 2005D variable rate demand bonds (the 2005D Bonds). The 2005D Bonds were issued by the Authority on December 7, 2005 for the purpose of financing various facilities for Commonwealth agencies and the Commonwealth's share of the costs of regional and local jail and juvenile detention facilities. The 2005D Bonds are subject to optional redemption. The principal balance outstanding on June 30, 2019 of \$50,000,000 is scheduled to be paid based on mandatory sinking fund requirements as follows:

<u>Due August 1,</u>	<u>Installment</u>
2022	\$ 6,585,000
2023	13,760,000
2024	14,460,000
2025	15,195,000

The 2005D Bonds were issued in weekly interest rate mode and have remained in that mode with Goldman Sachs serving as the remarketing agent for an annual fee of 0.05%. Through remarketing, the 2005D Bonds are subject to changing market conditions that have resulted in temporary rates ranging from 0.01% to 8.00%. The bond documents set a maximum interest rate of 10% per annum through remarketing.

VIRGINIA PUBLIC BUILDING AUTHORITY
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On August 1, 2011, Wells Fargo, N.A., entered into a standby bond purchase agreement (the SBPA) with the Authority and The Bank of New York Mellon Trust Company, N.A., in its capacity as trustee and tender agent. Through the SBPA, Wells Fargo is providing a liquidity facility to purchase the 2005D Bonds in the event of a failed remarketing. Purchased Bonds held by Wells Fargo are subject to a maximum rate of 25% per annum until they are paid in full, remarketed or retained. All Purchased Bonds shall be due and payable by the Authority 180 days after Wells Fargo purchases the 2005D Bonds, provided that Wells Fargo provides term-out funding. Purchased Bonds are subject to special mandatory redemption over a three-year period with principal payable in 12 equal quarterly installments and interest at the purchased bond rate or the default rate, as applicable, payable monthly in arrears, the first such installment due three months from the date of purchase by Wells Fargo. From and after the term-out date, the purchased bond rate shall be the bank rate plus 1% with the bank rate being, for any day, a per annum rate equal to the greatest of (i) the prime rate plus 1%, (ii) the federal funds rate plus 2%, or (iii) 7%. The liquidity facility in effect at June 30, 2019 is being provided at a cost of 0.37% per annum through October 1, 2020.

C. Defeasance of Debt

From time to time, when interest rates indicated that it would be favorable to do so, the Authority has issued refunding bonds to defease outstanding bonds. The Authority placed the proceeds of the new bonds in irrevocable 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," as amended by GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," the difference between the reacquisition price and the net carrying amount of the bonds defeased with refunding debt is reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of Interest and Fiscal Charges over the shorter of the remaining life of the refunded debt or the life of the new debt.

The Authority did not issue any refunding bonds in fiscal year 2019.

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 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

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

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 10-year installment computation date, the 2009B and 2009D bonds had no arbitrage rebate liabilities due. In fiscal year 2019, no bonds were subject to a 5-year or 15-year installment computation. The 2008B 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 \$278,007,802.

F. Deficit Net Position

Authority bonds are secured by General Assembly appropriations. Because future appropriations do not constitute a legally binding commitment and do not meet the criteria for recognition under the accrual basis of accounting, the Authority ended the year with a net position deficit of \$2,592,976,415. The General Assembly has never failed to appropriate funds to the Authority for payment of debt service on the Authority's bonds.

G. Due from the Federal Government

The American Recovery and Reinvestment Act of 2009 permitted 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 could 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

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

is accruing a receivable from the federal government for the subsidy payments which will be due on August 1, 2019. As a result of the Federal Sequestration, the actual August 1, 2019 payment was reduced by 6.2% 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.

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
SUPPLEMENTARY INFORMATION
DETAIL OF LONG-TERM INDEBTEDNESS (Unaudited)
AS OF JUNE 30, 2019
(Dollars in Thousands)

Detail of Long-Term Indebtedness by Series

	Dated Date	True Interest Cost ("TIC")	Amount Issued	Outstanding July 1, 2018	Issued (Retired) During Year	Outstanding June 30, 2019	Original Maturity
Series 2005D	12/07/05	Variable	\$ 50,000	\$ 50,000	\$ -	\$ 50,000	08/01/25
Series 2008B	12/11/08	4.90%	150,000	6,955	(6,955)	-	08/01/28
Series 2009A (Taxable)	04/22/09	5.61%	40,995	16,700	(3,815)	12,885	08/01/21
Series 2009B	06/03/09	3.66%	265,000	31,960	(15,580)	16,380	08/01/29
Series 2009C (Taxable)	06/03/09	4.70%	10,000	3,930	(910)	3,020	08/01/21
Series 2009D Refunding	06/03/09	2.81%	42,745	16,415	(5,575)	10,840	08/01/21
Series 2010A-2 (Taxable)	02/24/10	3.36%	256,710	228,300	(14,400)	213,900	08/01/30
Series 2010B-1	11/23/10	1.62%	87,510	12,920	(12,920)	-	08/01/18
Series 2010B-2 (Taxable)	11/23/10	3.40%	195,310	191,285	-	191,285	08/01/30
Series 2010B-3 Refunding	11/23/10	2.82%	50,780	48,655	(8,805)	39,850	08/01/22
Series 2011A	10/19/11	3.49%	280,000	49,095	(11,370)	37,725	08/01/31
Series 2011B (Taxable)	10/19/11	3.59%	18,500	14,075	(805)	13,270	08/01/31
Series 2012A Refunding	02/23/12	1.74%	72,415	53,085	(4,155)	48,930	08/01/24
Series 2013A	02/21/13	2.70%	143,400	91,740	(5,395)	86,345	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	105,590	(4,725)	100,865	08/01/34
Series 2014B (Taxable)	09/17/14	3.22%	29,735	26,120	(1,230)	24,890	08/01/34
Series 2014C Refunding	09/17/14	2.14%	298,390	216,965	(30,425)	186,540	08/01/27
Series 2015A	06/09/15	3.28%	232,980	218,340	(7,890)	210,450	08/01/35
Series 2015B Refunding	06/09/15	2.45%	134,730	106,095	(10,170)	95,925	08/01/28
Series 2016A	10/05/16	2.52%	206,420	199,920	(6,830)	193,090	08/01/36
Series 2016 B Refunding	10/05/16	1.85%	178,955	177,880	-	177,880	08/01/29
Series 2016C (AMT)	10/05/16	2.89%	147,420	143,000	(4,625)	138,375	08/01/36
Series 2016D (Taxable)	10/05/16	2.81%	13,830	13,275	(560)	12,715	08/01/36
Series 2017A Refunding	12/14/17	2.48%	145,325	145,325	-	145,325	08/01/31
Series 2018A	05/08/18	3.16%	160,605	160,605	-	160,605	08/01/38
Series 2018B (Taxable)	05/08/18	3.63%	17,400	17,400	-	17,400	08/01/38
Series 2019A	04/02/19	2.92%	178,105	-	178,105	178,105	08/01/39
Series 2019B (AMT)	04/02/19	3.10%	133,805	-	133,805	133,805	08/01/39
Series 2019C (Taxable)	04/02/19	2.60%	25,040	-	25,040	25,040	08/01/24
Total			<u>\$ 3,771,350</u>	<u>\$ 2,418,000</u>	<u>\$ 179,810</u>	<u>\$ 2,597,810</u>	

VIRGINIA PUBLIC BUILDING AUTHORITY
Richmond, Virginia

BOARD MEMBERS

As of June 30, 2019

Suzanne S. Long, Chairman

Carolyn L. Bishop, Vice Chairman

John A. Mahone

Ann H. Shawver

Sarah B. Williams

EX OFFICIO

Manju S. Ganeriwala, Secretary/Treasurer, State Treasurer

David A. Von Moll, State Comptroller