

VIRGINIA PUBLIC BUILDING AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

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VIRGINIA PUBLIC BUILDING AUTHORITY
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)

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, 2020:

Payable at July 1, 2019	\$ 2,863,660,476
Bonds issued	509,245,000
Bonds redeemed	(164,670,000)
Bonds defeased	(238,840,000)
Premium on bonds sold	86,170,704
Annual amortization of premium on bonds sold	(27,367,948)
Payable at June 30, 2020	<u>\$ 3,028,198,232</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
As of June 30, 2020

	<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)	\$ 279,953,964	\$ -	\$ 279,953,964
Due from the Federal Government (Note 2G)	-	1,973,625	1,973,625
Interest receivable	128,100	-	128,100
Total assets	<u>\$ 280,082,064</u>	<u>1,973,625</u>	<u>282,055,689</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding (Note 2C)		32,857,271	32,857,271
Total deferred outflows of resources		<u>32,857,271</u>	<u>32,857,271</u>
LIABILITIES			
Current liabilities:			
Bond interest payable	\$ -	45,291,035	45,291,035
Due to state agencies	101,379,566	-	101,379,566
Due to localities	6,201,696	-	6,201,696
Bonds payable (Note 2B)	-	173,205,000	173,205,000
Premium on bonds sold (Note 2B)	-	31,217,583	31,217,583
Total current liabilities	<u>107,581,262</u>	<u>249,713,618</u>	<u>357,294,880</u>
Noncurrent liabilities:			
Bonds payable (Note 2B)	-	2,530,340,000	2,530,340,000
Premium on bonds sold (Note 2B)	-	293,435,649	293,435,649
Total noncurrent liabilities	<u>-</u>	<u>2,823,775,649</u>	<u>2,823,775,649</u>
Total liabilities	<u>107,581,262</u>	<u>3,073,489,267</u>	<u>3,181,070,529</u>
FUND BALANCE/NET POSITION:			
Fund balance:			
Restricted for construction projects	172,274,945	(172,274,945)	-
Restricted for debt service	225,857	(225,857)	-
Total fund balance (Note 2E)	<u>172,500,802</u>	<u>(172,500,802)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 280,082,064</u>		
Net position (deficit):			
Unrestricted		(2,866,157,569)	(2,866,157,569)
Total net position (deficit) (Note 2F)		<u>\$ (2,866,157,569)</u>	<u>\$ (2,866,157,569)</u>

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

VIRGINIA PUBLIC BUILDING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

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

Annual Requirements to Amortize Long-Term Debt:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 173,205,000	\$ 111,830,457	\$ 285,035,457
2022	178,955,000	108,717,235	287,672,235
2023	182,120,000	100,216,219	282,336,219
2024	188,545,000	91,459,758	280,004,758
2025	197,630,000	82,260,698	279,890,698
2026-2030	865,190,000	282,480,027	1,147,670,027
2031-2035	574,070,000	121,533,956	695,603,956
2036-2040	321,900,000	30,935,716	352,835,716
2041-2045	21,930,000	414,918	22,344,918
Add: unamortized premium	324,653,232		324,653,232
Total	<u>\$ 3,028,198,232</u>	<u>\$ 929,848,984</u>	<u>\$ 3,958,047,216</u>

C. 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. 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 issued one series of refunding bonds in fiscal year 2020. The schedule following reflects this refunding activity during the year.

VIRGINIA PUBLIC BUILDING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

Refunding Bonds Issued During Fiscal Year 2020

<u>Refunding Issue</u>	<u>Refunded Issue</u>	<u>Maturities Defeased</u>	<u>Amount Defeased</u>
2020B	2005D	2022-2025	\$ 50,000,000
2020B	2009D	2020-2021	4,990,000
2020B	2010A-2	2021-2030	183,850,000
		Total Defeased, FY 2020	<u>\$ 238,840,000</u>

The issuance of the Authority’s Series 2020B Public Facilities Revenue Refunding Bonds refunded three series of the Authority’s bonds as reflected in the above schedule. This defeasance resulted in an accounting loss of \$2,715,241. Total debt service payments over the next 12 years will be reduced by \$23,941,553 resulting in a present value savings of \$21,881,374 discounted at the rate of 1.6765 percent.

At June 30, 2020, \$408,450,000 of bonds outstanding are considered defeased for financial reporting purposes.

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 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 2014A, 2014C, 2015A and 2015B bonds had no arbitrage rebate liabilities due. In addition, as of their 10-year installment computation date, the 2010A-2 bonds had no arbitrage rebate liabilities due. In fiscal year 2020, no bonds were subject to a 15-year

information, such as the Detail of Long-Term Indebtedness, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2020, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

SAH/vks

VIRGINIA PUBLIC BUILDING AUTHORITY
Richmond, Virginia

BOARD MEMBERS
As of June 30, 2020

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