VIRGINIA PUBLIC BUILDING AUTHORITY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

VIRGINIA PUBLIC BUILDING AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

Table of Contents

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, 2018. 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.

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.

Statement of Net Position
(in millions)

	2018	2017
Current assets	$ 207	$ 218
Deferred Outflows of Resources	41	44
Current liabilities	257	251
Noncurrent liabilities	2,481	2,478
Total liabilities	2,738	2,729
Net position (deficit)	$ (2,490)	$ (2,467)

The Authority's net position decreased by 0.9% or $23 million in 2018. The decrease is due to several factors. Available cash decreased by $11 million (as a result of project disbursements in excess of bond proceeds on new issuances) and deferred outflows of resources decreased by $3 million (as a result of current year amortization of the charge on refunding net of deferral on new bond refundings). The amounts due to agencies and localities increased by $22 million (as a result of normal fluctuations in project activity). Outstanding bond premiums increased by $4 million (due to premium on new bond issuances net of current year premium amortization). This activity is offset by a decrease in outstanding bonds payable of $15 million (as a result of bond redemptions and defeasances in excess of new bond issuances), and a decrease in bond interest payable by $2 million (as a result of the underlying structure of the outstanding bonds).

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.

Changes in Net Position
(in millions)

Revenues:	2018	2017
Appropriation from the Commonwealth	$ 269	$ 272
Other revenue	22	9
Total revenues	291	281
Expenses:		
Interest on long-term debt	83	87
Disbursements for state and local projects	230	265
Total expenses	313	352
Loss on property sale defeasance	1	-
Changes in net position	(23)	(71)
Net position (deficit), July 1	(2,467)	(2,396)
Net position (deficit), June 30	$ (2,490)	$ (2,467)

The Authority's revenues increased by 3.6% or $10 million compared to last year while expenses decreased by 11.1% or $39 million. The increase in revenues is largely due to an increase of $13 million in other revenue (primarily receipt from the sale of an asset). This activity is offset by a $3 million decrease in the appropriation receipt from the Commonwealth (as a result of the smaller debt service requirement for the year). The decrease in expenses is attributable to a net decrease in distributions for construction projects of $44 million, cost of issuance expenses of $2 million and interest on long term debt of $4 million. This activity is offset by an increase in reimbursements made to localities for various regional jail projects of $11 million. There was also an increase of $1 million in loss on property sale defeasance as there were no property sales last 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.

The following is a summary of changes in long-term debt of the Authority at June 30, 2018:

Payable at July 1, 2017	$ 2,674,562,542
Bonds issued	323,330,000
Bonds redeemed	(172,245,000)
Bonds defeased	(165,750,000)
Net unamortized premium on bonds sold	3,910,581
Payable at June 30, 2018	$ 2,663,808,123

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
As of June 30, 2018

	Special Revenue Fund	Adjustments	Statement of Net Position
ASSETS			
Current assets:			
Cash and cash equivalents	$ 203,764,339	$ -	$ 203,764,339
Due from the Federal Government	-	2,932,417	2,932,417
Interest receivable	450,108	-	450,108
Total assets	$ 204,214,447	2,932,417	207,146,864
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding		41,187,027	41,187,027
Total deferred outflows of resources		41,187,027	41,187,027
LIABILITIES			
Current liabilities:			
Bond interest payable	$ -	43,605,965	43,605,965
Due to state agencies	31,352,492	-	31,352,492
Bonds payable	-	157,140,000	157,140,000
Premium on bonds sold	-	25,611,195	25,611,195
Total current liabilities	31,352,492	226,357,160	257,709,652
Noncurrent liabilities:			
Bonds payable	-	2,260,860,000	2,260,860,000
Premium on bonds sold	-	220,196,928	220,196,928
Total noncurrent liabilities	-	2,481,056,928	2,481,056,928
Total liabilities	31,352,492	2,707,414,088	2,738,766,580
FUND BALANCE/NET POSITION:			
Fund balance:			
Restricted for construction projects	172,835,934	(172,835,934)	-
Restricted for debt service	26,021	(26,021)	-
Total fund balance	172,861,955	(172,861,955)	-
Total liabilities and fund balance	$ 204,214,447		
Net position (deficit):			
Unrestricted		(2,490,432,689)	(2,490,432,689)
Total net position (deficit)		$ (2,490,432,689)	$ (2,490,432,689)

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
For the Fiscal Year Ended June 30, 2018

	Special Revenue Fund	Adjustments	Statement of Activities
REVENUES:			
Interest on investments	$ 2,801,987	$ -	$ 2,801,987
Sale of Asset	12,677,866	-	12,677,866
Interest on Build America Bonds	7,162,484	(103,902)	7,058,582
Appropriations from the Commonwealth	268,611,307	-	268,611,307
Total revenues	291,253,644	(103,902)	291,149,742
EXPENDITURES/EXPENSES:			
Current:			
Legal and financial services	308,356	-	308,356
Disbursements to agencies	217,247,318	-	217,247,318
Disbursements to localities	11,161,100	-	11,161,100
Underwriter's discount	1,193,063	-	1,193,063
Bond rating fees	234,000	-	234,000
Miscellaneous expenditures	1,680	-	1,680
Debt service:			
Principal retirement	172,245,000	(172,245,000)	-
Interest and fiscal charges	103,536,702	(20,314,115)	83,222,587
Total expenditures/expenses	505,927,219	(192,559,115)	313,368,104
Deficiency of revenues under expenditures	(214,673,575)	-	-
Other financing sources (uses):			
Payments to refunded bond escrow agent	(185,192,322)	185,192,322	-
Debt issuance	323,330,000	(323,330,000)	-
Bond premium	43,518,578	(43,518,578)	-
Loss on Property Sale Defeasance	-	(1,367,911)	(1,367,911)
Total other financing sources (uses)	181,656,256	(183,024,167)	(1,367,911)
Deficiency of revenues and other financing sources under expenditures and other financing uses	(33,017,319)	33,017,319	
Change in net position	-	(23,586,273)	(23,586,273)
Fund balance/Net position (deficit), July 1, 2017	205,879,274	(2,672,725,690)	(2,466,846,416)
Fund balance/Net position (deficit), June 30, 2018	$ 172,861,955	$ (2,663,294,644)	$ (2,490,432,689)

The accompanying notes are an integral part of 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.

B. <u>Measurement Focus and Basis of Accounting</u>

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. <u>Fund Accounting</u>

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. <u>Adjustments</u>

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. <u>Bond Issuance Costs, Premiums, and Discounts</u>

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.

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 $203,764,339 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, 2018 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, 2018 are presented below.

As of June 30, 2018

Cash and cash equivalents:	
Cash	$ 26,021
State Non-Arbitrage Program [(1)]	166,357,236
Local Government Investment Pool [(2)]	37,381,082
	$ 203,764,339

[(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 Standard & Poor'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 Standard & Poor'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, 2018.

Payable at July 1, 2017	$ 2,674,562,542
Bonds issued	323,330,000
Bonds redeemed	(172,245,000)
Bonds defeased	(165,750,000)
Net unamortized premium on bonds sold	3,910,581
Payable at June 30, 2018	$ 2,663,808,123

Annual Requirements to Amortize Long-Term Debt:

Year Ending June 30	Principal	Interest	Total
2019	$ 157,140,000	$ 103,567,475	$ 260,707,475
2020	164,670,000	98,014,083	262,684,083
2021	158,795,000	90,345,388	249,140,388
2022	157,345,000	82,788,711	240,133,711
2023	161,420,000	75,188,672	236,608,672
2024-2028	820,020,000	260,363,844	1,080,383,844
2029-2033	546,265,000	97,156,126	643,421,126
2034-2038	239,560,000	19,149,740	258,709,740
2039-2043	12,785,000	197,220	12,982,220
Add: unamortized premium	245,808,123		245,808,123
Total	$ 2,663,808,123	$ 826,771,259	$ 3,490,579,382

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, 2018 of $50,000,000 is scheduled to be paid based on mandatory sinking fund requirements as follows:

Due August 1,	Installment
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.

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, 2018 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 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 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 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 2018. The schedule following reflects this refunding activity during the year.

Refunding State Building Revenue Bonds Issued During Fiscal Year 2018

Refunding Issue	Refunded Issue	Maturities Defeased	Amount Defeased
2017A	2011A	2022, 2027-2031	$ 108,210,000
2017A	2013A	2025-2028	32,560,000
2017A	2014A	2026-2027	14,455,000
	Total Defeased by Refunding Bonds, FY 2018		$ 155,225,000

The issuance of the Authority's Series 2017A 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 $2,248,188. Total debt service payments over the next 15 years will be reduced by $13,350,270 resulting in a present value savings of $11,287,545 discounted at the rate of 2.2502864 percent.

The Commonwealth sold real estate in fiscal year 2018 which had been financed and re-financed in part with tax-exempt bonds issued by the Authority. This transaction resulted in the partial defeasance of eight series of the Authority's bonds. Of the sale proceeds, $12,581,354 was deposited in an irrevocable trust with an escrow agent to provide for all future debt service and redemption premiums on the defeased bonds until the earliest redemption dates.

In accordance with GASB Statement 86, "Certain Debt Extinguishment Issues", the difference between the reacquisition price and the net carrying amount of the debt, together with any deferred outflows of resources or deferred inflows of resources from prior refundings, should be recognized as a separately identified gain or loss in the period of the in-substance defeasance.

The debt defeasance related to this property sale resulted in an accounting loss of $1,367,911. The schedule following reflects the activity of this defeasance during the year.

Property Sale Defeasance of State Building Revenue Bonds During Fiscal Year 2018

Refunding Source	Refunded Issue	Maturities Defeased	Amount Defeased
2017 Property Sale	2010A-2	2030	$ 670,000
2017 Property Sale	2010B-1	2018	215,000
2017 Property Sale	2010B-2	2027-2030	3,975,000
2017 Property Sale	2011A	2031	1,870,000
2017 Property Sale	2012A	2024	175,000
2017 Property Sale	2014C	2027	1,460,000
2017 Property Sale	2015B	2028	1,085,000
2017 Property Sale	2016B	2029	1,075,000
	Total Defeased by Property Sale, FY 2018		$ 10,525,000

At June 30, 2018, $449,200,000 of bonds outstanding are considered defeased for financial reporting purposes.

D. <u>Arbitrage Rebate</u>

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 2013A and 2013B bonds had no arbitrage rebate liabilities due. In fiscal year 2018, no bonds were subject to a 10-year or 15-year installment computation. The 2007A 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 $172,861,955.

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 $2,490,432,689. 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 is accruing a receivable from the federal government for the subsidy payments which will be due on August 1, 2018. As a result of the Federal Sequestration, the actual August 1, 2018 payment was reduced by 6.6% 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
AS OF JUNE 30, 2018
(Dollars in Thousands)

Detail of Long-Term Indebtedness by Series

	Dated Date	True Interest Cost ("TIC")	Amount Issued	Outstanding July 1, 2017	Issued (Retired) During Year	Outstanding June 30, 2018	Original Maturity
Series 2005D	12/07/05	Variable	$ 50,000	$ 50,000	$ -	$ 50,000	08/01/25
Series 2007A	10/10/07	4.25%	242,480	16,105	(16,105)	-	08/01/27
Series 2008B	12/11/08	4.90%	150,000	13,605	(6,650)	6,955	08/01/28
Series 2009A (Taxable)	04/22/09	5.61%	40,995	20,295	(3,595)	16,700	08/01/21
Series 2009B	06/03/09	3.66%	265,000	46,780	(14,820)	31,960	08/01/29
Series 2009C (Taxable)	06/03/09	4.70%	10,000	4,795	(865)	3,930	08/01/21
Series 2009D Refunding	06/03/09	2.81%	42,745	21,740	(5,325)	16,415	08/01/21
Series 2010A-2 (Taxable)	02/24/10	3.36%	256,710	243,010	(14,710)	228,300	08/01/30
Series 2010B-1	11/23/10	1.62%	87,510	25,685	(12,765)	12,920	08/01/18
Series 2010B-2 (Taxable)	11/23/10	3.40%	195,310	195,260	(3,975)	191,285	08/01/30
Series 2010B-3 Refunding	11/23/10	2.82%	50,780	49,030	(375)	48,655	08/01/22
Series 2011A	10/19/11	3.49%	280,000	169,990	(120,895)	49,095	08/01/31
Series 2011B (Taxable)	10/19/11	3.59%	18,500	14,855	(780)	14,075	08/01/31
Series 2012A Refunding	02/23/12	1.74%	72,415	65,315	(12,230)	53,085	08/01/24
Series 2013A	02/21/13	2.70%	143,400	129,435	(37,695)	91,740	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	124,535	(18,945)	105,590	08/01/34
Series 2014B (Taxable)	09/17/14	3.22%	29,735	27,335	(1,215)	26,120	08/01/34
Series 2014C Refunding	09/17/14	2.14%	298,390	246,835	(29,870)	216,965	08/01/27
Series 2015A	06/09/15	3.28%	232,980	225,845	(7,505)	218,340	08/01/35
Series 2015B Refunding	06/09/15	2.45%	134,730	123,220	(17,125)	106,095	08/01/28
Series 2016A	10/05/16	2.52%	206,420	206,420	(6,500)	199,920	08/01/36
Series 2016 B Refunding	10/05/16	1.85%	178,955	178,955	(1,075)	177,880	08/01/29
Series 2016C (AMT)	10/05/16	2.89%	147,420	147,420	(4,420)	143,000	08/01/36
Series 2016D (Taxable)	10/05/16	2.81%	13,830	13,830	(555)	13,275	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
Total			$ 3,676,880	$ 2,432,665	$ (14,665)	$ 2,418,000	

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

December 14, 2018

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

Board of Directors
Virginia Public Building Authority

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and major special revenue fund of the **Virginia Public Building Authority** (Authority), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major special revenue fund of the Virginia Public Building Authority as of June 30, 2018, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary 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 14, 2018, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.

AUDITOR OF PUBLIC ACCOUNTS

SAH/vks

VIRGINIA PUBLIC BUILDING AUTHORITY
Richmond, Virginia

BOARD MEMBERS
As of June 30, 2018

Suzanne S. Long, Chairman

John A. Mahone, Vice Chairman

Carolyn L. Bishop

Kevin M. O'Neil

Sarah B. Williams

EX OFFICIO

Manju S. Ganeriwala, Secretary/Treasurer, State Treasurer

David A. Von Moll, State Comptroller