NEW ISSUE - FULL BOOK-ENTRY

Ratings: Fitch: AA+
Moody's: Aa1
Standard & Poor's: AA+
(See "Ratings" herein)

In the opinion of Bond Counsel, under current law and subject to the conditions described in "TAX MATTERS" herein, interest on the Series 2016A Bonds (a) is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (b) is not treated as a preference item in calculating the alternative minimum tax imposed under the Code on individuals and corporations. However, interest on the Series 2016A Bonds must be included in the calculation of a corporation's federal alternative minimum tax. Bond Counsel is further of the opinion that interest on the Series 2016A Bonds is exempt from Virginia income taxation. See "TAX MATTERS" herein regarding certain other tax considerations.

$101,770,000
VIRGINIA PUBLIC SCHOOL AUTHORITY
School Financing and Refunding Bonds (1997 Resolution)
Series 2016A

Dated: Date of Delivery **Due: August 1, as shown on the inside cover**

This Official Statement has been prepared by the Virginia Public School Authority (the "Authority") to provide information on the above referenced bonds (the "Series 2016A Bonds"). Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the Series 2016A Bonds, a prospective investor should read this Official Statement in its entirety.

Purpose The Series 2016A Bonds are being issued to purchase $101,770,000 in general obligation school bonds issued by certain Virginia localities to finance capital projects for their public schools and refund prior obligations issued for such purposes and to refund certain outstanding bonds of the Authority. See **"PLAN OF FINANCE AND REFUNDING."**

Issued Pursuant to 1997 Resolution, adopted by the Authority on October 23, 1997, as amended and restated.

Denomination $5,000 or multiples thereof.

Security The Series 2016A Bonds are secured by principal and interest payments on the general obligation school bonds issued by certain Virginia localities, held by the Authority and pledged to the payment of the Series 2016A Bonds. The Series 2016A Bonds do not constitute a debt or a pledge of the faith and credit of the Commonwealth of Virginia. See **"SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."**

Redemption The Series 2016A Bonds are subject to redemption as described on the inside cover.

Interest Payment Dates February 1 and August 1, beginning February 1, 2017, as shown on the inside cover.

Registration Fully registered book-entry only in the name of Cede & Co. (as nominee of The Depository Trust Company). See **APPENDIX H - Book-Entry Only System.**

Bond Registrar/ Paying Agent State Treasurer.

Financial Advisor Davenport & Company LLC, Richmond, Virginia.

Bond Counsel McGuireWoods LLP, Richmond, Virginia.

Issuer Contact Director of Debt Management, Virginia Department of the Treasury, (804) 225-2142.

Delivery Date On or about May 17, 2016.

Dated: April 26, 2016

$101,770,000
VIRGINIA PUBLIC SCHOOL AUTHORITY
School Financing and Refunding Bonds (1997 Resolution)
Series 2016A
(Base CUSIP† Number 92818H)

Year of Maturity (August 1)	Principal Amount	Interest Rate	Yield/Price	CUSIP Suffix†
2017	$3,685,000	5.000%	0.640%	DU2
2018	3,820,000	5.000	0.770	DV0
2019	3,940,000	5.000	0.900	DW8
2020	4,080,000	5.000	1.010	DX6
2021	5,285,000	5.000	1.150	DY4
2022	5,470,000	5.000	1.290	DZ1
2023	5,695,000	5.000	1.420	EA5
2024	5,920,000	5.000	1.550	EB3
2025	6,145,000	5.000	1.690	EC1
2026	5,885,000	5.000	1.810	ED9
2027	5,310,000	2.000	2.000	EE7
2028	5,425,000	3.000	2.100*	EF4
2029	5,560,000	2.250	97.750	EG2
2030	5,685,000	3.000	2.550*	EH0
2031	4,795,000	2.500	97.750	EJ6
2032	4,765,000	3.000	2.800*	EK3
2033	4,885,000	2.750	97.750	EL1
2034	5,005,000	3.000	99.750	EM9
2035	5,140,000	3.000	99.250	EN7
2036	5,275,000	3.000	98.750	EP2

* Yield to August 1, 2026, par call.

OPTIONAL REDEMPTION

The Series 2016A Bonds due on and after August 1, 2027 may be redeemed prior to their respective maturities at the option of the Authority, in whole or in part, on any date beginning August 1, 2026, at a redemption price of par, together with interest accrued to the date fixed for redemption.

† See the last paragraph on page (ii) regarding the use of CUSIP numbers in this Official Statement.

STATE OFFICIALS

GOVERNOR
TERENCE R. MCAULIFFE

LIEUTENANT GOVERNOR
RALPH S. NORTHAM

ATTORNEY GENERAL
MARK R. HERRING

SECRETARY OF FINANCE
RICHARD D. BROWN

TREASURER
MANJU S. GANERIWALA

COMPTROLLER
DAVID A. VON MOLL

SUPERINTENDENT
OF PUBLIC INSTRUCTION
STEVEN R. STAPLES

VIRGINIA PUBLIC SCHOOL AUTHORITY MEMBERS

CHAIRMAN
BRENDA L. SKIDMORE

VICE-CHAIRMAN
BEN LOYOLA

TREASURER & SECRETARY
MANJU S. GANERIWALA

DOUGLAS COMBS

JAY BHANDARI

WALTER MIKA

STEVEN R. STAPLES

DAVID A. VON MOLL

AUTHORITY STAFF

VPSA ASSISTANT SECRETARY/ASSISTANT TREASURER
Department of the Treasury
Director of Debt Management
JANET A. AYLOR

VPSA ASSISTANT SECRETARY/ASSISTANT TREASURER
Department of the Treasury
Public Finance Manager
JAMES D. MAHONE

Department of the Treasury
Senior Public Finance Analyst
MELISSA W. PALMER

Department of the Treasury
Senior Public Finance Analyst
SANDRA E. STANLEY

FINANCIAL ADVISOR

DAVENPORT & COMPANY LLC
Richmond, Virginia

BOND COUNSEL

MCGUIREWOODS LLP
Richmond, Virginia

THE SERIES 2016A BONDS ARE EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THE SERIES 2016A BONDS ARE ALSO EXEMPT FROM REGISTRATION UNDER THE SECURITIES LAWS OF THE COMMONWEALTH OF VIRGINIA.

NO DEALER, BROKER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION OTHER THAN THOSE CONTAINED IN THIS OFFICIAL STATEMENT, AND, IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS SHOULD NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE AUTHORITY OR THE UNDERWRITERS. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY, NOR SHALL THERE BE ANY OFFER OR SOLICITATION OF SUCH OFFER OR SALE OF THE SERIES 2016A BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH OFFER, SOLICITATION OR SALE. THIS OFFICIAL STATEMENT IS NOT TO BE CONSTRUED AS A CONTRACT OR AGREEMENT BETWEEN THE AUTHORITY OR THE UNDERWRITERS OR HOLDERS OF ANY OF THE SERIES 2016A BONDS.

CERTAIN STATEMENTS INCLUDED IN THIS OFFICIAL STATEMENT CONSTITUTE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS ARE GENERALLY IDENTIFIABLE BY THE TERMINOLOGY USED SUCH AS "PLAN," "PROJECT," "EXPECT," "ANTICIPATE," "INTEND," "BELIEVE," "ESTIMATE," "BUDGET" OR OTHER SIMILAR WORDS. THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVES KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS THAT MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY RESULTS, PERFORMANCES OR ACHIEVEMENTS EXPRESS OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. EXCEPT AS SPECIFICALLY SET FORTH HEREIN, THE AUTHORITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS DUE TO CHANGES IN ITS EXPECTATIONS OR SUBSEQUENT EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED.

THE INFORMATION CONTAINED HEREIN IS SUBJECT TO CHANGE WITHOUT NOTICE AND NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE AUTHORITY SINCE THE DATE HEREOF.

IN ACCORDANCE WITH THEIR RESPONSIBILITIES UNDER THE FEDERAL SECURITIES LAWS, THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT BUT DO NOT GUARANTEE ITS ACCURACY OR COMPLETENESS.

THE UNDERWRITERS MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE SERIES 2016A BONDS, INCLUDING TRANSACTIONS TO (A) OVERALLOT IN ARRANGING THE SALES OF THE SERIES 2016A BONDS AND (B) MAKE PURCHASES AND SALES OF BONDS, FOR LONG OR SHORT ACCOUNT, ON A WHEN-ISSUED BASIS OR OTHERWISE, AT SUCH PRICES, IN SUCH AMOUNTS AND IN SUCH MANNER AS THE UNDERWRITERS MAY DETERMINE.

A REGISTERED TRADEMARK OF THE AMERICAN BANKERS ASSOCIATION ("ABA"), USED BY STANDARD & POOR'S ("S&P") IN ITS OPERATION OF THE CUSIP SERVICE BUREAU FOR THE ABA. THE ABOVE CUSIP (COMMITTEE ON UNIFORM SECURITIES IDENTIFICATION PROCEDURES) NUMBERS HAVE BEEN ASSIGNED BY AN ORGANIZATION NOT AFFILIATED WITH THE AUTHORITY, AND THE AUTHORITY IS NOT RESPONSIBLE FOR THE SELECTION OR USE OF THE CUSIP NUMBERS. THE CUSIP NUMBERS ARE INCLUDED SOLELY FOR THE CONVENIENCE OF BONDHOLDERS AND NO REPRESENTATION IS MADE AS TO THE CORRECTNESS OF SUCH CUSIP NUMBERS. CUSIP NUMBERS ASSIGNED TO SECURITIES MAY BE CHANGED DURING THE TERM OF SUCH SECURITIES BASED ON A NUMBER OF FACTORS INCLUDING, BUT NOT LIMITED TO, THE REFUNDING OR DEFEASANCE OF SUCH SECURITIES OR THE USE OF SECONDARY MARKET FINANCIAL PRODUCTS. THE AUTHORITY HAS NOT AGREED TO, AND THERE IS NO DUTY OR OBLIGATION TO, UPDATE THIS OFFICIAL STATEMENT TO REFLECT ANY CHANGE OR CORRECTION IN THE CUSIP NUMBERS SET FORTH ABOVE.

TABLE OF CONTENTS

OFFICIAL STATEMENT
of the
VIRGINIA PUBLIC SCHOOL AUTHORITY
for its
$101,770,000
School Financing and Refunding Bonds (1997 Resolution)
Series 2016A

INTRODUCTION

The purpose of this Official Statement is to provide certain information in connection with the issuance by the Virginia Public School Authority (the "Authority") of its $101,770,000 School Financing and Refunding Bonds (1997 Resolution) Series 2016A (the "Series 2016A Bonds"). The Authority is an instrumentality of the Commonwealth of Virginia (the "Commonwealth"), created by Chapter 11, Title 22.1, Code of Virginia, 1950, as amended (the "Enabling Act"). See **"THE AUTHORITY."**

The Series 2016A Bonds are being issued by the Authority pursuant to the Enabling Act and a bond resolution adopted on October 23, 1997, as amended and restated, and as supplemented (the "1997 Resolution"), by the Board of Commissioners of the Authority (the "Board"). The Authority's purpose in issuing the Series 2016A Bonds is to provide funds for the purchase by the Authority of certain general obligation school bonds (the "2016A Local School Bonds") to be issued by certain Virginia localities (the "2016A Local Issuers") and to refund in advance of their stated maturities certain bonds of the Authority issued under the 1997 Resolution. The 2016A Local Issuers are to use the proceeds of their 2016A Local School Bonds to finance capital projects for their public schools and refund prior obligations issued for such purposes. The proceeds of the refunded bonds were used to purchase general obligation school bonds (the "Related Local School Bonds") of certain Virginia localities (the "Related Local Issuers") to finance capital projects for their public schools.

In this Official Statement:

- The Series 2016A Bonds and the parity bonds heretofore and hereafter issued under the 1997 Resolution are called "Bonds."
- The 2016A Local School Bonds, the Related Local School Bonds and all other general obligation school bonds the principal, interest and redemption components of which have been, or will be, pledged to the Bonds are called collectively "Local School Bonds."
- Cities, counties and towns, including the 2016A Local Issuers and the Related Local Issuers, are called "Local Issuers."

The Series 2016A Bonds will be the fifty-third series of Bonds issued under the 1997 Resolution. As of April 15, 2016, $2,408,680,000 of Bonds were outstanding.

The 1997 Resolution permits the issuance of additional Bonds of the Authority:

- to purchase additional Local School Bonds; and
- to refund any outstanding obligation of the Authority.

All the Bonds, including the Series 2016A Bonds, will be secured by and payable from principal and interest payable on all the Local School Bonds. See **"SCHEDULE OF INCOME AVAILABLE TO PAY DEBT SERVICE AND DEBT SERVICE REQUIREMENTS."** The 1997 Resolution requires, in connection with the issuance of additional Bonds by the Authority, that the sum of the scheduled debt service on all Local School Bonds after the issuance of such additional Bonds at least equal the related scheduled debt service on all the Bonds on each debt service payment date on the Bonds. All Local School Bonds must be general obligations of Local Issuers for which their full faith and credit and taxing power are irrevocably pledged. See "**SECURITY AND SOURCES OF PAYMENT FOR THE BONDS"** and **"THE LOCAL SCHOOL BONDS."**

The Authority has covenanted in the 1997 Resolution to seek from the Virginia General Assembly in each biennium a sum sufficient appropriation of an amount at least equal to the difference between (A) debt service on the Bonds becoming due in the fiscal years covered by the biennial Budget Bill and (B) the amounts paid on the Local School Bonds credited to the 1997 Resolution Pledge Account or realized from the application of the State Aid Intercept Provision. The General Assembly has the power to make future sum sufficient appropriations with respect to debt service on the Series 2016A Bonds, but the General Assembly is under no legal obligation to do so. **The Series 2016A Bonds do not constitute a debt or pledge of the faith and credit of the Commonwealth.** See **"SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Sum Sufficient Appropriation."**

The issuance of additional Bonds, such as the Series 2016A Bonds, is conditioned upon the certifications that:

(i) the scheduled debt service payments on the Local School Bonds are equal to or greater than the related scheduled debt service payments on the Bonds on each debt service payment date, and

(ii) (A) the current Appropriation Act, and

(B) if and as applicable, either of

(I) the Governor's Budget Bill as introduced in the General Assembly for the next fiscal year or biennium or,

(II) if enacted, the Appropriation Act for the next fiscal year or biennium

contains a sum sufficient appropriation to pay the debt service on the Bonds not paid from payments on the Local School Bonds. See "**SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Additional Bonds"** and **"SUMMARY OF CERTAIN PROVISIONS OF THE 1997 RESOLUTION - General Authorization of Bonds."**

The first debt service payment on the Series 2016A Bonds is scheduled to become due in the fiscal year commencing July 1, 2016. In Virginia Acts of Assembly 2014, Special Session I, Chapter 2, as amended by Virginia Acts of Assembly 2015, Chapter 665 and as amended by Virginia Acts of Assembly 2016, Chapter 732 (as so amended, the "2014-2016 Appropriation Act") the General Assembly made a "sum sufficient appropriation" to provide the difference, if any, between the income received on the Local School Bonds and the debt service on the Bonds for the 2014-2016 Biennium. The General Assembly has made a similar sum sufficient appropriation during each biennium since the adoption of the 1997 Resolution. See **"SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Sum Sufficient Appropriation."**

The General Assembly convened in January 2016 for its regular session to consider, among other legislation, the Commonwealth's budget for the biennium commencing July 1, 2016. The General Assembly adjourned sine die on March 10, 2016. On April 10, 2016, the Governor provided the General Assembly with his amendments to the proposed 2016-2018 budget, now House Bill 30, as enrolled. The General Assembly will consider the Governor's amendments to House Bill 30 as enrolled at a veto session on April 20, 2016. House Bill 30 contains and is expected to contain when adopted a "sum sufficient" appropriation from the general fund of the Commonwealth of to the extent that available funds from the Local School Bonds are insufficient to pay debt service on the Bonds.

The Authority has issued, and expects to issue in the future, bonds and other obligations ("Other Obligations") under other security instruments ("Other Resolutions"). Other Obligations have no claim to amounts payable on the Local School Bonds or, except for the VPSA Tax Credit Bonds issued pursuant to the VPSA Tax Credit Bond Indenture (each as hereinafter defined), to the sum sufficient appropriation made with respect to the Bonds in the 2014-2016 Appropriation Act. The Bonds have no claim on the general obligation school bonds or other security pledged to the payment of the Other Obligations. See **"THE AUTHORITY - Other Authority Financings"** and **"FUTURE FINANCINGS."**

PLAN OF FINANCE AND REFUNDING

Purchase of 2016A Local School Bonds

The proceeds of the Series 2016A Bonds, together with other available funds, will be used to (i) purchase the 2016A Local School Bonds and (ii) pay a portion of the costs of issuance of the Series 2016A Bonds. The 2016A Local Issuers will use the proceeds of their respective 2016A Local School Bonds to finance capital projects for their public schools or refund prior obligations issued for such purposes. The 2016A Local School Bonds will be credited to the 1997 Resolution Pledge Account in the General Pledge Fund created by the 1997 Resolution. The payments of principal and interest received on the 2016A Local School Bonds will be used to pay a portion of the principal and interest on the Bonds of the Authority.

Refunding of Prior Northumberland Bonds

The County of Northumberland, one of the 2016A Local Issuers, will use the proceeds of its 2016A Local School Bond to refund in advance of their first callable maturities all or a portion of the Industrial Development Authority of Westmoreland County, Virginia's Lease Revenue Bonds (Northumberland County School Project), Series 2006 (the "Refunded Northumberland Bonds"). A portion of the proceeds of the Series 2016A Bonds will be deposited with an escrow agent under an escrow agreement, which escrow agreement will provide for the establishment of an initial cash deposit and investment of the remaining proceeds in direct, non-callable obligations of the United States Treasury (the "Northumberland Escrowed Securities"). Based on the report of The Arbitrage Group, Inc., the initial cash deposit and the maturing principal of and interest on the Northumberland Escrowed Securities will be sufficient without reinvestment to pay the principal of and premium and interest on the Refunded Northumberland Bonds through their respective maturity or redemption dates. See "**VERIFICATION OF MATHEMATICAL COMPUTATIONS FOR THE REFUNDED NORTHUMBERLAND BONDS**."

Refunding of Prior Authority Bonds under the 1997 Resolution

A portion of the proceeds of the Series 2016A Bonds are expected to be applied to refund certain bonds (the "Refunded Bonds") outstanding under the 1997 Resolution, if the Authority can realize its savings targets on the sale date. The Authority has determined that refunding the Refunded Bonds will produce debt service savings and other financial benefits for the Authority and the Related Local Issuers.

With respect to each series of Refunded Bonds, the maturities and aggregate principal amounts to be refunded are as follows:

Issue	Maturities to be Refunded (August 1)	Aggregate Principal Amount to be Refunded	Redemption Date	Redemption Price
Series 2010A	2021 through 2030, inclusive	$10,745,000	August 1, 2020	100%

To effect the refunding, a sufficient amount of the proceeds of the Series 2016A Bonds and other available funds will be deposited with an escrow agent under an escrow agreement, which escrow agreement will provide for the establishment of an initial cash deposit and investment of the remaining proceeds in direct, non-callable obligations of the United States Treasury (the "Authority Escrowed Securities"). Based on the report of The Arbitrage Group, Inc., the initial cash deposit and the maturing principal of and interest on the Authority Escrowed Securities will be sufficient without reinvestment to pay the principal of and premium and interest on the Refunded Bonds through their respective maturity or redemption dates. See "**VERIFICATION OF MATHEMATICAL COMPUTATIONS FOR THE REFUNDED BONDS**." As a result of the deposit to the Escrow Fund described above and such irrevocable instructions, the Refunded Bonds will be deemed no longer outstanding for purposes of the 1997 Resolution.

SOURCES AND USES OF THE PROCEEDS OF THE SERIES 2016A BONDS

The proceeds of the Series 2016A Bonds, including net initial offering premium, are expected to be applied as follows:

SOURCES	
Par Amount of Series 2016A Bonds	$101,770,000.00
Net Original Issue Premium	10,681,798.35
Total	$112,451,798.35
USES	
Deposit to 1997 Resolution Purchase Fund	$67,330,109.12
Escrow Fund for Refunded Northumberland Bonds	31,847,870.15
Escrow Fund for Refunded Bonds	12,479,483.90
Costs of Issuance for the Refunding Component	54,731.88
Underwriters' Discount	739,603.30
Total	$112,451,798.35

In addition, the Authority's General Fund will provide up to $256,137.62, representing an amount equal to the Authority's estimated issuance expenses incurred in connection with the non-refunding components of the Series 2016A Bonds (the "General Fund Contribution"). The deposit to the 1997 Resolution Purchase Fund is net of the deposit to the escrow fund for the Refunded Northumberland Bonds and the deposit to the escrow fund for the Refunded Bonds.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Enabling Act

The Enabling Act authorizes the Authority to pay its bonds solely from funds of the Authority, including, among others, the following sources:

1. payments of principal of and interest on general obligation school bonds purchased by the Authority;
2. proceeds of the sale of any such general obligation school bonds; and
3. any funds appropriated by the General Assembly.

1997 Resolution Pledge

The two main sources of the funds pledged by the 1997 Resolution for the payment of debt service on the Bonds are:

1. payments received on the Local School Bonds and through enforcement of the State Aid Intercept Provision, and
2. appropriations for this purpose by the General Assembly (See "**Local School Bonds," "State Aid Intercept"** and **"Sum Sufficient Appropriation"** herein).

The Bonds are not general obligations of the Authority and are not secured by any of the funds and accounts, assets or revenues pledged under Other Resolutions. The Enabling Act provides that the Bonds, the premium, if any, and the interest thereon will not constitute a debt or a pledge of the faith and credit of the Commonwealth. Neither the faith and credit nor the taxing power of the Commonwealth or of any of its political subdivisions is pledged to the payment of the principal of, premium, if any, or interest on the Bonds. While the Bonds do not constitute a legally enforceable obligation of the Commonwealth nor create a debt of the Commonwealth, there is no constitutional bar to the General Assembly's making appropriations in future sessions to pay debt service on the Bonds.

Local School Bonds

The 2016A Local School Bonds will be purchased from the 2016A Local Issuers by the Authority with the proceeds of the Series 2016A Bonds. The Authority will deposit all the 2016A Local School Bonds in a special fund known as the "General Pledge Fund" under the 1997 Resolution and credit the principal, interest and redemption premium components of the 2016A Local School Bonds to a special account known therein as the "1997 Resolution Pledge Account." Under the 1997 Resolution, the Authority grants to the Depository (as hereinafter defined) of the 1997 Resolution Pledge Account, for the benefit of the holders of the Bonds, including the Series 2016A Bonds, security interests in the principal, interest and redemption premium components of the Local School Bonds, including the 2016A Local School Bonds. Similarly, the Authority will deposit to the General Pledge Fund additional Local School Bonds acquired with the proceeds of additional Bonds and assign their principal, interest and redemption premium components to the 1997 Resolution Pledge Account, all subject to security interests in favor of the holders of the Bonds, including the Series 2016A Bonds. Likewise, the Authority previously deposited Local School Bonds, either acquired with the proceeds of previous issues of Bonds (including the Related Local School Bonds) or transferred in connection with the issuance of previous refunding Bonds, to the General Pledge Fund and has assigned such Local School Bonds' principal, interest and redemption premium components to the 1997 Resolution Pledge Account. See **"THE LOCAL SCHOOL BONDS - Local School Bonds Pledged to the Bonds."**

Payments of principal of and interest received on Local School Bonds will be deposited in the "1997 Income Fund," another special fund created by the 1997 Resolution. The Authority will use these payments to pay debt service on the Bonds.

Interest on the Local School Bonds is due generally on the January 15 and July 15 immediately preceding the corresponding interest payment dates of February 1 and August 1 on the Bonds. Similarly, principal on the Local School Bonds is payable on the July 15 immediately preceding the corresponding August 1 principal payment date of the Bonds. Interest on the 2016A Local School Bonds will begin to accrue 16 days prior to the Series 2016A Bonds, so that the Authority will realize a proper matching of the income received from the first interest payment on the Local School Bonds with the amount of the first interest payment due on the Series 2016A Bonds.

See **"SCHEDULE OF INCOME AVAILABLE TO PAY DEBT SERVICE AND DEBT SERVICE REQUIREMENTS"** for a comparison between the scheduled income on the Local School Bonds in the 1997 Resolution Pledge Account and the 2016A Local School Bonds, and the scheduled debt service on the outstanding Bonds and the Series 2016A Bonds.

State Aid Intercept

A Virginia statute (Section 15.2-2659 of the Code of Virginia, 1950, as amended) (the "State Aid Intercept Provision") provides a mechanism for the application to overdue debt service on the Local School Bonds of appropriations by the General Assembly to the Local Issuers. The State Aid Intercept Provision requires the Governor of the Commonwealth, upon proof of default in the payment of debt service on any general obligation bond (such as a Local School Bond) by any local government (such as a Local Issuer), to direct the Comptroller of the Commonwealth to withhold certain payments to the local government until such default is cured. These payments include funds appropriated by the General Assembly to the local government for any and all purposes. For as long as the default continues, the State Aid Intercept Provision directs the Governor to require the Comptroller to pay from such appropriation to the holders of such general obligation bonds or their paying agent as much as is necessary to cover the principal and interest due on such general obligation bonds. The State Aid Intercept Provision further provides for notice of the default and of the availability of intercepted funds with the paying agent or with the Comptroller by publication and by mail to the registered owners of such general obligation bonds.

The State Aid Intercept Provision has never been utilized but it has been successfully tested in a hypothetical default on a local school bond. Based on the results of such test, the Authority expects that the Comptroller would deliver such funds to the paying agent of the Authority within one business day of initial notification. The Authority further expects that, for as long as the default continued, the Comptroller would make subsequent transfers when debt service on the Local School Bond in default is due.

The State Aid Intercept Provision applies to all general obligation bonds of the Local Issuers, including the Local School Bonds. State aid that is payable to local governments and that is subject to interception pursuant to the State Aid Intercept Provision is derived primarily from the Commonwealth's General Fund, with the remaining aid being payable from the Highway Maintenance and Construction Fund of the Virginia Department of Transportation and certain other funds. The primary sources of revenue for the Commonwealth's General Fund are individual and corporate income tax revenues, sales and use tax revenues, other tax revenues, interest, dividends and rents. Although the State Aid Intercept Provision has not been tested in a Virginia court, the Attorney General of the Commonwealth has opined that funds appropriated and payable by the Commonwealth to local governments for any and all purposes are subject to the withholding of the State Aid Intercept Provision.

The Authority has covenanted in the 1997 Resolution that it will enforce the State Aid Intercept Provision to obtain payment of any principal of and interest due and unpaid on the Local School Bonds.

[Remainder of this Page Intentionally Left Blank]

Total direct appropriations paid by the Commonwealth to Local Issuers along with the principal amounts of the Local School Bonds outstanding are shown below:

Local Issuer	State Aid Received for Fiscal Year Ended[1] June 30, 2013	June 30, 2014	June 30, 2015	Principal Amount of Local School Bonds Outstanding as of April 15, 2016 [3]
Accomack County	$38,644,897	$40,111,219	$42,449,093	$21,328,636
Albemarle County	81,396,059	83,106,196	86,334,832	62,970,000
Alleghany County	24,414,894	23,216,981	23,920,308	5,152,195
Amelia County	13,537,463	14,514,532	14,871,447	2,941,591
Amherst County	35,015,915	34,847,881	36,937,973	6,866,548
Appomattox County	18,369,104	19,279,444	20,018,297	3,147,388
Augusta County	73,178,175	74,803,629	76,478,481	38,469,708
Bedford County	62,713,105	73,494,932	76,180,775	35,408,169
Botetourt County	34,788,433	35,094,240	35,705,884	10,850,000
Brunswick County	21,388,298	21,722,007	20,985,520	4,284,305
Buchanan County	28,706,887	28,448,274	- [2]	3,566,482
Buckingham County	17,992,870	18,552,418	18,578,677	17,002,527
Campbell County	62,202,969	62,288,662	63,339,128	6,550,283
Caroline County	32,788,865	33,607,991	31,752,177	20,789,390
Carroll County	34,727,782	34,294,992	36,087,803	9,437,944
Chesapeake, City of	317,383,564	323,252,505	331,401,174	140,333,684
Chesterfield County	382,578,910	388,670,648	413,100,073	53,135,000
Clarke County	14,424,099	14,666,713	14,557,892	27,400,000
Colonial Beach, Town of	4,914,342	4,753,847	4,774,305	8,630,000
Covington, City of	9,090,759	9,411,391	9,579,986	11,255,000
Craig County	6,020,757	6,140,063	6,320,200	1,975,997
Culpeper County	55,173,185	57,318,184	59,742,476	4,737,634
Cumberland County	11,533,553	12,579,326	13,013,987	7,648,264
Danville, City of	77,219,179	77,271,988	79,708,191	4,622,372
Dinwiddie County	39,414,404	38,480,116	38,637,639	9,565,135
Essex County	12,001,217	11,957,029	12,213,176	8,597,425
Falls Church, City of	10,337,559	10,989,041	11,093,538	1,155,000
Fauquier County	73,988,777	76,441,348	75,501,469	49,085,000
Floyd County	16,607,034	17,744,907	17,099,002	6,407,756
Fluvanna County	26,142,147	27,101,767	27,655,241	75,856,634
Franklin, City of	13,928,620	14,437,214	13,257,168	1,974,190
Franklin County	54,482,787	55,670,919	58,276,720	7,595,059
Frederick County	92,006,188	94,610,874	95,679,806	109,754,245
Fredericksburg, City of	26,124,114	27,572,619	26,741,129	34,035,000
Giles County	22,923,251	22,847,942	23,763,549	4,479,897
Gloucester County	37,746,914	38,993,664	38,728,935	27,237,188
Goochland County	13,783,157	14,668,121	13,880,398	11,350,000
Grayson County	17,077,005	17,259,272	19,473,098	15,478,753
Greene County	21,784,676	22,310,875	24,147,944	5,125,000
Greensville County	13,955,068	15,407,507	15,076,148	1,702,546
Halifax County	48,827,825	46,864,590	48,754,708	36,505,693
Hanover County	115,679,241	116,438,936	122,409,183	37,367,459
Harrisonburg, City of	45,254,035	49,115,060	50,421,805	27,115,000
Henrico County	366,246,918	380,807,660	400,635,830	12,465,000
Henry County	59,399,714	62,351,708	71,693,073	6,741,221
Highland County	2,886,000	2,845,038	2,929,396	44,731
Hopewell, City of	37,046,356	38,753,253	- [2]	2,190,533
James City County	60,854,711	61,354,686	64,714,646	8,635,000
King George County	26,844,486	28,296,068	27,802,919	7,494,364
King William County	15,337,123	15,964,352	16,278,299	7,989,997
Lee County	32,671,396	33,881,119	34,879,213	1,795,000

(1) Source: Auditor of Public Accounts, Comparative Report of Local Government Revenues and Expenditures.
(2) Information is not available because the locality was delinquent in submitting comparative information to the Auditor of Public Accounts by the November 30, 2014 deadline.
(3) Several localities have had the Authority issue Special Obligation School Financing Bonds of their behalf. These bonds are also subject to the State Aid Intercept Provision, See the chart titled **"Virginia Public School Authority Summary of Outstanding Indebtedness From Other Financings As of April 15, 2016."**

Local Issuer	State Aid Received for Fiscal Year Ended[1] June 30, 2013	June 30, 2014	June 30, 2015	Principal Amount of Local School Bonds Outstanding as of April 15, 2016 [3]
Lexington, City of	5,032,054	5,886,400	5,970,245	11,350,000
Loudoun County	349,604,337	356,728,049	379,722,881	68,885,000
Louisa County	27,981,691	27,045,822	28,590,690	22,640,000
Lunenburg County	15,009,297	15,160,413	16,187,330	3,287,527
Lynchburg, City of	91,736,166	94,309,571	98,587,691	7,064,542
Manassas Park, City of	24,982,804	25,993,853	- [2]	39,712,365
Martinsville, City of	24,672,414	25,533,458	26,103,274	1,274,709
Mathews County	8,310,005	8,335,979	8,306,680	560,000
Mecklenburg County	37,001,615	38,602,240	36,766,368	6,060,508
Middlesex County	7,165,044	7,303,478	6,901,322	2,260,000
Montgomery County	67,210,013	72,099,221	75,603,983	5,781,931
Nelson County	13,086,444	13,409,396	13,743,031	7,500,000
New Kent County	17,625,498	18,220,662	19,091,481	9,548,336
Newport News, City of	251,525,629	252,971,504	259,701,460	1,741,482
Northampton County	15,400,962	15,629,889	16,001,044	1,115,000
Norton, City of	7,555,333	9,023,981	10,184,909	9,260,000
Nottoway County	19,096,308	19,374,060	19,724,404	2,148,223
Orange County	34,165,615	35,935,620	37,130,579	43,613,648
Page County	26,806,679	27,409,899	27,851,555	44,733,232
Patrick County	21,700,778	21,516,976	23,472,934	24,509,054
Pittsylvania County	77,478,751	77,479,248	79,611,345	8,081,763
Poquoson, City of	14,994,441	14,906,674	14,774,191	90,000
Portsmouth, City of	156,430,438	163,349,441	154,621,431	4,756,196
Powhatan County	27,619,815	28,095,020	29,968,242	8,560,647
Prince Edward County	23,236,330	21,555,019	21,422,387	1,004,297
Prince George County	47,556,194	48,687,302	51,385,678	11,965,822
Prince William County [3]	553,642,000	563,294,000	582,137,000	331,260,000
Pulaski County	43,619,820	44,537,654	- [2]	13,759,146
Radford, City of	18,008,590	18,841,581	19,362,101	10,803,455
Rappahannock County	6,123,071	6,576,922	- [2]	2,920,000
Richmond, City of	264,415,129	282,522,519	- [2]	494,107
Richmond County	10,129,152	11,199,053	10,762,375	8,754,693
Roanoke, City of	136,096,400	144,584,342	150,863,912	28,498,733
Roanoke County	103,083,274	103,146,780	106,626,272	88,460,767
Rockbridge County	21,525,741	22,471,591	24,823,713	34,145,726
Rockingham County	79,866,575	81,990,783	81,996,891	67,585,259
Russell County	39,409,268	37,720,157	39,906,147	6,869,979
Shenandoah County	43,251,605	44,879,100	46,917,924	13,904,475
Smyth County	41,753,228	43,234,426	42,682,980	11,287,887
Southampton County	24,739,516	25,672,769	24,866,961	3,426,610
Spotsylvania County	158,293,006	160,146,049	162,488,813	23,216,186
Stafford County	169,003,556	171,521,050	177,626,341	289,610,270
Staunton, City of	31,858,648	32,748,919	34,725,347	689,297
Surry County	5,739,181	5,756,887	5,707,835	2,240,000
Sussex County	12,867,863	13,331,901	12,990,867	5,350,000
Tazewell County	52,487,687	54,015,305	59,420,549	6,862,855
Virginia Beach, City of	507,151,800	516,206,141	525,807,060	4,550,898
Warren County	39,111,118	40,318,415	41,943,859	8,094,376
Washington County	52,355,501	53,283,367	54,156,890	4,290,899
Waynesboro, City of	30,427,024	31,010,973	31,801,239	5,481,399
West Point, Town of	4,661,232	4,984,246	5,059,440	256,404
Wise County	55,192,329	56,054,728	- [2]	44,710,506
Wythe County	35,174,543	34,979,379	36,447,315	8,853,046
York County	75,617,857	77,322,570	80,322,339	46,385,000
TOTAL	**$6,790,144,156**	**$6,961,528,530**	**$6,688,452,016**	**$2,446,512,198**

[1] Source: Auditor of Public Accounts, Comparative Report of Local Government Revenues and Expenditures.

[2] Information is not available because the locality was delinquent in submitting comparative information to the Auditor of Public Accounts by the November 30, 2014 deadline.

[3] Several localities have had the Authority issue Special Obligation School Financing Bonds of their behalf. These bonds are also subject to the State Aid Intercept Provision, See the chart titled **"Virginia Public School Authority Summary of Outstanding Indebtedness From Other Financings As of April 15, 2016."**

For the above Local Issuers, total direct appropriations (unaudited) for the fiscal year ended June 30, 2015 was $6,834,441,319 compared to total direct appropriations for the fiscal year ended June 30, 2014 of $6,759,444,183.

Sum Sufficient Appropriation

The 1997 Resolution contemplates that the General Assembly will biennially appropriate to the Authority an appropriation for each fiscal year of the biennium to provide sufficient funds to the Authority to meet its debt service obligations in the event of a payment default on one or more Local School Bonds not timely cured by the implementation of the State Aid Intercept Provision. This type of appropriation is referred to in this Official Statement as a "sum sufficient appropriation." The General Assembly has included in each Appropriation Act subsequent to the adoption of the 1997 Resolution a "sum sufficient appropriation" to the Authority to provide for the difference, if any, between

(1) the scheduled debt service on Bonds and

(2) the sum of

(i) the debt service payments made on the Local School Bonds, and

(ii) the funds obtained from enforcement of the State Aid Intercept Provision.

Each Appropriation Act has designated "available moneys" in the Literary Fund of the Commonwealth (See **"THE LITERARY FUND"**) as the first source of funds for the appropriation and the General Fund of the Commonwealth as the secondary source. The first debt service payments on the Series 2016A Bonds are scheduled to become due during the 2016-2018 biennium which will commence July 1, 2016.

The Enabling Act requires that the Governor's budget submission or budget amendments each year shall contain a "sum sufficient appropriation." The Enabling Act also requires the Authority to submit to the Governor and the General Assembly an annual report detailing the amount of its outstanding Bonds with the benefit of the sum sufficient appropriation. The Enabling Act and the 1997 Resolution do not place any limitation on the amount of Bonds that the Authority can issue with the benefit of the sum sufficient appropriation.

The Authority has covenanted in the 1997 Resolution that it will seek a sum sufficient appropriation which will cover

(1) the scheduled debt service on its outstanding Bonds during the fiscal year(s) covered by such Budget Bill(s), and

(2) the estimated scheduled debt service on the additional Bonds the Authority projects that it will issue and have debt service coming due during the fiscal year(s) covered by such Budget Bill(s).

Specifically, the Authority has covenanted in the 1997 Resolution that it will cause its Chairman annually, on or before December 1, to:

(1) certify to the Governor and the Secretary of Finance of the Commonwealth an estimate of the total debt service coming due in each of the next two fiscal years on

(A) outstanding Bonds, and

(B) additional Bonds projected to be issued during such two fiscal years, each running from July 1 through the subsequent June 30, and

(2) request inclusion in the Governor's Budget Bill(s) to be presented at the next regular session of the General Assembly of an appropriation first from available moneys in the Literary Fund and then from the General Fund of the Commonwealth.

In the event of a default in payment on one or more Local School Bonds, there is a period of not less than 15 days before the principal and interest payments on the Authority's Bonds become due. Should there be any deficiency remaining in the Income Available to Pay Debt Service after receipt of funds derived from the immediate implementation of the State Aid Intercept Provision, the Authority will immediately notify the Governor and the Director of the Department of Planning and Budget and (assuming the General Assembly has made a sum sufficient appropriation) after issuance of a warrant by the Comptroller, the State Treasurer shall transfer to the Depository of the 1997 Sinking Fund an amount equal to any remaining deficiency.

The Authority believes that the implementation of the State Aid Intercept Provision and, if that does not cure the deficiency, the issuance of the necessary warrant and subsequent electronic transfer pursuant to the sum sufficient appropriation will not take more than three business days following a default on a Local School Bond. The Authority further believes that the determination of the availability of funds in the Literary Fund required by the 2014-2016 Appropriation Act will not extend the process of accessing the sum sufficient appropriation.

Additional Bonds

The Authority may issue additional Bonds under the 1997 Resolution to purchase Local School Bonds and refund any indebtedness, including Other Obligations, provided that the Authority shall have received certificates of:

(1) the State Treasurer to the effect that the Income Available to Pay Debt Service on each debt service payment date equals or exceeds the scheduled debt service on all Bonds to be outstanding immediately after the delivery of the additional Bonds, and

(2) the Secretary of Finance that:

(A) the current Appropriation Act and any future Appropriation Act provision and

(B) if the date of the certificate is subsequent to December 20 of one year and prior to July 1 in the following calendar year, any Budget Bill

contain a sum sufficient appropriation from the Literary Fund and, to the extent that funds are not available therein for the purpose, from the General Fund of the Commonwealth, to pay the difference between debt service on the Bonds becoming due in such fiscal year(s) covered by such Appropriation Act Provision or Budget Bill and the amount available to pay such debt service.

The Authority may also issue additional Bonds under the 1997 Resolution to refund all or any of its outstanding Bonds or Other Obligations provided that, in either case, the coverage test for the issuance of additional Bonds to purchase additional Local School Bonds is satisfied. The Enabling Act requires that the Authority remit to the related Local Issuers, or in certain circumstances the Literary Fund, the net debt service savings resulting from any refunding of its Bonds or Other Obligations.

See **"SUMMARY OF CERTAIN PROVISIONS OF THE 1997 RESOLUTION - General Authorization of Bonds."**

The additional Bonds will be equally and ratably secured with the Series 2016A Bonds and other outstanding Bonds under the 1997 Resolution.

The Enabling Act imposes no limitation on the amount of Bonds that the Authority can issue under the 1997 Resolution.

Income Available to Pay Debt Service

The following table shows the scheduled debt service payments on the 2016A Local School Bonds, the Related Local School Bonds and other Local School Bonds and the corresponding scheduled principal and interest payments due on the Series 2016A Bonds and other outstanding Bonds.

SCHEDULE OF INCOME AVAILABLE TO PAY DEBT SERVICE AND DEBT SERVICE REQUIREMENTS[1]

Year Ended August 1	Income Available to Pay Debt Service[2] Principal and Interest on Local School Bonds: In 1997 Resolution Pledge Account[3]	2016A LSBs to be Purchased: Principal	2016A LSBs to be Purchased: Interest[4]	Total Income[5]	Debt Service on Outstanding Bonds[6]	Debt Service Requirements: Series 2016A Bonds (for New Loans)[7]: Principal	Series 2016A Bonds (for New Loans)[7]: Interest	Series 2016A Bonds (for VPSA Refunding)[8]: Principal	Series 2016A Bonds (for VPSA Refunding)[8]: Interest	Total Debt Service[5]
2016	$271,330,797	$ -	$ -	$271,330,797	$268,930,984	$ -	$ -	$ -	$ -	$268,930,984
2017	315,858,203	3,685,000	4,243,914	323,787,118	309,076,116	3,685,000	4,189,080	-	537,437	317,228,983
2018	296,036,356	3,810,000	3,334,205	303,180,561	288,578,068	3,810,000	3,290,563	10,000	445,800	296,134,430
2019	283,350,153	3,930,000	3,141,800	290,421,953	275,750,757	3,930,000	3,100,063	10,000	445,300	283,236,120
2020	264,311,639	4,060,000	2,943,335	271,314,974	256,506,054	4,060,000	2,903,563	20,000	444,800	263,934,416
2021	247,004,713	4,200,000	2,738,305	253,943,018	238,297,139	4,200,000	2,700,563	1,085,000	443,800	246,726,501
2022	224,739,108	4,345,000	2,526,205	231,610,313	216,217,324	4,345,000	2,490,563	1,125,000	389,550	224,567,436
2023	206,092,066	4,495,000	2,306,783	212,893,849	197,684,419	4,495,000	2,273,313	1,200,000	333,300	205,986,032
2024	189,240,758	4,660,000	2,079,785	195,980,543	181,007,128	4,660,000	2,048,563	1,260,000	273,300	189,248,990
2025	175,837,953	4,820,000	1,844,455	182,502,408	167,704,677	4,820,000	1,815,563	1,325,000	210,300	175,875,540
2026	153,839,571	4,995,000	1,601,045	160,435,616	146,374,590	4,995,000	1,574,563	890,000	144,050	153,978,202
2027	128,451,149	4,375,000	1,348,798	134,174,947	122,495,221	4,375,000	1,324,813	935,000	99,550	129,229,583
2028	107,057,200	4,470,000	1,259,110	112,786,310	103,062,809	4,470,000	1,237,313	955,000	80,850	109,805,972
2029	87,625,390	4,580,000	1,122,775	93,328,165	84,715,346	4,580,000	1,103,213	980,000	52,200	91,430,759
2030	65,692,640	4,680,000	1,017,435	71,390,075	63,513,581	4,680,000	1,000,163	1,005,000	30,150	70,228,893
2031	52,812,795	4,795,000	874,695	58,482,490	51,766,375	4,795,000	859,763	-	-	57,421,138
2032	41,917,718	4,765,000	752,423	47,435,140	41,281,663	4,765,000	739,888	-	-	46,786,550
2033	33,072,528	4,885,000	607,090	38,564,618	32,748,569	4,885,000	596,938	-	-	38,230,506
2034	22,773,108	5,005,000	470,310	28,248,418	22,675,856	5,005,000	462,600	-	-	28,143,456
2035	17,389,724	5,140,000	317,658	22,847,381	17,305,188	5,140,000	312,450	-	-	22,757,638
2036	8,584,521	5,275,000	160,888	14,020,409	8,506,288	5,275,000	158,250	-	-	13,939,538
2037	5,433,899	-	-	5,433,899	5,358,838	-	-	-	-	5,358,838
2038	4,535,894	-	-	4,535,894	4,528,725	-	-	-	-	4,528,725
2039	4,000,436	-	-	4,000,436	3,995,275	-	-	-	-	3,995,275
2040	3,283,278	-	-	3,283,278	3,274,931	-	-	-	-	3,274,931
2041	1,632,184	-	-	1,632,184	1,630,519	-	-	-	-	1,630,519
2042	496,164	-	-	496,164	495,256	-	-	-	-	495,256
2043	495,899	-	-	495,899	495,206	-	-	-	-	495,206
2044	494,545	-	-	494,545	494,075	-	-	-	-	494,075
2045	497,640	-	-	497,640	497,400	-	-	-	-	497,400
Totals	$3,213,888,026	$90,970,000	$34,691,012	$3,339,549,038	$3,114,968,376	$90,970,000	$34,181,780	$10,800,000	$3,930,387	$3,254,850,542

(1) Numbers may not add to totals due to rounding.

(2) This term as defined in the 1997 Resolution includes the scheduled principal and interest payments on all Local School Bonds excluding any in default. Together, all payments due on the 2016A Local School Bonds will be greater than or in excess of the interest due on the Series 2016A Bonds on each February 1 and August 1 and the principal due on each August 1.

(3) Includes income from the Related Local Bonds corresponding to the VPSA Refunding Bonds.

(4) Computed using the appropriate interest rates on the Series 2016A Bonds plus 5 basis points (0.05%).

(5) The difference between the figures shown in the "Total Income" column and the "Total Debt Service" column are the result of (i) an administrative fee of the Authority and (ii) savings realized from refunding prior issues of Bonds.

(6) Debt Service on Outstanding Bonds is shown net of the debt service on the Refunded Bonds.

(7) Includes debt service related to Northumberland County's 2016A Local School Bond.

(8) Relates only to debt service for the Series 2016A Bonds issued to refund the Refunded Bonds.

DESCRIPTION OF THE SERIES 2016A BONDS

General

The Series 2016A Bonds will be dated the date of delivery, will bear interest from their date payable semiannually on each February 1 and August 1, commencing on February 1, 2017, at the respective rates, and will mature, subject to prior redemption, on August 1, in each of the years, as set forth on the inside cover of this Official Statement. The record date for the Series 2016A Bonds will be the fifteenth day (whether or not a business day) of the calendar month next preceding the applicable interest payment date.

Optional Redemption

The Authority may, at its option, redeem certain of the Series 2016A Bonds prior to maturity as described on the inside cover of this Official Statement.

Notice of Redemption

Notice of redemption is to be given not more than 60 nor less than 30 days before the redemption date by first class mail to the registered owner or owners of the Series 2016A Bonds or portions thereof to be redeemed; provided, however, that any defect in such notice or the failure so to mail any such notice to any owners of any Series 2016A Bonds will not affect the validity of the proceedings for the redemption of any other Series 2016A Bonds. **During the period that DTC or the DTC partnership nominee is the registered holder of the Series 2016A Bonds, the Bond Registrar will not be responsible for mailing notices of redemption to the beneficial owners of the Series 2016A Bonds.** See **APPENDIX H - BOOK-ENTRY ONLY SYSTEM**. Each such notice will set forth the Series 2016A Bonds or portions thereof to be redeemed, the date fixed for redemption, the Redemption Price to be paid, and if less than all the Series 2016A Bonds will be called for redemption, the maturities of the Series 2016A Bonds to be redeemed and shall otherwise comply with Securities Exchange Act of 1934 Release No. 34-23856, dated December 3, 1986. If any Series 2016A Bond is to be redeemed in part only, the notice of redemption will state also that on or after the redemption date, upon surrender of such Series 2016A Bond, a new Series 2016A Bond of authorized denominations and in principal amount equal to the unredeemed portion of such Series 2016A Bond will be issued.

Any notice of optional redemption of the Series 2016A Bonds may state that it is conditioned upon there being available an amount of money sufficient to pay the Redemption Price, consisting of par plus interest accrued and unpaid to the redemption date, and any conditional notice so given may be rescinded at any time before the payment of the Redemption Price if any such condition so specified is not satisfied. If a redemption does not occur after a conditional notice is given due to an insufficient amount of funds on deposit by the State Treasurer, the corresponding notice of redemption shall be deemed to be revoked.

If the Authority gives an unconditional notice of redemption, then on the redemption date the Series 2016A Bonds called for redemption will become due and payable. If the Authority gives a conditional notice of redemption, and money to pay the Redemption Price of the affected Series 2016A Bonds shall have been set aside in escrow with the State Treasurer or other Depository for the purpose of paying such Series 2016A Bonds, then on the redemption date the Series 2016A Bonds will become due and payable. In either case, if on the redemption date the State Treasurer holds money to pay the Series 2016A Bonds called for redemption, thereafter, no interest will accrue on those Series 2016A Bonds, and a Bondholder's right will be to receive payment of the Redemption Price upon surrender of those Series 2016A Bonds.

THE AUTHORITY

The Authority's Board of Commissioners consists of the State Treasurer, the State Comptroller, the Superintendent of Public Instruction and five additional members appointed by the Governor, subject to confirmation by the General Assembly, who serve at the pleasure of the Governor for terms of six years. The Governor appoints one of the appointed members of the Board as chairman, who serves as chief executive officer of the Authority. The Board elects, from its membership, a vice-chairman, treasurer and secretary.

The members of the Authority are:

BRENDA L. SKIDMORE, *Chairman*, Senior Vice President, SunTrust Bank, Richmond, Virginia, term as a member expires June 30, 2016; residence: Richmond, Virginia.

BEN LOYOLA, *Vice-Chairman*, President and Chief Executive Officer, Loyola Enterprises, term as a member expires June 30, 2016; residence: Virginia Beach, Virginia.

MANJU S. GANERIWALA, *Treasurer and Secretary*, member of the Authority by virtue of being the State Treasurer of Virginia; residence: Henrico County, Virginia.

JAY BHANDARI, *Member,* President, Jay Insurance, term as a member expires June 30, 2020; residence: Vienna, Virginia.

DOUGLAS COMBS, *Member*, Former Chief Executive Officer, Windmill International, term as a member expires June 30, 2018; residence: Warrenton, Virginia.

WALTER MIKA, *Member,* Retired Teacher, term as a member expires June 30, 2020; residence: Fairfax, Virginia.

STEVEN R. STAPLES, *Member* of the Authority by virtue of being the Superintendent of Public Instruction of Virginia; residence: James City County, Virginia.

DAVID A. VON MOLL, *Member* of the Authority by virtue of being the Comptroller of Virginia; residence: Chesterfield County, Virginia.

Staff of the Authority

The office of the State Treasurer provides staff and administrative support for the Authority. The Authority's mailing address is P.O. Box 1879, Richmond, Virginia 23218-1879. The telephone number of the office of the State Treasurer is (804) 225-2142. Selected members of the Authority's staff include the following:

Janet A. Aylor has served as Director of Debt Management since 2015 and previously held other positions within the Treasury Department and with the Secretary of Finance for the Commonwealth. Ms. Aylor has both a bachelor's and a master's degree in business administration from the College of William and Mary.

James D. Mahone has served as Public Finance Manager since 2015 and previously held positions with Regions Bank, Wachovia Bank and First Union National Bank. Mr. Mahone has a bachelor's degree in finance from James Madison University.

Melissa W. Palmer has served as a Senior Public Finance Analyst since 2006 and previously held other positions within the Treasury Department and the Virginia Department of Medical Assistance Services. Ms. Palmer has a bachelor's degree in finance from the College of William and Mary and a master's degree in public administration from Virginia Commonwealth University.

Sandra Stanley has served as a Senior Public Finance Analyst since 2014 and previously held positions with Regions Bank, The Bank of New York Mellon, U.S. Bank and SunTrust Bank. Ms. Stanley has a bachelor's degree in business administration systems management from Virginia State University.

Powers of the Authority

Under the provisions of the Enabling Act, the Authority is empowered, among other things, to (1) manage and administer all moneys and obligations that may be set aside and transferred to it by the General Assembly of Virginia from the principal of a special trust fund established under the Constitution of Virginia and dedicated to the support of public education in Virginia (the "Literary Fund"), for public school purposes, (2) purchase, with any of its funds available for such purpose, at public or private sale and for such price and on such terms as it shall determine, general obligation school bonds of cities, counties and towns in the Commonwealth, or to make loans or grants to local school boards, and (3) issue, for the purpose of providing funds for the purchase of general obligation school notes or the making of loans or grants to local school boards, its bonds or other obligations payable solely from its funds including, but without limitation, (a) payments of principal of and interest on the general obligation school bonds purchased by the Authority or such loans made by the Authority, (b) sale proceeds of such general obligation school bonds, (c) payments of principal of and interest on obligations transferred to the Authority from the Literary Fund ("Literary Fund Obligations"), (d) sale proceeds of such Literary Fund Obligations, (e) any moneys transferred to the Authority from the Literary Fund, (f) payments of principal of and interest on loans made to local school boards, and (g) any funds authorized by the General Assembly for such purpose from the Literary Fund or otherwise appropriated by the General Assembly.

The validity of the original Enabling Act was upheld by the Supreme Court of Virginia in 1962 in Button v. Day, 203 Va. 687, 127 S.E.2d 122.

Financial Condition of Authority Funds

The Authority has caused an audit to be made of its books and accounts for the year ended June 30, 2015, which is contained in **APPENDIX A**. See **"CONTINUING DISCLOSURE"** and **APPENDIX F - "CONTINUING DISCLOSURE UNDERTAKINGS - Virginia Public School Authority."**

Other Authority Financings

The Authority expects that the 1997 Resolution will continue to be the primary instrument under which it issues bonds to provide funds to purchase local school bonds and thereby promote the financing of capital projects for public schools across the Commonwealth. Historically, the Authority has issued bonds under a number of other comparable "pool" resolutions and resolutions pledging solely the local school bonds of a single local issuer ("Stand Alone Security Structure").

Special Obligation School Financing Bonds. Using a Stand Alone Security Structure, the Authority has issued several issues of special obligation school financing bonds that are secured separately from the Bonds. These bonds are not secured by a pledge of the Local School Bonds or a "sum sufficient" appropriation of the Commonwealth.

School Technology and Security Notes. As of April 15, 2016 the Authority has outstanding four series of School Technology and Security Notes (collectively, the "Notes"). Proceeds from the Notes were used primarily to make grants to (i) establish a computer-based instructional and testing system for the Standards of Learning (SOL) and connecting high schools (and middle and elementary schools as appropriate), Best Practices Centers and the Central Office of the Department of Education and (ii) offset the costs associated with the purchase of appropriate security equipment. See also **"FUTURE FINANCINGS."**

The outstanding Notes are limited obligations of the Authority payable from appropriations by the Virginia General Assembly from the Literary Fund. The Notes have carried since their issuance the additional benefit of a sum sufficient appropriation from the General Fund of the Commonwealth. See **APPENDIX E - "LITERARY**

FUND - Appropriations from the Literary Fund." See also **"FUTURE FINANCINGS"** and **"LEGISLATION."**

Tax Credit Bonds. Subject to the availability of volume cap therefor, the Authority will issue certain tax credit bonds pursuant to a Master Trust Indenture, dated as of October 1, 2009 (as the same may be supplemented from time to time, the "VPSA Tax Credit Bond Indenture"), between the Authority and U.S. Bank National Association (such bonds are referred to herein as "VPSA Tax Credit Bonds"). As of the date hereof, the Authority has issued six issues of tax credit bonds pursuant to the VPSA Tax Credit Bond Indenture. The VPSA Tax Credit Bonds benefit from the sum sufficient appropriation, but are not secured by the 1997 Resolution. See also **"FUTURE FINANCINGS."**

The following table is a summary of outstanding indebtedness of the Authority from the other financings listed above.

Virginia Public School Authority
Summary of Outstanding Indebtedness From Other Financings
As of April 15, 2016

Issue Category	Final Maturity Date	Principal Outstanding
County of Prince William School Financing Bonds Series 2011[1]	July 15, 2031	$37,145,000
County of Prince William School Financing Bonds Series 2012[1]	July 15, 2032	55,820,000
County of Prince William School Financing Bonds Series 2013[1]	July 15, 2033	53,990,000
County of Prince William School Financing Bonds Series 2014[1]	July 15, 2034	78,415,000
County of Prince William School Financing Bonds Series 2015[1]	July 15, 2035	98,485,000
County of Warren School Financing Bonds Series 2014[1]	July 15, 2039	41,640,000
County of Montgomery School Financing Bonds[1]	January 15, 2032	79,640,000
County of Fluvanna School Financing Bonds[1][2]	December 1, 2018	5,325,000
County of Accomack Special Obligation Bonds 2002[1]	December 31, 2016	1,433,003
2012 School Educational Technology Notes[3]	April 15, 2017	11,065,000
2013 School Educational Technology Notes[3]	April 15, 2018	24,800,000
2014 School Technology and Security Notes[3]	April 15, 2019	39,435,000
2015 School Technology and Security Notes[3]	April 15, 2020	53,375,000
VPSA Tax Credit Bonds[4]	December 15, 2034	357,216,000
	TOTAL:	**$937,784,003** [5]

(1) See *"Special Obligation School Financing Bonds"* above.
(2) On December 20, 2012, the County of Fluvanna, Virginia ("Fluvanna County"), refunded the principal installments of the local school bond maturing on December 1 in each of the years from 2019 through 2035, inclusive (the "Refunded Local Bond"), with a portion of the proceeds of a Fluvanna County local school bond (the "Refunding Local Bond") purchased by the Authority with a portion of the proceeds of its School Financing Bonds (1997 Resolution) Series 2012D. The Authority, at the direction of Fluvanna County, applied the proceeds of the Refunding Local Bond to refund the Authority's Special Obligation School Financing Bonds Fluvanna County Series 2008 maturing on and after December 1, 2019.
(3) See *"School Technology and Security Notes"* above, on or about May 19, 2016, the Authority expects to deliver another series of Notes. See also **"FUTURE FINANCINGS."**
(4) See "*Tax Credit Bonds*" above.
(5) On April 27, 2016, the Authority expects to deliver its County of Prince William School Financing Bonds Series 2016 in the principal amount of $171,160,000.

The holders of the Authority's Other Obligations issued under the Other Resolutions described above have no claim on the Local School Bonds or their principal, interest and redemption premium components or any other assets pledged to the Bonds, and holders of Bonds issued under the 1997 Resolution have no claim to the local school bonds or other assets pledged under such Other Resolutions for the payment of such Other Obligations.

Payment History

While the Authority has never defaulted in payment on its indebtedness, because of an error made by U.S. Bank National Association, as bond trustee (the "Trustee"), the Authority's interest payment for the School Tax Credit Bonds (Direct Payment), Series 2012-1 due June 17, 2013, was made on June 18, 2013.

THE LOCAL SCHOOL BONDS

Requirements for the Local School Bonds

The 1997 Resolution requires that every Local School Bond purchased by the Authority must be a valid and binding general obligation of its respective Local Issuer for the payment of which its full faith and credit are pledged, that all taxable property within the boundaries of the Local Issuer must be subject to the levy of an ad valorem tax, without limitation as to rate or amount, for payment of such Local School Bonds and the interest thereon, and that all Local School Bonds must be in, or convertible into, marketable form and must be accompanied by an approving opinion of a firm of recognized municipal bond attorneys acceptable to the Authority.

Local School Bonds

2016A Local School Bonds and 2016A Local Issuers. The following table lists the 2016A Local Issuers and the principal amount of the 2016A Local Bonds to be issued by the 2016A Local Issuers and to be purchased by the Authority with the proceeds of the Series 2016A Bonds.

2016A Local Issuers	2016A Local School Bonds Being Purchased
County of Augusta	$27,825,000
City of Chesapeake	12,170,000
County of Frederick	8,100,000
County of Northumberland	29,580,000
County of Stafford	1,720,000
County of York	11,575,000

Details of the Local School Bonds. Local Issuers are obligated to issue and sell to the Authority their 2016A Local School Bonds with interest rates on principal installments five basis points (0.05%) above the rates on the corresponding maturities of the Series 2016A Bonds. The debt service payments on all Local School Bonds are due on January 15 and July 15, in advance of the corresponding February 1 and August 1 debt service payment dates on the Series 2016A Bonds. Interest on the 2016A Local School Bonds will begin to accrue 16 days prior to the Series 2016A Bonds, so that VPSA will realize a proper matching of the income received from the first interest payment on the Local School Bonds with the amount of the first interest payment due on the Series 2016A Bonds.

The Local School Bonds are not subject to redemption prior to their respective maturities without the prior written consent of the Authority. If VPSA refunds the Series 2016A Bonds in the future and such refunding causes a 2016A Local School Bond to be deemed refunded, the prepayment or redemption of the 2016A Local School Bond will be subject to VPSA approval and subject to prepayment or redemption provisions that correspond to the call period of the VPSA bonds issued in part to refund such 2016A Local School Bond.

Delivery of the 2016A Local School Bonds. The terms of the contracts between the Authority and each 2016A Local Issuer whose 2016A Local School Bonds the Authority has agreed to purchase with the proceeds of its Series 2016A Bonds require that the 2016A Local Issuer issue and deliver to the Authority its 2016A Local School Bonds on the same date that the Authority issues and delivers its Series 2016A Bonds to the purchasers thereof. In general, the Local Issuers deliver their Local School Bonds to the Authority on the same day that the Authority delivers its Bonds to the purchasers thereof. On occasion, there has been a delay in the delivery of a Local Issuer's Local School Bonds to the Authority, in which case the Local Issuer is required by the terms of its contract with the

Authority to compensate the Authority for the delay in delivery by an amount equal to the difference, if any, between the income the Authority realizes on the investment of its Bond proceeds set aside to purchase the Local School Bonds and the income the Authority would have realized had the Local School Bonds been delivered on the same date that the Authority's Bonds were issued and delivered.

In the event that a 2016A Local Issuer fails to deliver its 2016A Local School Bond to the Authority within 60 days of the date of delivery for the Series 2016A Bonds, the Authority anticipates that it would apply the excess proceeds of the Series 2016A Bonds, plus any additional moneys required, to fund an escrow consisting of Defeasance Obligations (see **"SUMMARY OF CERTAIN PROVISIONS OF THE 1997 RESOLUTION - Investments"**) sufficient to redeem (in accordance with the optional redemption provisions of the 1997 Resolution), or to pay at their maturity, the Series 2016A Bonds in the same principal amount as, and with maturities corresponding to the principal installments of, such 2016A Local School Bond and to pay interest on such Series 2016A Bonds to the respective redemption or maturity dates. As an alternative to establishing such an escrow, the Authority may seek to loan a portion or all of such excess proceeds to another Local Issuer under the same terms and rates as would have applied to the 2016A Local Issuer whose failed delivery of its 2016A Local School Bond resulted in excess Series 2016A Bond proceeds. In no event would any failed delivery of 2016A Local School Bonds result in an extraordinary redemption of Series 2016A Bonds since the 1997 Resolution makes no provision for any such extraordinary redemption.

Local School Bonds Pledged to the Bonds

As of April 15, 2016, there was $2,446,512,198 aggregate principal amount of Local School Bonds of 105 Local Issuers held in the 1997 Resolution Pledge Account in the General Pledge Fund. As of April 15, 2016, all Local School Bonds were current as to principal and interest. See **"SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – State Aid Intercept"** for the outstanding principal amount of each Local School Bond outstanding.

Protection from Default in Payment of Local School Bonds

There has never been a payment default on any general obligation school bonds held by the Authority. The Authority has covenanted in the 1997 Resolution that it will take any and all action available to it under the laws of the Commonwealth, including the State Aid Intercept Provision, to secure payment of the principal of and the interest on the Local School Bonds held under the 1997 Resolution. See **"SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - State Aid Intercept"** above.

State Non-Arbitrage Program

Since 1989, the Authority has required all Local Issuers to deposit and maintain the proceeds of their Local School Bonds in the Virginia State Non-Arbitrage Program® ("SNAP"). SNAP includes a professionally-managed money market mutual fund which provides the Local Issuers with a convenient method of pooling bond proceeds for temporary investment pending their expenditure and with record keeping, depository and arbitrage rebate calculation services.

THE LITERARY FUND

General

The Literary Fund is a permanent and perpetual school fund created in 1810 and established by the Constitution of Virginia as a depository for moneys derived by the Commonwealth from criminal fines and forfeitures, escheated property and income from the investment of moneys on deposit in the Literary Fund. The moneys therein are held by the State Treasurer and administered by the State Board of Education "for public school purposes, including the teachers' retirement fund."

Available Monies

Under the 2014-2016 Appropriation Act, the sum sufficient appropriation to the Authority for debt service on Bonds for the biennium ending June 30, 2016 is payable first from "available monies" in the Literary Fund and then from the General Fund of the Commonwealth. The Authority anticipates that the determination of "available monies" at a point in time, assuming a Local Issuer has defaulted on its Local School Bond and implementation of the State Aid Intercept Provision has not cured the default, will be made by the Director of the Department of Planning and Budget taking into account the balance of cash and cash equivalents credited to the Literary Fund, on the one hand, and all appropriations and transfers from, and Literary Fund Loan commitments made by, the Literary Fund.

See **APPENDIX E** - **LITERARY FUND.** See also **"FUTURE FINANCINGS"** and **"LEGISLATION."**

THE GENERAL FUND OF THE COMMONWEALTH

The General Fund of the Commonwealth is comprised of such balances, public taxes, arrears of taxes, and monies derived from all other sources as are not by law segregated to other funds and accounts for transactions related to resources received and used for those services traditionally provided by a state government. Commonwealth General Fund revenues are principally composed of direct taxes to support a number of government functions, primarily education, individual and family services, public safety and general government, and are available for payment of debt service obligations of the Commonwealth. For the fiscal year ended June 30, 2015, Commonwealth General Fund revenue was approximately $18,786,506,000 with expenditures of approximately $18,950,800,000 and ending with a fund balance surplus of approximately $848,356,000. See **APPENDIX B - COMMONWEALTH OF VIRGINIA FINANCIAL AND OTHER INFORMATION.** For a discussion of certain recent developments relating to the proposed Commonwealth budget, see **"INTRODUCTION"** herein.

SUMMARY OF CERTAIN PROVISIONS OF THE 1997 RESOLUTION

The following statements are brief summaries of certain provisions of the 1997 Resolution. Such statements do not purport to be complete and reference is made to the 1997 Resolution, copies of which are available for inspection upon request to the Secretary of the Authority.

Definitions of Certain Terms

The following are the definitions of certain terms contained in the 1997 Resolution and used in this Official Statement:

"Depository" means the State Treasurer or one or more banks or trust companies duly authorized to engage in the banking business and meeting the requirements of the 1997 Resolution and designated by resolution of the Authority or by the State Treasurer as a depository of moneys under the provisions of the Resolution.

"General Fund" means the Virginia Public School Authority General Fund, a special fund created by the 1997 Resolution.

"Income Available to Pay Debt Service" means as of any particular Payment Date,

(1) the amount of the principal and interest that is scheduled to become due and payable on the local school bonds credited to the 1997 Resolution Pledge Account during the Applicable Income Period,

plus (2) the amount, if any, of the principal and interest that is scheduled to become due and payable prior to the Applicable Income Period on the local school bonds credited to the 1997 Resolution Pledge Account that is designated by the Authority, in a certificate of its Treasurer or an Assistant Treasurer, for application to debt service on the Bonds in the Applicable Income Period,

less (3) the amount, if any described in (1) above that has been designated by the Authority, in a certificate of its Treasurer or an Assistant Treasurer, for application to debt service on the Bonds subsequent to the Applicable Income Period.

For the purposes of the definition of "Income Available to Pay Debt Service," "Applicable Income Period" shall mean the period beginning, with respect to each series of Bonds, on the later of their date of issue and the day after the previous Payment Date and ending on the date that is the applicable Payment Date or if such Date is not a Business Day, the Business Day next preceding such Payment Date.

Establishment of Funds and Accounts

The 1997 Resolution provides for the creation of the "Virginia Public School Authority 1997 Purchase Fund" (the "1997 Purchase Fund"); the "Virginia Public School Authority 1997 Income Fund" (the "1997 Income Fund"); the "Virginia Public School Authority 1997 Bond Interest and Sinking Fund" (the "1997 Sinking Fund"), and the "Virginia Public School Authority Reimbursement Fund" (the "Reimbursement Fund"). The 1997 Resolution further provides for the creation of a special fund designated the "Virginia Public School Authority General Pledge Fund" (the "General Pledge Fund"), including therein the "Virginia Public School Authority General Pledge Fund 1997 Resolution Account" (the "1997 Resolution Pledge Account").

Purchase Fund

To the extent provided in a series resolution, proceeds of Bonds issued under the 1997 Resolution shall be deposited in the Authority's General Fund for payment of expenses incurred in connection with the issuance of Bonds. The remaining proceeds of such Bonds (other than refunding Bonds and net of accrued interest) shall be deposited in the 1997 Purchase Fund.

The moneys in the 1997 Purchase Fund are to be applied by the Treasurer of the Authority to the purchase of Local School Bonds, subject to the provisions of the Enabling Act and the rules and regulations of the Authority. All Local School Bonds so purchased must constitute valid and binding general obligations of the Local Issuer for the payment of which its full faith and credit are pledged, and all taxable property within the boundaries of the Local Issuer must be subject to the levy of an ad valorem tax, without limitation on rate or amount, for the payment of such Local School Bonds and the interest thereon. The Local School Bonds must be accompanied by the approving opinion of a firm of recognized municipal bond attorneys acceptable to the Authority.

All Local School Bonds purchased with funds held in the 1997 Purchase Fund shall be held for the credit of the 1997 Resolution Pledge Account within the General Pledge Fund and pledged to the payment of the Bonds. The Board may authorize and direct the Treasurer of the Authority to sell (with or without consideration) or otherwise dispose of Local School Bonds purchased with the proceeds of Bonds issued under the 1997 Resolution; provided, however, no Local School Bonds may be sold unless the sale is required to make up a deficiency in the 1997 Sinking Fund or unless, following such sale or other disposition, the Income Available for Debt Service on each Payment Date is not less than the debt service on each such Date.

Any proceeds from such a sale or other disposition may be used for the lawful purposes of the Authority; any accrued interest realized in such a sale shall be deposited to the credit of the 1997 Income Fund.

The Board may from time to time authorize and direct the Treasurer of the Authority to transfer from the 1997 Purchase Fund to the 1997 Sinking Fund all or any portion of the moneys held in the 1997 Purchase Fund in order to pay interest on Bonds, to redeem Bonds or to make up any deficiency in the 1997 Sinking Fund.

Flow of Funds

The Treasurer of the Authority shall collect and deposit in the 1997 Income Fund the principal and interest payments on the Local School Bonds credited to the 1997 Resolution Pledge Account as the same become due and payable.

The Authority has covenanted that on or before the last Business Day preceding each Payment Date (or any other day designated in a series resolution) (a "Deposit Day"), the State Treasurer shall, if applicable, withdraw an amount of money from the 1997 Income Fund, and deposit such moneys in the following funds and accounts in the following order and in amounts sufficient in the aggregate to satisfy the following requirements:

(a) in the 1997 Sinking Fund such amount as may be required to make the amount in the 1997 Sinking Fund equal to the sum of (i) the interest next due on the Bonds and (ii) the principal next due on the Bonds; provided that in making such transfers, the Treasurer of the Authority may take into account any accrued interest deposited from Bond proceeds and any amounts specified in a certificate of the Treasurer of the Authority prior to such Deposit Day as credited to a special account in the 1997 Purchase Fund; and

(b) in the Reimbursement Fund, such amount of any balance remaining after making the deposits under clause (a) above, up to the entire balance if less than the required amount, as may be required by the resolutions of the Authority in connection with obligations to repay the Commonwealth for any appropriations to cure deficiencies in the amount required to be on deposit in the 1997 Sinking Fund or to make rebate payments to the United States.

The State Treasurer shall transfer from the 1997 Income Fund to the credit of the General Fund of the Authority following each Payment Date, as may be requested by the Treasurer of the Authority, the lesser of (i) the amount described in clause (1)(A) below and (ii) the amount, if any, by which

(1) the sum of (A) the amount then remaining to the credit of the 1997 Income Fund, **plus** (B) the amount of the principal and interest that is scheduled to become due and payable on the local school bonds (the issuer of which is not then, to the knowledge of the State Treasurer, in default in the payment of the principal of or interest on any general obligation bond) held to the credit of the 1997 Resolution Pledge Account and payable to the Authority prior to the next succeeding Deposit Day,

exceeds

(2) the sum of (A) the amount of the scheduled Principal and Interest Requirement on the Bonds for the next succeeding Payment Date, **plus** (B) the amount then remaining to the credit of the 1997 Income Fund that has been designated by the Authority in accordance with the provisions of the Resolution for application to debt service on the Bonds on a future Payment Date subsequent to the next succeeding Payment Date.

1997 Sinking Fund

Moneys in the 1997 Sinking Fund shall be used for the payment of the principal of, premium, if any, and interest on the Bonds. The 1997 Resolution permits the State Treasurer to use moneys on deposit in the 1997 Sinking Fund to purchase Bonds coming due (or subject to mandatory redemption) on the next succeeding principal payment date at the most advantageous prices obtainable, but not in excess of the principal amount of such Bonds plus accrued interest, if any. Such purchases must be made no later than 45 days prior to an interest payment date on which Bonds are subject to redemption and must be made with moneys other than those set aside or deposited for the redemption of Bonds.

If Bonds are secured by a credit facility, moneys in the 1997 Sinking Fund may be used, as provided in a series resolution, to reimburse the credit provider for amounts drawn under the credit facility to pay the principal of, premium, if any, and interest on the Bonds.

General Fund

Moneys in the General Fund may be used to purchase Local School Bonds or for any other authorized purpose of the Authority and are not subject to a lien in favor of the holders of the Bonds.

General Pledge Fund

All local school bonds that are

(i) purchased from moneys held for the credit of the 1997 Purchase Fund, or

(ii) if so provided by resolution of the Authority,

(A) purchased from moneys held for the credit of the General Fund, or

(B) transferred from funds or accounts held under Other Resolutions,

shall be delivered to, and held in trust by, a Depository for the credit of the General Pledge Fund.

Unless otherwise provided by resolution of the Authority, all principal, interest and redemption premium components of the Local School Bonds that are purchased from moneys held for the credit of the 1997 Purchase Fund shall be credited, pledged and assigned to the 1997 Resolution Pledge Account in the General Pledge Fund. The Authority pursuant to the provisions of the 1997 Resolution grants security interests in favor of the holders from time to time of the Bonds issued and outstanding under the 1997 Resolution in such principal, interest and redemption premium components of such Local School Bonds, the receipts therefrom and the proceeds thereof. If so provided by resolution of the Authority, the Authority further grants and confirms security interests in favor of the holders from time to time of the Bonds issued and outstanding under the 1997 Resolution in the principal, interest and redemption premium components, the receipts and the proceeds of the local school bonds that are

(i) purchased from moneys held for the credit of the General Fund, or

(ii) transferred from funds or accounts held under Other Resolutions or from another special account within the General Pledge Fund

and credited, pledged and assigned to the 1997 Resolution Pledge Account.

The Authority may, by resolution, designate that all or a portion of all or a portion of the components of the Local School Bonds shall be credited, pledged and assigned to special subaccounts and may grant security interests in such portion or portions, the receipts therefrom and the proceeds thereof for the benefit of certain but not all the holders of Bonds or series or maturities or Bonds within maturities thereof as shown on the records of the Depository having custody of the General Pledge Fund. Where all or any of the principal, interest and redemption premium components of a local school bond are credited to the 1997 Resolution Pledge Account, all or the appropriate portion of the related local school bond held in the General Pledge Fund shall also be deemed credited to the 1997 Resolution Pledge Account and subject to the security interests created therein, and the proceeds from the sale or other disposition pursuant to the provisions of the 1997 Resolution shall be allocated to the Bonds in proportion to their percentage of the value of the components credited to such Account, as determined by the Authority.

General Authorization of Bonds

The Authority may issue additional Bonds under the 1997 Resolution for the purpose of providing funds for the purchase of Local School Bonds, subject to receipt of the following documents by the Treasurer of the Authority:

(a) a copy, certified by the Secretary of the Authority, of the Series Resolution or applicable Resolutions;

(b) a copy, certified by the Secretary of the Authority, of the resolution adopted by the Board awarding such Bonds and directing the delivery of such Bonds;

(c) a certificate, signed by the State Treasurer, setting forth with reference to each Payment Date, to and including the last stated principal payment date on the Bonds then outstanding and the Bonds then to be issued,

(A) the Income Available to Pay Debt Service (excluding the principal and interest on the Local School Bonds the issuer of which is then, to the knowledge of the State Treasurer, in default in the payment of principal or interest on any general obligation bond);

(B) the sum of (i) the principal and interest requirements on account of the Bonds of each Series then outstanding under the 1997 Resolution and (ii) the principal and interest requirements for the Bonds then to be issued

and stating that the result of dividing the amount mentioned in paragraph (A) for each such Date by the sum set forth in paragraph (B) for the same Date is at least one hundred percent (100%) on each such Date;

(d) a certificate, signed by the Secretary of Finance of the Commonwealth that

(i) the current Appropriation Act Provision and any future Appropriation Act Provision, and

(ii) if the date of the certificate is subsequent to December 20 of one year and prior to July 1 in the following calendar year, any Budget Bill

contain a "sum sufficient appropriation" from the Literary Fund and, to extent that funds are not available therein for the purpose, from the general fund of the Commonwealth, to pay the difference between debt service on the bonds becoming due in such fiscal year(s) covered by such Appropriation Act Provision or Budget Bill and the amount available to pay such debt service.

For purposes of the foregoing certificate of the Secretary of Finance,

(i) "current Appropriation Act Provision" shall mean a sum sufficient appropriation contained in an Appropriation Act that has the force of law at the date of the certificate,

(ii) "future Appropriation Act Provision" shall mean a sum sufficient appropriation contained in an Appropriation Act that will have the force of law on a future date,

(iii) "Budget Bill" shall mean the bill or bills submitted by the Governor to the General Assembly (but not yet enacted into law) that would appropriate the public revenue of the Commonwealth for a biennium or amend provisions of the current Appropriation Act, as such bill or bills may exist on the date of the certificate, and

(iv) "sum sufficient appropriation" shall mean in case of any Appropriation Act or Budget Bill the appropriation of amounts sufficient, whether the amount is specified directly or indirectly or by formula or otherwise, that in the judgment of the Secretary of Finance are sufficient to cure any deficiency in the amounts received by the Authority from payments on the local school bonds and from the implementation of the State Aid Intercept provision, when compared to the scheduled debt service on the Bonds on any Payment Date, in each of the fiscal years covered by the Appropriation Act or Budget Bill.

(e) a certificate, signed by the Chairman of the Authority, stating that the Authority is not then in default in the performance of any of the covenants, conditions, agreements or provisions contained in the 1997 Resolution or in the Enabling Act; and

(f) an opinion of the Attorney General or an Assistant Attorney General of the Commonwealth stating that the signer is of the opinion that the issuance of such additional Bonds has been duly authorized, that all conditions precedent to the delivery of such Bonds have been fulfilled, and that no legislation has been enacted that amends the provisions of the Enabling Act in a way that would adversely affect the power of the Authority to discharge its "Covenant to Request Sum Sufficient Appropriation."

Refunding of Bonds

Bonds may be issued under the 1997 Resolution for the purpose of providing funds to redeem or otherwise pay prior to their maturities, including the payment of any redemption premium thereon, all or part of the outstanding Bonds or any other indebtedness of the Authority (including Reimbursement Obligations), the interest thereon to the date fixed for their redemption or payment and any expenses incurred in connection with such refunding, provided that certain requirements of the 1997 Resolution, including the tests described in clauses (c) and (d) in "General Authorization of Bonds," are satisfied.

Provisions Applicable to All Bonds

Bonds may be issued in any form permitted by law, including current interest bonds, variable rate indebtedness, capital appreciation bonds, optional tender indebtedness, serial bonds, term bonds or any combination thereof. Except as to any credit facility that may be applicable to certain Bonds only and as to any differences in the maturities, rates of interest and the manner of payment thereof or in the provisions for redemption and purchase, all additional Bonds shall be entitled to the same benefit and security under the 1997 Resolution as all other Bonds. The 1997 Resolution provides that, for purposes of the revenue test applicable to the issuance of additional Bonds, the option of any owner of optional tender indebtedness to tender the same for payment prior to its stated maturity shall be ignored and the interest rate for variable rate indebtedness shall be assumed throughout the term of such indebtedness to be the greater of (a) the initial rate of interest of such variable rate indebtedness, and (b) the weighted average interest rate at which it is assumed that the Authority could reasonably expect to have borrowed on the date of issuance of such Bonds at a fixed interest rate.

Reports and Audits

The Authority covenants to keep accurate records and accounts of all moneys collected and the application of such moneys and to exert its best efforts to cause an audit of its books and accounts for each twelve-month period to be made by the State Auditor of Public Accounts or by an independent firm of certified public accountants of recognized ability and standing chosen by the Authority with the approval of the State Treasurer. The Authority further covenants that, as often as may be requested, it will furnish to any bondholder such other information concerning the Authority as such bondholder may reasonably request.

Investments

Moneys held in the funds and accounts established by the 1997 Resolution shall be continuously invested and reinvested at the direction of the Authority in the following investments ("Investment Obligations"):

> (a)(i) direct obligations of, or obligations the timely payment of the principal of and the interest on which is unconditionally guaranteed by, the United States of America, interest components of Resolution Funding Corporation bonds and, if permitted by law, evidences of indirect ownership of such obligations, (ii) obligations of state and local municipal bond issuers the payment of which shall be secured by non-callable obligations described in (i) above deposited with an escrow agent or trustee (the obligations referred to in (a)(i) and (a)(ii) are referred to as "Defeasance Obligations"), and (iii) obligations issued by certain agencies controlled or supervised by the United States of America, and
>
> (b) repurchase agreements for obligations described in (a) above, certificates of deposit, banker's acceptances, commercial paper, insured and uninsured obligations of state or local government municipal bond issuers satisfying the requirements of the 1997 Resolution and any other obligation constituting a legal investment for instrumentalities of the Commonwealth.

Moneys in the 1997 Purchase Fund, the 1997 Income Fund, the 1997 Sinking Fund and the Reimbursement Fund shall, as nearly as may be practicable, be invested and reinvested in Investment Obligations that shall mature, or that shall be subject to redemption at the option of the holder thereof, not later than the respective dates when the moneys will be required. Moneys held for the credit of the General Fund shall be invested and reinvested in such Investment Obligations as the State Treasurer shall determine.

Investment Obligations so purchased shall be deemed at all times to be a part of the fund or account to which the money with which they were purchased was credited, and the interest accruing thereon and any profit realized or any loss resulting from the investment of money shall be credited to, or charged against, the respective fund or account. The State Treasurer and any Depository shall sell at the best price obtainable or present for redemption or payment any such Investment Obligations whenever it shall be necessary to do so in order to provide money to make any payment or transfer of money from any such fund or account. The State Treasurer and any Depository shall not be liable or responsible for any loss resulting from any such investment.

Whenever a payment or transfer of moneys between two or more of the funds or accounts established under the 1997 Resolution is permitted or required, such payment or transfer may be made in whole or in part by transfer of one or more Investment Obligations at a value determined in accordance with the provisions of the 1997 Resolution, provided that Investment Obligations are those in which moneys of the receiving fund or account could be invested at the date of such transfer.

For the purpose of determining the amount on deposit to the credit of any such fund or account, obligations in which money in such fund or account shall have been invested shall be valued at the market value or the amortized cost, whichever is lower.

Modification of the Resolution

The Authority, from time to time, and without the consent of Bondholders, may adopt supplemental resolutions for purposes set forth in the 1997 Resolution. Such purposes include curing ambiguities, formal defects and omissions in the 1997 Resolution and any other change that, in the opinion of the Authority, would not materially adversely affect the security for the Bonds.

The owners of not less than a majority in aggregate principal amount of the Bonds then outstanding may, from time to time, consent to resolutions supplemental to the 1997 Resolution for the purpose of modifying any of the terms or provisions contained in the 1997 Resolution or in any series resolution or other supplemental resolution; provided, however, that nothing contained in the 1997 Resolution shall permit, or be construed as permitting, without the consent of Bondholders (a) an extension of the maturity of the principal of or the interest on any Bond, (b) a reduction in the principal amount of any Bond or the redemption premium or the rate of interest thereon, (c) the creation of a lien upon or a pledge of funds other than the liens and pledges created or permitted by the 1997 Resolution, (d) a preference or priority of any Bond or Bonds over any other Bond or Bonds of the same Series, or (e) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental resolution. The Secretary of the Authority shall cause notice of the proposed adoption of any such supplemental resolution to be mailed, postage prepaid, to all owners of Bonds at their addresses as they appear on the registration books. Such notice shall briefly set forth the nature of the proposed supplemental resolution and shall state that copies thereof are on file at the office of the State Treasurer for inspection by all Bondholders. The Authority shall not, however, be subject to any liability to any Bondholder by reason of its failure to mail the notice, and any such failure shall not affect the validity of such supplemental resolution after it has been consented to and approved. No such supplemental resolution shall become effective unless the holders of not less than a majority in aggregate principal amount of the Bonds then outstanding shall file with the Secretary of the Authority instruments consenting to and approving the adoption of the supplemental resolution in the form thereof referred to in the notice.

Remedies of Bondholders

The 1997 Resolution defines events of default to include failure to pay principal, redemption premium or any installment of interest on any of the Bonds, inability of the Authority to fulfill its obligations under the 1997 Resolution, the institution of proceedings with the consent or acquiescence of the Authority for the purpose of adjusting claims of creditors pursuant to any federal or state statute and failure after written notice by the holder of any of the Bonds then outstanding to perform any covenant contained in the 1997 Resolution.

Upon the happening and continuance of any event of default, any Bondholder may proceed to protect and enforce its rights and the rights of Bondholders under the laws of the Commonwealth or the 1997 Resolution and may enforce and compel the performance of all duties required under the laws of the Commonwealth or the 1997 Resolution to be performed.

Defeasance

When the principal of, premium, if any, and interest on the Bonds shall be paid or if the State Treasurer, the Bond Registrar or any Depository or Paying Agent shall hold in trust sufficient moneys or non-callable Defeasance Obligations the principal of and interest on which, when due and payable, will provide sufficient moneys to pay the principal of, redemption premium, if any, and interest on all Bonds then outstanding to the maturity date or dates of such Bonds or dates fixed for mandatory redemption of term Bonds or to the date or dates specified for the optional redemption of Bonds, and, if Bonds are to be called for redemption, irrevocable instructions to call the Bonds for redemption shall have been given by the Authority, and sufficient funds shall also have been provided or provision made for paying all other obligations payable hereunder by the Authority, then and in that case the right, title and interest of the Bondholders in the funds and accounts under the 1997 Resolution shall thereupon cease, determine and become void. Bonds paid or redeemed or delivered to or acquired by the Bond Registrar for cancellation and Bonds, or principal or interest components thereof, for which a Paying Agent or the Bond Registrar or any Depository or the State Treasurer shall hold sufficient moneys or non-callable Defeasance Obligations the principal of and the interest on which, when due and payable, will provide sufficient moneys to pay the principal of, redemption premium, if any, and the interest on such Bonds, or such principal or interest components, as the case may be, to their maturity date or dates or dates fixed for redemption are deemed no longer outstanding for purposes of the 1997 Resolution.

TAX MATTERS

Federal Income Tax Status of Interest

Bond Counsel's opinion regarding the Series 2016A Bonds will state that, under current law and assuming compliance with the Covenants (as defined below), interest on the Series 2016A Bonds (including any accrued "original issue discount" properly allocable to the owners of the Series 2016A Bonds) (a) is excludable from gross income for purposes of federal income taxation under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (b) is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, for purposes of the alternative minimum tax imposed on corporations (as defined for federal income tax purposes under Section 56 of the Code), interest on the Series 2016A Bonds must be included in computing adjusted current earnings.

See **APPENDIX G - PROPOSED FORM OF OPINION OF BOND COUNSEL.**

Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the Series 2016A Bonds.

Bond Counsel's opinion speaks as of its date, is based on current legal authority and precedent, covers certain matters not directly addressed by such authority and precedent, and represents Bond Counsel's judgment as to the proper treatment of interest on the Series 2016A Bonds for federal income tax purposes. Bond Counsel's opinion does not contain or provide any opinion or assurance regarding the future activities of the Authority, the 2016A Local Issuers, the Related Local Issuers or the local school boards associated with either (the "2016A Local School Boards") or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority, the 2016A Local Issuers, the Related Local Issuers and the 2016A Local School Boards have covenanted, however, to comply with the requirements of the Code.

In delivering its opinion regarding the Series 2016A Bonds, Bond Counsel is relying (a) on certifications of representatives of the Authority, the 2016A Local Issuers, the Related Local Issuers and the 2016A Local School Boards as to facts material to the opinion, (b) except where Bond Counsel serves as bond counsel to a 2016A Local Issuer, on opinions from another firm of municipal bond attorneys serving as bond counsel to each of the 2016A Local Issuers regarding the application of the proceeds of the Series 2016A Bonds and the ownership, use and operation of the property financed thereby, and (c) computations provided by Davenport & Company LLC the mathematical accuracy of which was verified by The Arbitrage Group, Inc., as verification agent, relating to the yield of certain investments purchased with a portion of the proceeds of the Series 2016A Bonds and the yield on the Series 2016A Bonds.

In addition, Bond Counsel is assuming continuing compliance with the Covenants by the Authority, the 2016A Local Issuers, the Related Local Issuers and the 2016A Local School Boards. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the Series 2016A Bonds in order for interest on the Series 2016A Bonds to be and remain excludable from gross income for purposes of federal income taxation. The Authority, the 2016A Local Issuers, the Related Local Issuers and the 2016A Local School Boards, as applicable, have covenanted in their respective tax agreements to comply with the provisions of the Code applicable to the Series 2016A Bonds including, among other things, requirements as to the use, expenditure and investment of the proceeds thereof, the use of the property financed or refinanced thereby, the source of the payment thereof and the security therefor, the arbitrage yield restrictions and rebate payment obligations imposed by the Code and certain other actions that could cause interest thereon to be includable in gross income of their owners (the "Covenants"). Failure by the Authority, any of the 2016A Local Issuers, the Related Local Issuers or the 2016A Local School Boards to comply with the Covenants could cause interest on the Series 2016A Bonds to become includable in gross income for federal income tax purposes retroactive to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Series 2016A Bonds from becoming includable in gross income for federal income tax purposes.

Bond Counsel has no responsibility to monitor compliance with the Covenants after the date of issue of the Series 2016A Bonds.

Certain requirements and procedures contained, incorporated or referred to in the tax agreements, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such agreements. Bond Counsel expresses no opinion concerning any effect on the excludability of interest on the Series 2016A Bonds from gross income for federal income tax purposes of any such subsequent change or action that may be made, taken or omitted upon the advice or approval of counsel other than Bond Counsel.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral federal income tax matters with respect to the Series 2016A Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner thereof. Prospective purchasers of Series 2016A Bonds, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning or disposing of Series 2016A Bonds.

Prospective purchasers of the Series 2016A Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers including, without limitation, financial institutions, certain insurance companies, certain corporations (including S corporations and foreign corporations), certain foreign corporations subject to the "branch profits tax," individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers attempting to qualify for the earned income tax credit.

In addition, prospective purchasers should be aware that the interest paid on, and the proceeds of the sale of, tax-exempt obligations, including the Series 2016A Bonds, are in many cases required to be reported to the Internal Revenue Service (the "IRS") in a manner similar to interest paid on taxable obligations. Additionally, backup withholding may apply to any such payments to any Series 2016A Bond owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Series 2016A Bond owner who is notified by the IRS of a failure to report all interest and dividends required to be shown on federal income tax returns. The reporting and withholding requirements do not in and of themselves affect the excludability of such interest from gross income for federal tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

Original Issue Discount

The "original issue discount" ("OID") on any Series 2016A Bond is the excess of such bond's stated redemption price at maturity (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of such bond. The "issue price" of a Series 2016A Bond is the initial offering price to the public at which price a substantial amount of such Bonds of the same maturity was sold. The "public" does not include bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. The issue price for each maturity of the Series 2016A Bonds is expected to be the initial public offering price set forth on the inside cover page of this Official Statement (or, in the case of Series 2016A Bonds sold on a yield basis, the initial offering price derived from such yield), but is subject to change based on actual sales. Accrued OID on the Series 2016A Bonds with OID (the "OID Bonds") is treated as interest that is excludable from gross income for purposes of federal and Virginia income taxation. However, the portion of the OID that is deemed to have accrued to the owner of an OID Bond in each year may be included in determining the alternative minimum tax and the distribution requirements of certain investment companies and may result in some of the collateral federal income tax consequences mentioned in the preceding subsection. Therefore, owners of OID Bonds should be aware that the accrual of OID in each year may result in alternative minimum tax liability, additional distribution requirements or other collateral federal and Virginia income tax consequences although the owner may not have received cash in such year.

Interest in the form of OID is treated under Section 1288 of the Code as accruing under a constant yield method that takes into account compounding on a semiannual or more frequent basis. If an OID Bond is sold or otherwise disposed of between semiannual compounding dates, then the OID which would have accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

In the case of an original owner of an OID Bond, the amount of OID that is treated as having accrued on such OID Bond is added to the owner's cost basis in determining, for federal income tax purposes, gain or loss upon its disposition (including its sale, redemption or payment at maturity). The amounts received upon such disposition that are attributable to accrued OID will be excluded from the gross income of the recipients for federal income tax purposes. The accrual of OID and its effect on the redemption, sale or other disposition of OID Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above.

Prospective purchasers of OID Bonds should consult their own tax advisors with respect to the precise determination for federal income tax purposes of interest accrued upon sale or redemption of such OID Bonds and with respect to state and local tax consequences of owning OID Bonds.

Bond Premium

In general, if an owner acquires a bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond, determined based on constant yield principles. An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Prospective purchasers of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Effects of Future Enforcement, Regulatory and Legislative Actions

The IRS has established a program to audit tax-exempt obligations to determine whether the interest thereon is includable in gross income for federal income tax purposes. If the IRS does audit the Series 2016A

Bonds, the IRS will, under its current procedures, treat the Authority as the taxpayer. As such, the beneficial owners of the Series 2016A Bonds will have only limited rights, if any, to participate in the audit or any administrative or judicial review or appeal thereof. Any action of the IRS, including but not limited to the selection of the Series 2016A Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the marketability or market value of the Series 2016A Bonds.

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and various state legislatures. Such legislation may effect changes in federal or state income tax rates and the application of federal or state income tax laws (including the substitution of another type of tax), or may repeal or reduce the benefit of the excludability of interest on the tax-exempt obligations from gross income for federal or state income tax purposes. The U.S. Department of the Treasury and the IRS are continuously drafting regulations to interpret and apply the provisions of the Code and court proceedings may be filed the outcome of which could modify the federal or state tax treatment of tax-exempt obligations. There can be no assurance that legislation proposed or enacted after the date of issue of the Series 2016A Bonds, regulatory interpretation of the Code or actions by a court involving either the Series 2016A Bonds or other tax-exempt obligations will not have an adverse effect on the Series 2016A Bonds' federal or state tax status, marketability or market price or on the economic value of the tax-exempt status of the interest on the Series 2016A Bonds.

Prospective purchasers of the Series 2016A Bonds should consult their own tax advisors regarding the potential consequences of any such pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

State Tax Treatment of the Series 2016A Bonds

Bond Counsel's opinion regarding the Series 2016A Bonds also will state that, in accordance with Section 22.1-172 of the Enabling Act, the Series 2016A Bonds and the income from them, including any profit made on their sale, are exempt from taxation by the Commonwealth and any of its political subdivisions. Bond Counsel will express no opinion regarding (a) other Virginia tax consequences arising with respect to the Series 2016A Bonds or (b) any consequences arising with respect to the Series 2016A Bonds under the tax laws of any state or local jurisdiction other than the Commonwealth. Prospective purchasers of the Series 2016A Bonds should consult their own tax advisors regarding the tax status of interest on the Series 2016A Bonds in a particular state or local jurisdiction other than the Commonwealth.

RATINGS

As noted on the cover page of this Official Statement, Fitch Ratings, Moody's Investors Service and Standard & Poor's Ratings Services, have given the Series 2016A Bonds ratings of "AA+", "Aa1" and "AA+", respectively.

Such ratings reflect only the respective views of such organizations and an explanation of the significance of such ratings may be obtained only from the respective rating agencies. The Authority furnished to such rating agencies certain information regarding its policies, practices and finances, including information that is not included in this Official Statement. There is no assurance that such policies, practices and finances or such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by any rating agency, if, in the judgment thereof, circumstances so warrant. Any such downward revision or withdrawal could have an adverse effect on the market price of the Series 2016A Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS FOR THE REFUNDED NORTHUMBERLAND BONDS AND REFUNDED BONDS

The accuracy of the arithmetical and mathematical computations (a) of the adequacy of the maturity principal amounts of the Northumberland Escrowed Securities together with the interest income thereon and uninvested cash, if any, to pay, when due, the principal of, redemption premium, if any, and interest on the Refunded Northumberland Bonds, (b) of the adequacy of the maturity principal amounts of the Authority Escrowed Securities together with the interest income thereon and uninvested cash, if any, to pay, when due, the principal of, redemption premium, if any, and interest on the Refunded Bonds and (c) relating to the determination of compliance with the regulations and rulings promulgated under the Code will be verified by The Arbitrage Group, Inc.. Such verification of arithmetical accuracy and computations shall be based upon information and assumptions supplied by the Authority and on interpretations of the Code provided by Bond Counsel.

FUTURE FINANCINGS

The Authority does not anticipate issuing any new money additional bonds under its 1997 Resolution prior to May 1, 2016.

The Authority expects to issue additional Bonds pursuant to the 1997 Resolution in the fall of 2016 to purchase Local School Bonds to fund public school projects. Subject to market conditions, however, the Authority may undertake, at any time, the refunding for debt service savings and other purposes of any of its outstanding obligations, including Bonds issued under the 1997 Resolution.

In May 2016, the Authority also expects to issue approximately $72.9 million of its School Technology and Security Notes Series IV (the "2016 Notes"). The 2016 Notes will be limited obligations of the Authority payable from appropriations to be made by the Virginia General Assembly from the Literary Fund and to the extent necessary from a "sum sufficient appropriation" from the General Fund of the Commonwealth in the event that "available moneys in the Literary Fund" are less than the appropriations for debt service due on the 2016 Notes.

The Authority also expects to issue additional VPSA Tax Credit Bonds in 2016.

LEGAL MATTERS

Certain legal matters relating to the authorization and validity of the Series 2016A Bonds are subject to the approving opinion of McGuireWoods LLP, Richmond, Virginia, Bond Counsel. Such opinion, substantially in the form set forth in APPENDIX G to this Official Statement, will be furnished at no expense to the initial purchaser of the Series 2016A Bonds upon delivery thereof.

Certain legal matters will be passed upon for the Authority by the Office of the Attorney General of Virginia.

LEGALITY FOR INVESTMENT

The Enabling Act provides that the Series 2016A Bonds are securities in which all public officers and bodies of the Commonwealth, counties, cities, towns, municipal subdivisions, insurance companies and associations, savings banks and savings institutions, including savings and loan associations, trust companies, beneficial and benevolent associations, administrators, guardians, executors, trustees and other fiduciaries in the Commonwealth may properly and legally invest funds under their control.

LITIGATION

The Authority is not party to any litigation. The Authority has no knowledge of any litigation, pending or threatened, to restrain or enjoin the issuance or delivery of the Series 2016A Bonds or the entering by the Authority into the transactions contemplated by this Official Statement or wherein an unfavorable decision would have a material adverse impact upon the operations or financial condition of the Authority.

LEGISLATION

The 2014-2016 Appropriation Act contains a "sum sufficient appropriation" that is applicable to all Bonds issued under the 1997 Resolution and that is not limited in terms of Bonds that may have the benefit thereof or in terms of maximum annual debt service. Such sum sufficient appropriation has also been applied to the VPSA Tax Credit Bonds issued under its VPSA Tax Credit Bond Indenture.

In addition, the 2014-2016 Appropriation Act directs the Authority to issue Notes during each of the fiscal years ending June 30, 2015 and June 30, 2016. The 2014-2016 Appropriation Act includes sufficient appropriations from the Literary Fund to pay debt service coming due in the biennium ending June 30, 2016 on the Notes and also includes a sum sufficient appropriation. See **"FUTURE FINANCINGS"** above.

FINANCIAL ADVISOR

Davenport & Company LLC ("Davenport") is employed as a financial advisor to the Authority in connection with the issuance of the Series 2016A Bonds. The financial advisor's fee for services rendered with respect to the sale of the Series 2016A Bonds is contingent upon the issuance and delivery of the Series 2016A Bonds. Davenport, in its capacity as financial advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents provided, agreed to or made by others with respect to the federal income tax status of the Series 2016A Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

Davenport, as the financial advisor to the Authority, has provided the following sentence for inclusion in this Official Statement. Although Davenport has assisted in the preparation of this Official Statement, Davenport is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

CONTINUING DISCLOSURE

On November 10, 1994, the Securities and Exchange Commission adopted in final form certain amendments to Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the "Rule"). In general, the Rule prohibits an underwriter from purchasing or selling municipal securities sold on or after July 3, 1995, such as the Series 2016A Bonds, unless it has determined that the issuer of such securities and/or other persons deemed to be "obligated persons" have committed to provide (i) on an annual basis, certain financial information and operating data ("Annual Reports"), and, if available, audited financial statements and (ii) notice of the events described in the Rule ("Event Notices") to the Municipal Securities Rulemaking Board ("MSRB"). The information regarding Stafford County has been revised since the Preliminary Official Statement dated April 15, 2016, to reflect additional instances of non-compliance with prior continuing disclosure undertakings.

The Authority

In the series resolution adopted March 16, 2016 (the "Series Resolution"), the Authority has covenanted, for the benefit of the holders of the Series 2016A Bonds to provide to the MSRB annually, not later than 10 months after the end of each Fiscal Year, commencing with the Fiscal Year ending June 30, 2015, Annual Reports with respect to itself, as issuer. Similarly, the Authority will provide Event Notices with respect to the Series 2016A Bonds to the MSRB.

In connection with the issuance of the VPSA Tax Credit Bonds, the Authority contractually agreed to provide notice to the MSRB upon the final expenditure of available project proceeds with respect to each series of VPSA Tax Credit Bonds in a manner consistent with providing Event Notices under Rule 15c2-12, however, certain of these notices for the VPSA Tax Credit Bonds were not timely filed. The Authority has taken steps to ensure future compliance with its undertakings regarding Rule 15c2-12.

The Commonwealth

The Authority has determined that the Commonwealth is a material "obligated person" ("MOP") for purposes of the Rule. The Commonwealth will covenant, by executing a Continuing Disclosure Agreement prior to issuance of the Series 2016A Bonds, to provide to the MSRB annually, not later than January 31 of each year, commencing January 31, 2016, Annual Reports with respect to itself. Similarly, the Commonwealth will provide notice of any changes in the ratings of the Commonwealth's general obligation bonds to the MSRB. The Commonwealth will represent that it is in compliance with its other undertakings regarding the Rule in all material respects, except as disclosed in this Official Statement.

In making timely filings of its Annual Reports for Fiscal Years 2009-2013, the CUSIP information necessary to link such filings to (i) each series of the Commonwealth Transportation Board's Commonwealth of Virginia Federal Highway Reimbursement Anticipation Notes was inadvertently omitted from such filings for Fiscal Years 2010-2011, (ii) each series of the Virginia Resources Authority's Infrastructure Revenue Bonds and Moral Obligation Bonds was inadvertently omitted from such filings for Fiscal Years 2010-2013 and (iii) the Authority's Bonds, the Notes and the VPSA Tax Credit Bonds issued in 2009 was not appropriately attached to each of the nine character CUSIPs. Such filings were otherwise available from the MSRB with respect to other Commonwealth undertakings. The Commonwealth has taken steps to ensure future compliance with its undertakings regarding Rule 15c2-12.

Material Obligated Persons

The Authority has also determined that, with respect to Local Issuers, a MOP shall include any such Local Issuer that has local school bonds outstanding as of the end of a Fiscal Year (June 30), in an aggregate principal amount that exceeds 10% of the aggregate principal amount of all outstanding Bonds of the Authority. The Authority has covenanted in the Series Resolution to require each Local Issuer that is or may become a MOP to execute and deliver to the Authority an undertaking by which the Local Issuer will agree that if it becomes a MOP, it will, so long as it remains a MOP, file Annual Reports and provide Event Notices with respect to its Local School Bonds credited to the 1997 Resolution Pledge Account in the General Pledge Fund, as required by the Rule. Any such Annual Report of a Local Issuer will be filed with the MSRB. Any Event Notices will be filed by such Local Issuer with the MSRB.

For purposes of compliance with the secondary market disclosure requirements of the Rule, the Authority determines as of June 30 of each year whether one or more Local Issuers are MOPs. As of June 30, 2015, Prince William County, Virginia and Stafford County, Virginia, each constituted a MOP. If the determination of which Local Issuers constitute MOPs were made on the date of delivery of the Series 2016A Bonds, and the list of 2016A Local Issuers and 2016A Local School Bonds as described in the subheading **"THE LOCAL SCHOOL BONDS - 2016A Local School Bonds"** did not change, Prince William County and Stafford County would constitute a MOP. The Authority cannot predict whether any particular Local Issuer will be as of June 30 of any particular subsequent year a MOP subject to the continuing disclosure undertaking under its Continuing Disclosure Agreement with the Authority.

These covenants have been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). (See **APPENDIX F - CONTINUING DISCLOSURE UNDERTAKINGS**).

Prince William County, Virginia. Except as described below, Prince William County will represent as of the date of delivery of the Series 2016A Bonds that it has complied in all material respects with its undertakings regarding the Rule in the five years preceding the date of the Official Statement.

As a condition to the issuance of various series of bonds or certificates of participation issued by Prince William County and other entities, Prince William County has agreed pursuant to several continuing disclosure undertakings entered into pursuant to the Rule ("Prince William County's Undertakings") to file with EMMA the Prince William County's Audited Financial Statements and other certain other information (collectively, the "Annual Filings") within the designated timeframe set forth in such undertaking, and currently the earliest deadline for such filings is within 210 days of the end of each fiscal year. The required Annual Filings for Prince William County fiscal years 2011 through 2013, inclusive, were filed pursuant to the County Undertakings but were filed in time periods ranging from 4 to 32 days after the required filing deadlines. Prince William County has implemented procedures to ensure that future filing deadlines required by Prince William County's Undertakings are met.

Stafford County, Virginia. Except as described below, Stafford County will represent as of the date of delivery of the Series 2016A Bonds that it has complied in all material respects with its undertakings regarding the Rule in the five years preceding the date of the Official Statement.

As a condition to the issuance of various series of bonds issued by Stafford County and other entities, Stafford County has agreed pursuant to several continuing disclosure undertakings entered into pursuant to the Rule

("Stafford County's Undertakings") to file with EMMA certain annual financial information and notice of the events specified in Rule 15c2-12. During the past five years, Stafford County did not file or file in a timely manner notice of certain ratings changes affecting (i) certain Stafford County obligations or (ii) the bond insurer of certain obligations issued by Stafford County's Economic Development Authority for Stafford County. Certain financial and operating data was not timely filed along with Stafford County's annual financial filings. Stafford County has posted the requisite information that relates to its outstanding obligations. Although not all information filed by Stafford County was attached to each of the applicable CUSIP numbers, such information was otherwise available from the MSRB with respect to other Stafford County undertakings. Stafford County is in the process of implementing procedures to promote compliance with future undertakings.*

OTHER INFORMATION

Included as Appendices B, C and D are Financial and Other Information respecting the Commonwealth, Demographic and Economic Information relating to the Commonwealth, for its fiscal year ended June 30, 2015, and the audited financial statements of the Commonwealth for its fiscal year ended June 30, 2015, respectively.

Prince William County and Stafford County have each filed with the MSRB certain operating data and financial information, including its audited financial statements for the fiscal year ended June 30, 2015. Copies of such operating data and financial information, including such audited financial statements, are available from the MSRB and, without charge, from the Authority, at 101 North 14th Street, 3rd Floor, Richmond, Virginia 23219, telephone: (804) 225-2142. Reference is made to the information and audited financial statements filed and to be filed by Prince William County and Stafford County with the MSRB, which information and financials filed and to be filed are hereby included by specific reference in this Official Statement the same as if they were set out here in full.

CERTIFICATES CONCERNING OFFICIAL STATEMENT AND NO LITIGATION

Concurrently with the delivery of the Series 2016A Bonds, the Chairman and the Treasurer of the Authority will each deliver a certificate respecting the Official Statement.

The Treasurer of the Authority (who is also the State Treasurer) will certify that the Official Statement, including the Appendices thereto, (except for information relating to "Yield" or "Price" or CUSIP Suffix and contained under the section headings **"TAX MATTERS," "LEGALITY FOR INVESTMENT," "FINANCIAL ADVISOR," APPENDIX G**, **APPENDIX H** and the information included herein by specific reference concerning Prince William County and Stafford County) did not as of its date, and does not as of the date of the delivery of the Series 2016A Bonds, contain an untrue statement of a material fact or omit to state any material fact which should be included therein for the purpose for which the Official Statement is to be used, or which is necessary in order to make the statements contained therein, in light of the circumstances under which they were made, not misleading. The Chairman of the Authority will deliver a certificate similar to that of the Treasurer except that it will exclude the Appendices from its coverage. Prince William County and Stafford County will each deliver a certificate, dated the date of delivery of the Series 2016A Bonds, certifying that the information it has filed with the MSRB and the Authority does not contain any untrue statement of a material fact or omit to state a material fact which should be included in such information for the purpose for which it has been filed or which is necessary to make the statements contained in such information, in light of the circumstances under which they were made, not misleading.

In addition, the Chairman and the Secretary of the Authority will deliver a certificate, dated the date of delivery of the Series 2016A Bonds certifying that no litigation of any kind is then pending (either in state or federal courts) or, to their knowledge, threatened to restrain or enjoin the issuance or delivery of the Series 2016A Bonds or the purchase of Local School Bonds, including the 2016A Local Bonds, or the pledge of funds as provided in the 1997 Resolution, or in any manner questioning the proceedings or authority under which the Series 2016A Bonds are to be issued, or affecting the validity of or the security for the Series 2016A Bonds; neither the corporate existence of the Authority nor the title to his office of any officer whose facsimile signature appears on the Series

---

* This section has been revised since the Preliminary Official Statement dated April 15, 2016.

2016A Bonds is being contested; and no authority or proceedings for the issuance of the Series 2016A Bonds or for the security thereof have been repealed, revoked or rescinded.

SALE AT COMPETITIVE BIDDING

The Series 2016A Bonds were awarded pursuant to electronic competitive bidding held via BiDCOMP/PARITY on Tuesday, April 26, 2016 to Wells Fargo Bank, N.A., Municipal Products Group (the "Underwriter") at a price to the Authority that results in an Underwriter's discount of $739,603.30 from the initial public offering prices derived from the prices shown on the inside cover. The Underwriter has supplied the information as to the yields and prices with respect to the Series 2016A Bonds shown on the inside cover. The Underwriter may offer to sell the Series 2016A Bonds to certain dealers and others at prices lower or yields higher than such initial public offering prices.

RELATIONSHIP OF PARTIES

McGuireWoods LLP, Richmond, Virginia, Bond Counsel to the Authority also serves as bond counsel to the Counties of Frederick, Russell, Stafford and York, each of which is a 2016A Local Issuer or a Related Local Issuer (or both in the case of Stafford).

Davenport & Company LLC, Financial Advisor to the Authority, also serves as a financial advisor to the County of Northumberland, which is a 2016A Local Issuer.

From time to time, McGuireWoods LLP represents Davenport & Company LLC in matters unrelated to the Series 2016A Bonds.

MISCELLANEOUS

The foregoing summaries of certain provisions of the Enabling Act and 1997 Resolution do not purport to be complete statements of such provisions and are made subject to the detailed provisions thereof to which reference is hereby made. Copies of the Enabling Act and the 1997 Resolution are available for inspection upon request to the Authority.

The Authority has furnished all information in this Official Statement relating to the Authority and has obtained all information relating to the Commonwealth and the Literary Fund from sources that it believes to be reliable. The financial statements of the Authority as of June 30, 2015, and of the Commonwealth as of June 30, 2015, in Appendices A and D, respectively, have been examined, to the extent set forth in its reports, by the Virginia Auditor of Public Accounts and are included in reliance upon the reports of such Auditor.

Any statements in this Official Statement involving matters of opinion whether or not expressly so stated are intended as such and not as representations of fact. Terms used in this Official Statement but not otherwise defined shall have the meanings assigned to them in the 1997 Resolution.

The execution and delivery of this Official Statement has been duly authorized by the Authority.

VIRGINIA PUBLIC SCHOOL AUTHORITY

By: *_/s/ Brenda L. Skidmore_*
Brenda L. Skidmore, Chairman

By: *_/s/ Manju S. Ganeriwala_*
Manju S. Ganeriwala, Treasurer

APPENDIX A

AUDITED FINANCIAL STATEMENTS OF VIRGINIA PUBLIC SCHOOL AUTHORITY FOR THE YEAR ENDED JUNE 30, 2015

VIRGINIA PUBLIC SCHOOL AUTHORITY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2015

Table of Contents

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

Authority Activities and Highlights

The Virginia Public School Authority, created by Chapter 11, Title 22.1, *Code of Virginia*, 1950, as amended, provides financing to localities under its pooled bond program. Under the program, the Authority issues its bonds and uses the proceeds to purchase a "pool" of general obligation bonds from localities (the "Local Issuers"). Each Local Issuer uses the proceeds for the purpose of financing capital projects for public schools.

The Authority's 1997 Resolution, adopted on October 23, 1997, serves as the primary instrument under which the Authority issues bonds for its pooled bond program. The 1997 Resolution bonds are secured first by payments from Local Issuers on their local school bonds; second, from amounts obtained under the State Aid Intercept Provision under which the Authority can intercept state appropriations to the locality; and third, from a sum sufficient appropriation. The sum sufficient appropriation is first from available Literary Fund monies and then from the Commonwealth's General Fund.

Also under its pooled bond program, the Authority has issued Qualified School Construction Bonds under a Master Indenture of Trust dated of October 1, 2009. Qualified School Construction Bonds are tax credit bonds established under the American Recovery and Reinvestment Act of 2009 (ARRA), under which the bondholder receives a federal tax credit in lieu of interest. These bonds are secured by payments from Local Issuers on their general obligation local school bonds, then from amounts obtained through the State Aid Intercept Provision, and then from any amounts received by the Authority pursuant to any current Appropriation Act Provision. During the fiscal year, the Authority issued a total of $554,616,000 in pooled bonds under these two programs.

In addition to its pooled bond program, the Authority also issues special obligation bonds under its stand-alone program and its technology and security program. Bonds issued under the stand-alone program are secured solely by the local school bonds purchased from one or more specific localities. The Authority acts as a conduit issuer under the stand-alone program. Under the School Technology and Security Notes Program, the Authority issues obligations to finance technology equipment purchases and fund a grant program for the purchase of security equipment for local public school systems within the Commonwealth. These obligations are payable from or otherwise secured by, the assets and income of the Literary Fund and now benefit from a sum sufficient appropriation from the Commonwealth's General Fund. The Authority issued $65,465,000 under the school technology and security note program. The Authority also issued $124,985,000 under the stand-alone program.

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) fund financial statements, and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements. The Authority is not required to present government-wide financial statements since all of its activity is reported in an enterprise fund, which would not change in measurement focus (economic resources) or basis of accounting (accrual) for government-wide statements.

The financial statements of the Authority offer short- and long-term financial information about its activities. The Statement of Net Position provides information about the nature and amounts of the Authority's cash, investments, and receivables (assets) and its obligations to creditors (liabilities). All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Fund Net Position. This statement measures whether the Authority successfully recovered all its costs through investment earnings, bond proceeds, appropriations from the Commonwealth, and the collection of receivables. The Statement of Cash Flows provides information on the Authority's cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financial activities.

Financial Analysis of the Authority

The Authority provides a vehicle for financing capital projects for primary and secondary public schools in the Commonwealth's counties, cities and towns. On local school bonds held by the Authority that were issued prior to March 26, 2009, localities pay interest 10 basis points (0.10%) above the rates paid by the Authority on corresponding maturities of its bonds. As a result of a policy change made by the Authority on March 26, 2009, local school bonds held by the Authority issued subsequent to March 26, 2009 pay interest 5 basis points (0.05%) above the rates paid by the Authority on corresponding maturities of its bonds. This revenue is deposited to the Authority's General Fund and used to pay the operating costs attributable to its financing programs, including costs of issuance and administration, such as rebate compliance expenses. The Department of the Treasury provides staff support for the Authority. The Authority owns no capital assets.

Condensed Statement of Net Position
(in millions)

	Enterprise Fund	
	2015	2014
Current assets	$ 19	$ 17
Noncurrent assets	3,702	3,695
Total assets	3,721	3,712
Total deferred outflows	152	108
Current liabilities	479	455
Noncurrent liabilities	3,426	3,400
Total liabilities	3,905	3,855
Net position:		
Unrestricted	(32)	(35)
Total net position (deficit)	$ (32)	$ (35)

Total assets increased during the year by $9 million, or 0.25 percent. This is primarily due to a $25 million decrease in local school bonds outstanding, a $10 million increase due to Educational Technology note proceeds exceeding current year payments for equipment, a $12 million increase due to principal payments received on Qualified School Construction Bonds (to be held for future payment on the Authority's bonds), and a $10 million increase in amounts due from the Literary Fund (resulting from current year bond issuances exceeding current year bond payments). Also contributing to the change were smaller variances in other accounts. Total liabilities increased by $50 million, or 1 percent, during the same period as a result of a decrease in net outstanding bonds and notes payable ($35 million), an increase in amounts due to localities ($10 million), an increase in premium on bonds sold ($74 million), and smaller changes in other accounts. Additionally, the deferred outflow of resources increased by $44 million as part of current year refunding activity. Accordingly, an increase of $3 million is reflected in net position.

Deficit net position on the Authority's statements results from the effect of passing on refunding savings to localities prior to the Authority's full realization of the savings from the refunding transaction. As further explained in the Notes to the Financial Statements, this situation has occurred as a result of Authority's desire to provide maximum benefit to the localities with minimal burden.

Condensed Statement of Changes in Net Position
(in millions)

	Enterprise Fund	
	2015	2014
Revenues:		
Operating revenues:		
Charges for services	$ 136	$ 146
Total revenues	136	146
Expenses:		
Interest on long-term debt	138	141
Other	3	2
Total expenses	141	143
Transfers	8	3
Change in net position	3	6
Net position (deficit), July 1	(35)	(41)
Net position (deficit), June 30	$ (32)	$ (35)

Debt Administration

As a financing entity, the whole business of the Authority is debt administration. The Authority issues bonds, pursuant to its pooled bond programs, to finance capital projects approved by the local governing bodies of counties, cities, and towns of the Commonwealth of Virginia. Such bonds are secured by general obligation bonds of the participating local issuers, which provide payment of principal and interest when due. Obligations issued pursuant to the school technology and security notes programs, in conjunction with the Board of Education, are paid from, and secured by, appropriations made from the Literary Fund. The following table summarizes bond issuance activity during the year under each program:

Summary of Authority Bond Obligations
(in millions)

	Outstanding at 6/30/14	Issued During Year	Retired During Year	Outstanding at 6/30/15
Pooled Bond Programs	$ 3,060	$ 550	$ (679)	$ 2,931
Technology and Security Notes Programs	174	65	(54)	185
Special Obligation Bonds	291	128	(45)	374
Total	$ 3,525	$ 743	$ (778)	$ 3,490

The Authority obtains bond ratings from Moody's Investors Service (Moody's), Standard and Poor's Rating Service (S&P) and Fitch Ratings, Inc. (Fitch). The table below summarizes the ratings on outstanding Authority bonds.

Virginia Public School Authority Bond Ratings

	Moody's	S&P	Fitch
Pooled Bond Programs[1]	Aa1	AA+	AA+
School Technology and Security Notes	Aa1	AA+	AA+

[1] 1997 Resolution Bonds

Since the Authority's bond programs are either backed by state appropriations (School Technology and Security Notes Program) or carry the credit support of the State Aid Intercept Provision (Pooled Bond Program), the bond ratings are a direct reflection of the Commonwealth's triple-A rating from each of the three rating agencies.

Future Impact to Financial Position

In July 2015, the Authority issued Special Obligation School Financing Bonds Prince William County Series 2015 in the amount of $98.5 million as part of its stand-alone bond program. The proceeds were used to purchase general obligation bonds issued by Prince William County to pay the costs of various capital school improvement projects for the County.

In November 2015, the Authority issued School Financing Series 2015 C bonds in the amount of $49.4 million. The proceeds will be used to purchase general obligation school bonds issued by certain Virginia localities for capital projects for their public schools, and to refund prior obligations issued for such purposes.

STATEMENT OF NET POSITION
As of June 30, 2015

ASSETS	
Current assets:	
Cash and cash equivalents	$ 19,369,172
Interest receivable	199
Total current assets	19,369,371
Noncurrent assets:	
Restricted cash and cash equivalents	154,325,425
Loans to localities:	
Local school bonds	3,296,386,269
Interest receivable	65,308,845
Due from Literary Fund	185,850,000
Total noncurrent assets	3,701,870,539
Total assets	3,721,239,910
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	151,714,600
Total deferred outflows of resources	151,714,600
LIABILITIES	
Current liabilities:	
Accounts payable	67,169
Current liabilities payable from restricted assets:	
Interest payable	58,331,216
Due to localities	108,742,095
Notes payable	57,175,000
Bonds payable	234,559,060
Premium on bonds sold	20,230,525
Total current liabilities payable from restricted assets	479,037,896
Noncurrent liabilities payable from restricted assets:	
Notes payable	128,675,000
Bonds payable	3,069,954,003
Premium on bonds sold	226,997,078
Total noncurrent liabilities payable from restricted assets	3,425,626,081
Total liabilities	3,904,731,146
NET POSITION	
Unrestricted	(31,776,636)
Total net position (deficit)	$ (31,776,636)

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
For the Year Ended June 30, 2015

Operating Revenues:	
Interest on:	
Local school bonds	$ 135,945,999
Cash equivalents and investments	119,213
Premium on bonds sold	260,562
Other	320,171
Total operating revenues	136,645,945
Operating Expenses:	
Interest on bonds	138,476,387
Financial advisor fees	292,260
Bond Counsel	392,366
Bond rating fees	453,302
Printing and electronic distribution	8,514
Board expenses	1,573
Staffing expenses	143,783
Underwriters' discount	1,907,565
Rebate and penalty payments and calculation fees	30,425
Other	65,088
Total operating expenses	141,771,263
Operating Loss	(5,125,318)
Nonoperating Transfers:	
Transfers from Literary Fund	8,161,227
Transfer to the General Fund of the Commonwealth	(201,000)
Total nonoperating transfers	7,960,227
Change in net position	2,834,909
Net position (deficit), July 1, 2014	(34,611,545)
Net position (deficit), June 30, 2015	$ (31,776,636)

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

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2015

Cash flows from operating activities:	
Interest on cash equivalents	$ 154,647
Purchase of local school bonds	(243,886,000)
Principal received on local school bonds	238,192,180
Interest received on local school bonds	137,472,800
Payments to vendors for goods and services	(1,438,418)
Payments received from the Literary Fund	62,891,727
Other operating revenues	320,171
Net cash provided by operating activities	193,707,107
Cash flows from noncapital financial activities:	
Proceeds from the sale of bonds	745,066,000
Principal paid on VPSA bonds	(282,435,000)
Interest paid on VPSA bonds	(140,221,844)
Premium on bonds sold	99,296,570
Underwriters' discount	(1,961,838)
Transfers to the Literary Fund	(193,134)
Transfer to the General Fund of the Commonwealth	(201,000)
Payments to localities (School Technology and Security Notes)	(62,134,582)
Payments to escrow agent	(525,513,176)
Rebate and penalty payments and calculation fees	(30,150)
Net cash used by noncapital financing activites	(168,328,154)
Cash flows from investing activities:	
Net increase in cash and cash equivalents	25,378,953
Cash and cash equivalents, July 1, 2014	148,315,644
Cash and cash equivalents, June 30, 2015	$ 173,694,597

Reconciliation of operating income to net cash provided by operating activities:

Operating Loss	$	(5,125,318)
Adjustments to reconcile operating income to net cash used by operating activities:		
Decrease in interest receivable		1,526,685
Decrease in accounts payable		(81,432)
Increase in interest payable		882,383
Payments from the Literary Fund		62,891,727
Principal received on local school bonds		238,192,180
Purchase of local school bonds		(243,886,000)
Rebate and penalty payments to the Internal Revenue Service		30,150
Amortization of premium		(17,848,440)
Underwriters' discount		1,907,565
Premium on bonds sold		(260,562)
Amortization of interest deferral		15,220,775
Interest paid on VPSA bonds		140,221,844
Interest on Qualified Zone Academy Bonds reflected in local school bonds held		35,550
Total adjustments		198,832,425
Net cash provided by operating activities	$	193,707,107

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Virginia Public School Authority (the "Authority" or "VPSA") was created by Chapter 11, Title 22.1, *Code of Virginia* 1950, as amended (the "Enabling Act"). The Authority provides financing to localities through the sale of its bonds. With the proceeds of its bonds, the Authority purchases a predetermined number of general obligation bonds issued by localities. The Enabling Act authorizes the Authority to purchase local school bonds issued by counties, cities, and towns under the provisions of Section 15.2-2600, et seq., *Code of Virginia* (the "Public Finance Act of 1991"). The Enabling Act further authorizes the Authority to issue bonds which are payable from the funds of the Authority including:

1) principal and interest received on local school bonds held by the Authority;
2) proceeds from the sale of such local school bonds;
3) any moneys transferred from the Literary Fund or funds appropriated from the General Assembly; and
4) a reserve fund(s) created from bond proceeds pledged to secure designated bonds.

Currently, the Authority has pooled bonds outstanding under its 1997 Resolution. Bonds issued under the 1997 Resolution are secured by local school bonds purchased and a "sum sufficient appropriation," first from available Literary Fund monies and then from the Commonwealth's General Fund. The State Aid Intercept Provision is also available to the Authority should any locality default on any payment due.

The Authority also has Qualified School Construction Bonds outstanding, which also fall under the pooled bond program. These bonds are taxable, but they expect to receive a 100% interest rate subsidy from the federal government. They are secured by general obligation local school bonds in a pool pledged to their security. As a result of the Federal Sequestration, the actual December 15, 2014 and June 15, 2015 payments were reduced by 7.3%. Therefore, the localities are not receiving the full benefit of the tax credit.

In addition to its pooled bond program, the Authority also issues special obligation bonds under its stand-alone program. Bonds issued under the stand-alone program are secured solely by the local school bonds purchased from one or more specific localities. The Authority acts as a conduit issuer under the stand-alone program.

As directed by the General Assembly, the Authority has also issued obligations to finance technology and security equipment purchases for local public school systems within the Commonwealth. These obligations are payable from, or otherwise secured by, the assets and income of the Literary Fund.

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 significant policies.

B. Basis of Accounting

The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting under which revenues are recognized when they are earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. The cash basis of accounting is used during the year. The financial statements are prepared on the accrual basis at the end of the fiscal year by the Authority.

C. Fund Accounting

The activities of the Authority are accounted for in an enterprise fund, used to account for governmental operations that are financed and operated in a manner similar to private business enterprises. Enterprise fund accounting is used where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate. All fund accounts of the Authority are presented in total on the financial statements.

D. Bond Issuance Costs, Discounts, and Premiums

Costs associated with issuing debt, which are either offset by fees collected over the life of the respective pooled bond issues from local issuers, reimbursed directly by localities participating in stand-alone issues, or paid from Literary Fund contributions, are expensed in the year incurred. The net original issue discount or premium (after distributing the allocable share to various participating localities), for each bond issuance, is also expensed or recorded as revenue in the year incurred unless it exceeds 1% of the amount of bonds issued. In that case, the net original issue discount or premium is deferred and amortized, on a straight-line basis, over the life of the outstanding debt.

2. DETAILED NOTES

A. Cash, Cash Equivalents, and Investments (Unrestricted and Restricted)

Cash and cash equivalents of $130,087,243 are held by the Treasurer of Virginia. Cash and cash equivalents of $43,607,354 are held by U.S. Bank. Cash is defined as demand deposits, non-negotiable time deposits, and certificates of deposit in accordance with Section 2.2-4400 of the Code of Virginia. Cash equivalents are defined as investments with an original maturity of less than three months.

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

Section 2.2-4500 and Section 2.2-4501 of the *Code of Virginia* outline the instruments in which public sinking funds and other public funds may legally invest. The Authority adheres to these general guidelines unless bond resolutions require more restrictive investment policies. All investments of the Authority are held in the Authority's name. The Authority's investments are valued at fair value, which approximates market value. Details of cash and cash equivalents are presented below. Standard and Poor's ratings, where available, have also been presented below.

Summary of Cash, Cash Equivalents, and Investments
As of June 30, 2015

	Fair Value	Rating
Non-Negotiable Certificates of Deposit	$ 1,516,243	Not Rated
Money Market Accounts [1]	62,976,526	AAAm
State Non-Arbitrage Program ® [2]	109,201,828	AAAm
Total cash, cash equivalents, and investments	$173,694,597	

1 The Authority invests certain short-term cash balances held within its accounts in the JP Morgan US Government Money Market Fund. This is a rated fund, which maintains a policy of investing all assets in U.S. Treasury obligations and repurchase agreements backed by those obligations. The Authority also invests certain short-term cash balances held within the First American Government Obligation Fund which seeks to provide maximum current income and daily liquidity by purchasing U.S. government securities and repurchase agreements collateralized by such obligations.

2 The Virginia State Non-Arbitrage Program® ("SNAP®") offers a professionally-managed money market mutual fund, which provides issuers with a temporary pooled investment vehicle for proceeds pending expenditure, and with record keeping, depository and arbitrage rebate calculation services. SNAP® is an external investment pool registered under the Investment Company Act of 1940, as amended. Participants in the Authority's various bond programs are required to invest their bond proceeds in SNAP®.

The Authority does not limit the amount that may be invested in any one issuer. The Authority had investments of five percent or more in the State Non-Arbitrage Program® (63%), the First American Government Obligation Fund (25%) and the JP Morgan US Government Money Market Fund (11%).

B. Local School Bonds

The Authority purchases bonds from (makes loans to) various localities throughout the Commonwealth, which are issued to finance the construction of local public school facilities. These bonds are recorded at purchase price that is equal to the face value of the bonds. Local school bonds purchased under the 1997 Resolution are held in a pledge account of the General Pledge Fund established under its bond resolution. Local school bonds purchased under the stand-alone program are deposited in separate purchase funds established for each issue. Assets of the Authority that are held or received in purchase funds, pledge funds, or debt service funds are classified as restricted assets because their use is limited to the purpose of the funds in which they reside, in accordance with applicable bond resolutions. The local school bonds are held and pledged to repay the Authority's bonds.

The interest rates on the local school bonds are determined by the Authority and fixed at the time of sale of the Authority bonds issued to fund the acquisition of the local school bonds. On local school bonds held by the Authority that were issued prior to March 26, 2009, the interest rate on each maturity of the local bonds is ten basis points (0.10%) higher than the interest rate paid by the Authority on the corresponding maturity on its bonds. As a result of a policy change made by the Authority on March 26, 2009, local school bonds issued by localities subsequent to March 26, 2009, and held by the Authority, will pay interest 5 basis points (0.05%) above the rates paid by the Authority on corresponding maturities of its bonds.

Shown below are the local school bonds held by the Authority as of June 30, 2015.

Local school bonds:	
Held in 1997 Pledge Account	$ 2,614,018,013
Held in 2001 Purchase Fund	
(Northampton County Qualified Zone Academy	111,709
Held in 2002 Purchase Fund	
(Accomack County Qualified Zone Academy Bc	224,111
Held in 2008 Purchase Fund	
(Fluvanna County Stand Alone)	6,945,000
Held in 2009 Purchase Fund	
(Qualified School Construction Bonds)	50,898,010
Held in 2010 Purchase Fund	
(Qualified School Construction Bonds)	56,600,000
Held in 2011-1 Purchase Fund	
(Qualified School Construction Bonds)	60,708,458
Held in 2011 Purchase Fund	
(Prince William County Stand Alone)	39,470,000
Held in 2011 Purchase Fund	
(Montgomery County Stand Alone)	80,640,000
Held in 2011-2 Purchase Fund	
(Qualified School Construction Bonds)	120,109,748
Held in 2012 Purchase Fund	
(Prince William County Stand Alone)	59,105,000
Held in 2012-1 Purchase Fund	
(Qualified School Construction Bonds)	21,765,220
Held in 2013 Purchase Fund	
(Prince William County Stand Alone)	56,990,000
Held in 2014 Purchase Fund	
(Prince William County Stand Alone)	82,545,000
Held in 2014 Purchase Fund	
(Warren County Stand Alone)	42,440,000
Held in 2014 Purchase Fund	
(Qualified Zone Academy Bonds)	3,816,000
Total local school bonds	$ 3,296,386,269

C. Long-Term Indebtedness

1. Changes in Long-Term Debt

The following is a summary of changes in long-term debt of the Authority for the year ended June 30, 2015.

	Current Liability	Long-Term Liability	Total
Balance July 1, 2014	$ 282,435,000	$ 3,242,977,063	$ 3,525,412,063
Issued during fiscal 2015	20,430,000	724,636,000	745,066,000
Retired during fiscal 2015	(282,435,000)	-	(282,435,000)
Defeased during fiscal 2015	(2,225,000)	(495,455,000)	(497,680,000)
Maturing in fiscal 2016	273,529,060	(273,529,060)	-
Subtotal	291,734,060	3,198,629,003	3,490,363,063
Add: Unamortized Premium	20,230,525	226,997,078	247,227,603
Balance June 30, 2015	$ 311,964,585	$ 3,425,626,081	$ 3,737,590,666

2. Annual Requirements to Amortize Bonds Payable and Notes Payable

The following schedule provides the annual funding requirements necessary to amortize long-term debt of the Authority outstanding at June 30, 2015.

Year Ending June 30	Principal	Interest	Total
2016	$ 291,734,060	$ 150,729,737	$ 442,463,797
2017	279,083,003	137,570,079	416,653,082
2018	264,145,000	124,132,355	388,277,355
2019	244,100,000	111,601,075	355,701,075
2020	227,390,000	100,219,693	327,609,693
2021-2025	922,956,000	358,759,651	1,281,715,651
2026-2030	819,440,000	158,247,343	977,687,343
2031-2035	394,010,000	33,263,289	427,273,289
2036-2040	43,750,000	3,963,222	47,713,222
2041-2042	3,755,000	104,163	3,859,163
Subtotal	3,490,363,063	1,178,590,607	4,668,953,670
Add: Unamortized Premium	247,227,603	-	247,227,603
Total	$ 3,737,590,666	$ 1,178,590,607	$ 4,916,181,273

D. Technology and Security Notes

Periodically, the Authority issues Technology and Security Notes, the proceeds of which are used to make grants to school divisions for the purchase of educational technology and security equipment. The proceeds are invested in the Virginia State Non-Arbitrage Program® until requisitioned by localities. The following schedule details the notes that have been issued which still have either bonds outstanding or funds remaining to be disbursed to localities as of June 30, 2015.

Technology and Security Notes

Issue	Description	Amount Issued	Outstanding Balance	Remaining Available for Disbursement
Ed Tech XI	2011 Notes	51,925,000	11,115,000	491,015
Ed Tech XII	2012 Notes	52,025,000	21,605,000	1,178,064
Ed Tech XIII	2013 Notes	53,030,000	33,035,000	8,009,563
School Technology and Security Series I	2013 Notes	5,325,000	3,285,000	-
School Technology and Security Series II	2014 Notes	63,000,000	51,345,000	34,559,783
School Technology and Security Series III	2015 Notes	65,465,000	65,465,000	64,503,670
		$290,770,000	$185,850,000	$108,742,095

E. Qualified Zone Academy Bonds

On December 21, 2001, the Authority issued $419,060 in Special Obligations School Financing Bond (County of Northampton Qualified Zone Academy Financing) Series 2001 as a QZAB. On December 31, 2002, the Authority issued $1,433,003 in Special Obligations School Financing Bond (County of Accomack Qualified Zone Academy Financing) Series 2002 as a QZAB. On October 31, 2012, the Authority issued $2,014,104 for the City of Roanoke as a QZAB, as part of the School Tax Credit Bonds (Direct Payment) Series 2012-1. On December 30, 2014, the Authority issued $3,816,000 for the Cities of Franklin and Petersburg as QZABs, as part of the School Tax Credit Bonds (Direct Payment) Series 2014-1. These bonds were issued pursuant to Section 1297E of the Internal Revenue Code of 1986, as amended, and the Authority purchased certain general obligation school bonds of Northampton County, Accomack County, and the Cities of Roanoke, Franklin, and Petersburg to finance capital projects for public schools.

The localities will make annual principal payments to the Authority on the anniversary date of each issuance. Such payments received by the Authority will be held in trust and invested in certificates of deposit maturing on the next anniversary date of each issuance in accordance with the funding agreements. The agreements provide that maturing certificate of deposit proceeds will be combined with the current annual payment and reinvested to the next anniversary date. The final annual principal payments on the 2001 QZAB, the 2002 QZAB, the 2012 QZAB and the 2014 QZABs are due December 21, 2015, December 31, 2016, December 1, 2034, and December 15, 2024, respectively, at which dates the QZABs will mature.

F. Qualified School Construction Bonds

In prior years, the Authority has issued Qualified School Construction Bonds and has used the proceeds to purchase general obligation school bonds issued by certain localities. The bonds have been issued as "qualified school construction bonds" in accordance with Section 54F of the Internal Revenue Code of 1986, as amended. The total amount outstanding under this program as of June 30, 2015 is $357,216,000. These bonds are non-interest bearing; however, a taxpayer who holds such bonds during a taxable year will be allowed a federal income tax credit for such taxable year in accordance with the structure established at issuance.

G. Defeasance of Debt

From time to time, when interest rates indicate that it would be favorable to do so, the Authority has issued refunding bonds to defease outstanding bonds. These refundings have placed the proceeds of the new bonds in irrevocable 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.

The Authority issued one series of refunding bonds during fiscal year 2015. The proceeds of the refunding bonds were placed with an escrow agent to provide for all future debt service on the defeased bonds. Accordingly, the liability for the defeased bonds is not included on the Authority's financial statements. Any savings realized as a result of these refunding will be passed through, on a pro rata basis, to the issuers of the related underlying local school bonds in accordance with the Authority's Enabling Legislation. The following table reflects the refunding activity during the year.

Refunding Bonds Issued During Fiscal Year 2015

Refunding Issue	Refunded Issue	Maturities Defeased	Amount Defeased
2015A	2006A	2027-2031	$ 12,525,000
2015A	2006B	2027-2032	19,480,000
2015A	2007A	2018-2032	61,850,000
2015A	2007B	2018-2032	120,220,000
2015A	2008A	2019-2037	79,595,000
2015A	2008B	2019-2033	65,740,000
2015A	2009B	2020-2029	107,180,000
Total Defeased, FY 2015			$ 466,590,000

The issuance under the 1997 Resolution of the Authority's Series 2015A bonds refunded certain outstanding bonds under the 1997 resolution. This debt defeasance resulted in an accounting loss of $58,923,000. Total debt service payments over the next 23 years will be reduced by $55,407,842 resulting in a present value savings of $46,722,400 discounted at the rate of 2.179039 percent.

On March 31, 2015, Henrico County issued $50,485,000 of its own refunding bonds, a portion of which was used to refund $31,090,000 of the Authority's 2008 Series Henrico County stand-alone bonds. The proceeds of the refunding bonds were placed with an escrow agent to provide for all future debt service on the defeased bonds. Therefore the liability for the defeased bonds is not included in the Authority's financial statements.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities," the difference between the reacquisition price and the net carrying amount of the bonds defeased with refunding debt is amortized as a component of Interest and Fiscal Charges over the remaining life of the refunded debt.

At June 30, 2015, $966,630,000 of bonds outstanding are considered defeased for financial reporting purposes.

H. Transfers

In May 2015, after final rebate computation and payment on the Educational Technology Notes Issue X, the residual earnings of $140,500 on the related bond proceeds were transferred to the Literary Fund, which had been the source of the debt service appropriation for these Notes.

The Authority received $8,301,727 from the Literary Fund to pay interest on the various outstanding Educational Technology Notes.

Finally, in June 2015, the Authority transferred $201,000 to the General Fund of the Commonwealth pursuant to Section 3-3.01 of Chapter 665 of the 2015 Virginia Acts of Assembly.

I. Arbitrage Earnings

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 and the issuers of local school bonds purchased by 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 the bond proceeds over the amount that would have been earned if the proceeds 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 Authority bonds may be exempt from the rebate requirement if they meet statutory exceptions per the rebate regulations. 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 schedules. If such an election is made and if the Authority (local issuer) meets the expenditure schedule, the Authority (local issuer) retains any arbitrage earnings. The Authority, to date, has not elected penalty in lieu of rebate due to the difficulty in estimating local issuer's expenditure schedules. Rebate and penalty payments are calculated and paid by the Authority as required by law on bond issues that do not meet the statutory exceptions. Rebate installments must be paid no later than 60 days after the computation date.

In most cases, rebate liability is payable by local issuers whose local school bonds were purchased by the Authority. During the year, the Authority's rebate calculation agent, or the locality's rebate calculation agent in the case of special obligation stand-alone bonds, calculate rebate liability or penalty in lieu of rebate if selected by a locality. Rebate calculations were performed for the following issues during the year:

Bond Issue	Computation Time Frame	Computation Date	Liability
(97 Resolution) 2010A	5 Year	5/13/2015	-
(97 Resolution) 2010B	5 Year	5/13/2015	-
Educational Technology Series X	*final	4/15/2015	-
(97 Resolution) 2004C	10 Year	12/8/2014	-
(97 Resolution) 2009D	5 Year	12/3/2014	-
(97 Resolution) 2009C	5 Year	10/27/2014	-
(97 Resolution) 2004B	10 Year	8/1/2014	-

* Reports prepared as of the final redemption of the bonds

The Authority did not incur any arbitrage liability or make any arbitrage payments in fiscal year 2015. The Authority paid $30,150 to its rebate calculation agent for services provided in connection with the above rebate calculations.

J. Deficit Net Position

In fiscal year 2012, pursuant to Section 22.1-167.1 of the *Code of Virginia*, the Authority accrued credits from the allocable savings generated from the 2012A Refunding Bonds of $4,441,293 to the Literary Fund against debt service payments that were due on October 15, 2013, and accrued a credit to localities of $17,514,011 against debt service payments on Local School Bonds that were due on January 15, 2014.

In fiscal year 2011, pursuant to Section 22.1-167.1 of the *Code of Virginia*, the Authority transferred the allocable savings generated from the 2010C Refunding Bonds of $284,030 to the Literary Fund and accrued a credit to localities of $3,138,124 against debt service payments on Local School Bonds that were due on July 15, 2012.

In fiscal year 2010, pursuant to Section 22.1-167.1 of the *Code of Virginia*, the Authority transferred the allocable savings generated from the 2009C Refunding Bonds of $4,497,137 to the Literary Fund and accrued a credit to localities of $24,224,935 against debt service payments on Local School Bonds that were due on July 15, 2010.

Each of the above transactions was structured to provide maximum savings benefits to the localities up front without the added burden of localities issuing their own refunding bonds. The savings to be realized by the issuance of the 2009C Refunding Bonds, the 2010C Refunding Bonds, and the 2012A Refunding Bonds will be generated over time as a result of the differential in the debt service payments due from the localities and the debt service payments that will be made by the Authority over the life of the refunded bonds. The Authority generated sufficient cash flow to make the savings available to the localities on the front end by restructuring the timing of its own bond payments through the refunding bonds. Since the Authority chose to provide the full savings benefit to the localities prior to achieving the full savings benefit from the refunding, the Authority's Statement of Net Position reflects deficit net position in the amount of $31,776,636. It is anticipated that absent any additional transactions of a similar nature, the deficit will continue to decline as the savings are actually realized in the future.

K. Subsequent Events

In July 2015, the Authority issued Special Obligation School Financing Bonds Prince William County Series 2015 in the amount of $98,485,000 as part of its stand-alone bond program. The proceeds were used to purchase general obligation bonds issued by Prince William County to pay the costs of various capital school improvement projects for the County.

In November 2015, the Authority issued School Financing Series 2015 C bonds in the amount of $49,350,000. The proceeds will be used to purchase general obligation school bonds issued by certain Virginia localities for capital projects for their public schools, and to refund prior obligations issued for such purposes.

L. 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 the 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.

Detail of Long-Term Indebtedness
June 30, 2015
(Dollars in Thousands)

Detail of Long-Term Indebtedness by Series

	Dated Date	Bond Resolution	True Interest Cost ("TIC")	Amount Issued (a)	Local School Bonds Purchased	Outstanding July 1, 2014	Issued (Retired) During Year	Outstanding June 30, 2015	Original Maturity
Series 2001 QZAB, Northampton County	12/21/01	Stand Alone	0.00%	419	419	419	-	419	12/21/15
Series 2002 QZAB, Accomack County	12/31/02	Stand Alone	0.00%	1,433	1,433	1,433	-	1,433	12/31/16
Series 2003 D	12/11/03	1997	3.23%	286,670	-	35,775	(8,625)	27,150	08/01/19
Series 2004 A	05/01/04	1997	4.33%	123,585	123,585	5,175	(5,175)	-	08/01/29
Series 2004 B	11/01/04	1997	3.91%	145,340	145,337	6,940	(6,940)	-	08/01/29
Series 2004 C	12/08/04	1997	3.34%	156,125	-	36,705	(14,095)	22,610	08/01/16
Series 2005 A	03/15/05	1997	3.64%	55,200	-	18,395	(4,500)	13,895	08/01/17
Series 2005 B	04/20/05	1997	4.07%	230,580	-	157,390	(28,460)	128,930	08/01/20
Series 2005 C	05/01/05	1997	4.13%	134,360	134,360	12,570	(6,235)	6,335	08/01/30
Series 2005 D	11/01/05	1997	4.19%	199,345	199,341	18,785	(9,290)	9,495	08/01/30
Series 2006 A	05/01/06	1997	4.39%	202,175	202,175	39,485	(21,305)	18,180	08/01/31
Series 2006 B	11/01/06	1997	4.22%	240,955	240,954	52,765	(30,275)	22,490	08/01/32
Series 2007 A	05/01/07	1997	4.24%	112,235	112,235	82,720	(66,970)	15,750	08/01/32
Series 2007 B	11/01/07	1997	4.28%	223,080	223,076	162,750	(130,665)	32,085	08/01/32
Series 2008 A	05/01/08	1997	4.22%	134,950	134,950	108,675	(85,230)	23,445	08/01/37
2008 Series Henrico County	07/17/08	Stand Alone	4.12%	44,400	44,440	33,315	(33,315)	-	07/15/28
Series 2008 B	12/01/08	1997	4.75%	118,930	118,927	93,160	(71,070)	22,090	08/01/33
2008 Series Fluvanna County	12/22/08	Stand Alone	5.95%	67,525	67,525	8,490	(1,545)	6,945	12/01/35
Series 2009 A	03/12/09	1997	2.60%	114,180	-	45,950	(9,045)	36,905	08/01/20
Series 2009 B	05/01/09	1997	3.69%	200,435	200,435	164,320	(116,425)	47,895	08/01/29
Series 2009 C	10/27/09	1997	2.85%	481,285	-	434,740	(43,515)	391,225	08/01/28
Series 2009-1 QSCB	11/13/09	School Tax Cr.	0.63%	61,120	61,120	61,120	-	61,120	09/15/26
Series 2009 D	11/30/09	1997	3.48%	11,645	11,645	9,930	(475)	9,455	08/01/29
Series 2010 A	05/13/10	1997	3.01%	45,805	45,805	30,530	(5,205)	25,325	08/01/30
Series 2010 B	05/13/10	1997	5.09%	63,840	63,840	63,840	-	63,840	08/01/30
Series 2010 Ed Tech Series X	05/18/10	Equip. Notes	1.37%	54,110	-	11,345	(11,345)	-	04/15/15
Series 2010-1 QSCB	07/08/10	School Tax Cr.	0.06%	72,655	72,655	72,655	-	72,655	06/15/27
Series 2010 C	10/19/10	1997	2.49%	85,510	-	84,730	(410)	84,320	08/01/24
Series 2010 D	11/10/10	1997	2.98%	9,975	9,975	8,575	(475)	8,100	08/01/30
Series 2011 A	05/05/11	1997	3.72%	26,375	26,375	24,220	(1,095)	23,125	08/01/36
Series 2011 Ed Tech Series XI	06/02/11	Equip. Notes	0.98%	51,925	-	21,700	(10,585)	11,115	04/15/16
Series 2011-1 QSCB	06/28/11	School Tax Cr.	0.05%	67,400	67,400	67,400	-	67,400	06/15/27
Series 2011 Prince William Coun	08/04/11	Stand Alone	3.15%	46,445	46,445	41,795	(2,325)	39,470	07/15/31
Series 2011 B	11/01/11	1997	3.37%	85,730	85,730	80,250	(3,075)	77,175	08/01/36
Series 2011 Montgomery County	12/06/11	Stand Alone	3.59%	86,115	86,115	82,745	(2,105)	80,640	01/15/32

(a) Includes refunding bonds issued.

Detail of Long-Term Indebtedness
June 30, 2015
(Dollars in Thousands)

Detail of Long-Term Indebtedness by Series (continued)

	Dated Date	Bond Resolution	True Interest Cost ("TIC")	Amount Issued (a)	Local School Bonds Purchased	Outstanding July 1, 2014	Issued (Retired) During Year	Outstanding June 30, 2015	Original Maturity
Series 2011-2 QSCB	12/15/11	School Tax Cr.	0.00%	128,960	128,960	128,960	-	128,960	12/15/30
Series 2012 A	03/08/12	1997	2.28%	282,230	-	282,010	(230)	281,780	08/01/30
Series 2012 B	05/10/12	1997	2.85%	63,945	63,945	61,590	(2,535)	59,055	08/01/32
Series 2012 E Ed Tech Series XII	06/06/12	Equip. Notes	0.70%	52,025	-	31,640	(10,035)	21,605	04/15/17
Series 2012 P	08/15/12	Stand Alone	2.61%	65,675	65,675	62,390	(3,285)	59,105	07/15/32
Series 2012 1 QSCB	10/31/12	School Tax Cr.	0.01%	23,265	23,265	23,265	-	23,265	12/15/34
Series 2012 C	11/15/12	1997	2.67%	65,950	65,950	64,880	(1,250)	63,630	08/01/41
Series 2012 D	12/20/12	1997	2.68%	66,120	66,120	65,775	(625)	65,150	08/01/35
Series 2013 A	05/09/13	1997	2.57%	141,840	141,840	141,840	(4,385)	137,455	08/01/33
Series 2013 School Technology and Security Series I	05/23/13	Equip. Notes	0.62%	58,355	-	47,290	(10,970)	36,320	04/15/18
Series 2013 Prince William Coun	07/31/13	Stand Alone	3.30%	59,990	59,990	59,990	(3,000)	56,990	07/15/33
Series 2013 B	11/21/13	1997	3.45%	45,075	45,075	45,075	(1,100)	43,975	08/01/40
Series 2014 A	05/15/14	1997	3.03%	51,510	51,510	51,510	-	51,510	08/01/39
Series 2014 B	05/15/14	1997	2.21%	215,405	-	215,405	(1,270)	214,135	08/01/26
Series 2014 school Technology and Security Series II	05/22/14	Equip. Notes	0.95%	63,000	-	63,000	(11,655)	51,345	04/15/19
Series 2014 Prince William Coun	10/07/14	Stand Alone	2.62%	82,545	82,545	-	82,545	82,545	07/15/34
Series 2014 C	11/20/14	1997	2.76%	81,265	81,265	-	81,265	81,265	08/01/35
Series 2014 Warren County	12/09/14	Stand Alone	3.42%	42,440	42,440	-	42,440	42,440	07/15/39
Series 2014-1 QZAB	12/30/14	Stand Alone	0.00%	3,816	3,816	-	3,816	3,816	12/15/24
Series 2015 A	02/17/15	1997	2.20%	435,715	-	-	435,715	435,715	08/01/37
Series 2015 B	05/14/15	1997	3.11%	33,820	33,820	-	33,820	33,820	08/01/38
Series 2015 E School Technology and Security Series III	05/19/15	Equip. Notes	1.20%	65,465	-	-	65,465	65,465	04/15/20
Total				$ 6,170,268	$ 3,482,513	$ 3,525,412	$ (35,049)	$ 3,490,363	

Detail of Long-Term Indebtedness by Resolution

	Amount Issued (a)	Local School Bonds Purchased	Outstanding July 1, 2014	Issued (Retired) During Year	Outstanding June 30, 2015
1997 Resolution	$ 4,971,185	$ 2,628,270	$ 2,706,460	$ (129,150)	$ 2,577,310
Stand Alone Issues	500,803	500,843	290,577	83,226	373,803
Technology and Security Notes	344,880	-	174,975	10,875	185,850
School Tax Credit	353,400	353,400	353,400	-	353,400
Total	$ 6,170,268	$ 3,482,513	$ 3,525,412	$ (35,049)	$ 3,490,363

(a) Includes refunding bonds issued.

December 15, 2015

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Vice-Chairman, Joint Legislative Audit
and Review Commission

Board of Commissioners
Virginia Public School Authority

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the Virginia Public School Authority, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2015, 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 an opinion 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Public School Authority as of June 30, 2015, and the changes in its financial position and its cash flows 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 4 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 the 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 Virginia Public School 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 15, 2015, on our consideration of the Virginia Public School 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/alh

BOARD OF COMMISSIONERS
As of June 30, 2015

Brenda L. Skidmore, Chairman

Ben Loyola, Vice Chairman

Douglas Combs

Jay Bhandari

Walter Mika

EX OFFICIO

Manju S. Ganeriwala, Secretary and Treasurer, State Treasurer

David Von Moll, State Comptroller

Dr. Steven R. Staples, Superintendent of Public Instruction

APPENDIX B

COMMONWEALTH OF VIRGINIA FINANCIAL AND OTHER INFORMATION

APPENDIX B
TABLE OF CONTENTS

INTRODUCTION

This financial and other information was provided by the Commonwealth of Virginia (the "Commonwealth"), its agencies, institutions and authorities. The data were compiled by the Department of the Treasury and were not independently verified; however, the Department of the Treasury has no reason to believe that such material is not true and correct.

GOVERNMENTAL ORGANIZATION

Under the Constitution of Virginia (the “Constitution”), the legislative, executive and judicial powers of the Commonwealth are divided into three separate and distinct departments.

Legislative Department

The legislative power is vested in the General Assembly, the oldest representative lawmaking body in the United States. The General Assembly is bicameral, consisting of a Senate with 40 Senators elected for four-year terms and a House of Delegates with 100 Delegates elected for two-year terms. The General Assembly convenes annually each January. Regular sessions are 60 days in duration in even numbered years and 30 days in odd numbered years, but each can be extended for an additional 30 days by a two-thirds vote of each house.

The General Assembly is assisted in its legislative function by a full-time staff of over 100 persons and various commissions appointed by the General Assembly. The Joint Legislative Audit and Review Commission was established to carry out continuous legislative review and evaluation of Commonwealth programs from the standpoint of cost effectiveness.

The Auditor of Public Accounts is elected by the General Assembly. The Auditor and a staff of approximately 130 persons audit the accounts of all Commonwealth offices, departments, boards, commissions, institutions and other agencies handling Commonwealth funds and report thereon to the General Assembly.

Executive Department

The Governor, Lieutenant Governor and Attorney General are constitutional officers, elected every four years. The present term of each office began January 11, 2014 and each expires January 13, 2018. The Constitution does not allow a Governor to serve successive terms.

The Governor is the Commonwealth's chief executive officer. The Governor advises the General Assembly on the condition of the Commonwealth and makes recommendations for legislation. The Governor is also charged with the responsibility for preparing and executing the Commonwealth's budget. The Governor's veto of legislation may be overridden only by a two-thirds vote of each house of the General Assembly. If deemed necessary for the welfare of the Commonwealth, the Governor may convene the General Assembly at any time. With few exceptions, the Governor appoints the administrative heads and boards of all Commonwealth agencies. Commonwealth agencies report to the Governor through a cabinet of twelve Secretaries appointed by the Governor to supervise and manage the various functions of the Commonwealth's government.

The Lieutenant Governor is next in line in the event of the Governor's inability to serve. The Lieutenant Governor also serves as President of the Senate, but may not vote except in the event of a tie.

The Attorney General is the chief executive officer of the Department of Law. The Department of Law represents the Commonwealth in all civil cases to which the Commonwealth or any of its agencies is a party and in all criminal cases on appeal to the Supreme Court of Virginia. The Attorney General is also the legal advisor to the Governor, General Assembly and heads of Commonwealth agencies.

Judicial Department

The Supreme Court is the Commonwealth's highest court and consists of seven justices appointed by the General Assembly. Several agencies involved in legal administration operate under the control of the Supreme Court. These include the Judicial Inquiry and Review Commission, the Virginia State Bar and the State Board of Bar Examiners. The Commonwealth is divided into 31 Judicial Circuits over which Circuit Judges preside. The Circuit Courts are courts of record having original jurisdiction in cases involving a specified sum and felonies, and appellate jurisdiction over lower District Courts. A Court of Appeals stands between the Circuit Courts and the Supreme Court and has appellate jurisdiction.

FINANCIAL FACTORS

Budgetary Process

The Governor is the chief planning and budget officer of the Commonwealth. The Secretary of Finance and the Department of Planning and Budget assist the Governor in the preparation of executive budget documents. The Governor's Secretaries advise the Governor and the Department of Planning and Budget on the relative priority of the budget requests from their respective agencies.

The Governor is required by statute to present a bill detailing his proposed budget for the next biennium (the "Budget Bill") and a narrative summary of the bill to the General Assembly by December 20th in the year immediately prior to each even-year session. The Budget Bill is introduced in both the House of Delegates and the Senate. It is referred to the House Appropriations and Senate Finance Committees, which hold joint meetings to hear from citizens, from other General Assembly members and from agency representatives. The Budget Bill is then approved by each Committee in an open session and reported to the respective floors for consideration, debate, amendment and passage. After the bill has passed both houses, differences between the House and Senate versions are reconciled by a conference committee from both houses.

Under constitutional provisions, the Governor retains the right in his review of legislative action on the Budget Bill, to suggest alterations to or to veto appropriations made by the General Assembly. After enactment, the Budget Bill becomes law (the "Appropriation Act").

In the odd-year sessions of the General Assembly, amendments are considered to the Appropriation Act enacted in the previous year. The Governor submits a bill by December 20th which includes his proposed amendments to the current biennial budget. It is then introduced in both houses and is considered in the same manner as the regular biennial Budget Bill. The Appropriation Act enacted in the odd-year session is effective upon passage, whereas the regular biennial Appropriation Act is effective July 1, the beginning of the biennium.

An appropriation for a project or service is initially contained in the Appropriation Act enacted by the General Assembly. An agency request for an increase or other adjustments to its legislative appropriation must be reviewed and approved by the Department of Planning and Budget. Under the Constitution, no money may be paid out of the State Treasury except pursuant to appropriations made by law. No such appropriation may be made which is payable more than two years and six months after the end of the session of the General Assembly at which the appropriation was enacted.

Implementation and administration of the provisions of the Appropriation Act are functions of the Governor, assisted by the Secretary of Finance and the Department of Planning and Budget. This process also involves constant monitoring of revenue collections and expenditures to ensure that a balanced budget is maintained. The Appropriation Act requires that if projected revenue collections fall below amounts appropriated, the Governor must reduce expenditures and withhold allotments of appropriations, with the exception of amounts needed for debt service and specified other purposes, to the extent necessary to prevent any expenditure in excess of estimated revenues. The Appropriation Act provides that up to 15 percent of a general fund appropriation to an agency may be withheld, if required.

The Constitution requires the Governor to ensure that expenses do not exceed total revenues anticipated plus fund balances during the period of two years and six months following the end of the General Assembly session in which the appropriations are made. A Revenue Stabilization Fund was established by constitutional amendment effective January 1, 1993, and is available to offset, in part, anticipated shortfalls in revenues in years when revenues are forecasted to decline by more than two percent of the certified tax revenues collected in the most recently ended fiscal year. Deposits to the Fund are made pursuant

to Constitutional provisions based on tax revenue collections as certified by the Auditor of Public Accounts. If in any year total revenues are forecast to decline by more than two percent of the certified tax revenues collected in the most recently ended fiscal year, the General Assembly may appropriate for transfer up to one-half of the Revenue Stabilization Fund balance to the General Fund to stabilize revenues. This transfer shall not exceed one-half of the forecast shortfall. The maximum balance in the Fund can consist of an amount not to exceed 15 percent of the Commonwealth's average annual tax revenues derived from income and retail sales taxes for the three immediately preceding fiscal years, as certified by the Auditor of Public Accounts. If any amounts accrue to the credit of the Fund in excess of the 15 percent limitation, such as through interest or dividends, the Treasurer shall promptly transfer any such excess amounts to the General Fund.

Development of Revenue Estimates

The development of the General Fund revenue estimate begins with the selection of a forecast of national economic activity for the state budget period prepared by independent economic forecasting firms based on the advice of the Joint Advisory Board of Economists and the Commonwealth's own staff. The national economic forecast is used to develop a forecast of similar indicators of in-state activity. The Governor's Advisory Council on Revenue Estimates also examines the economic assumptions with respect to the general economic climate of the Commonwealth.

After the development of forecasts of major Commonwealth economic indicators, revenue estimates are generated using revenue forecasting models developed and maintained by the Department of Taxation. Adjustments are made on a revenue source-by-source basis for any legislative, judicial or administrative changes that would affect the projected level of revenues but that cannot be forecast by models constructed using historical data. Finally, adjustments are made if revenues are substantially above or below the projected level.

Financial Control Procedures

The General Assembly appropriates funds for a particular program in the Appropriation Act. These funds must then be allotted by the Governor and the Department of Planning and Budget for specific purposes. The State Comptroller accounts for certain specific personnel and non-personnel transactions. Once appropriation, allotment and accounting procedures have been completed, funds are disbursed by the State Treasurer upon a warrant of the State Comptroller drawn at the request of the responsible agency. The Auditor of Public Accounts audits such financial transactions to assure the reporting of such transactions is in compliance with generally accepted accounting principles.

The Director of the Department of Planning and Budget is appointed by the Governor. The Department of Planning and Budget monitors and evaluates the use of resources to ensure that agencies are delivering effective and efficient services. The Governor is empowered to withhold appropriations to agencies in the event that expenditures are no longer warranted or are not being made for the purposes for which the funds were initially appropriated.

The State Comptroller, who is appointed by the Governor subject to confirmation by the General Assembly, is the director of the Department of Accounts, the central accounting agency of the Commonwealth. The State Comptroller maintains a complete system of general accounts of every department, division, office, board, commission, institution and agency of the Commonwealth. In order to assure uniform accounting practices among the agencies and to avoid duplication, the State Comptroller also prescribes the accounts and control records that are to be kept by each state agency.

The State Treasurer, who is also appointed by the Governor subject to confirmation by the General Assembly, is the director of the Department of the Treasury. This department receives, maintains custody of and disburses all funds of the Commonwealth.

Unlike the State Comptroller and the State Treasurer, the Auditor of Public Accounts is appointed by the General Assembly for a term of four years and is, therefore, part of the Legislative Department rather than the Executive Department. The principal function of the Auditor is to audit the accounts of all state departments, offices, boards, commissions, institutions and agencies handling state funds. In the event the Auditor discovers some irregularity or misuse of funds, it is his duty to inform the Governor, the Joint Legislative Audit and Review Commission and the State Comptroller.

Investment of Public Funds

It is the policy of the State Treasurer to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands and conforming to all statutes governing the investment of public funds. The General Account of the Commonwealth, which is comprised of funds collected and held for various fund groups including the General Fund, is divided into two major portfolios. Both portfolios are managed in accordance with guidelines promulgated by the Treasury Board. The Primary Liquidity Portfolio, representing approximately 75 percent of the General Account, provides for disbursements and operational needs. Safety of principal and liquidity are the objectives of this portfolio. The Extended Duration and Credit Portfolio, which can be up to 25 percent of the General Account, is structured to generate investment returns over the long term higher than the return on the Primary Liquidity Portfolio, while maintaining sound credit quality and providing secondary liquidity.

Financial Statements

The Commonwealth operates on a fiscal year basis beginning on July 1 and ending on June 30. The Commonwealth's financial statements, audited by the Auditor of Public Accounts, for the fiscal year ended June 30, 2015, are contained in the Commonwealth Comprehensive Annual Financial Report (the "CAFR") available at www.doa.virginia.gov. The financial statements conform to GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The financial statements include government-wide statements using full accrual accounting, fund financial statements that use different accounting approaches based on the type of fund, and a reconciliation of the two types of statements. See the section in the CAFR entitled "Management's Discussion and Analysis" for a more detailed explanation of the types of financial statements prepared. The Commonwealth's annual budget is prepared principally on a cash basis and represents departmental appropriations as authorized by the General Assembly. Under the cash basis of accounting, revenues and other financial resources are recognized in the accounting period in which cash is received; expenditures and other financial uses are recognized when cash is disbursed. The section of the CAFR entitled "Required Supplementary Information" reconciles the budgetary (*i.e.*, cash) presentation to the financial statements.

Summary of General Fund Revenues, Expenditures and Changes in Fund Balance

The following tables summarize the Commonwealth's General Fund revenues, expenditures and fund balance on a cash basis for fiscal years 2011 through 2015 and compares the final budget numbers to actual numbers.

The General Fund balance, as shown on page B-6, increased by $409.9 million in fiscal year 2015, an increase of 30.4 percent from fiscal year 2014. Overall tax revenues increased by 8.0 percent from fiscal year 2014 to fiscal year 2015. Individual and Fiduciary Income tax revenues increased by 9.6 percent. Corporation Income tax collections increased by 9.8 percent from fiscal year 2014 to fiscal year 2015. Other tax collections, which includes Deeds, Contracts, Wills and Suits; Alcoholic Beverage Sales; Tobacco Products; Estate and Other Taxes overall increased by 6.0 percent from fiscal year 2014 to fiscal year 2015. Tax revenue increases occurred in the form of a 0.4 percent increase in Public Service Corporation tax collections and a 5.5 percent increase in Sales and Uses tax collections. Tax revenue decreases occurred in the form of a 1.3 percent decrease in Communications Sales and Use tax collections and a 6.2 decrease in Premiums of Insurance Companies tax collections. Overall revenue increased by 7.4 percent and non-tax revenues decreased by 7.5 percent. Overall expenditures increased by 2.9 percent in fiscal year 2015, compared to a 2.5 percent increase in fiscal year 2014. Individual and family service expenditures increased by $239.3 million, or 4.3 percent, and education expenditures increased by $172.9 million, or 2.2 percent. General government expenditures increased $58.8 million or 2.7 percent.

Of the $1.76 billion fund balance as of June 30, 2015, $467.7 million was restricted as the Revenue Stabilization Fund (the "Fund"). During fiscal year 2015, a withdrawal of $467.7 million was made from the Fund and $4.7 million in interest was earned. Chapter 665, 2015 Acts of Assembly, authorizes an additional withdrawal estimated at $235.0 million from the fund during fiscal year 2016. The Fund is segregated from the General Fund and can be used only for constitutionally authorized purposes. Virginia law directs that the Fund be included as a component of the General Fund only for financial reporting purposes.

Under the provisions of Article X, Section 8 of the Constitution of Virginia, and based on fiscal year 2013 revenue collections, a deposit of $243.2 million was made to the Fund during fiscal year 2015. In addition, a deposit of $605.6 million is required during fiscal year 2017 based on fiscal year 2015 revenue collections. The required deposits are reported as restricted components of fund balance. Pursuant to the constitutional amendment of Article X, Section 8, effective January 1, 2011, the amount on deposit cannot exceed 15 percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years. As of June 30, 2015, the Constitutional maximum is $2.4 billion. Section 2.2-1829(b) of the Code of Virginia, requires that if certain revenue criteria are met, then an additional deposit to the Fund equal to at least one-half the mandatory deposit must be included in the Governor's budget. The Code further requires that any such additional deposits to the Fund shall be included in the Governor's budget recommendations only if the estimate of General Fund revenues for the fiscal year in which the deposit is to be made is at least five percent greater than the actual General Fund revenues for the immediately preceding fiscal year. These conditions were not met for fiscal year 2015.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

SUMMARY OF GENERAL FUND
REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – CASH BASIS
(in thousands)

	2011	2012	2013	2014	2015
Revenues:					
Taxes					
Individual and Fiduciary Income	$9,944,370	$10,612,836	$11,339,966	$11,253,348	$12,328,675
State Sales and Use	3,216,406	3,335,601	3,441,195	3,400,486	3,587,849
Corporation Income	822,259	859,923	796,728	757,491	831,907
Communications Sales and Use	442,455	424,257	427,262	422,823	417,209
Deeds, Contracts, Wills and Suits	299,967	330,938	388,633	318,998	354,461
Premiums of Insurance Companies	281,563	252,895	262,242	320,421	300,641
Alcoholic Beverage Sales	178,937	186,377	195,192	199,225	207,802
Tobacco Products	173,731	192,453	187,874	180,626	178,996
Estate	2,713	298	-	196	98
Public Service Corporations	93,777	94,429	96,222	98,156	98,537
Other Taxes	21,808	20,442	18,036	28,760	30,251
Total Taxes	15,477,986	16,310,449	17,153,350	16,980,530	18,336,426
Rights and Privileges	73,283	72,817	76,931	79,085	78,654
Sales of Property and Commodities	28,005	30,146	25,477	30,682	28,930
Assessments and Receipts for Support of Special	2,777	2,570	858	931	1,582
Institutional Revenue	40,122	38,134	37,210	36,143	38,240
Interest, Dividends, Rents	90,905	83,055	72,958	78,333	54,626
Fines, Forfeitures, Court Fees, Penalties, and Escheats	222,256	216,032	216,788	211,512	216,698
Federal Grants and Contracts	-	-	6,354	9,454	6,416
Receipts from Cities, Counties, and Towns	16,340	16,209	15,813	16,318	16,533
Private Donations, Gifts and Contracts	4,595	680	439	438	775
Tobacco Master Settlement	48,185	49,136	74,010	48,693	48,207
Other	204,033	282,731	238,148	190,636	158,807
Total Revenues	16,208,487	17,101,959	17,918,336	17,682,755	18,985,894
Expenditures:					
General Government	2,149,242	2,096,588	2,173,327	2,215,179	2,273,965
Education	6,931,515	7,123,221	7,587,805	7,755,863	7,928,734
Transportation	516	462	172	773	836
Resources and Economic Development	306,970	353,567	389,221	406,052	413,053
Individual and Family Services	4,449,683	5,027,601	5,383,507	5,525,897	5,765,208
Administration of Justice	2,247,447	2,284,948	2,443,464	2,519,888	2,586,618
Capital Outlay	6,144	7,627	6,274	10,663	6,510
Total Expenditures	16,091,517	16,894,014	17,983,770	18,434,315	18,974,924
Revenues Over (Under) Expenditures	116,970	207,945	(65,434)	(751,560)	10,970
Other Financing Sources (Uses):					
Transfers In	693,750	799,070	712,400	770,542	866,913
Transfers Out	(487,991)	(621,163)	(509,749)	(490,310)	(468,029)
Total Other Financing Sources (Uses)	205,759	177,907	202,651	280,232	398,884
Revenues and Other Sources Over (Under) Expenditures and Other Uses	322,729	385,852	137,217	(471,328)	409,854
Fund Balance, July 1:					
Restricted	310,778	456,384	707,401	940,906	943,491
Committed	443,182	461,140	518,619	556,076	365,220
Assigned	220,871	380,036	457,392	323,647	40,590
Total Fund Balance, July 1, as restated	974,831**	1,297,560	1,683,412	1,820,629	1,349,301
Fund Balance, June 30:					
Restricted	456,384	707,401	940,906	943,491	1,082,618
Committed	461,140	518,619	556,076	365,220	328,791
Assigned	380,036	457,392	323,647	40,590	347,746
Total Fund Balance, June 30	$1,297,560	$1,683,412	$1,820,629	$1,349,301	$1,759,155

Source: Department of Accounts.
** As restated as required by GASB 54

SUMMARY OF GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND VARIANCE OF ACTUAL-BUDGETARY BASIS (in thousands)

	Fiscal Year Ended June 30,			
	2011		2012	
	Final Budget	Variance of Actual Favorable (Unfavorable)	Final Budget	Variance of Actual Favorable (Unfavorable)
Revenues:				
Taxes				
Individual and Fiduciary Income	$9,746,200	$198,170	$10,526,400	$86,436
State Sales and Use	3,186,200	30,206	3,282,100	53,501
Corporation Income	766,600	55,659	827,800	32,123
Communications Sales and Use	448,900	(6,445)	440,000	(15,743)
Public Service Corporations	96,400	(2,623)	93,900	529
Premiums of Insurance Companies	277,700	3,863	287,300	(34,405)
Other [1]	662,456	14,700	717,589	12,919
Total Taxes	$15,184,456	$293,530	$16,175,089	$135,360
Rights and Privileges	88,545	(15,262)	82,838	(10,021)
Institutional Revenue	38,912	1,210	40,511	(2,377)
Interest, Dividends, Rents and Other Investment Income	75,288	15,617	82,442	613
Tobacco Master Settlement	52,134	(3,949)	50,205	(1,069)
Other [2]	349,728	128,278	428,272	120,096
Total Revenues	$15,789,063	$419,424	$16,859,357	$242,602
Expenditures:				
General Government	2,224,688	75,446	2,196,546	99,958
Education	7,021,369	89,854	7,225,088	101,867
Transportation	585	69	462	-
Resources and Economic Development	416,856	109,886	415,708	62,141
Individual and Family Services	4,540,334	90,651	5,149,191	121,590
Administration of Justice	2,367,326	119,879	2,383,519	98,571
Capital Outlay	19,358	13,214	19,397	11,770
Total Expenditures	$16,590,516	$498,999	$17,389,911	$495,897
Revenues Over (Under) Expenditures	$(801,453)	$918,423	$(530,554)	$738,499
Other Financing Sources (Uses):				
Transfers In	645,516	48,234	748,237	50,833
Transfers Out	(467,055)	(20,936)	(602,512)	(18,651)
Total Other Financing Sources (Uses)	$178,461	$27,298	$145,725	$32,182
Revenues and Other Sources Over (Under) Expenditures and Other Uses	(622,992)	945,721	(384,829)	770,681
Fund Balance, July 1	974,831 **	-	1,297,560	-
Fund Balance, June 30	$351,839	$945,721	$912,731	$770,681

[1] Note that under Taxes above, certain line items have been combined into the "Other" line item; they are: "Deeds, Contracts, Wills and Suits," "Alcoholic Beverage Sales," "Tobacco Products," "Estate" and "Other"." The reason for this is consistency with the CAFR line items.

[2] Note that under Revenues above, certain line items have been combined into the "Other" line item; they are: "Sales of Property and Commodities," "Assessments and Receipts for Support of Special Services," "Fines, Forfeitures, Court Fees, Penalties, and Escheats," "Federal Grants and Contracts," "Receipts from Cities, Counties, and Towns," "Private Donations, Gifts, and Contracts" and "Other." The reason for this is consistency with the CAFR line items.

** As restated as required by GASB 54

Source: Department of Accounts.

Fiscal Year Ended June 30,					
2013		2014		2015	
Final Budget	Variance of Actual Favorable (Unfavorable)	Final Budget	Variance of Actual Favorable (Unfavorable)	Final Budget	Variance of Actual Favorable (Unfavorable)
$11,092,600	$247,366	$11,669,100	$(415,752)	$11,816,300	$512,375
3,471,616	(30,421)	3,414,100	(13,614)	3,568,100	19,749
820,900	(24,172)	769,900	(12,409)	840,900	(8,993)
440,000	(12,738)	440,000	(17,177)	425,000	(7,791)
95,300	922	97,700	456	96,800	1,737
255,600	6,642	289,400	31,021	320,500	(19,859)
743,309	46,426	786,805	(59,000)	733,367	38,241
$16,919,325	$234,025	$17,467,005	$(486,475)	$17,800,967	535,459
79,663	(2,732)	89,910	(10,825)	87,192	(8,538)
41,668	(4,458)	41,485	(5,342)	41,796	(3,556)
68,064	4,894	50,572	27,761	62,629	(8,003)
52,733	21,277	49,727	(1,034)	51,086	(2,879)
413,991	89,886	437,459	22,512	411,136	18,605
$17,575,444	$342,892	$18,136,158	$(453,403)	$18,454,806	$531,088
2,360,523	187,196	2,272,147	56,968	2,334,088	60,123
7,670,879	83,074	7,823,406	67,543	7,977,968	49,234
172	-	1,312	539	2,367	1,531
512,266	123,045	460,327	54.275	465,224	52,171
5,488,489	104,982	5,655.699	129,802	5,827,264	62,056
2,477,411	33,947	2,531,750	11,862	2,608,951	22,333
36,297	30,023	32,047	21,384	31,380	24,870
$18,546,037	$562,267	$18,776,688	$342,373	$19,247,242	$272,318
$(970,593)	$905,159	$(640,530)	$(111,030)	$(792,436)	803,406
699,253	13,147	745,413	25,129	864,788	2,125
(493,024)	(16,725)	(473,579)	(16,731)	(431,678)	(36,351)
$206,229	$(3,578)	$271,834	$8,398	433,110	$(34,226)
(764,364)	901,581	(368,696)	(102,632)	(359,326)	769,180
1,683,412	-	1,820,629	-	1,349,301	-
$919,048	$901,581	$1,451,933	$(102,632)	$989,975	$769,180

General Fund Revenues

Of total fiscal year 2015 tax revenue, 97.2 percent was derived from six major taxes imposed by the Commonwealth: Individual and Fiduciary Income Taxes, State Sales and Use Taxes, Corporate Income Taxes, Communications Sales and Use Taxes, Taxes on Deeds, Contracts, Wills and Suits and Taxes on Premiums of Insurance Companies.

Individual and fiduciary income taxes are the principal component of General Fund revenues. These revenues support a number of government functions, primarily education, individual and family services, public safety and general government. General Fund revenues are available for payment of debt service obligations of the Commonwealth.

Individual and Fiduciary Income Taxes: (67.2 percent of Total Taxes in fiscal year 2015) The individual and fiduciary income tax applies to income derived by resident and non-resident individuals and fiduciaries. The tax is based on a taxpayer's federal adjusted gross income with modifications, if applicable, and with deductions for personal exemptions and standard or itemized deductions. The following tax rates are applicable to net taxable income for the taxable year 2015:

PERSONAL TAX RATES

Taxable Income	Rate	Of Excess Over
$0 – $3,000	2.00%	
$3,001 – $5,000	$ 60 + 3.00%	$ 3,000
$5,001 – $17,000	$120 + 5.00%	$ 5,000
Over $17,000	$720 + 5.75%	$17,000

Source: Department of Taxation.

An individual income tax return for a taxable year must be filed by May 1 of the following year. Prepayment of the tax on most earnings is accomplished through withholdings by employers. Employers must transfer withholding taxes to the Department of Taxation quarterly, monthly or, in some cases, eight times a month. Individual income taxpayers are required to file a declaration of estimated tax for any income not subject to withholding and pay one-fourth of such estimated tax in quarterly installments.

State Sales and Use Taxes: (19.6 percent of Total Taxes in fiscal year 2015) A sales and use tax is imposed at the rate of 5.3 percent on the sale, rental, lease or storage for use or consumption of tangible personal property except food for home consumption. Food for home consumption is taxed at a rate of 2.5 percent. There are certain exclusions from the tax, including motor vehicles, aircraft and large watercraft, prescription medicines. One percent of the 5.3 percent sales tax and of the 2.5 percent sales tax on food for home consumption is distributed to localities on the basis of school age population for use in public education.

Retail sellers collect the sales and use taxes from customers at the time of sale. Sellers are required to remit collected taxes either monthly or quarterly.

Corporation Income Taxes: (4.5 percent of Total Taxes in fiscal year 2015) The Commonwealth imposes a 6 percent income tax on the net income of all corporations having income from sources in the Commonwealth, whether domestic or foreign, with the exception of insurance companies, inter-insurance exchanges, state and national banks, banking associations, companies doing business on a mutual basis, credit unions and non-profit corporations. Commonwealth taxable income is based on federal income, with modifications. If a corporation is engaged in multi-state activities, and if its income is taxable both by the Commonwealth and another state, the Commonwealth permits the corporation to apportion its taxable income (other than dividends which are allocated according to the commercial domicile of the taxpayer) according to a three factor formula comprised of property, payroll and sales.

A corporation income tax return must be filed on or before the 15th day of the 4th month following the close of the corporation's taxable year. Corporations are required to make a declaration of estimated tax directly to the Department of Taxation and pay such estimated tax in such taxable year.

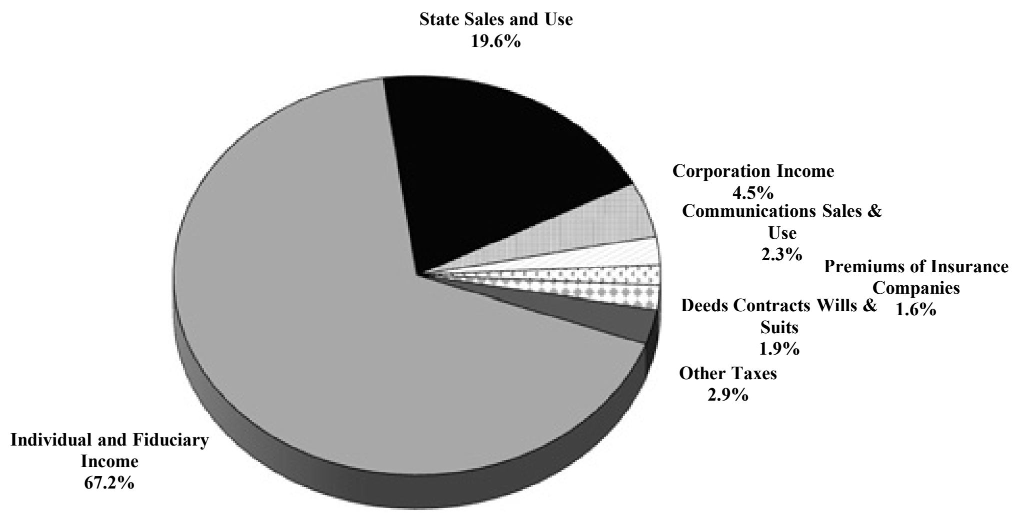
Communication Sales and Use Taxes: (2.3 percent of Total Taxes in fiscal year 2015) The Commonwealth collects communication sales and use taxes and disburses these amounts to localities.

Taxes on Deeds, Contracts, Wills and Suits: (1.9 percent of Total Taxes in fiscal year 2015) The Commonwealth taxes the admission to record of deeds, deeds of trust, mortgages, leases and contracts at the rate of 25 cents per $100 of consideration or value, whichever is greater. An additional tax is imposed on deeds or conveyances of real estate at the rate of 50 cents per $500 of consideration or value, whichever is greater ,exclusive of the value of any lien or encumbrance. A tax is also imposed on the probate of wills and grants of administration not exempt by law at the rate of 10 cents per $100 of the value of the probate estate. A tax ranging from $5 to $25 is imposed on the filing of various types of legal actions.

Taxes on Premiums of Insurance Companies: (1.6 percent of Total Taxes in fiscal year 2015) Insurance companies are required to pay an annual license tax measured by the gross premium income derived from business done in the Commonwealth. The rate of tax varies according to the type of company. Insurance companies subject to this state license tax must make a declaration of estimated tax and pay one-fourth of such estimated tax in quarterly installments.

The following pie chart summarizes general revenue fund tax revenue by source.

COMPOSITION OF GENERAL FUND TAX REVENUES BY SOURCE
Fiscal Year Ended June 30, 2015



Collection of Delinquent Tax

When the Department of Taxation determines that taxes are delinquent, the taxpayer is sent a billing notice. A second notice is sent 30 days later demanding immediate payment within 10 days. If payment is not received at the end of that time, the Department of Taxation may take legal action to obtain payment including the placement of a lien on the taxpayer's wages or bank account. If the delinquency exceeds $100, the Department of Taxation may issue a memorandum of lien against the taxpayer's property. If subsequent to these actions satisfactory payment arrangements are not made, the Department of Taxation may execute the memorandum of lien or initiate court proceedings against the taxpayer.

Penalties for late payment or nonpayment of most taxes are assessed at the rate of 6 percent per month, not to exceed 30 percent of the delinquent tax liability. Interest on late or under payments is charged at an annualized rate of interest established pursuant to Section 6621(a) (2) of the federal Internal Revenue Code, plus 2 percent.

The following table presents total outstanding collectible tax receivables for all tax types at the end of fiscal years 2011 through 2015:

OUTSTANDING COLLECTIBLE TAX RECEIVABLES

Fiscal Year Ended June 30,	Amount
2011	466,300,479
2012	489,381,022*
2013	543,912,785*
2014	552,666,423*
2015	574,351,971*

Source: Department of Taxation.
*Amount does not include non-billed or uncollectible receivables

General Fund Expenditures

General Fund expenditures relate to resources used for those services traditionally provided by a state government, which is not accounted for in any other fund. These services include general government, legislative, public safety, judicial, health and mental health, human resources, licensing and regulation, and primary and secondary education (See table on page B-6).

Education: (41.8 percent of Total Expenditures in fiscal year 2015) Expenditures for education support individuals in developing knowledge, skills and cultural awareness, including elementary and secondary education instruction, supervision and assistance.

Individual and Family Services: (30.4 percent of Total Expenditures in fiscal year 2015) Expenditures for individual and family services support programs to benefit the economic, social and physical well-being of the individual and family, including disease research, control and prevention.

Administration of Justice: (13.6 percent of Total Expenditures in fiscal year 2015) Expenditures for administration of justice relate to the activities of the civil and criminal justice systems. These activities encompass the apprehension, trial, punishment and rehabilitation of law violators, and the deterrence and detection of crime.

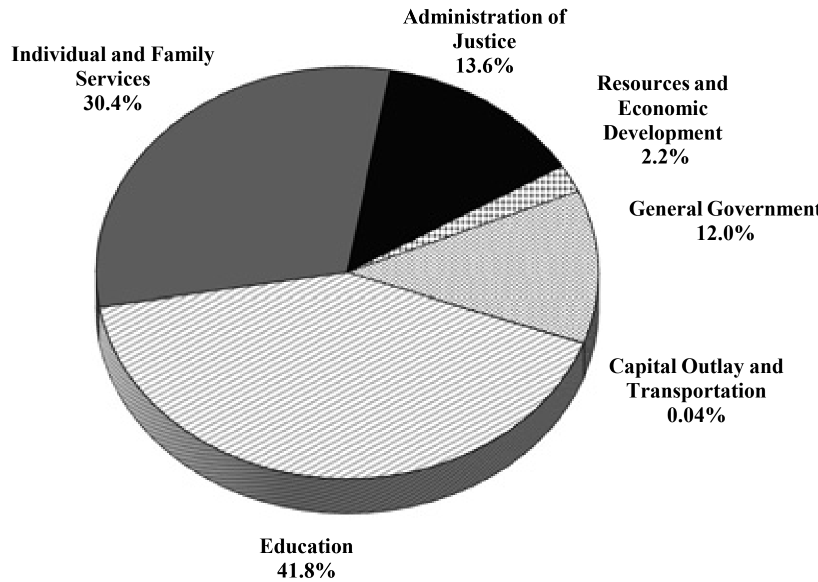
General Government: (12.0 percent of Total Expenditures in fiscal year 2015) General government expenditures support the general activities of state, regional and local levels of government. These activities include financial assistance to localities, enactment of legislative policy, intergovernmental projects, distribution of sales and use taxes to localities, and payments to localities pursuant to the Personal Property Tax Relief Act of 1998.

Resources and Economic Development: (2.2 percent of Total Expenditures in fiscal year 2015) Resources and economic development expenditures support activities to develop the Commonwealth's economic base, including alternative natural resources, and to regulate this base with regard to the public interest of the Commonwealth.

Capital Outlay & Transportation: (0.04 percent of Total Expenditures in fiscal year 2015) Expenditures for capital outlay relate to the construction and renovation of state-owned buildings and facilities. Transportation expenditures relate to the movement by road, water or air of people, goods and services, and the regulation thereof.

The following pie chart summarizes the general fund expenditures by source:

DISTRIBUTION OF GENERAL FUND EXPENDITURES BY SOURCE
Fiscal Year Ended June 30, 2015



General Fund Balance

The Commonwealth's General Fund unreserved fund balance for the last ten fiscal years is shown below:

UNRESERVED GENERAL FUND ENDING BALANCE
(in thousands)

Fiscal Year	Cash Basis	Modified Accrual Basis
2006	1,804,483	973,461
2007	1,534,573	563,367
2008	1,091,882	78,468
2009	160,986	(927,977)
2010	491,244	(1,069,071)
2011	*	*
2012	*	*
2013	*	*
2014	*	*
2015	*	*

Source: Department of Accounts.

*See 2011, 2012, 2013, 2014 and 2015 below for an explanation as to how GASB 54 has required a change in the unreserved General Fund balance classification. Refer to Fund Balances Chart as set forth on page B-6.

2011. General Fund revenues and other sources exceeded expenditures and other uses by $322.7 million in fiscal year 2011. Total revenues increased by 5.8 percent and total expenditures increased by 3.7 percent. Transfers to the General Fund decreased by 7.8 percent while transfers out decreased by 3.0 percent. Transfers to and from Component Units in fiscal year 2011 are reported as expenditures and revenues in accordance with GASB Statement No. 34. With the implementation of GASB No. 54, the previous fund equity classifications of Reserved and Unreserved have been changed to Restricted, Committed, Assigned, and Unassigned. Restricted fund balances are those that have a restriction by the *Constitution of Virginia* or from a party external to the Commonwealth. Committed fund balances represent amounts that have been legislatively mandated for a specific purpose. Assigned fund balances represent amounts the Commonwealth has identified for a specific purpose, but for which the use is not legislatively mandated. Unassigned fund balances are those that have not been restricted, committed, or assigned to specific purposes. Due to statutory requirements, any unassigned balances in the General Fund on a cash basis are automatically committed for transfer to the Transportation Trust Fund and for nonrecurring expenditures. The table on page B-6 reflects the Fund Balance as of June 30, 2011 in these classifications.

2012. General Fund revenues and other sources exceeded expenditures and other uses by $385.9 million in fiscal year 2012. Total revenues increased by 5.5 percent and total expenditures increased by 5.0 percent. Transfers to the General Fund increased by 15.2 percent while transfers out increased by 27.3 percent. Transfers to and from Component Units in fiscal year 2012 are reported as expenditures and revenues in accordance with GASB Statement No. 34. With the implementation of GASB No. 54, the fund equity classifications of Reserved and Unreserved have been changed to Restricted, Committed, Assigned, and Unassigned. Restricted fund balances are those that have a restriction by the *Constitution of Virginia* or from a party external to the Commonwealth. Committed fund balances represent amounts that have been legislatively mandated for a specific purpose. Assigned fund balances represent amounts the Commonwealth has identified for a specific purpose, but for which the use is not legislatively mandated. Unassigned fund balances are those that have not been restricted, committed, or assigned to specific purposes. Due to statutory requirements, any unassigned balances in the General Fund on a cash basis are automatically committed for transfer to the Transportation Trust Fund and for nonrecurring expenditures. The table on page B-6 reflects the Fund Balance as of June 30, 2012 in these classifications.

2013. General Fund revenues and other sources exceeded expenditures and other uses by $137.2 million in fiscal year 2013. Total revenues increased by 4.8 percent and total expenditures increased by 6.5 percent. Transfers to the General Fund decreased by 10.9 percent while transfers out decreased by 17.9 percent. Transfers to and from Component Units in fiscal year 2013 are reported as expenditures and revenues in accordance with GASB Statement No. 34. With the implementation of GASB No. 54, the fund equity classifications of Reserved and Unreserved have been changed to Restricted, Committed, Assigned, and Unassigned. Restricted fund balances are those that have a restriction by the *Constitution of Virginia* or from a party external to the Commonwealth. Committed fund balances represent amounts that have been legislatively mandated for a specific purpose. Assigned fund balances represent amounts the Commonwealth has identified for a specific purpose, but for which the use is not legislatively mandated. Unassigned fund balances are those that have not been restricted, committed, or assigned to specific purposes. Due to statutory requirements, any unassigned balances in the General Fund on a cash basis are automatically committed for transfer to the Transportation Trust Fund and for nonrecurring expenditures. The table on page B-6 reflects the Fund Balance as of June 30, 2013 in these classifications.

2014. General Fund revenues and other sources were less than expenditures and other uses by $471.3 million in fiscal year 2014. Total revenues decreased by 1.3 percent and total expenditures increased by 2.5 percent. Transfers to the General Fund increased by 8.2 percent while transfers out decreased by 3.8 percent. Transfers to and from Component Units in fiscal year 2014 are reported as expenditures and revenues in accordance with GASB Statement No. 34. With the implementation of GASB No. 54, the fund equity classifications of Reserved and Unreserved have been changed to Restricted, Committed, Assigned, and Unassigned. Restricted fund balances are those that have a restriction by the *Constitution of Virginia* or from a party external to the Commonwealth. Committed fund balances represent amounts that have been legislatively mandated for a specific purpose. Assigned fund balances represent amounts the Commonwealth has identified for a specific purpose, but for which the use is not legislatively mandated. Unassigned fund balances are those that have not been restricted, committed, or assigned to specific purposes. Due to statutory requirements, any unassigned balances in the General Fund on a cash basis are automatically committed for transfer to the Transportation Trust Fund and for nonrecurring expenditures. The table on page B-6 reflects the Fund Balance as of June 30, 2014 in these classifications.

2015. General Fund revenues and other sources exceeded expenditures and other uses by $409.9 million in fiscal year 2015. Total revenues increased by 7.4 percent and total expenditures increased by 2.9 percent. Transfers to the General Fund increased by 12.5 percent while transfers out decreased by 4.5 percent. Transfers to and from Component Units in fiscal year 2015 are reported as expenditures and revenues in accordance with GASB Statement No. 34. With the implementation of GASB No. 54, the fund equity classifications of Reserved and Unreserved have been changed to Restricted, Committed, Assigned, and Unassigned. Restricted fund balances are those that have a restriction by the *Constitution of Virginia* or from a party external to the Commonwealth. Committed fund balances represent amounts that have been legislatively mandated for a specific purpose. Assigned fund balances represent amounts the Commonwealth has identified for a specific purpose, but for which the use is not legislatively mandated. Unassigned fund balances are those that have not been restricted, committed, or assigned to specific purposes. Due to statutory requirements, any unassigned balances in the General Fund on a cash basis are automatically committed for transfer to the Transportation Trust Fund and for nonrecurring expenditures. The table on page B-6 reflects the Fund Balance as of June 30, 2015 in these classifications.

Nongeneral Fund Revenues

Nongeneral fund revenues consist of all revenues not accounted for in the General Fund. Included in this category are special taxes and user charges earmarked for specific purposes, the majority of institutional revenues and revenues from the sale of property and commodities, and receipts from the federal government.

Approximately 50 percent of the nongeneral revenues are accounted for by grants and donations from the federal government, motor vehicle taxes and institutional revenues. Institutional revenues consist primarily of fees and charges collected by institutions of higher education, medical and mental hospitals and correctional institutions. Motor vehicle related taxes include the motor vehicle fuel tax, motor vehicle sales and use tax, oil excise tax, driver's license fee, title registration fee, motor vehicle registration fee and other miscellaneous revenues.

Below is a summary of revenues and expenditures for the largest of the Commonwealth's Special Revenue Funds, the Commonwealth Transportation Fund, prepared according to generally accepted accounting principles.

COMMONWEALTH TRANSPORTATION FUND*
(in thousands)

	Fiscal Year Ended June 30,				
	2011	2012	2013	2014	2015
Total revenues	$3,849,149	$3,871,439	$4,306,638	$4,988,575	$5,422,649
Total expenditures	3,884,844	4,488,603	4,633,673	5,154,523	5,438,605
Revenues over (under) expenditures	(35,695)	(617,164)	(327,035)	(165,948)	(15,956)
Other sources (uses) net	461,147	929,228	1,508	27,722	15,828
Revenue and other sources (uses) over (under) expenditures	425,452	312,064	(325,527)	(138,226)	(128)
Beginning fund balance (adjusted)	2,009,078	2,434,530	2,739,308	2,402,970	2,271.235
Ending fund balance	$2,434,530	$2,746,594	$2,413,781	$2,264,744	$2,271,107

Notes: Included in the Commonwealth Transportation Fund (formerly Highway Maintenance and Construction Fund) is the activity of the Highway Maintenance and Operating Fund and the Transportation Trust Fund. The Transportation Trust Fund was created in September 1986 during a special session of the Virginia General Assembly.

Source: Reports of the Comptroller, 2011-2015

2015 Appropriation Act

On December 17, 2014, Governor McAuliffe presented his proposed amendments to Chapter 3 of the 2014 Acts of Assembly, Special Session I, affecting the remainder of the 2014-2016 biennium (House Bill 1400/Senate Bill 800) (the "2015 Budget Bill").

The Governor's budget amendments addressed general fund savings requirements included in Chapter 3 by either moving the savings to agency budgets for items such as Medicaid and higher education savings or by identifying within the existing reversion clearing account, the ultimate source of the savings to be captured from agency appropriations. In addition, some savings amounts were reflected in revenue, additions to balance, and nongeneral fund cash transfers to the general fund. Chapter 3 required approximately $882 million in savings and balances to be collected from agencies. The Governor's amendments increased the overall savings amount by $72.5 million to $954.7 million.

The Governor's spending amendments focused on six major themes; 1) Invest in opportunities to grow a new economy, 2) No reductions in public education and begin increasing support for core needs, 3) Protect investments in higher education with no new cuts and small increases in key areas, 4) Provide adequate funding for core Health and Human Resource services, 5) Support priority needs in public safety and for veterans, and 6) Protect transportation funding.

The 2015 Budget Bill was considered by the 2015 Session of the General Assembly which convened on January 14, 2015. The General Assembly adjourned on February 27, 2015 offering their recommendations on amendments to the 2015 Budget Bill.

On March 26, 2015, Governor McAuliffe signed House Bill 1400 with no amendments or vetoes. The 2015 Budget Bill, also known as Chapter 665, 2015 Virginia Acts of Assembly (the "2015Appropriation Act") became effective upon signing by the Governor on March 26, 2015.

The 2015 Appropriation Act included: compensation increases for state employees and state supported local employees to include teachers; general fund investments in capital outlay projects and maintenance reserve; continued commitment to funding the full board-approved Virginia Retirement System contribution rates; funding for a new behavioral health program in Medicaid for individuals with mental illness and other coverage changes; support for higher education operations, enrollment growth, financial aid, research, and faculty salary increases; investments in water quality and land conservation efforts; additional funding for the Commonwealth's Development Opportunity Fund to support employer recruitment and job growth; and an added $129.5 million dedicated toward required deposits to the revenue stabilization fund.

The 2015 Appropriation Act assumed a general fund balance at the end of the biennium of $5.1 million.

The table on the following page summarizes the 2015 Appropriation Act.

2015 Appropriation Act
(Chapter 665, 2015 Acts of Assembly)

	FY 2015	FY 2016	Total
GENERAL FUND			
Revenue			
Unrestricted Balance June 30, 2014	$405,810,000	$0	$405,810,000
Additions to balance	(219,394,360)	1,900,446	(217,493,914)
Official revenue estimate	17,186,022,255	17,720,628,857	34,906,651,112
Revenue Stabilization Fund	470,000,000	235,000,000	705,000,000
Transfers	644,994,561	564,512,975	1,209,507,536
Total general fund resources available for appropriation	$18,487,432,456	$18,522,042,278	$37,009,474,734
Appropriations			
Legislative	$76,040,249	$74,837,052	$150,877,301
Judicial	452,612,774	455,425,634	900,970,281
Executive	17,710,185,367	18,091,284,346	35,801,469,713
Independent Agencies	1,200,133	1,200,446	2,400,579
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	18,240,038,523	18,622,747,478	36,862,786,001
Capital Outlay	200,000	141,418,476	141,618,476
Total appropriations	$18,240,238,523	$18,764,165,954	$37,004,404,477
NONGENERAL FUNDS			
Revenue			
Balance June 30, 2014	$4,945,503,350	$0	$4,945,503,350
Official revenue estimate	25,734,466,497	26,305,964,356	52,040,430,853
Lottery Proceeds Fund	557,555,450	531,667,925	1,089,223,375
Internal Service Fund	1,771,892,976	1,801,509,481	3,573,402,457
Bond proceeds	792,874,586	248,608,000	1,041,482,586
Total nongeneral fund revenue available for appropriation	$33,802,292,859	$28,887,749,762	$62,690,042,621
Appropriations			
Legislative	$3,771,599	$3,007,990	$6,779,589
Judicial	34,167,869	34,258,099	68,425,968
Executive Department	28,218,207,791	29,340,788,981	57,558,996,772
Independent Agencies	483,381,406	512,254,210	995,635,616
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	28,739,528,665	29,890,309,280	58,629,837,945
Capital Outlay	941,084,442	388,830,960	1,329,915,402
Total appropriations	$29,680,613,107	$30,279,140,240	$59,959,753,347

Source: Department of Planning and Budget.

2016 Amendments to the 2015 Appropriation Act

On December 17, 2015 Governor McAuliffe presented amendments to the 2015 Appropriation Act affecting appropriations for the remainder of the 2014-2016 biennium (House Bill 29/Senate Bill 29). 33 individual amendments increase general fund spending by $238.4 million and 14 individual amendments decrease spending by $69.1 for a net operating spending increase of $169.2 million for the remainder of fiscal year 2016. The Governor's amendments also included an additional $1.5 million in general fund capital outlay appropriation.

The amendments that result in general fund appropriation reductions are technical in nature and include items such as capturing savings from revised K12 student enrollment projections, updating Lottery proceeds for public education, and recognizing debt management savings.

Increases in general fund appropriation in the Governor's amendments are primarily a result of workload, caseload, or inflationary changes and include items such as Medicaid utilization and inflation, Children's Services Act expenditure and caseload growth, per diem payments to local and regional jails, rebasing intellectual disability training center budgets to reflect anticipated closures, and funding for required Social Services eligibility system operating cost.

The 2016 amendments to the 2015 Appropriation Act assume a general fund balance at the end of the biennium of $426 million.

The table on the following page summarizes House Bill 29/Senate Bill 29.

2016 Amendments to the 2015 Appropriation Act
(House Bill 29/Senate Bill 29)

	FY 2015	FY 2016	Total
GENERAL FUND			
Revenue			
Unrestricted Balance June 30, 2014	$835,153,067	$0	$835,153,067
Additions to balance	(219,394,360)	(428,442,862)	(647,837,221)
Official revenue estimate	17,186,022,255	18,308,867,069	35,494,889,324
Revenue Stabilization Fund	470,000,000	235,000,000	705,000,000
Transfers	644,994,561	568,916,613	1,213,911,174
Total general fund resources available for appropriation	$18,916,775,523	$18,684,340,820	$37,601,116,343
Appropriations			
Legislative	$76,040,249	$74,837,052	$150,877,301
Judicial	452,612,774	455,968,723	908,581,497
Executive	17,710,185,367	18,260,866,340	35,971,051,707
Independent Agencies	1,200,133	325,151	1,525,284
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	18,240,038,523	18,791,997,266	37,032,035,789
Capital Outlay	200,000	142,918,476	143,118,476
Total appropriations	$18,240,238,523	$18,934,915,742	$37,175,154,265
NONGENERAL FUNDS			
Revenue			
Balance June 30, 2014	$4,945,503,350	0	$4,945,503,350
Official revenue estimate	25,734,466,497	26,466,290,694	52,200,757,191
Lottery Proceeds Fund	557,555,450	538,955,547	1,096,510,997
Internal Service Fund	1,771,892,976	1,908,509,481	3,680,402,457
Bond proceeds	792,874,586	248,608,000	1,041,482,586
Total nongeneral fund revenue available for appropriation	$33,802,292,859	$29,162,363,722	$62,964,656,581
Appropriations			
Legislative	$3,771,599	$3,007,990	$6,779,589
Judicial	34,167,869	34,326,827	68,494,696
Executive Department	28,218,207,791	30,029,982,189	58,248,189,980
Independent Agencies	483,381,406	517,734,510	1,001,115,916
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	28,739,528,665	30,585,051,516	59,324,580,181
Capital Outlay	941,084,442	388,830,960	1,329,915,402
Total appropriations	$29,680,613,107	$30,973,882,476	$60,654,495,583

Source: Department of Planning and Budget.

2016 Budget Bill

On December 17, 2016, Governor McAuliffe presented the Budget Bill for the 2016-2018 biennium that begins July 1, 2016 (House Bill/Senate Bill 30) (the “2016 Budget Bill”). The 2016 Budget Bill focuses on building the New Virginia Economy and was developed with the following core objectives:

- Investing in the Future
- Creating 21st Century Jobs
- Creating healthier communities
- Creating stronger, safer communities
- Maintaining prudent and sound government

The proposed 2016 Budget Bill appropriates over $109 billion from all fund sources for total state government operations, and leaves an unappropriated general fund balance on June 30, 2018 of $17.6 million.

The 2016 Budget Bill provides an additional $605.6 million to the Revenue Stabilization Fund in fiscal year 2017. With this deposit, the Revenue Stabilization Fund will reach an expected balance of over $845 million. The top ten general fund spending changes included in the Governor’s introduced budget are as follows:

• Medicaid utilization and inflation increase	$789.1 million
• Revenue Stabilization Fund deposit	$605.6 million
• Update costs of the K12 Standards of Quality (SOQ)	$398.1 million
• Add instructional positions in local schools	$139.1 million
• Increased funding for the state employee health insurance program	$137.3 million
• Provide debt service for projects and equipment	$107.8 million
• Update sales tax revenues for public education	$84.6 million
• Increase salaries for public school positions	$83.2 million
• Two percent salary increase for state employees and state supported local employees	$76.2 million
• Deposit funding to the Water Quality Improvement Fund and Virginia Natural Resources Commitment Fund (from the Fiscal Year 2015 surplus)	$61.7 million

The proposed amendments to the 2015 Appropriation Act and the proposed 2016 Budget Bill will be considered by the 2016 Session of the Virginia General Assembly, which convened on January 13, 2016, and is scheduled to conclude on March 12, 2016.

The table on the following page summarizes the 2016 Budget (House Bill 30/Senate Bill 30).

2016 Budget Bill
(House Bill 30/Senate Bill 30)

	FY 2017	FY 2018	Total
GENERAL FUND			
Revenue			
Unrestricted Balance June 30, 2014	425,962,078	0	425,962,078
Additions to balance	666,780,000	(500,000)	666,280,000
Official revenue estimate	18,860,331,274	19,551,431,954	38,411,763,228
Transfers	570,077,738	584,177,738	1,154,255,476
Total general fund resources available for appropriation	$20,523,151,090	$20,135,109,692	$40,658,260,782
Appropriations			
Legislative	$78,764,684	$78,768,294	$157,532,978
Judicial	480,401,002	480,044,797	960,445,799
Executive	19,732,365,761	19,638,531,884	39,370,897,645
Independent Agencies	233,841	251,292	485,133
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	20,291,765,288	20,197,596,267	40,489,361,555
Capital Outlay	52,900,000	98,400,000	151,300,000
Total appropriations	$20,344,665,288	$20,295,996,267	$40,640,661,555
NONGENERAL FUNDS			
Revenue			
Balance June 30, 2014	$4,728,561,193	$0	$4,728,561,193
Official revenue estimate	27,689,148,337	29,728,697,761	57,417,846,098
Lottery Proceeds Fund	541,231,250	541,231,250	1,082,462,500
Internal Service Fund	2,026,622,884	2,124,095,360	4,150,718,244
Bond proceeds	2,436,696,000	50,000,000	2,486,696,000
Total nongeneral fund revenue available for appropriation	$37,422,259,664	$32,444,024,371	$69,866,284,035
Appropriations			
Legislative	$3,189,351	$3,189,532	$6,378,883
Judicial	33,152,496	33,155,404	66,307,900
Executive Department	31,414,200,805	33,175,690,609	64,589,891,414
Independent Agencies	564,443,656	594,950,578	1,159,394,234
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	32,014,986,308	33,806,986,123	65,821,972,431
Capital Outlay	2,666,595,700	101,246,000	2,767,841,700
Total appropriations	$34,681,582,008	$33,908,232,123	$68,589,814,131

Source: Department of Planning and Budget.

INDEBTEDNESS OF THE COMMONWEALTH

Section 9 of Article X of the Constitution of Virginia provides for the issuance of debt by or on behalf of the Commonwealth. Sections 9(a), (b) and (c) provide for the issuance of debt to which the Commonwealth's full faith and credit is pledged and Section 9(d) provides for the issuance of debt not secured by the full faith and credit of the Commonwealth, but which may be supported by and paid from Commonwealth tax collections subject to appropriations by the General Assembly. The Commonwealth may also enter into leases and contracts that are classified on its financial statements as long-term indebtedness. Certain authorities and institutions of the Commonwealth may also issue debt. This section discusses the provisions for and limitations on the issuance of general obligation debt and other types of debt of the Commonwealth and its authorities and institutions.

Section 9(a) Debt

Section 9(a) of Article X provides that the General Assembly may contract general obligation debt: (1) to meet certain types of emergencies, (2) to meet casual deficits in the revenue or in anticipation of the collection of revenues of the Commonwealth and (3) to redeem a previous debt obligation of the Commonwealth. Total indebtedness issued pursuant to Section 9(a) (2) shall not exceed 30 percent of an amount equal to 1.15 times the annual tax revenues derived from taxes on income and retail sales, as certified by the Auditor of Public Accounts, for the preceding fiscal year.

Section 9(b) Debt

Section 9(b) of Article X provides that the General Assembly may authorize the creation of general obligation debt for capital projects. Such debt is required to be authorized by an affirmative vote of a majority of the members elected to each house of the General Assembly and approved in a statewide referendum. The outstanding amount of such debt is limited in the aggregate to an amount equal to 1.15 times the average annual tax revenues derived from taxes on income and retail sales, as certified by the Auditor of Public Accounts, for the three immediately preceding fiscal years ("9(b) Debt Limit"). Thus, the amount of such debt that can be issued is the 9(b) Debt Limit less the total amount of such debt outstanding ("Debt Margin"). There is an additional 9(b) debt restriction on the amount of such debt that the General Assembly may authorize in any year. The additional authorization restriction is limited to 25% of the 9(b) Debt Limit less any 9(b) debt authorized in the current and prior three fiscal years.

The phrase "taxes on income and retail sales" is not defined in the Constitution or by statute. The record made in the process of adopting the Constitution, however, suggests an intention to include only income taxes payable by individuals, fiduciaries and corporations and the state sales and use tax.

Section 9(c) Debt

Section 9(c) of Article X provides that the General Assembly may authorize the creation of general obligation debt for revenue producing capital projects for executive branch agencies and institutions of higher learning. Such debt is required to be authorized by an affirmative vote of two-thirds of the members elected to each house of the General Assembly and approved by the Governor. The Governor must certify before the enactment of the bond legislation and again before the issuance of the bonds that the net revenues pledged are expected to be sufficient to pay principal and interest on the bonds issued to finance the projects.

The outstanding amount of Section 9(c) debt is limited in the aggregate to an amount equal to 1.15 times the average annual tax revenues derived from taxes on income and retail sales, as certified by the Auditor of Public Accounts, for the three immediately preceding fiscal years ("9(c) Debt Limit"). While the debt limits under Sections 9(b) and 9(c) are each calculated as the same percentage of the same average tax revenues, these debt limits are separately computed and apply separately to each type of debt.

Effect of Refunding Debt

In general, when the Commonwealth issues bonds to refund outstanding bonds issued pursuant to Section 9(b) or 9(c) of Article X of the Constitution, the refunded bonds are considered paid for purposes of the constitutional limitations upon debt incurrence and issuance and the refunding bonds are counted in the computations of such limitations. Section 9(a) (3) provides that in the case of the refunding of debt incurred in accordance with Section 9(c) of Article X, the debt evidenced by the refunding bonds will be counted against the 9(c) Debt Limit unless the Governor does not provide the net revenue sufficiency certification, in which case the debt evidenced by the refunding bonds will be counted against the 9(b) Debt Limit.

General Obligation Debt Limit and Debt Margin

Using individual and fiduciary income, corporate income and the state sales and use tax revenues, as of June 30, 2015, the debt limits pursuant to Article X, Section 9 of the Constitution of Virginia are as follows:

COMPUTATION OF LEGAL DEBT LIMIT AND DEBT MARGIN *

(in thousands)

	Fiscal Year Ended June 30,		
Taxes	**2013**	**2014**	**2015**
Individual and Fiduciary Income [1]	$11,339,966	$11,253,348	$12,328,675
Corporation Income [2]	796,728	757,491	831,907
State Sales and Use [3]	3,419,489	3,399,223	3,587,849
Total	$15,556,183	$15,410,062	$16,748,431
Average tax revenues for the three fiscal years			$15,904,892
Section 9(a)(2) General Obligation Debt Issuance Limit and Margin [4]:			
Debt Issuance Limit:			
30% of 1.15 times annual tax revenues for fiscal year 2015*			$5,778,209
Less 9(a)(2) Bonds Outstanding:			0
Debt Issuance Margin for Section 9(a)(2) General Obligation Bonds			$5,778,209
Section 9(b) General Obligation Debt Issuance Limit and Margin:			
Debt Issuance Limit:			
1.15 times the average tax revenues for three fiscal years as calculated above			$18,290,626
Less 9(b) Bonds Outstanding at June 30, 2015*:			
Public Facilities Bonds [6]		$642,181	
Transportation Facilities Refunding Bonds [5][6]		0	
Bond Anticipation Notes		0	
Total 9(b) Bonds Outstanding at June 30, 2015*			642,181
Debt Issuance Margin for Section 9(b) General Obligation Bonds			$17,648,445
Debt Authorization Limit:			
25% of 1.15 times average tax revenues for three fiscal years as calculated above			$4,572,656
Less 9(b) debt authorized during the three prior fiscal years			0
Maximum additional 9(b) debt that may be authorized by the General Assembly (subject to referendum):			4,572,656
Section 9(c) General Obligation Debt Issuance Limit and Margin:			
Debt Issuance Limit:			
1.15 times the average tax revenues for three fiscal years as calculated above			$18,290,626
Less 9(c) Bonds Outstanding at June 30, 2015*:			
Parking Facilities [6]		$16,036	
Transportation Facilities [6]		17,154	
Higher Educational Institutions [6]		936,894	
Bond Anticipation Notes		0	
Total 9(c) Bonds Outstanding at June 30, 2015*			970,084
Debt Issuance Margin for Section 9(c) General Obligation Bonds			$17,320,542

Sources: Department of Accounts and Department of the Treasury.

[1] Includes taxes imposed pursuant to Articles 2 and 9 of Chapter 3, Title 58.1 of the Code of Virginia.

[2] Includes taxes imposed pursuant to Article 10 of Chapter 3, Title 58.1 of the Code of Virginia.

[3] Includes taxes imposed pursuant to Chapter 6, Title 58.1 of the Code of Virginia, less taxes identified in Sections 58.1-605 and 58.1-638.

[4] Debt limit applies only to debt authorized pursuant to Article X, Section 9(a)(2) of the Constitution of Virginia.

[5] These bonds refunded certain Section 9(c) debt and because the Governor did not certify the feasibility of the refinanced project, it must be applied against the Section 9(b) Debt Limit.

[6] Net of unamortized discounts, premiums.

Tax-Supported Debt – General Obligation

Tax-supported debt of the Commonwealth includes both general obligation debt and debt of agencies, institutions, boards and authorities for which debt service is expected to be made in whole or in part from appropriations of tax revenues.

Outstanding Section 9(b) debt as of June 30, 2015 includes the unamortized portion of $642.2 million of general obligation bonds. In November 1992, $613.0 million in general obligation bonds were authorized and approved by the voters. In November 2002, $1.0 billion in general obligation bonds were authorized and approved by the voters. Various series of refunding bonds were issued to refund certain series of bonds. Outstanding Section 9(c) debt as of June 30, 2015 includes various series of Higher Educational Institutions Bonds (including refunding bonds) issued from 2005 to 2015, one series of Transportation Facilities Bonds issued in 2006, and two series of Parking Facilities Bonds (including refunding bonds) issued between 2009 and 2012. Outstanding general obligation debt does not include 9(b) and 9(c) advance refunded bonds for which funds have been deposited in irrevocable escrow accounts in amounts sufficient to meet all required future debt service.

Other Tax-Supported Debt

Section 9(d) of Article X provides that the restrictions of Section 9 are not applicable to any obligation incurred by the Commonwealth or any of its institutions, agencies or authorities if the full faith and credit of the Commonwealth is not pledged or committed to the payment of such obligation.

There are currently outstanding various types of 9(d) revenue bonds issued by authorities, political subdivisions and agencies to which the Commonwealth's full faith and credit is not pledged. Certain of these bonds, however, are paid in part or in whole from revenues received as appropriations by the General Assembly from general tax revenues, while others are paid solely from revenues derived from enterprises related to the operation of the financed capital projects or other non-general fund revenues.

The debt repayments of the Virginia Public Building Authority, the Virginia College Building Authority 21st Century College and Equipment Programs, the Virginia Biotechnology Research Partnership Authority and several other long-term capital leases or notes have been supported all or in large part by General Fund appropriations.

The Commonwealth Transportation Board ("CTB") has issued various series of bonds authorized under the State Revenue Bond Act. These bonds are secured by and payable from funds appropriated by the General Assembly from the Transportation Trust Fund. The Transportation Trust Fund was established by the General Assembly in 1986 as a special non-reverting fund administered and allocated by the Transportation Board for the purpose of increased funding for construction, capital and other needs of state highways, airports, mass transportation and ports. As of June 30, 2015, $2.5 billion (unadjusted) in CTB Tax-Support bonds were outstanding. During 2007, the CTB was authorized by the General Assembly to issue up to $3.0 billion in Capital Projects Revenue Bonds, with an additional $180 million authorized in 2008. As of June 30, 2015, $2.0 billion had been issued under this authorization.

The Virginia Port Authority ("VPA") issues bonds secured by its share of the Transportation Trust Fund. As of June 30, 2015, $272.5 million of Commonwealth Port Fund Revenue Bonds were outstanding. In 2008, the Authority was authorized to issue an additional $155 million in Commonwealth Port Fund Revenue Bonds. While $30 million of that amount was rescinded during 2011, an additional $66.8 million was authorized and issued in 2015.

Leases and Contracts

Capital Leases. The Commonwealth is involved in numerous agreements to lease buildings, energy efficiency projects and equipment. For a detailed description, see "Notes to the Financial Statements" included in the Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015. These lease agreements are for various terms, and each lease contains a nonappropriation clause indicating that continuation of the lease is subject to funding by the General Assembly. The principal balance of all tax-supported capital leases outstanding was $135.4 million as of June 30, 2015.

Installment Purchases. The Commonwealth also finances the acquisition of certain personal property and equipment through installment purchase agreements. The length of the agreements and the interest rates charged vary. In most cases, the agreements are collateralized by the personal property and equipment acquired. Installment purchase agreements contain nonappropriation clauses indicating that continuation of the installment purchase is subject to funding by the General Assembly. The principal balance of tax-supported installment purchase obligations outstanding was $177.2 million as of June 30, 2015.

Outstanding Tax-Supported Debt

The following table summarizes for the past five fiscal years the outstanding indebtedness of the Commonwealth, its agencies, institutions and authorities for which appropriated tax revenues are required to pay debt service. In certain instances, debt service may be paid with or payable from other non-tax sources (e.g., toll revenues, port revenues and user fees), but the underlying security remains the appropriation of tax revenues by the Commonwealth.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

OUTSTANDING TAX-SUPPORTED DEBT
(in thousands)

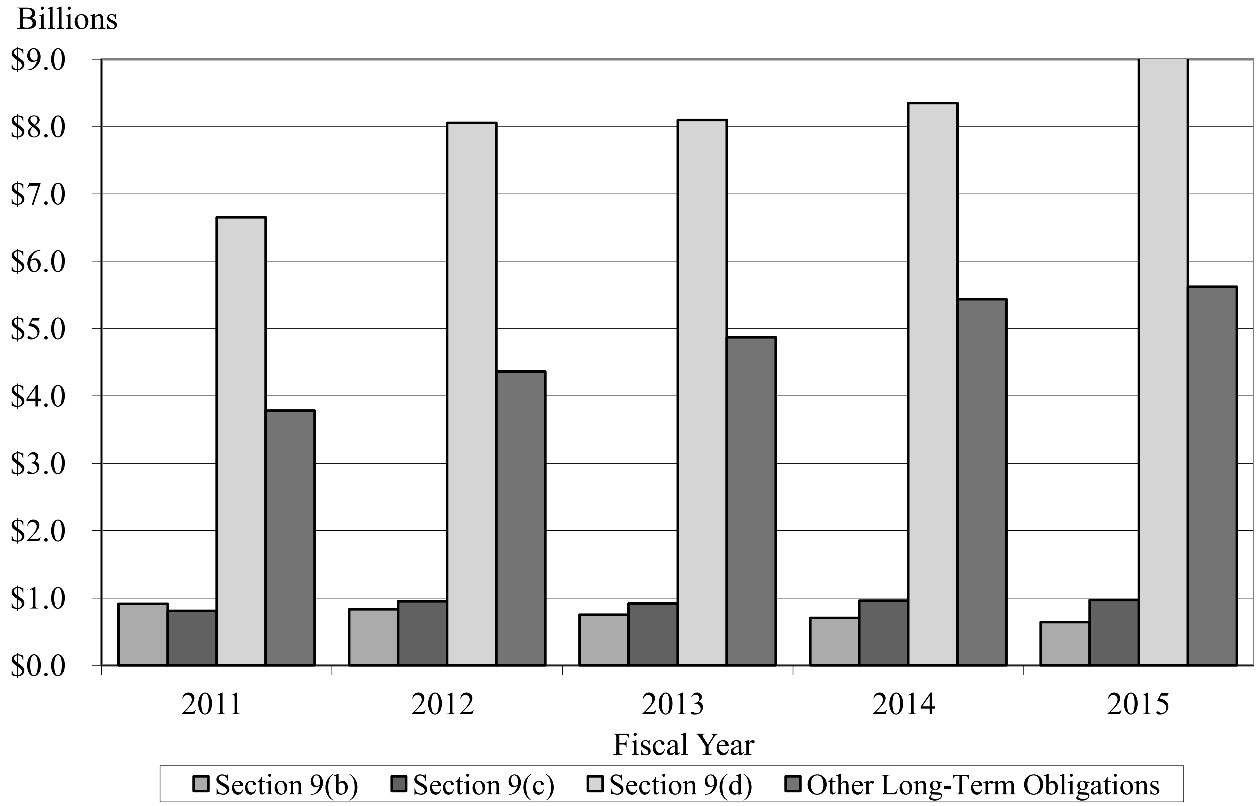
	2011	2012	2013	2014	2015
General Obligation Debt:					
Section 9(a)					
Section 9(b) [1]	$914,574	$831,148	$752,493	$706,192	$642,181
Section 9(c)					
Higher Educational Institutions [1]	$765,280	$906,474	$877,858	$925,086	$936,857
Transportation Facilities [1]	$26,355	$24,210	$21,961	$19,632	$17,154
Parking Facilities [1]	$19,445	$18,383	$17,538	$17,045	$16,036
Sub-Total 9(c)	$811,080	$949,067	$917,357	$961,763	$970,047
Total General Obligation Debt	$1,725,654	$1,780,215	$1,669,850	$1,667,955	$1,612,228
Section 9(d) Debt:					
Transportation [1]	2,008,601	2,655,481	2,495,312	2,373,382	2.552,123 [2]
Virginia Public Building Authority [1]	2,418,513	2,566,789	2,534,347	2,374,835	2,623,447
Virginia Port Authority [1]	186,011	237,321	228,619	222,044	288,446
Virginia College Building Authority 21st Century/Equipment [1]	1,909,586	2,470,589	2,725,259	3,286,119	3,520,214
Innovative Technology Authority	3,465	2,375	1,220	-	-
Virginia Biotechnology Research Partnership Authority [1]	39,955	37,162	35,284	34,355	30,619
Virginia Aviation Board	1,336	1,050	764	529	307
Fairfax County Economic Development Authority [1]	85,827	81,747	77,472	57,621	51,249
Total Section 9(d) Debt	6,653,294	8,052,514	8,098,277	8,348,885	9,066,405
Other Long-Term Obligations:					
Transportation Notes Payable	8,000	8,000	8,000	-	-
Capital Leases	206,738	168,566	157,466	143,105	135,404
Installment Purchase Obligations	219,291	215,120	192,682	190,462	177,185
Compensated Absences	559,672	569,021	582,774	601,757	599,726
Regional Jail Financing Program	4,617	2,748	837	-	-
Net Pension Liability	2,050,195	2,446,240	2,799,523	3,181,441	6,629,296
OPEB Liability	643,837	877,630	1,076,157	1,270,479	1,484,680
Other Liabilities and Notes Payable	90,039	73,457	53,419	49,818	45,109
Total Other Long-Term Obligations	3,782,389	4,360,782	4,870,858	5,437,062	9,071,400
Total Tax-Supported Debt [2]	12,161,337	$14,193,511	$14,638,985	$15,453,902	$19,750,033

Source: Department of the Treasury; Department of Accounts.

[1] Net of unamortized discounts/premiums and/or deferral on debt defeasance through June 30, 2013. In accordance with GASB 65, balances as of June 30, 2014 and 2015 are net of unamortized discounts/premiums.

[2] Numbers may not add to totals due to rounding.

OUTSTANDING TAX-SUPPORTED DEBT
As of June 30, 2011-2015



Outstanding Tax-Supported Debt Service

The following table summarizes annual debt service on outstanding tax-supported debt as of June 30, 2015. The table does not include debt service requirements for capital lease and installment purchase obligations payable from the General Fund of the Commonwealth.

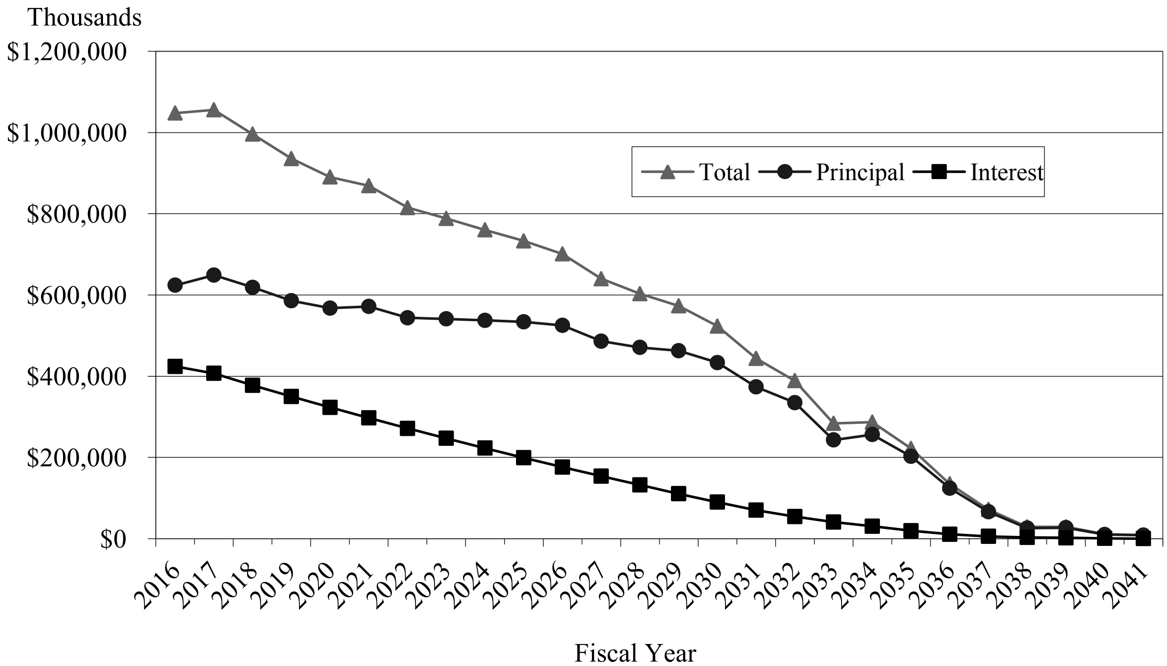
ANNUAL DEBT SERVICE REQUIREMENTS
Tax-Supported Debt Outstanding at June 30, 2015
($ in thousands)

Fiscal Year Ending June 30	General Obligation Debt Sections 9(a), 9(b) and 9(c)			Other Tax-Supported Debt Section 9(d) [1]			Total		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2016	115,690	64,853	180,543	508,312	359,028	867,340	624,002	423,881	1,047,883
2017	108,735	59,583	168,318	540,059	347,443	887,502	648,794	407,026	1,055,820
2018	101,990	54,467	156,457	516,540	322,974	839,514	618,530	377,441	995,971
2019	101,445	49,855	151,300	484,296	300,014	784,310	585,740	349,869	935,610
2020	101,385	45,200	146,585	466,073	277,792	743,865	567,458	322,992	890,450
2021	103,520	40,590	144,110	468,211	256,633	724,844	571,731	297,223	868,954
2022	98,740	35,804	134,544	444,940	234,445	680,385	543,680	271,249	814,929
2023	99,145	31,295	130,440	441,995	215,830	657,826	541,140	247,125	788,266
2024	98,770	26,819	125,589	438,516	196,200	634,716	537,286	223,019	760,305
2025	90,545	22,366	112,911	443,164	176,884	620,048	553,709	199,250	732,959
2026	85,160	18,460	103,620	439,919	157,550	597,469	525,079	176,010	701,089
2027	76,825	14,777	91,602	409,206	138,990	548,196	486,031	153,767	639,798
2028	61,410	11,316	72,726	409,420	120,853	530,273	470,830	132,169	602,999
2029	47,000	8,569	55,569	415,550	102,052	517,602	462,550	110,620	573,171
2030	37,290	6,567	43,857	395,985	83,394	479,379	433,275	89,961	523,236
2031	32,890	5,029	37,919	340,715	65,076	405,791	373,605	70,105	443,710
2032	22,855	3,699	26,554	311,845	50,556	362,401	334,700	54,255	388,955
2033	22,440	2,794	25,234	220,655	37,960	258,615	243,095	40,754	283,849
2034	20,080	1,896	21,976	236,310	28,498	264,808	256,390	30,394	286,784
2035	12,805	1,061	13,866	189,835	18,264	208,099	202,640	19,325	221,965
2036	5,210	545	5,755	118,925	10,120	129,045	124,135	10,665	134,800
2037	1,895	328	2,223	64,180	5,402	69,582	66,075	5,730	71,805
2038	1,675	244	1,919	24,270	2,789	27,059	25,945	3,033	28,978
2039	1,730	165	1,895	25,315	1,734	27,049	27,045	1,899	28,994
2040	1,785	84	1,869	8,180	634	8,814	9,965	718	10,683
2041	0	0	0	8,590	215	8, 805	8,590	215	8,805
Subtotal	1,451,015	506,366	1,957,381	8,371,006	3,512,330	11,883,337	9,822,022	4,018,696	13,840,718
Add Unamortized Premium & Accretion on Capital Appreciation				23,139		23,139	23,139		23,139
Bonds	161,213	-	161,213	672,354	-	672,354	833,567	-	833,567
Less Unamortized Discount	-	-	-	(96)	-	-(96)-	(96)	-	(96)
TOTAL	$1,612,228	$506,366	$594	$9,066,404	3,512,330	$12,578,734	$10,678,632	$4,018,696	$14,697,328

Source: Department of the Treasury; Department of Accounts.

[1] Net of unamortized discounts/premiums and/or deferral on debt defeasance through June 30, 2013. In accordance with GASB 65 balances as of June 30, 2014 and 2015 are net of unamortized discounts/premiums.
[2] Numbers may not add to totals due to rounding.

ANNUAL DEBT SERVICE REQUIREMENTS
TAX-SUPPORTED DEBT OUTSTANDING AT JUNE 30, 2015
(in thousands)



RATIOS OF OUTSTANDING TAX-SUPPORTED DEBT TO POPULATION AND PERSONAL INCOME

Fiscal Year	Population [1]	Personal Income [2][3] (000's)	Outstanding Debt (000's)	Tax-Supported Debt/Capita	Debt/Income
2010	8,001,024	$354,127,225	$10,594,411	1,324.13	3.0%
2011	8,096,604	373,311,727	12,161,337	1,502.03	3.3%
2012	8,186,628	396,005,223	14,193,511	1,733.74	3.6%
2013	8,260,405	402,881,000	14,638,985	1,722.19	3.6%
2014	8,326,289	419,184,911	15,453,902	1,856.04	3.8%

Source: [1] U.S. Census Bureau. 2015 population and personal income data is not yet available.
[2] U.S. Department of Commerce, Bureau of Economic Analysis.
[3] 2013 and 2014 personal income and population data are revised estimates as of September2015.

Authorized and Unissued Tax-Supported Debt

As of June 30, 2015, the following tax-supported debt had been authorized by the General Assembly and remained unissued:

(in thousands)

Section 9(b) Debt:		
Higher Educational Institutions Bonds	$	-
Park and Recreational Facilities Bonds		-
Subtotal 9(b) Debt:	$	-
Section 9(c) Debt:		
Higher Educational Institutions Bonds	$	667,562
Parking Facility Bonds		226
Subtotal 9(c) Debt:	$	667,788
Section 9(d) Debt:		
Transportation Capital Projects Revenue Bonds	$	1,187,335
Northern Virginia Transportation District Program		24,700
U.S. Route 58 Corridor Development Program		595,700
Virginia Public Building Authority -- Projects		688,763
Virginia Public Building Authority -- Jails		84,299
Virginia College Building Authority -- 21st Century Projects		1,005,656
Virginia College Building Authority -- 21st Century Equipment		138,436
Virginia Port Authority		-
Subtotal 9(d) Debt:	$	3,724,889
Total	$	4,392,677

Source: Department of the Treasury; Department of Accounts.

Moral Obligation Debt

The Virginia Housing Development Authority, the Virginia Resources Authority and the Virginia Public School Authority are authorized to issue bonds secured in part by a moral obligation pledge of the Commonwealth. All three are designed to be self-supporting from their individual loan programs. The Commonwealth may fund deficiencies that may occur in debt service reserves for moral obligation debt. By the terms of the applicable statutes, the Governor is obligated to include in his annual budget submitted to the General Assembly the amount necessary to restore any such reported deficiency, but the General Assembly is not legally required to make any appropriation for such purpose. Neither the Virginia Housing Development Authority nor the Virginia Public School Authority have bonds outstanding that are secured by the moral obligation pledge. To date, the Virginia Resources Authority has not reported to the Commonwealth that any such reserve deficiencies exist. The table below summarizes the Commonwealth's outstanding moral obligation indebtedness for the past five fiscal years.

OUTSTANDING MORAL OBLIGATION DEBT
(in thousands)

	Fiscal Year Ended June 30,				
	2011	2012	2013	2014	2015
Virginia Resources Authority [1]	$684,005	$801,384	$836,656	$831,165	$877,875
Total	$684,005	$801,384	$836,656	$831,165	$877,875

[1] Net of unamortized discounts and premiums costs.

Source: Department of the Treasury, Department of Accounts

Other Debt

There are several authorities and institutions of the Commonwealth that issue debt for which debt service is not paid through appropriations of state tax revenues and for which there is no moral obligation pledge to consider funding debt service or reserve fund deficiencies. A portion of the debt shown is additionally secured by a biennial contingent appropriation in the event available funds are less than the amount required to pay debt service. The following table summarizes for the past five fiscal years outstanding indebtedness of authorities and institutions whose debt falls into these categories.

OUTSTANDING OTHER DEBT*
(in thousands)

	Fiscal Year Ended June 30,				
	2011	2012	2013	2014	2015
Institutions of Higher Education [1]	$1,450,714	$1,541,802	$1,538,395	$1,826,602	$2,038,579
Virginia College Building Authority Public Higher Education Financing Program	1,633,910	1,715,515	1,773,190	1,759,970	1,729,375
Virginia College Building Authority Private College Program	634,395	639,597	675,510	660,169	701,572
Virginia Housing Development Authority [1]	6,438,200	5,945,174	5,742,689	4,931,982	4,498,847
Virginia Public School Authority [1]	3,215,448	3,378,084	3,483,366	3,523,633	3,551,741
Virginia Port Authority	284,558	281,978	276,816	272,831	256,656
Commonwealth Transportation Board					
Federal Highway Reimbursement Anticipation Notes [1]	274,650	182,450	89,836	60,905	30,624
Grant Anticipation Notes (GARVEES) [1]	--	298,728	473,733	746,812	705,574
Hampton Roads Sanitation District	560,996	639,286	790,503	766,353	748,397
Total	$14,492,871	$14,622,614	$14,844,038	$14,549,257	$14,261,365

Source: Department of the Treasury.

[1] Net of unamortized discounts and premium costs.

Commonwealth Debt Management

Debt Capacity Advisory Committee

The Debt Capacity Advisory Committee (the "Committee") is charged by statute with annually estimating the amount of tax-supported debt which may prudently be authorized for the next biennium, consistent with the financial goals, capital needs and policies of the Commonwealth. Such estimate is provided to the Governor and General Assembly. The Committee is also required to review annually the amount and condition of bonds, notes and other security obligations of the Commonwealth's agencies, institutions, boards and authorities which are either secured by a moral obligation pledge to replenish reserve fund deficiencies or for which the Commonwealth has a contingent or limited liability. The Committee provides its recommendations on the prudent use of such obligations to the Governor and the General Assembly.

The Committee also reviews the amounts and condition of bonds, notes and other security obligations of the Commonwealth's agencies, institutions, boards and authorities which are neither tax-supported debt nor obligations secured by a moral obligation pledge to replenish reserve fund deficiencies. The Committee may recommend limits, when appropriate, on these other obligations. The Committee's latest report can be found at http://www.trs.virginia.gov/debt/dcac.aspx.

Capital Outlay Plan

The Department of Planning and Budget has prepared a Six-Year Capital Outlay Plan (the "Plan") for the Commonwealth. The Plan lists proposed capital projects, and it recommends how the proposed projects should be financed. More specifically, the Plan distinguishes between immediate demands and longer-term needs, assesses the state's ability to meet its highest priority needs, and outlines an approach for addressing priorities in terms of costs, benefits and financing mechanisms. The General Assembly has set out requirements for the funding of capital projects at a level not less than two percent of the General Fund revenues for the biennium, and the portion of that amount that may be recommended for bonded indebtedness.

RETIREMENT PLANS

The Commonwealth contributes to four pension plans each of which is administered by the Virginia Retirement System ("System"). The System acts as a common investment and administrative agent for the Commonwealth, local school boards and political subdivisions in Virginia. The plans administered by the System consist of the Virginia Retirement System ("VRS"), the State Police Officers Retirement System ("SPORS"), the Virginia Law Officer's Retirement System ("VaLORS") and the Judicial Retirement System ("JRS"). Membership in the VRS consists of Commonwealth employees, public school teachers and employees of political subdivisions that have voluntarily joined the system. Membership in SPORS consists of Commonwealth state police officers. Membership in VaLORS consists of law enforcement and corrections officers of the Commonwealth other than state police officers, and membership in JRS consists of judges in the Commonwealth's Circuit Courts, General District Courts, Court of Appeals and Supreme Court. Membership in the applicable retirement plans is mandatory for all eligible employees. VRS is the largest of four systems covering 329,393 active Commonwealth employees, school teachers and covered employees of local governments as of June 30, 2015, as compared with 11,183 active members of SPORS, VaLORS, and JRS combined. In addition, the four plans combined had approximately 43,865 inactive vested members who are no longer contributing but have not withdrawn previous contributions and may be eligible for a retirement benefit in the future.

ACTIVE MEMBER DISTRIBUTION OF RETIREMENT PLANS

	Fiscal Year Ended June 30	
	2014	**2015**
State Employees (VRS)	78,882	78,204
Teachers (VRS)	145,421	145,758
Employees of Political Subdivisions (VRS)	105,374	105,431
State Police Officers (SPORS)	2,020	2,000
Virginia Law Officers (VaLORS)	9,415	8,779
Judges (JRS)	387	404

Source: Virginia Retirement System.

The System's Board of Trustees administers all four plans pursuant to statute. Each plan provides retirement, disability and death benefits. In addition, most members of all four plans are covered by group term life insurance.

The General Assembly established a new retirement plan (Hybrid Retirement Plan) for all new members hired on or after January 1, 2014 who are not in SPORS, VaLORS or VRS as a hazardous duty employee of a political subdivision. All new members hired on or after July 1, 2010 and before January 1, 2014 are in Plan 2. Vested members on January 1, 2013 with service before July 1, 2010 are in Plan 1. Non-vested members on January 1, 2013 with service before July 1, 2010 are in Plan 2. The different provisions for the retirement plans are set forth in the following table:

Retirement Benefit Plan Provisions
AS ESTABLISHED BY TITLE 51.1 OF THE *CODE OF VIRGINIA* (1950), AS AMENDED

All full-time, salaried permanent (professional) employees of state agencies, public school divisions and employees of participating employers are automatically covered by a pension plan upon employment. Members qualify for retirement when they become vested and meet the age and service requirements for their plan, as shown in the following table.

The System administers three different benefit structures for government employees: Plan 1, Plan 2 and the Hybrid Retirement Plan. Each of these is called a plan in statute and each has different provisions with a specific eligibility and benefit structure. These different benefit structures are set out in the following table:

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014, are in this plan, as well as Plan 1 and Plan 2 members who were eligible to opt into the plan during a special election window (see "Eligible Members"). • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses and any required fees.
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. **Hybrid Opt-In Election** VRS non-hazardous duty-covered	**Eligible Members** Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. **Hybrid Opt-In Election**	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • State employees* • School division employees • Political subdivision employees*

Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	• Judges appointed or elected to an original term on or after January 1, 2014, regardless if vested to VRS Plan 1 or VRS Plan 2. ***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Members of the State Police Officers' Retirement System (SPORS) • Members of the Virginia Law Officers' Retirement System (VaLORS) • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions State employees, excluding state elected officials, judges in Plan 1 or Plan 2 and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** State employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016.	**Retirement Contributions** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages. Mandatory member contributions and the employer match on the mandatory and voluntary member contributions are recorded in a 401(a) account, along with the accrued net investment income. The voluntary member contributions and accrued net investment income are recorded in a 457(b) account.

		Members are responsible for investing their accounts using the various investment options that are available.
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine eligibility for retirement and to calculate the retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	**Creditable Service** Same as Plan 1.	**Creditable Service** *Defined Benefit Component:* Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine eligibility for retirement and to calculate the retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. *Defined Contribution Component:* Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	**Vesting** Same as Plan 1.	**Vesting** *Defined Benefit Component:* Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. *Defined Contribution Component:* Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make.

		Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** *Defined Benefit Component:* See definition under Plan 1. *Defined Contribution Component:* The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of the 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier VRS and JRS Plan 1: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. SPORS, sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. VaLORS: The retirement multiplier for VaLORS employees is 1.70% or 2.00%. Members hired before July 1,	**Service Retirement Multiplier** VRS and JRS Plan 2: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members, the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. SPORS, sheriffs and regional jail superintendents: Same as Plan 1. VaLORS: The retirement multiplier for VaLORS employees is 2.00%.	**Service Retirement Multiplier** *Defined Benefit Component:* VRS and JRS: The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. SPORS, sheriffs and regional jail superintendents: Not applicable.

2001, have a 1.70% multiplier and are eligible for a hazardous duty supplement. They also had the option to elect the 2.00% multiplier and no supplement. Members hired on or after July 1, 2001, have a 2.00% multiplier and no supplement.	Political subdivision hazardous duty employees: Same as Plan 1.	VaLORS: Not applicable. Political subdivision hazardous duty employees: Not applicable. *Defined Contribution Component:* Not applicable.
Normal Retirement Age VRS: Age 65. SPORS, VaLORS, and political subdivision hazardous duty employees: Age 60. JRS: Age 65.	**Normal Retirement Age** VRS: Normal Social Security retirement age. SPORS, VaLORS, and political subdivision hazardous duty employees: Same as Plan 1. JRS: Same as Plan 1.	**Normal Retirement Age** *Defined Benefit Component:* VRS: Same as Plan 2. SPORS, VaLORS, and political subdivision hazardous duty employees: Not applicable. JRS: Same as Plan 1. *Defined Contribution Component:* Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. SPORS, VaLORS, and political subdivision hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service. JRS: Age 65 with at least five years of creditable service or at age 60 with at least 30 years of creditable service. Service earned under JRS is weighted. The weighting factors under Plan 1 are: • 3.5 for JRS members appointed or elected before January 1, 1995. • 2.5 for JRS members appointed or elected on or after January 1, 1995.	**Earliest Unreduced Retirement Eligibility** VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. SPORS, VaLORS, and political subdivision hazardous duty employees: Same as Plan 1. JRS: Same as Plan 1. Service earned under JRS is weighted. The weighting factors under Plan 2 are: • 1.5 for JRS members appointed or elected before age 45. • 2.0 for JRS members appointed or elected between ages 45 and 54. • 2.5 for JRS members appointed or elected at age 55 or older.	**Earliest Unreduced Retirement Eligibility** *Defined Benefit Component:* VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. SPORS, VaLORS, and political subdivision hazardous duty employees: Not applicable. JRS: Same as Plan 2. Service earned under JRS is weighted. The weighting factors under Plan 2 are: • 1.5 for JRS members appointed or elected before age 45. • 2.0 for JRS members appointed or elected between ages 45 and 54. • 2.5 for JRS members appointed or elected at age 55 or older. *Defined Contribution Component:* Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. SPORS, VaLORS, and political subdivision hazardous duty employees: Age 50 with at least five years of creditable service. JRS: Age 55 with at least five years of creditable service.	**Earliest Reduced Retirement Eligibility** VRS: Age 60 with at least five years (60 months) of creditable service. SPORS, VaLORS, and political subdivision hazardous duty employees: Same as Plan 1. JRS: Same as Plan 1.	**Earliest Reduced Retirement Eligibility** *Defined Benefit Component:* VRS: Age 60 with at least five years (60 months) of creditable service. SPORS, VaLORS, and political subdivision hazardous duty employees: Not applicable. JRS: Same as Plan 1. *Defined Contribution Component:* Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. *Eligibility:* For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have fewer than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date. *Exceptions to COLA Effective Dates:* The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member is involuntarily separated from employment for	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. *Eligibility:* Same as Plan 1. *Exceptions to COLA Effective Dates:* Same as Plan 1.	**Cost-of-Living Adjustment (COLA) in Retirement** *Defined Benefit Component:* Same as Plan 2. *Defined Contribution Component:* Not applicable. *Eligibility:* Same as Plan 1 and Plan 2.

causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.		
Disability Coverage For members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP) and are not eligible for disability retirement.	**Disability Coverage** For members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP) and are not eligible for disability retirement.	**Disability Coverage** Employees of political subdivisions and school divisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. State employees (including Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** *Defined Benefit Component:* Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. *Defined Contribution Component:* Not applicable.

Following is a summary of additions and deductions of the four retirement plans, including additions and deductions attributable to VRS members who are employees of local school boards and political subdivisions. **The political subdivisions have voluntarily joined the VRS, and the Commonwealth is responsible only for administration of the programs.**

RETIREMENT PLANS
ADDITIONS AND DEDUCTIONS
(in thousands)

	Fiscal Years Ended June 30,					
	2011	2012	2013	2014	2015	
Additions:						
Member Contributions	$ 27,623	$ 230,967	$ 595,339	$ 725,970	$ 781,755	
Employer Contributions	1,520,403	1,585,817	2,003,248	1,970,998	2,467,860	*
Net Investment Income (net of investment expenses)	1,030,658	1,052,001	910,677	983,847	911,279	
Other	1,420	3,892	1,574	460	1,723	
Total Additions	2,580,104	2,872,677	3,510,838	3,681,275	4,162,617	
Deductions:						
Benefits	3,263,895	3,401,775	3,672,541	3,878,071	4,114,239	
Refunds	100,544	88,923	81,538	103,399	106,115	
Administrative Expenses	25,857	26,227	31,866	40,916	41,026	
Other	6,675	721	4,743	6,994	2,410	
Total Deductions	3,396,971	3,517,646	3,790,688	4,029,380	4,263,790	
Excess of Additions over Deductions [before net appreciation (depreciation) in fair value of investments]	(816,867)	(644,969)	(279,850)	(348,105)	(101,173)	
Net appreciation (depreciation) in fair value of investments	7,680,954	(414,764)	5,167,659	7,891,213	2,009,958	
Net Position - Restricted for Benefits at the End of the Year	$ 53,151,088	$ 52,091,355	$ 56,979,164	$ 64,522,272	$ 66,431,057	

Note: Effective July 1, 2011, state employees, except state elected officials, judges, and optional retirement plan participants, were required to contribute the full 5.00% member contribution that had been previously paid by the employer. Effective July 1, 2012, teachers and political subdivision employers were required to begin requiring members to pay the 5.00% member contribution that was previously paid by the employer.

Source: Virginia Retirement System.

Each employer contributes an amount for any period equal to the sum of the normal cost and amortization of the unfunded actuarial accrued liability, if any. The Commonwealth's liability is determined, at a minimum, every two years by the System's Board of Trustees on the basis of studies by the consulting actuary. With respect to teachers, the Commonwealth pays a share of the employer contributions on the compensation of teachers who are employees of local school boards with the Commonwealth's portion determined by a formula that uses the student/teacher ratio, average teachers' salaries and the source of revenue used for salary. Employees contribute 5 percent of their creditable compensation unless the contribution is assumed by the employer as in the case of Commonwealth employees, judges, state police officers, and state law enforcement and correctional officers other than state police officers. Effective July 1, 2011, Commonwealth employees (except elected officials), state police officers, and state law enforcement and correctional officers other than state police officers began paying the 5% employee contribution. This contribution is handled as a pre-tax payroll deduction. Effective July 1, 2012, teacher and political subdivision employers were required to begin requiring their members to pay the 5% member contribution that was previously paid by the employer. The phase-in required the shift of a minimum of 1% each year with full implementation of the shift to member-paid for all employers by July 1, 2016.

Employer contributions are calculated under an entry age normal cost method, and the unfunded actuarial accrued liability is amortized as a level percentage of payroll within 30 years or less. The entry age normal cost method is designed to produce level normal costs over the working lifetime of the participating employees and to permit the amortization of any unfunded liability over a period of years. The unfunded liability arises because normal costs based on the current benefit provisions have not been in effect throughout the working lifetime of current employees and because of actuarial losses. Post-retirement benefit adjustments are pre-funded during the employees' working lifetime.

The Commonwealth's contribution rates for the 2015 and 2016 fiscal years were determined in accordance with the actuarial valuation as of June 30, 2013. In calculating the Commonwealth's contribution rates for the 2015 fiscal year, the actuary assumed a 7.00 percent net investment yield compounded annually, a 2.50 percent inflation allowance in the salary scale, a 30-year amortization period for the June 30, 2013 Unfunded Actuarial Accrued Liability (UAAL), an 8-year amortization for deferred contributions as defined under the 2011 Appropriations Act, Item 469(I)(6), and valued the assets using a modified market basis.

The General Assembly, in accordance with Section 51.1-145(K1) of the Code of Virginia, funded the employer retirement contribution rates for teachers and state employees in Fiscal Year 2015 at less than the rate determined by the actuary and certified by the VRS Board of Trustees. The percentage of the certified rate being funded for Fiscal Year 2015 was be 79.69% for teachers, 78.02% for state employees, 83.90% for SPORS, 83.88% for VaLORS, and 89.32% for JRS. As a result, the Fiscal Year 2015 employer retirement contribution rate for teachers was reduced from 18.20% to 14.50% and for state employees from 15.80% to 12.33%. Additionally, the employer retirement contribution rates for SPORS, VaLORS and JRS were reduced from 30.78%, 21.06% and 57.84% to 25.82%, 17.67% and 51.66%, respectively. There were no adjustments to the employer contribution rates for political subdivision employers or to the member contribution rate of 5.00%.

For Fiscal Year 2016, several changes impacted the contribution rates being paid. The teacher plan received an additional contribution of $192.9 million from the Commonwealth's Literary Fund. This transfer reduced the teacher actuarial contribution rate from 18.20% to 17.64% and the contributed rate from 14.50% to 14.06%. The judges plan had an increase in the mandatory retirement age from age 70 to age 73. This reduced the actuarial rate from 57.84% to 55.74%. In addition, the Commonwealth elected to move to funding 90% of the actuarial rate effective August 10, 2015. As a result, the contribution rates paid for state, SPORS, VaLORS and Judges were 12.33%, 25.82%, 17.67%, and 49.62%, respectively for the month of July 2015; 13.28%, 26.83%, 18.34%, and 49.82%, respectively for the month of August 2015; and 14.22%, 27.83%, 19.00%, and 50.02%, respectively for the month of September 2015 and the remainder of Fiscal Year 2016.

The normal contribution and accrued liability cost rates (expressed as percentages of covered compensation) recommended by the actuaries are as follows:

RETIREMENT SYSTEMS CONTRIBUTIONS, ACCRUED LIABILITY AND SUPPLEMENTARY COSTS
(1997-1998 biennium through 2016 fiscal year) (1)

		State Employees	School Teachers	State Police	Virginia Law Officers (2)	Judges
Normal contribution rate:						
	1997-1998	2.73	3.51	9.39	-	15.12
	1998-1999	3.56	4.54	8.72	-	17.34
	1999-2000	4.18	5.09	10.52	4.18	18.74
	2000-2001	4.24	5.83	8.92	8.92	27.85
	2001-2002	4.00	6.03	7.45	7.91	26.11
	2002-2003	4.00	6.03	7.99	8.51	22.27
	2003-2004	4.00	6.03	7.99	8.51	22.27
	2004-2005	4.00	6.03	7.99	8.51	22.19
	2005-2006	4.00	6.03	7.99	8.51	22.19
	2006-2007	2.80	4.45	7.47	8.06	24.49
	2007-2008	2.80	4.45	8.35	8.06	24.49
	2008-2009	2.93	4.71	8.84	8.24	25.13

	2009-2010		2.93	4.71	8.84	8.24	25.13
	2010-2011		2.67	4.68	8.81	5.81	30.15
	2011-2012		2.67	4.68	8.81	5.81	30.15
	2012-2013		3.55	5.93	10.49	6.80	33.69
	2013-2014		3.55	5.93	10.49	6.80	33.69
	2014-2015		4.28	5.77	10.72	7.70	34.31
	2015-2016		4.28	5.77	10.72	7.70	34.31
Accrued liability rate:							
	1997-1998		2.08	3.77	3.99	-	13.98
	1998-1999		2.28	3.95	8.12	-	14.34
	1999-2000		1.85	3.95	8.68	1.85	15.51
	2000-2001		0.98	1.71	16.08	7.23	17.15
	2001-2002		0.24	(1.79)	17.55	17.09	18.89
	2002-2003		0.24	(1.79)	17.01	16.49	22.73
	2003-2004		0.24	(1.79)	17.01	16.49	22.73
	2004-2005		(0.11)	2.07	17.01	16.49	22.81
	2005-2006		(0.11)	2.07	17.01	16.49	22.81
	2006-2007		4.53	6.73	12.35	9.33	15.59
	2007-2008		4.53	6.73	14.34	9.33	15.59
	2008-2009		5.09	7.13	15.25	8.54	12.91
	2009-2010		5.09	7.13	15.25	8.54	12.91
	2010-2011		5.79	8.23	16.75	10.12	16.64
	2011-2012		5.79	8.23	16.75	10.12	16.64
	2012-2013		9.52	10.84	22.13	12.72	20.42
	2013-2014		9.52	10.84	22.13	12.72	20.42
	2014-2015		11.52	12.43	20.06	13.36	23.53
	2015-2016		11.52	11.87	20.06	13.36	21.43
Total contribution rate:							
	1997-1998		4.81	7.28	13.38	-	29.10
	1998-1999		5.84	8.49	16.84	-	31.68
	1999-2000		6.03	9.04	19.20	6.03	34.25
	2000-2001		5.22	7.54	25.00	16.15	45.00
	2001-2002	(3)	4.24	4.24	25.00	25.00	45.00
	2002-2003	(4)	4.24	4.24	25.00	25.00	45.00
	2003-2004	(5)	4.24	4.24	25.00	25.00	45.00
	2004-2005	(6)	3.89	8.10	25.00	25.00	45.00
	2005-2006	(7)	3.89	8.10	25.00	25.00	45.00
	2006-2007	(8)	7.33	11.18	19.82	17.39	40.08
	2007-2008	(9)	7.33	11.18	22.69	17.39	40.08
	2008-2009	(10)	8.02	11.84	24.09	16.78	38.04
	2009-2010	(11)	8.02	11.84	24.09	16.78	38.04
	2010-2011	(12)	8.46	12.91	25.56	15.93	46.79
	2011-2012	(13)	8.46	12.91	25.56	15.93	46.79
	2012-2013	(14)	13.07	16.77	32.62	19.52	54.11
	2013-2014	(14)	13.07	16.77	32.62	19.52	54.11
	2014-2015	(15)	15.80	18.20	30.78	21.06	57.84
	2015-2016	(16)	15.80	17.64	30.78	21.06	55.74

(1) Rates for FY 2000 reflect "carve-out" of a portion of the retirement rate for the Virginia Sickness and Disability Program.

(2) The Virginia Law Officers' Retirement System was established October 1, 1999.

(3) Contributions actually paid in FY 2002 were 2.12%, 3.60%, 12.50%, 8.07% and 22.50% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

(4) Contributions actually paid in FY 2003 were 0.00%, 3.77%, 11.05%, 12.00% and 29.00% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

(5) Contributions actually paid in FY 2004 were 3.77%, 3.77%, 12.79%, 13.95% and 32.03% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

(6) Contributions actually paid in FY 2005 were 3.91%, 6.03%, 16.49%, 16.99% and 30.55% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

(7) Contributions actually paid in FY 2006 were 3.91%, 6.62%, 16.49%, 16.99% and 30.55% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

(8) Contributions actually paid in FY 2007 were 5.74%, 9.20%, 16.71%, 14.96% and 36.47% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

(9) Contributions actually paid in FY 2008 were 6.15%, 10.30%, 20.76%, 15.86% and 38.01% for State, School Teachers, State Police, VaLORS, and Judges, respectively. State Police computed and paid rates reflect an increase of 2.87% resulting from and increase in the multiplier from 1.70% to 1.85%, effective July 1, 2007.

(10) Contributions actually paid in FY 2009 were 6.23%, 8.81%, 20.05%, 14.23% and 34.51% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

(11) Contributions actually paid in FY 2010 were 6.26%, 8.81%, 20.05%, 14.23% and 34.51% for State, School Teachers, State Police, VaLORS, and Judges, respectively. In addition, these contributions were suspended for state employes groups for April, May and the first half of June 2010, and for school teachers for the entire fourth quarter of FY 2010.

(12) Contributions actually paid in FY 2011 were 2.13%, 3.93%, 7.76%, 5.12% and 28.81% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

(13) Contributions actually paid in FY 2012 are 6.33% for School Teachers and 2.08%, 7.73%, 5.07% and 28.65% for State, School Teachers. State Police. VaLORS, and Judges, respectively for the period July 2011 through March 2012 and 6.58%, 21.16%,13.09%, and 42.58% for State, State Police, VaLORS, and Judges, respectively for April, May and June 2012.

(14) Contributions actually paid in FY 2013 and FY 2014 were 8.76%, 11.66%, 24.74%, 14.80% and 45.44% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

(15) Contributions actually paid in FY 2015 were 12.33%, 14.50%,25.82%, 17.67% and 51.66% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

(16) Contributions actually paid in July 2015 were 12.33%, 14.06%, 25.82%,17.67% and 49.62% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

Contributions actually paid in August 2015 were 13.28%, 14.06%, 26.83%,18.34% and 49.82% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

Contributions actually paid in September 2015 through June 2016 were 14.22%, 14.06%, 27.83%,19.00% and 50.02% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

Effective October 1, 1983, the Commonwealth assumed the 5 percent employee contribution previously paid by its employees who are members of the VRS, SPORS, VaLORS and JRS. The total contribution rate actually being paid by the Commonwealth for Commonwealth employees, state police officers, state law enforcement and correctional officers other than state police officers, and judges through the 2010 fiscal year is, therefore, higher by that amount than what is shown in the summary. Effective July 1, 2011, Commonwealth employees (except elected officials), state police officers, and state law enforcement and correctional officers other than state police officers began paying the 5% employee contribution through payroll deduction.

The latest valuations of the pension plans were performed by Cavanaugh Macdonald Consulting, LLC under the provisions of the new Government Accounting Standards Board (GASB) Statement No. 67. Using June 30, 2014 data, rolled forward to June 30, 2015, the plan fiduciary net position as a percentage of the total pension liability was 72.81% for the VRS state plan, 70.68% for the VRS teacher plan, 86.70% for the aggregate total of the VRS political subdivision plans, 68.89% for SPORS, 62.64% for VaLORS and 72.15% for JRS. The calculations reflect an assumed rate of return on investments of 7.00%. For further discussion of the funding of the pension programs, see “ Retirement and Pension Systems” in The Report of the Comptroller for the Fiscal Year Ended June 30, 2015.

Virginia Retirement System Finance Division Supporting Schedule for RSI Schedule of Funding Progress from the Actuarial Valuation at June 30, 2015

(in thousands)

Employer Type	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
State	15,881,597	22,291,558	6,409,961	71.2%	3,872,724	165.5%
Teacher	29,441,485	42,564,178	13,122,693	69.2%	7,488,507	175.2%
Local Government/Political Subdivision*	16,760,519	19,855,406	3,094,887	84.4%	4,540,149	68.2%
Total VRS	62,083,601	84,711,142	22,627,541	73.3%	15,901,380	142.3%
State Police	710,864	1,050,701	339,837	67.7%	110,543	307.4%
VaLORS	1,155,767	1,906,721	750,954	60.6%	330,397	227.3%
Judges	442,250	600,388	158,138	73.7%	61,881	255.6%
Totals	64,392,482	88,268,952	23,876,470	73.0%	16,404,201	145.6%

Political subdivision data is from the consolidated report provided by Cavanaugh Macdonald Consulting, Inc.

** Includes inactive employers with no active members.*

Source: Virginia Retirement System.

For the June 30, 2015 actuarial valuation, the total pension liability was determined based on the actuarial valuation as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement date and rolled forward to the measurement date of June 30, 2014. This was compared to the Plan's Net Fiduciary Position as of June 30, 2014 to determine the Employers' Net Pension Liability at that date.

SCHEDULE OF EMPLOYERS' NET PENSION LIABILITY BY SYSTEM AND PLAN

AS OF JUNE 30, 2015

(DOLLARS IN THOUSANDS)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Employers' Net Position Liability/(Asset) (a-b)	Plan Fiduciary Net position as a % of the Total Pension Liability (b/a)	Covered Employee Payroll (c)	Net Pension Liability/(Asset) as a % of the Covered Employee Payroll (a-b)/(c)
Virginia Retirement System:						
State	$ 22,521,130	$ 16,398,575	$ 6,122,555	72.81%	$ 3,878,632	157.85%
Teacher	42,930,422	30,344,072	12,586,350	70.68%	7,434,932	169.29%
Political Subdivision	19,935,054	17,283,021	2,652,033	86.70%	4,513,335	58.76%
Total Virginia Retirement System	85,386,606	64,025,668	21,360,938		15,826,899	
State Police Officers' Retirement System	1,064,450	733,352	331,098	68.89%	110,059	300.84%
Virginia Law Officers' Retirement System	1,902,051	1,191,353	710,698	62.64%	338,562	209.92%
Judicial Retirement System	632,381	456,258	176,123	72.15%	61,092	288.29%
Grand Total	$ 88,985,488	$ 66,406,631	$ 22,578,857		$ 16,336,612	

REQUIRED SUPPLEMENTAL SCHEDULE OF CHANGES IN EMPLOYERS' NET PENSION LIABILITY

(DOLLARS IN THOUSANDS)

	VRS State		VRS Teacher		VRS Political Subdivisions	
Change in the Net Pension Liability	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Total pension liability:						
Service cost	$ 375,149	$ 369,120	$ 828,901	$ 831,501	$ 530,945	$ 524,758
Interest	1,482,951	1,436,064	2,834,138	2,722,788	1,309,484	1,243,386
Benefit changes	-	-	-	-	1,135	-
Difference between actual and expected experience	59,923	-	(212,089)	-	(185,419)	-
Assumption changes	-	-	-	-	-	-
Benefit payments	(1,136,102)	(1,081,866)	(1,980,353)	(1,874,636)	(819,201)	(754,706)
Refunds of contributions	(27,724)	(25,036)	(36,058)	(36,103)	(36,898)	(36,876)
Net change in total pension liability	754,197	698,282	1,434,539	1,643,550	800,046	976,562
Total pension liability – beginning	21,766,933	21,068,651	41,495,883	39,852,333	19,135,008	18,158,446
Total pension liability – ending (a)	$ 22,521,130	$ 21,766,933	$ 42,930,422	$ 41,495,883	$ 19,935,054	$ 19,135,008
Plan fiduciary net position:						
Contributions – employer	$ 480,657	$ 343,259	$ 1,267,250	$ 853,634	$ 533,877	$ 539,366
Contributions – member	195,582	198,035	373,525	371,241	227,060	225,555
Net investment income	728,083	2,243,999	1,327,047	4,042,441	761,164	2,272,284
Benefit payments	(1,136,102)	(1,081,866)	(1,980,353)	(1,874,636)	(819,201)	(754,706)
Refunds of contributions	(27,724)	(25,036)	(36,058)	(36,103)	(36,898)	(36,876)
Administrative expense	(10,302)	(12,341)	(18,238)	(22,036)	(10,358)	(12,153)
Other	(154)	123	(284)	217	(162)	120
Net change in plan fiduciary net position	230,040	1,666,173	932,889	3,334,758	655,482	2,233,590
Plan fiduciary net position – beginning	16,168,535	14,502,362	29,411,183	26,076,425	16,627,539	14,393,949
Plan fiduciary net position – ending (b)	$ 16,398,575	$ 16,168,535	$ 30,344,072	$ 29,411,183	$ 17,283,021	$ 16,627,539
Net pension liability – ending (a-b)	$ 6,122,555	$ 5,598,398	$ 12,586,350	$ 12,084,700	$ 2,652,033	$ 2,507,469
Plan fiduciary net position as a percentage of the total pension liability (b/a)	72.81%	74.28%	70.68%	70.88%	86.70%	86.90%
Covered employee payroll (c)	$ 3,878,632	$ 3,861,712	$ 7,434,932	$ 7,313,025	$ 4,513,335	$ 4,434,764
Net pension liability as a percentage of covered employee payroll ((a-b)/c)	157.85%	144.97%	169.29%	165.25%	58.76%	56.54%

In addition to the defined benefit programs described above, the Commonwealth also makes contributions to a defined contribution retirement plan for political appointees. Contributions for this plan are based on 10.4% of each appointee's salary. At June 30, 2015, this plan had 326 accounts and total assets of approximately $11,661,647.

OTHER LONG-TERM LIABILITIES

Employee Benefits Other than Pension Benefits

Employees of the Commonwealth accrue annual leave at a rate of four to nine hours semi-monthly, depending on their length of service. The maximum accumulation is dependent on years of service, but in no case may it exceed 42 days. All employees hired after January 1, 1999, are required to enroll in the Virginia Sickness and Disability Program ("VSDP"). Under the VSDP, employees receive a specified number of sick and personal leave hours, depending on their length of service, and any balances at the end of the calendar year revert. Individuals employed at January 1, 1999, had the option of converting to the VSDP or remaining in the original sick leave plan. If converting, the employee's sick leave balance could be used to purchase retirement credits or be converted to disability credits. If an employee opted to remain in the original sick leave program, sick leave accrues at a rate of five hours semimonthly. Employees who leave State service after a minimum of five years employment receive the lesser of 25 percent of the value of their disability credits or accumulated sick leave at the current earnings rate or $5,000. All employees leaving State service are paid for accrued annual leave up to the maximum calendar year limit at their current earnings rate.

The VSDP was established for all full-time, classified state employees, including state police officers, and other state law enforcement and correctional officers. Part-time, classified state employees who work at least 20 hours a week on a salaried basis and who accrue leave are also covered. After a seven calendar-day waiting period following the first incident of disability, the VSDP provides short-term disability benefits from 60% to 100% of compensation up to a maximum of 125 work days. After a 180 calendar day waiting period, eligible employees receive long-term disability benefits equal to 60% of compensation until they return to work, until age 65 (age 60 for state police officers and other state law enforcement and correctional officers), or until death. Eligibility periods for non-work related disability coverage and certain income replacement levels apply for employees hired on or after July 1, 2009.

In addition to providing pension benefits, the Commonwealth provides life insurance for active and retired employees and a retiree health insurance credit to offset a portion of the cost of health insurance premiums for qualifying state retirees under VRS, SPORS, JRS and VaLORS. The estimated costs of these benefits are funded over the working lives of the employees through employer contributions and investment income.

Self-Insurance

The Commonwealth provides several types of self-insurance for the benefit of state agencies and institutions. The Department of the Treasury, Division of Risk Management, administers self-insurance programs for general (tort) liability, medical malpractice and automobile liability. The Department of Human Resource Management administers the state employee health care self-insurance fund. At June 30, 2015, $769.4 million was reported as the combined estimated claims payable for self-insurance.

Medicaid Payable

The Department of Medical Assistance Services estimates, based on past experience, the total amount of claims that will be paid from the Medicaid program in the future which relate to services provided before year end. At June 30, 2015, the estimated liability related to normal operations totaled $657.0 million. Of this amount, $327.2 million is reflected in the General Fund and $329.8 million in the Federal Trust Special Revenue Fund.

For a more detailed explanation of Other Long-Term Liabilities, see "Notes to the Financial Statements" in The Report of the Comptroller for the Fiscal Year Ended June 30, 2015.

Other Post Employment Benefits (OPEB) – Financial Statement Reporting

The Commonwealth currently has five postemployment benefit programs other than the retirement plans described above ("OPEB Programs"). They are: Retiree Health Insurance Credit, Group Life Insurance, Virginia Sickness and Disability Plan, Pre-Medicare Retiree Health Insurance Program and Line of Duty Death and Health Insurance Benefit.

The Governmental Accounting Standards Board (GASB) issued accounting and reporting standards for other postemployment benefits. The VRS implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plan*, in their published financial statements for the fiscal year ended June 30, 2007. The Commonwealth, as an employer, implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* for the fiscal year ended June 30, 2008.

The Commonwealth's OPEB programs promise benefits to individuals who perform services for government today to be paid following the conclusion of their service. Historically, the Commonwealth and most other government employers financed other post employment benefit programs on a pay-as-you-go basis. The new reporting standards require expenses associated with these programs to be calculated and reported on an actuarial basis even though payment is deferred until after an individuals' service ends. As of June 30, 2015, the Commonwealth's estimated annual required OPEB contribution was $394.6 million and the estimated unfunded actuarial liabilities were $5.3 billion.

LABOR RELATIONS

It is against public policy for Commonwealth or local officials to recognize any labor union as a representative of public employees or to engage in collective bargaining with any labor union. Public employees of the Commonwealth do not have a legal right to strike, and no strike by employees of the Commonwealth has ever taken place. Any such employee who engages in any organized strike or willfully refuses to perform his duties shall, according to state law, be deemed to have terminated his employment. The General Assembly has rejected several recent legislative proposals to authorize public employees to engage in collective bargaining.

LITIGATION

The Commonwealth, its officials and employees are named as defendants in legal proceedings which occur in the normal course of governmental operations, some involving claims for substantial amounts. It is not possible at the present time to estimate the ultimate outcome or liability, if any, of the Commonwealth with respect to these lawsuits. However, any ultimate liability resulting from these suits is not expected to have a material adverse effect on the financial condition of the Commonwealth.

TOBACCO SETTLEMENT

The Commonwealth is a party to the national tobacco settlement (the "Settlement") between leading United States tobacco product manufacturers, 45 other states, the District of Columbia and 5 territories. The Settlement provides that tobacco companies pay a total of $206 billion to the participating states by the year 2025; significantly curb their advertising; and disband industry trade groups. The Commonwealth's share of the total amount to be paid to states through 2025 would be approximately $4.1 billion. The exact dollar amount is contingent upon certain adjustments as set forth in the Settlement. Under the Settlement, the tobacco companies will make three types of payments. Tobacco companies made five "initial payments" totaling approximately $13 billion over the six year period ending in January 2003. In addition, the tobacco companies make "annual payments" that began on April 15, 2000. Such payments will be paid annually into perpetuity and will be adjusted annually based on inflation and volume adjustments as determined by future sales of cigarettes. Approximately $8.6 billion of the Settlement was deposited into a strategic contribution fund and allocated based on the states' contribution toward resolving the Settlement. The "strategic contribution payments" will be made in equal installments over a 10-year period beginning in 2008.

The Commonwealth created the Tobacco Indemnification and Community Revitalization Commission and Fund (the "TICR Commission" and "TICR Fund," respectively). Fifty percent of the amounts received by the Commonwealth from the Settlement is allocable to the TICR Commission (the "TICR Commission Allocation"). The TICR Commission distributes moneys in the TICR Fund to (i) provide payments to tobacco farmers as compensation for the elimination or decline in tobacco quotas and (ii) promote economic growth and development in tobacco dependent communities.

In 2002, the General Assembly authorized the securitization of the TICR Commission Allocation and created the Tobacco Settlement Financing Corporation (the "Corporation"). The Corporation was established to carry out the financing, purchasing, owning and managing of the portion of the TICR Commission Allocation that may be sold by the Commonwealth from time to time. On May 16, 2005, the Corporation issued $448,260,000 of its Tobacco Settlement Asset-Backed Bonds, Series 2005 (the "Series 2005 Bonds"). Net proceeds of the sale were deposited to the Tobacco Indemnification and Community Revitalization Endowment established pursuant to Section 3.1-1109.1 of the Code of Virginia to fund economic development projects throughout Southside and Southwest Virginia. On May 3, 2007, the Corporation issued $1,149,273,283 of its Tobacco Settlement Asset-Backed Bonds, Series 2007 (the "Series 2007 Bonds"). A portion of the proceeds of the Series 2007 Bonds were used to defease and refund the outstanding Series 2005 Bonds. The Series 2007 Bonds are backed solely by the TICR Commission Allocation. Tobacco Bonds issued by the Corporation are not obligations of the Commonwealth or any instrumentality other than the Corporation.

The Commonwealth also created the Virginia Foundation for Healthy Youth, and within it, the Virginia Tobacco Settlement Foundation to coordinate and finance efforts to restrict the use of tobacco products by minors through such means as educational and awareness programs on the health effects of tobacco use on minors and laws restricting the distribution of tobacco products to minors. Ten percent of the annual amount received by the Commonwealth from the Settlement is allocated to the Virginia Tobacco Settlement Fund (the "Foundation Allocation"). Chapter 345 of the 2007 Virginia Acts of Assembly authorizes the securitization of the Foundation Allocation, however no securitization of the Foundation Allocation has occurred. The remaining forty percent of unallocated Settlement payments are deposited to the General Fund.

The allocation and expenditures of the annual amounts received by the Commonwealth from the settlement are subject to appropriation by the General Assembly.

EFFECTS OF FEDERAL SEQUESTRATION ON VIRGINIA

The Federal budget reductions commonly referred to as "Sequestration" are expected to negatively impact Virginia disproportionately compared to other states. The steep reduction in federal military and domestic programs is expected to acutely impact Virginia because of Virginia's robust community of defense contractors and other federal contractors. From 2001 to 2011, economists observed that Virginia's economy grew more dependent on federal government spending, with about $58.9 billion being spent in Virginia in 2011. This was more than any other state and was the equivalent of 13.7 percent of Virginia's total economic output. According to a June 2014 Report of the Joint Legislative Audit and Review Commission (JLARC) entitled *Size and Impact of Federal Spending in Virginia*, cuts in federal spending will have larger adverse impacts in Virginia than other states, in part because the state relies more on military spending. Sequestration will cause many areas of discretionary federal spending such as military procurement to decline or grow more slowly through 2021. Military contracts in Virginia have already declined from $44 to $35 billion or about 20 percent between 2011 and 2013. The JLARC report predicts that federal spending cuts will also adversely affect Virginia state tax revenue because 18 to 30 percent of general fund revenue is estimated to come from federal spending. Virginia is currently experiencing slower job and economic growth than the national average. The reduction in defense spending will be felt primarily in Northern Virginia and the Hampton roads area.

APPENDIX C

COMMONWEALTH OF VIRGINIA
DEMOGRAPHIC AND ECONOMIC INFORMATION

APPENDIX C
TABLE OF CONTENTS

INTRODUCTION

The following demographic and economic information is provided by the Commonwealth of Virginia, its agencies, institutions and authorities (the "Commonwealth"). The data were compiled by the Department of the Treasury and were not independently verified; however, the Department of the Treasury has no reason to believe that such material is not true and correct.

DEMOGRAPHIC CHARACTERISTICS

General

The Commonwealth is divided into five distinct geographic regions – The Tidewater region is a coastal plain cut into peninsulas by four large tidal rivers. It includes the Eastern Shore and estuaries of the Chesapeake Bay. The Piedmont Plateau is the largest geographical land of the state, and is characterized by low, rolling hills. The Blue Ridge Mountains, which lie to the west of the Piedmont region, are the main eastern mountain range of the Appalachian Mountains. The Appalachian Ridge and Valley Region stretch from southwest to the northeast along Virginia's western border, and include the Shenandoah Valley. The Appalachian Plateau region lies in the far southwestern portion of Virginia. In Kentucky it is called the Cumberland Plateau. The topography of this region is characterized by rivers, streams, and forests. Approximately one-third of all land in Virginia is used for farming and other agricultural services. This variety of terrain, the location of the Commonwealth on the Atlantic Seaboard at the southern extremity of the northeast population corridor and its close proximity to the nation's capital have had a significant influence on the development of the present economic structure of the Commonwealth.

According to the U.S. Census Bureau, the Commonwealth's 2014 estimated population was 8,326,289 which was 2.6 percent of the United States total. Among the 50 states, it ranked twelfth in population. With 39,594 square miles of land area, its 2014 population density was 210.3 persons per square mile, compared with 90.1 persons per square mile for the United States.

Population Trends

From 2005 to 2014, Virginia's population increased 10.1 percent versus 7.8 percent for the nation. Population trends since 2005 for the Commonwealth and the United States are shown in the following table:

POPULATION TREND

		Virginia		United States	
Year		Population	Increase Over Preceding Year	Population	Increase Over Preceding Year
2005		7,563,887	-	295,753,151	-
2006		7,646,996	1.1	298,593,212	1.0
2007		7,719,749	1.0	301,579,895	1.0
2008		7,795,424	1.0	304,374,846	0.9
2009		7,882,590	1.1	307,006,550	0.9
2010		8,001,024	1.5	308,745,538	0.6
2011		8,104,384	1.3	311,587,816	0.9
2012		8,193,422	1.1	313,873,685	0.7
2013		8,270,345	0.9	316,497,531	0.8
2014	*	8,326,289	0.7	318,857,056	0.7

Source: U.S. Bureau of the Census
** 2014 and 2015 Estimates revised as of August 2015*

AGE DISTRIBUTION OF POPULATION

Compared to the nation, a higher proportion of the Commonwealth's population is in the adult/working ages of 20 through 64. A lower proportion of Virginia's population is comprised of persons ages 65 and older and of persons ages 5 through 19. In 2014 the population of the Commonwealth and of the United States was distributed by age as follows:

AGE DISTRIBUTION
2014

Age	Virginia	United States
Under 5 years	6.2 %	6.2 %
5 through 19 years	19.0	19.5
20 through 44 years	34.5	33.5
45 through 64 years	26.6	26.2
65 years and older	13.8	14.5
	100.0 %	100.0 %

Source: U.S. Bureau of the Census Annual Estimates as of June, 2015.

GEOGRAPHIC DISTRIBUTION OF POPULATION

Like the nation as a whole, the Commonwealth has a high percentage of its citizens living in urban areas. Virtually all of the Commonwealth's population growth between 1950 and 1970 occurred in these areas. During the 1970s, however, non-metropolitan areas grew at a slightly faster rate than metropolitan areas. Since 1980, this trend has reversed with the metropolitan areas growing at three times the rate of the rest of the Commonwealth. Of the Commonwealth's population, 87 percent reside in ten metropolitan statistical areas.

The largest metropolitan area is the Northern Virginia portion of the Washington-Arlington-Alexandria MSA. This is the fastest growing metropolitan area in the Commonwealth and had a 2014 population of 6,033,737 (including Washington and Maryland's population of 1,933,015). Northern Virginia has long been characterized by the large number of people employed in both civilian and military work with the federal government. It is also one of the nation's leading high-technology centers for computer software and telecommunications.

Spanning Hampton Roads is the Virginia Beach-Norfolk-Newport News MSA, which has large military installations and major port facilities. It had a 2014 population of 1,716,624 and is an important center of manufacturing and tourism. The Richmond MSA is the third largest metropolitan area with a 2014 population of 1,260,029. The Richmond MSA is a leading center of diversified manufacturing activity including chemicals, tobacco, printing, paper, metals and machinery. Richmond is also the capital of the Commonwealth and its financial center, which includes the Fifth District Federal Reserve Bank. The Roanoke MSA is the manufacturing, trade and transportation center for the western part of the Commonwealth. It had a 2014 population of 313,388. Also in the western part of the Commonwealth are the Lynchburg and Kingsport-Bristol-Bristol MSAs, which are both manufacturing centers, and had 2014 populations of 257,835 and 308,079, respectively. The Kingsport-Bristol-Bristol population includes Tennessee portions of the MSA. Located at the foot of the Blue Ridge Mountains is the Charlottesville MSA, a community with a 2014 population of 226,968 and home of the University of Virginia and significant manufacturing industries.

In 2003, the federal Office of Management & Budget recognized three new Virginia MSAs -- Winchester, Harrisonburg and Blacksburg-Christiansburg-Radford. The Winchester MSA is located at the northernmost tip of Virginia and had a 2014 population of 133,403. This fast-growing community has become increasingly attractive for both business and residential development due to its location bordering the Washington-Arlington-Alexandria MSA. With a population of 6,033,737, this region is the home of the George Mason University, Virginia's largest university and is the Commonwealth's largest public research university. The Harrisonburg MSA, a community with a 2014 population of 130,649, is located in western central Virginia. It is a major retail, service and manufacturing center in the Shenandoah Valley. With a 2014 population of 181,605, the Blacksburg-Christiansburg-Radford MSA is located in the New River Valley in southwestern Virginia. The town of Blacksburg is the home of Virginia Polytechnic Institute & State University, Virginia's second largest university and one of the nation's leading research institutions. Population figures for all ten Commonwealth MSAs are shown below:

METROPOLITAN STATISTICAL AREA
POPULATION AND PER CAPITA INCOME

MSA	2014 Population	Per Capita Income***
Blacksburg-Christiansburg-Radford	181,605	$32,627
Charlottesville	226,968	50,971
Harrisonburg	130,649	33,703
Kingsport-Bristol-Bristol*	308,079	35,912
Lynchburg	257,835	36,237
Richmond	1,260,029	47,083
Roanoke	313,388	41,383
Virginia Beach-Norfolk-Newport News	1,716,624	45,276
Washington-Arlington-Alexandria**	6,033,737	62,975
Winchester	133,403	40,456

	2014 Population	2014 Per Capita Income
Commonwealth of Virginia	8,326,289	$44,141

Source: U.S. Census Bureau
**Kingsport-Bristol-Bristol MSA includes part of Tennessee.*
***Washington-Arlington-Alexandria MSA includes part of Washington, DC and Maryland.*
****Per Capita Income by MSA for 2014 dated as of 2015.*
*****Per Capital Income for the Commonwealth dated as of September 2015.*
Data for 2015 not yet available.

Distributed throughout Virginia are smaller urban areas, most of which historically have been trade centers for the surrounding areas and continue to be so today. These communities have attracted many of the new manufacturing facilities locating in the Commonwealth in recent years. The remainder of the Commonwealth's population lives in rural areas, including most of the towns and the remaining smaller cities.

ECONOMIC FACTORS

Taxable Retail Sales

Over the past ten years, taxable retail sales in Virginia increased by $18.9 billion, or 24.5 percent. This growth is less than the average rate of inflation for this same period, which was 24.5 percent. The following table illustrates the changes in taxable retail sales for calendar years 2005 through 2014:

Calendar Year	Taxable Retail Sales	% Change
2005	77,290,441,767	-4.9
2006	89,478,625,283	15.8
2007	92,043,248,947	2.9
2008	89,773,478,959	-2.5
2009	85,869,132,300	-4.3
2010	86,420,963,843	0.6
2011	89,070,341,371	3.1
2012	93,335,660,137	4.8
2013	94,597,893,918	1.4
2014	96,203,913,416	1.7

Source: Department of Taxation as of December 2014.

Personal Income

According to the U.S. Department of Commerce, estimated personal income for Virginians in 2014 was over $414 billion. This results in a Commonwealth per capita income of $50,345, ranking tenth among states and greater than the national average of $46,049.

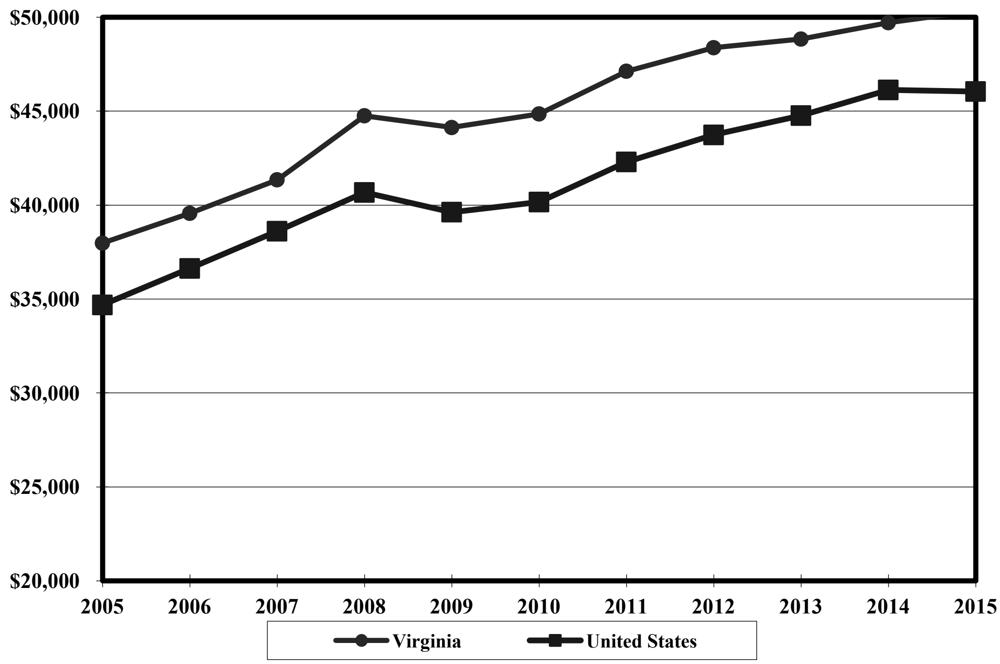
From 2005 to 2014, the Commonwealth's 2.9 percent average annual rate of growth in per capita income was slightly less than the national average rate of growth of 3.1 percent. Virginia and United States per capita personal income are shown in the following table and graph:

PERSONAL INCOME TRENDS

	Virginia		United States	
Year	Per Capita Personal Income	Increase Over Preceding Year	Per Capita Personal Income	Increase Over Preceding Year
2005	39,825	5.5	35,888	4.6
2006	42,075	5.6	38,127	6.2
2007	43,921	4.4	39,804	4.4
2008	44,900	2.2	40,873	2.7
2009	44,063	-1.9	39,357	-3.7
2010	44,854	1.8	40,163	2.0
2011	47,126	5.1	42,298	5.3
2012	48,377	2.7	43,735	3.4
2013	48,838	1.0	44,765	2.4
2014	50,345	3.1	46,049	2.9

Source: Bureau of Economic Analysis as of September 2015.

PERSONAL INCOME TRENDS



[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

In 2015, the sources of personal income in the Commonwealth and the comparable sources of personal income for the United States are shown in the following table and pie chart:

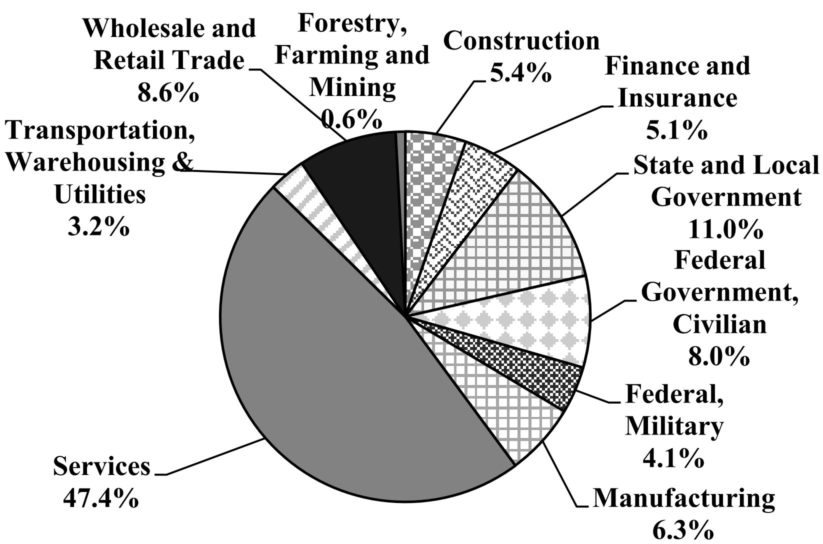
SOURCES OF PERSONAL INCOME
2015

	Virginia (in Millions)	Percentage of Personal Income Before Residence Adjustment: Virginia	Percentage of Personal Income Before Residence Adjustment: United States
Forestry, fisheries, related activities and other	$ 482	0.2 %	0.3 %
Construction	16,688	5.4	5.8
Farming	960	0.3	0.8
Finance and insurance	15,729	5.1	7.1
Government:			
State and local	33,919	11.0	12.4
Federal, civilian	24,764	8.0	2.9
Federal, military	12,581	4.1	1.2
Manufacturing	19,261	6.3	9.5
Mining	1,119	0.4	1.5
Services	145,898	47.4	43.2
Transportation, warehousing & utilities	9,905	3.2	4.2
Wholesale and retail trade	26,362	8.6	11.0
Subtotal	$ 307,668	100 %	100 %
Contributions for government social insurance	(34,562)		
Plus:			
Dividends, interest and rent	88,100		
Transfer payments	58,884		
Personal income before residence adjustment	$ 420,090		
Residence adjustment (1)	20,322		
Total Personal Income	$ 440,412		

(1) Total personal income is reported by place of residence. However, income by industry is shown by place of work. This adjustment accounts for income earned by Virginia residents who worked outside the Commonwealth, primarily federal government employees who lived in Northern Virginia but worked in Washington, D.C.

Source: Bureau of Economic Analysis estimates for Third Quarter of 2015 as of December 2015.

DISTRIBUTION OF VIRGINIA NONAGRICULTURAL SOURCES OF GROSS PERSONAL INCOME BY MAJOR INDUSTRY
2015



Residential Construction

Residential construction was concentrated in three of the state's ten MSAs. The Virginia portions of the Washington-Arlington-Alexandria MSA, the Virginia Beach-Norfolk-Newport News MSA, and the Richmond MSA accounted for approximately 86 percent of the state total.

RESIDENTIAL CONSTRUCTION IN VIRGINIA (1)

Year	Value of Construction in Current Dollars (in millions)	Percent Change from Preceding Year	Number of Permits Issued	Percent Change from Preceding Year
2005	9,261	15.0	62,765	0.3
2006	7,267	-21.5	45,360	-27.7
2007	6,330	-12.9	38,319	-15.5
2008	4,107	-35.1	27,704	-27.7
2009	3,197	-22.2	21,455	-22.6
2010	3,311	3.6	21,404	-0.2
2011	3,400	2.7	23,271	8.7
2012	4,027	18.4	27,275	17.2
2013	5,112	27.0	32,777	20.2
2014	4564	-10.7	28,673	-12.52

(1) Excludes mobile homes.

Source: University of Virginia, Weldon Cooper Center for Public Service.
Data for 2015 not yet available.

Assessed Value of Locally Taxed Property

The Constitution of Virginia provides that real estate, coal and other mineral lands and tangible personal property, except the rolling stock of public service corporations, are reserved for taxation by cities, counties, towns and other local government entities. Shown below is the assessed value of real estate and personal property as determined by the various taxing jurisdictions and the combined value of real estate and personal property for public utilities as determined by the State Corporation Commission. Cities and counties are required by law to assess real estate at 100 percent of market value.

ASSESSED VALUES OF REAL ESTATE AND TANGIBLE PERSONAL PROPERTY

Tax Year Ended 31-Dec	Real Estate	Public Service Corporation	Personal Property	Total
2004	$ 617,559,007,920	$ 27,379,304,201	$ 61,349,533,127	$ 706,287,845,248
2005	727,049,755,759	29,539,242,718	66,156,293,731	822,745,292,208
2006	900,079,538,628	28,843,374,447	69,815,543,837	998,738,456,912
2007	982,816,278,651	29,126,367,531	70,911,848,399	1,082,854,494,581
2008	1,023,386,154,546	31,749,628,737	71,398,689,437	1,126,534,472,720
2009	988,853,631,404	34,705,834,232	68,225,665,097	1,091,785,130,733
2010	942,044,609,913	37,137,075,381	70,049,322,677	1,049,231,007,972
2011	949,019,441,456	38,455,832,384	71,600,491,421	1,059,075,765,261
2012	954,082,225,088	40,142,313,094	76,551,011,940	1,070,775,550,122
2013	969,877,013,082	41,415,115,231	73,286,019,303	1,084,578,147,616

Source: Department of Taxation's 2014 Annual Report.
Data for 2014 and 2015 not yet available.

Employment

As of July 2015, up to 4.2 million residents of the Commonwealth were in the civilian labor force, which includes agricultural and nonagricultural employment, the unemployed, the self-employed and residents who commute to jobs in other states.

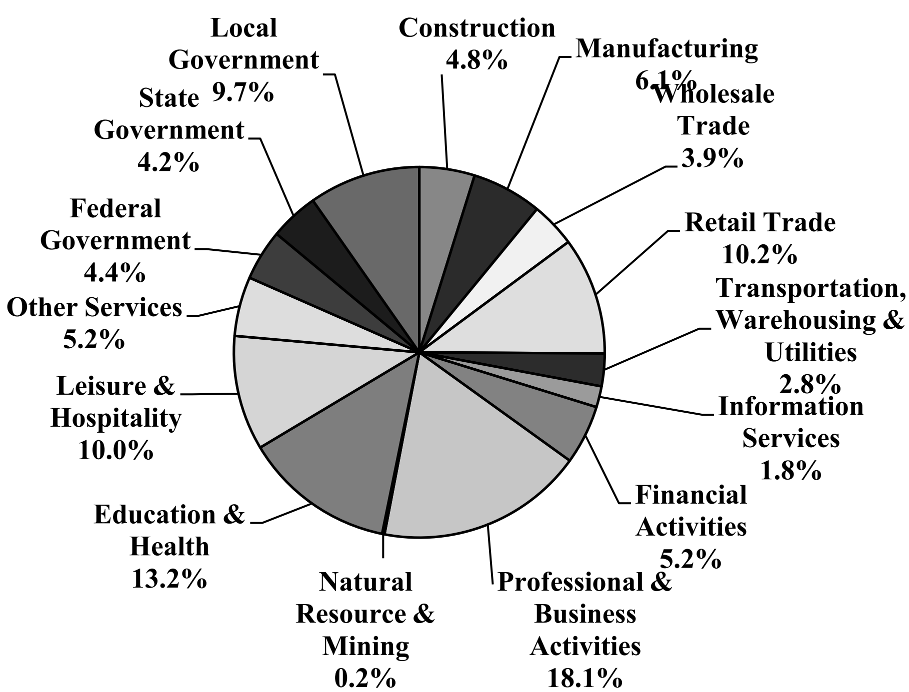
Virginia is a right-to-work state with diverse sources of income. In part because of its proximity to Washington DC, Virginia has a larger share of federal and military employees than most states. More than ten percent of Virginia's workers are federal employees or active military. The following table indicates the distribution by category of nonagricultural employment in the Commonwealth and the comparative distribution in the United States.

DISTRIBUTION OF NONAGRICULTURAL EMPLOYMENT
2015

	Virginia		United States	
Natural Resource & Mining	0.2	%	0.5	%
Construction	4.8		4.5	
Manufacturing	6.1		8.5	
Wholesale Trade	3.9		4.1	
Retail Trade	10.2		10.8	
Transportation, Warehousing & Utilities	2.8		3.7	
Information Services	1.8		1.9	
Financial Activities	5.2		7.4	
Professional & Business Activities	18.1		13.7	
Education & Health	13.2		15.3	
Leisure & Hospitality	10.0		10.5	
Other Services	5.2		3.9	
Public Administration				
Federal Government	4.4		1.9	
State Government	4.2		3.5	
Local Government	9.7		9.7	
	100.0	%	100.0	%

Source: National Data from The Department of Labor, Bureau of Labor Statistics as of January 2016
Virginia Data from The Department of Labor, Bureau of Labor Statistics as of January 2016

DISTRIBUTION OF VIRGINIA NONAGRICULTURAL EMPLOYMENT BY MAJOR INDUSTRY
2015



NONAGRICULTURAL EMPLOYMENT TRENDS

	2011	2012	2013	2014	2015	% Change 2011-2015	
Natural Resource & Mining	9,213	10,900	10,100	9,800	8,100	**-12.1**	%
Construction	177,832	175,900	177,300	179,900	185,600	**4.4**	
Manufacturing	231,573	232,100	230,600	231,300	235,400	**1.7**	
Wholesale Trade	112,928	101,073	111,200	102,880	150,512	**33.3**	
Retail Trade	414,730	416,923	409,900	424,380	394,276	**-4.9**	
Transportation & Warehousing, Utilities	109,366	113,704	116,200	115,740	109,612	**0.2**	
Information Services	74,604	71,800	71,100	68,800	70,500	**-5.5**	
Financial Activities	174,619	188,200	192,100	196,200	198,600	**13.7**	
Professional & Business Activities	671,411	678,100	678,200	663,000	695,300	**3.6**	
Education & Health	451,642	477,900	497,100	513,100	507,600	**12.4**	
Leisure & Hospitality	344,660	357,500	366,200	374,200	385,100	**11.7**	
Other Services	132,322	190,400	193,900	197,200	199,200	**50.5**	
Public Administration							
Federal Government	174,022	174,100	173,600	170,700	170,700	**-1.9**	
State Government	146,391	158,100	160,000	162,300	163,400	**11.6**	
Local Government	379,428	380,300	376,400	375,300	374,100	**-1.4**	
Total	**3,604,741**	**3,727,000**	**3,763,900**	**3,784,800**	**3,848,000**	**8.0**	**%**

Source: Virginia Employment Commission dated as of November, 2015.

The table above shows employment trends in the Commonwealth during the five years from 2011 to 2015. The most significant growth has occurred in the Other Services, Wholesale Trade, Financial Activities, Education & Health, Leisure & Hospitality and State Government sectors, while the largest declines were in the Natural Resources & Mining, Information Services and Retail Trade sectors.

From 2014 to 2015, the largest growth rates occurred in the Wholesale Trade sector which increased by 46.3 percent, from 102,880 in 2014 to 150,512 in 2015. The Professional & Business Activities also showed growth for the year by 4.9 percent, from 663,000 in 2014 to 695,300 in 2015. The Construction and Leisure & Hospitality sectors grew by 3.2 percent and 2.9 percent, respectively. Declines from 2014 to 2015 occurred in Natural Resources & Mining employment, which decreased by 17.3 percent, Retail Trade, which decreased by 7.1 percent, and Transportation & Warehousing Utilities, which decreased by 5.3%.

Largest Employers

The ten largest private and public sector employers in the Commonwealth, each of which employed 1,000 or more persons, are shown below.

TOP TEN PRIVATE SECTOR EMPLOYERS
2015

Rank	Name	Industry
1	Wal Mart	General Merchandise Stores
2	Sentara Healthcare	Hospitals
3	Huntington Ingalls/Newport News Shipbuilding	Transportation Equipment Manufacturing
4	Food Lion	Food and Beverage Stores
5	HCA Virginia Health System	Hospitals
6	Inova Fairfax Hospital	Hospitals
7	Capital One Bank	Credit Intermediation and Related Activities
8	Lowe's Home Centers, Inc	Building Material, Garden Equipment and Supplies Dealer
9	Kroger	Food and Beverage Stores
10	Riverside Medical Center	Hospitals

Source: Virginia Employment Commission Community Profile as of January 2016

TOP TEN PUBLIC SECTOR EMPLOYERS
2015

Rank	Name	Industry
1	U.S. Department of Defense	National Security and International Affairs
2	Fairfax County Public Schools	Educational Services
3	U.S. Postal Service	Postal Service
4	County of Fairfax	Executive, Legislative, and Other General Gov't Support
5	U.S. Department of Homeland Defense	Administration of Security
6	Prince William County Schools	Educational Services
7	City of Virginia Beach Schools	Educational Services
8	University of Virginia /Blue Ridge Hospital	Hospitals
9	Loudoun County Schools	Educational Services
10	U.S. Department of Commerce	Administration of Foreign and Domestic Trade

Source: Virginia Employment Commission Community Profile as of January 2016

Unemployment

The Commonwealth is one of 25 states with a Right-to-Work Law and has a record of good labor-management relations. The Commonwealth's favorable business climate is reflected in the relatively small number of strikes and other work stoppages it experiences.

The Commonwealth is one of the least unionized of the more industrialized states. Three major reasons for this situation are the Right-to-Work Law; the importance of manufacturing industries such as textiles, apparel, electric and electronic equipment and lumber which are not highly unionized in the Commonwealth; and the importance of federal civilian and military employment. Typically the percentage of nonagricultural employees belonging to unions in the Commonwealth has been approximately half the U.S. average.

In the year 2015, Virginia had modest job growth in the seven metropolitan statistical areas (MSAs) reported on by the Virginia Employment Commission. Those areas include Blacksburg-Christiansburg-Radford, Charlottesville, Harrisonburg, Northern Virginia, Richmond, Virginia Beach-Norfolk-Newport News and Winchester. Northern Virginia, the state's largest MSA experienced the largest absolute job gain, with an increase of 23,000 jobs while Blacksburg-Christiansburg experienced the largest percentage increases of 2.1%.

The following table shows the size of the Commonwealth's total civilian labor force from 2005 through 2015, the percentage unemployed during this period and the comparable national unemployment rate.

UNEMPLOYMENT TRENDS

Year	Virginia's Civilian Labor Force	Unemployment in Virginia	Unemployment in United States
2005	3,921,799	3.50	5.10
2006	3,983,717	3.00	4.60
2007	4,048,996	3.00	4.60
2008	4,188,397	4.00	5.80
2009	4,179,810	6.80	9.30
2010	4,185,321	6.90	9.60
2011	4,347,644	6.10	8.50
2012	4,209,532	5.90	7.90
2013	4,240,111	5.50	7.40
2014	4,238,540	4.50	5.60
2015*	4,222,819	4.20	5.00

** 2015 Virginia's Civilian Labor Force as of November 2015 from Virginia Labor Market Information.*

** 2015 Unemployment in Virginia as of November 2015 from United States Department of Labor Bureau of Labor Statistics.*

** 2015 Unemployment in United States as of November 2015 from Virginia Labor Market Information.*

Other Economic Factors [1]

Utilities: Over the last decade, Virginia opened the door to electric utility deregulation. However, the competition had not materialized. Therefore, the Virginia General Assembly enacted "re-regulation legislation" which has re-established retail rate regulation. The legislation permits choice for large commercial and industrial customers with demands exceeding 5 megawatts (MW). The measure provides flexible and innovative forms of ratemaking that could provide incentives for utility operational efficiencies and for generation plant construction. The legislation also creates incentives for the development of renewable energy resources and for energy efficiency and conservation programs.

Virginia's electric rates remain very competitive. In 2015, the average cost per unit of electricity for the industrial sector is 6.77 cents in Virginia, compared to 7.13 cents for the nation. More than 4,300 megawatts of additional electric generating power planned or under construction statewide.

Adequate electric power is available throughout the Commonwealth through the investor-owned utilities of Dominion Virginia Power (Dominion) and Appalachian Power (APCO), 12 electric cooperatives that distribute power in rural districts, and 16 municipalities that have their own distribution systems with power purchased primarily from the previously mentioned companies. The electric utilities serving the Commonwealth are interconnected with neighboring utilities, both within and outside of the Commonwealth, for reliability of service.

Dominion's 1,329-megawatt Warren County Power Station entered into commercial operation December 2014. In 2016, the 1,360-megawatt Brunswick Power Station in Brunswick County is scheduled to come on line.

Dominion's $1.8 billion clean-coal power station in Wise County, Virginia became operational in July, 2012. The 668-megawatt coal-fired power plant, also known as the Virginia City Hybrid Energy Center, uses advanced technology designed to reduce emissions and protect the environment.

Virginia is served by eight regulated natural gas utility companies which provide an extensive network of underground pipes and other gas facilities. In 2014, Virginia's industrial sector accounted for nearly 33 percent of natural gas consumption in the state. Virginia's natural gas suppliers specialize in serving industrial customers and provide expert advice in engineering, construction and inspection.

With few exceptions, municipalities and several highly urbanized counties own their own waterworks systems. In some instances, the system of a municipality serves nearby communities and suburban areas. Most subdivision systems are privately owned and operated. Some federal installations and many industrial plants have their own water supplies. Larger municipalities usually depend on surface water or surface water supplemented by groundwater. There are approximately 2,700 public community water supplies in Virginia, serving approximately 87 percent of the state's population. Virginia has more than 50,000 miles of freshwater streams producing greater than 25 billion gallons per day of freshwater flow.

All cities, many towns, and some counties have their own sewage collection systems. Existing or planned facilities provide wastewater treatment which meets or will meet established water quality standards.

Transportation: The state's central location on the East Coast is within a one day (10-hour) drive of 43% of the U.S. population. As the nation's third largest state-maintained transportation network, Virginia's highway system includes more than 70,000 miles of primary and secondary roads and six major north-south and east-west interstate routes. The Commonwealth is within easy reach of the nation's leading industrial and distribution centers. For example, Richmond is only 330 miles from New York City to the north, 450 miles from Detroit to the west, and 500 miles from Atlanta to the south. Two of the nation's largest Class I railroads operate in Virginia. CSX Corporation Railroad has offices in Richmond, and Norfolk Southern Corporation is

[1] Information contained in this section was compiled from various Virginia state agencies and entities, including the Virginia Economic Development Partnership.

headquartered in Norfolk. Both have extensive infrastructure throughout the Commonwealth. Eight shortline railroads also provide freight rail service. Nearly 3,400 miles of railway (excluding trackage rights) traverse the state.

Norfolk Southern Corporation's Heartland Corridor double-stack rail project is a $290 million public-private partnership that offers efficient routing between the Port of Virginia and the Midwest markets. Cargo can now be transported via double-stack rail with next morning service to Columbus, Ohio and second-morning service to Chicago, Illinois while existing rail lines can handle increasing container volumes.

Norfolk Southern's Crescent Corridor Project will improve the existing 2,500-mile rail network enabling it to handle more freight traffic. The Crescent Corridor traverses 13 states from Louisiana to New Jersey and touches 26 percent of the nation's population and 26 percent of the nation's manufacturing output. This $3 billion project is expected to be fully operational in 2020. To increase rail capacity on the Crescent's route through Virginia, Norfolk Southern is planning $47.1 million in track and signal upgrades through 2016. With 30 new lanes now open connecting to the Crescent Corridor, Norfolk Southern's high capacity intermodal routes are truck competitive, fuel efficient and dependable.

Virginia is served by 14 commercial airports (including those just across the state line at Bluefield, West Virginia; Blountville, Tennessee; Greensboro and Raleigh-Durham, North Carolina; and Baltimore, Maryland). Scheduled commercial airline service is provided to over 135 non-stop destinations around the world. Two of the nation's largest airports, Dulles International and Ronald Reagan Washington National Airports offer daily international non-stop flights to approximately 50 destinations. The commercial airports are supplemented by 57 general aviation airports licensed for public use throughout the Commonwealth. Washington Dulles International has been one of the fastest growing airports in the country. Ronald Reagan Washington National Airport located in Arlington, historically has been one of the world's busiest airports.

Virginia Commercial Space Flight Authority: The Commonwealth, through the Virginia Commercial Space Flight Authority (VCSFA) and in partnership with NASA, has invested heavily in the development of the Mid Atlantic Regional Spaceport (MARS) at Wallops Island, Virginia. The Commonwealth has invested over $80 million in state funds that were used for the construction of the new Pad OA to support Orbital Science Corporation's contract with NASA for eight resupply missions to the International Space Station (ISS). With NASA turning to the commercial aerospace industry to conduct many of its mission critical activities, the Commonwealth is uniquely situated to serve a vital role in the future of our nation's space program. MARS, with its strategic location, serves not only as a valuable asset to the U.S. space program, but also as crucial link in Virginia's job creation and economic development efforts.

Port Facilities: The Port of Virginia is largely responsible for the Commonwealth's strong ties with international commerce. At 50 feet, the Port of Virginia offers the deepest shipping channels on the U.S. East Coast, and is serviced by more than 30 international steamship lines. Norfolk Southern and CSX offer on-dock, double stack intermodal service to key inland markets in the Midwest, Ohio Valley and Southeast.

Norfolk International Terminals (NIT) located in Hampton Roads Harbor on 567 acres along the Elizabeth and Lafayette Rivers, is the Port of Virginia's largest terminal, and has fourteen of the biggest, most efficient cranes in the world. The main channel leading to the terminal is 50 feet deep and the Virginia Port Authority (VPA) has the authorization to dredge to 55 feet when needed. Slightly down the river from NIT is the second largest terminal, Portsmouth Marine Terminal (PMT). PMT has 3,540 feet of wharf, 3 berths, and 6 cranes, and has direct access to both CSX and Norfolk Southern railways, and will soon connect to the Commonwealth Railway, a 19-mile short line. Located in Newport News, Virginia, the Newport News Marine Terminal (NNMT) provides 42,720 feet of direct cargo loading on and off ships to and from the CSX break-bulk rail service, and 3,480 feet of total pier space serviced by four cranes, covered storage, container storage, and accessibility from 3 major Virginia roadways. In 2010, the VPA executed a 20-year lease with Virginia International Gateway (VIG), formerly APM Terminals North America. The lease allows VPA to assume operations at the VIG facility in Portsmouth, Virginia. The 576 acre terminal is recognized as the most technologically advanced marine cargo facility in the Americas, and provides on-site rail with links to Norfolk Southern and CSX. VIG has a current capacity of over one million twenty-foot equivalent units (TEUs) annually, with room for further expansion.

The Virginia Inland Port (VIP) in Front Royal is the second smallest of the port facilities. The intermodal facility is serviced by Norfolk Southern, and accessible via Interstates 66 and 81. VIP provides access to markets in Washington, DC, Maryland, Delaware, West Virginia, Ohio, Pennsylvania, and New York. In 2011, the VPA entered into a five year lease with the Port of Richmond. The Richmond facility allows for barge service between the NIT and APM terminals in Hampton Roads and Richmond, and serves waterborne, rail and truck shippers in the Mid-Atlantic States.

In 2012, the Port of Virginia and the U.S. Army Corps of Engineers signed a partnership agreement for the Craney Island Eastward Expansion project. This dual-purpose project will extend the life of Craney Island as a dredged material management area and also provide land for the construction of a new marine terminal. The eastward expansion is currently under construction.

Ports of Entry: Five Port of Entry facilities and one Service Port facility also serve businesses: Front Royal, New River Valley Airport in Dublin, Norfolk-Newport News (Service Port), Richmond-Petersburg, Tri-Cities near Bristol in Northeaster Tennessee and Washington-Dulles in Northern Virginia.

Telecommunications: Virginia is one of the most connected states in the nation with access to a robust fiber network that matches or exceeds virtually every domestic market and most major financial centers around the world. The Commonwealth hosts prominent commercial internet exchange points, and 70 percent of the world's internet traffic passes through the Metropolitan Area Exchange East located in Ashburn, Virginia. The Richmond area has been connected to Ashburn with "dark fiber" opening opportunities along the I-95 corridor. In Southern and Southwest Virginia, the benefits of a 1,500+ mile advanced fiber-optic broadband network connects more than 100 certified GigaParks.

Customers in the Commonwealth have access to a full range of high quality, technologically advanced communication services. Virtually all major cities and towns are linked by fiber-optic lines crisscrossing the Commonwealth, which, in turn, are tied into recently constructed national fiber optic networks.

Since 2006, the Mid-Atlantic Broadband Cooperative (MBC), nationally renowned as a model for rural economic development, has provided world-class fiber-optic backbone network infrastructure to Southern Virginia. This cable network provides opportunities for the region to connect directly with major Tier 1 peering and carrier collocation centers. MBC owns and operates more than 1,800 miles of advanced, open-access fiber network that reaches 100% of the business, industrial, and technology parks in the region. Backed by grants from the U.S. Department of Commerce and the Virginia Tobacco Commission, MBC continues to grow and expand.

Efforts are underway to further expand and enhance Southwest Virginia's technological capabilities. Grants from the Tobacco Commission and the Virginia Coalfield Economic Development Authority will enable electronic upgrades as well as last mile connections.

The Bristol Virginia Utilities (BVU) Authority is a public utility company in Southwest Virginia that expanded its broadband infrastructure 900 miles into eight neighboring counties. That network – called OptiNet and CPC OptiNet in four of the counties – now provides fiber-optic speeds of up to 1 Gbps (gigabit per second) to customers in the city of Bristol and the counties of Bland, Buchanan, Dickenson, Russell, Smyth, Tazewell, Washington and Wythe, positioning Southwest Virginia for unprecedented economic growth. Monetary grant awards of nearly $40 million from the Virginia Tobacco Commission since 2003 have helped to fund the existing 900-mile OptiNet infrastructure. As recently as July 2010, the Virginia Tobacco Commission continued its support of OptiNet by providing another $5 million, facilitating acquisition of a Recovery Act grant of $22 million from the National Telecommunications and Information Administration. The monies go toward construction of 388 miles of middle-mile fiber into seven of OptiNet's rural counties. This project paves the way for eventual fiber-to-the-home connectivity across Southwest Virginia.

Citizens is a regional full service communications provider offering land-line telephone, VoIP, IPTV Video, web and e-mail hosting, DSL, and FTTP (Fiber to the Premises: Business Ethernet and FTTH, Fiber to the Home), serving 7 counties in

Southwest Virginia. In addition, Citizens operates a 248 mile regional open access fiber network in 6 Virginia counties including 8 industrial parks.

Research and Development: The Commonwealth is home to many internationally recognized research and development (R&D) facilities. Federally funded R&D facilities, coupled with the research from Virginia universities, provide Virginia businesses access to leading researchers and technologies. Virginia is home to hundreds of private sector R&D operations, 11 federally funded R&D Centers, and 23 Federal Laboratory Consortium Laboratories such as the Homeland Security Institute, NASA Langley Research Center, and the Thomas Jefferson National Accelerator Facility. Unique university research parks across the state offer private companies' opportunities for co-location and cooperative relationships with Virginia universities, federal labs and other research consortia.

The Virginia BioTechnology Park in downtown Richmond is home to over 60 life science companies, research institutes and state/federal labs, employing over 2,400 scientists, engineers and researchers. The Park features nine buildings on a 34-acre campus. Members include early and mid-stage companies; multinational pharmaceutical, environmental and consumer product companies; national healthcare organizations managing the nation's solid organ transplant program and a number of international companies.

The National Institute of Aerospace (NIA) is a non-profit research and graduate education institute headquartered in Hampton, Virginia, near NASA's Langley Research Center. NIA's mission is to conduct leading-edge aerospace and atmospheric research, develop new technologies for the nation and help inspire the next generation of scientists and engineers. NIA was formed in 2002 by a consortium of research universities to ensure a national capability to support NASA's mission by expanding collaboration with academia and leveraging expertise inside and outside NASA. NIA performs research in a broad range of disciplines including space exploration, systems engineering, nanoscale materials science, flight systems, aerodynamics, air traffic management, aviation safety, planetary and space science, and global climate change.

SRI Shenandoah Valley in Harrisonburg, Virginia focuses on health and biomedical research and drug discovery and development with the ultimate goal of bringing new therapies and diagnostics to market. As part of SRI Biosciences, the research complements capabilities at other SRI locations, including SRI's Menlo Park, California headquarters. SRI's state-of-the-art 40,000-square-foot research facility is located on a 25-acre campus in the Innovation Village at Rockingham. The facility provides a convenient base for collaboration with academia, entrepreneurs, government, industry, and investors in Virginia and the greater Washington, D.C. area. SRI moved into its Shenandoah Valley laboratory facility in 2009 and further expanded in 2011 and 2013 to accommodate growth in its R&D programs. Scientific research at SRI Shenandoah Valley focuses on prevention, detection and treatment of diseases. Activities span basic research in emerging infectious disease, metabolic disease and proteomics; applied research in therapeutics including drugs, biologics, and vaccines; and personalized medicine through the development of companion diagnostics and biomarkers.

The Commonwealth Center for Advanced Manufacturing (CCAM) located in a state-of-the-art research facility in Prince George County, Virginia, is an applied research center that bridges the gap between fundamental research typically performed at universities and product development routinely performed by companies. CCAM provides production-ready advanced manufacturing solutions to member companies across the globe. Members guide the research, leveraging talent and resources within CCAM and at Virginia's top universities, through a collaborative model that enables them to pool R&D efforts to increase efficiencies. Results can then be applied directly to the factory floor, turning ideas into profit faster and more affordable than ever before.

Following the successful model of the Commonwealth Center for Advanced Manufacturing, the Commonwealth Center for Advanced Logistics Systems (CCALS) was established in 2013, also in Prince George County, Virginia. This public-private alliance focuses on solving logistics challenges and bringing solutions to market more quickly by partnering Virginia's leading universities and logistics companies. Founding members include Longwood University, University of Virginia, Virginia Commonwealth University, Virginia State University, Logistics Management Resources, and LMI.

New and Expanding Companies: In June 2015, Elephant Insurance announced the expansion of its U.S. headquarters in Henrico County. With this expansion, the company will invest $2 million and create 1,173 new jobs.

In November 2015, Microsoft announced the fourth expansion of its data center in Mecklenburg County. This expansion will create 42 new jobs, and involve over $402 million in investment by the company. With this expansion, Microsoft will have invested $1.74 billion in Mecklenburg County since 2010.

Navy Federal Credit Union announced in March 2015 that it will invest $114.6 million to expand its headquarters in Fairfax County. This expansion is expected to create 600 new jobs. Navy Federal Credit Union is a valued employer that supports over 5,000 jobs in the Commonwealth.

German grocer Lidl announced in June 2015 that it had chosen Arlington County as the site of its U.S. headquarters. The company will invest over $77 million and create over 500 new jobs. The company also announced $125 million in investment to construct a distribution center in Spotsylvania County and create 200 new jobs.

In July 2015, Richmond-based Hardywood Craft Brewery announced that it will be investing over $28 million to construct a 60,000-square-foot brewery in Goochland County. This brewery is expected to create 56 new jobs and is yet another example of the Commonwealth's growing craft brewing industry.

Shandong Tranlin Paper Co., a leading manufacturer and research and development center for straw-based pulp and paper products, announced in June 2014 the creation of its first U.S. operation. Locating in the James River Industrial Center in Chesterfield County, it will invest more than $2 billion and add 2,000 jobs by 2020. This project represents the largest Chinese greenfield development project in the U.S. and the largest Chinese economic development project in Virginia history.

In November 2014, Lindenburg Industry announced a $113 million investment to bring 349 new skilled manufacturing jobs to the Town of Appomattox. The project will revitalize a vacant facility and manufacture industrial environmental control components used in clean air emissions. This project is the first new company announcement in Appomattox County in 15 years, and the largest since Thomasville Furniture in 1972.

Business Climate: Virginia is headquarters to 35 Fortune 1000 companies and is ranked highly in three of the most comprehensive and impartial independent studies evaluating America's top states for business: Forbes.com, Pollina Corporate Real Estate; and CNBC.

Virginia ranked seventh in the country in Forbes.com's 2015 *Best States for Business* study. Virginia took the top spot in 2006, 2007, 2008, 2009, and 2013 and ranked second overall in 2010, 2011, and 2012. The review examines multiple objective measurements, including business cost, regulatory climate, quality of the workforce, and economic growth. Forbes.com is the official Internet site of the Forbes family of business publications. According to Forbes.com 2015 study, the Commonwealth ranked No. 1 in the Regulatory Environment category because of its strong incentive offerings and business-friendly government policies, ranked No. 2 for labor supply, and for the second year in a row received a No. 5 ranking for quality of life.

In 2015, Pollina Corporate Real Estate, a full-service brokerage and consulting firm representing corporations in real estate matters on a national and international basis, ranked Virginia as America's fourth most business-friendly state in their annual independent study titled, *Pollina Corporate Top 10 Pro-Business States 2015.* The study evaluates and ranks states based on 32 factors including taxes, human resources, right-to-work legislation, energy costs, infrastructure spending, worker compensation legislation, jobs lost or gained, economic incentive programs and state economic development efforts. According to the most recent study, Virginia excels in offering low operating costs, a pro-business environment, access to global markets, and a skilled educated workforce to businesses. The Commonwealth ranked first in the Pollina study in 2007, 2009, 2010, and 2011 while ranking second in 2006 and 2012; third in 2008, and fourth in 2013.

Virginia was ranked twelfth in CNBC's *America's Top States for Business 2015*. All 50 states are ranked on 60 measures of competitiveness, using input from business groups, economic development experts, companies, and the states themselves. The network separates those measures into 10 broad categories: cost of doing business, workforce, quality of life, economy, infrastructure, technology and innovation, education, business friendliness, access to capital, and cost of living. Since the rankings began, Virginia has, claimed the number one spot in 2007, 2009, and 2011 while receiving second in 2008 and 2010. In the 2015 study, the Commonwealth was also ranked third in business friendliness, sixth in education, and sixth in workforce.

Education: The Constitution of Virginia vests the supervision of public elementary and secondary schools in local school boards. The State Board of Education is, however, required to prescribe standards of quality and has prescribed minimum competency tests for high school graduation.

Virginia's public schools are financed through a combination of state, local and federal funds. The private sector also contributes through partnerships with schools and school divisions. The apportionment of the state funds for public education is the responsibility of the General Assembly, through the Appropriations Act. General fund appropriations serve as the mainstay of state support for the commonwealth's public schools, augmented by retail sales and use tax revenues, state lottery proceeds, and other sources. Historically, state funding for public education represents about one-third of the state general fund budget.

Counties, cities and towns comprising school divisions also support public education by providing the locality's share to maintain an educational program meeting the commonwealth's Standards of Quality.

While public education is primarily a state and local responsibility, the federal government provides assistance to state and local education agencies in support of specific federal initiatives and mandates.

In the 2015-16 academic year, an estimated 393,545 students were enrolled in the Commonwealth's 39 public colleges, community colleges and universities. Of these students, an estimated 179,065 attended 23 community colleges on 40 campuses within the Virginia Community College System. A total of 1,284,680 students attended public elementary and secondary schools. The following table illustrates enrollment levels for all educational levels for the last 10 academic years.

ENROLLMENT FOR PUBLIC AND PRIVATE INSTITUTIONS OF HIGHER EDUCATION AND PUBLIC PRIMARY AND SECONDARY SCHOOLS

Academic	Higher Education			Public Primary and
Year	Public	Private	Total	Secondary
2006-07	357,857	70,785	428,642	1,220,440
2007-08	370,598	79,073	449,671	1,230,857
2008-09	383,459	86,959	470,418	1,235,064
2009-10	401,352	100,514	501,866	1,244,873
2010-11	409,277	110,495	519,772	1,251,949
2011-12	413,019	122,275	535,294	1,258,520
2012-13	409,069	123,144	532,213	1,264,880
2013-14	403,975	125,343	529,318	1,273,211
2014-15	398,689	135,591	534,280	1,279,773
2015-16	393,545	135,121	528,666	1,284,680

Source: State Council for Higher Education in Virginia, Virginia Department of Education.

Natural Resources: Virginia’s five physiographic provinces are underlain by rocks of different ages, kinds, and character. Consequently, the state has a wide variety of mineral resources. Today, the value of mineral production in Virginia is nearly $3.7 billion. In terms of value, the most important commodity is bituminous coal. Seven counties in the Appalachian

Plateau region constitute the Southwest Virginia Coal Field. According to *Virginia Economic Indicators* published by the Virginia Employment Commission (Vol. 43, No. 4), the mining industry is expected to follow energy markets. It is predicted that utilities will use less coal due to the conversion of old coal-fired power plants to natural gas**.**

Virginia's forests provide more than $17.5 billion in annual economic benefits to the Commonwealth, and the forest industry provides employment for more than 103,000 Virginians. In addition, the nearly 16 million acres of forestland provide citizens environmental benefits, such as water quality and air quality, habitat for wildlife and plants, recreational opportunities and aesthetic beauty.

Virginia's geographic location contributes to the success of its seafood industry. The Virginia seafood industry is one of the oldest industries in the United States and largest seafood production state on the East Coast. In addition, Virginia is the nation's third largest producer of marine products with total landings of over $388 million pounds in 2014. Its ports are rarely, if ever, closed in the winter. Its catch is widely diversified, preventing dependence on any one species. Among the 50 commercially valuable seafood species harvested from some 620,000 acres of water are sea scallops, clams, oysters, blue crabs, summer flounder, striped bass, croaker and spot. The Virginia Institute of Marine Science has reported the annual economic impact of Virginia's seafood industry to be over $500 million.

Agriculture: The agricultural industry has an economic impact of $52 billion annually and provides nearly 311,000 jobs in the Commonwealth. The industries of agriculture and forestry together have a total economic impact of almost $70 billion. Every job in agriculture and forestry supports 1.6 jobs elsewhere in the Virginia economy.

Production agriculture employs nearly 55,000 farmers and workers in Virginia and generates approximately $3.3 billion in total output. Value-added industries, those that depend on farm commodities, employ an additional 67,000 workers. When the employment and value-added impact of agriculture and forestry are considered together, they make up 8.1 percent of the state's local gross domestic product.

Tourism: Another of Virginia's most important economic assets is the travel and tourism industry. Tourism's economic contribution to Virginia in 2014 increased to 22.4 billion, a 4.1 percent increase over 2013. Approximately 216,900 Virginia jobs were directly supported by travel spending in 2014, including employment in such travel-related businesses as lodging establishments, restaurants, museums, amusement parks, retail stores and gasoline service stations. Tourism is also a significant source of government revenues and was responsible for $2.9 billion in combined state and local tax revenues in 2014, up 4.7 percent from 2013.

APPENDIX D

COMMONWEALTH OF VIRGINIA
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

FINANCIAL SECTION

Independent Auditor's Report
Management's Discussion and Analysis
Basic Financial Statements
Required Supplementary Information
Combining and Individual Fund Statements and Schedules

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

December 15, 2015

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit
And Review Commission

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Virginia, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Commonwealth'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 did not audit the financial statements of certain blended and aggregate discretely presented components units of the Commonwealth, which are discussed in Note 1.B. These component units account for the following percentages of total assets and deferred outflows of resources, revenues, and net position of the opinion units affected.

Opinion Unit	Total Assets and Deferred Outflows	Net Position	Revenues
Business-Type Activities	7.308%	0.091%	-
Aggregate Remaining Fund Information	0.392%	0.002%	-
Aggregate Discretely Presented Component Units	29.224%	24.094%	9.993%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as it relates to the amounts included for certain component units discussed in Note 1.B. are based on the reports of the other auditors.

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. The financial statements of the Hampton Roads Sanitation District Commission, Science Museum of Virginia Foundation, Virginia Museum of Fine Arts Foundation, Library of Virginia Foundation, and Danville Science Center, Inc., which were audited by other auditors upon whose reports we are relying, were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards.

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, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Virginia as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

The Commonwealth of Virginia's basic financial statements for the year ended June 30, 2015, reflect the provisions of the Governmental Accounting Standards Board's (GASB) Statement No. 68, *Accounting and Financial Reporting for Pension - an amendment of GASB Statement No. 27* and GASB Statement No. 71*, Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. The Commonwealth of Virginia implemented the requirements of GASB Statements No. 68 and 71 in accordance with their required effective date. See Notes 2, 13 and 15 in the accompanying financial statements for the impact of the standards' implementation. Our opinion is not modified with respect to this matter.

Correction of 2014 Financial Statements

As discussed in Note 2 of the accompanying financial statements, the fiscal year 2014 governmental activities, business-type activities, component units, Commonwealth Transportation major special revenue fund, and proprietary funds financial statements have been restated to correct misstatements. Our opinion is not modified with respect to these matters.

Change in Reporting Entity

In addition, as discussed in Note 2 of the accompanying financial statements, the component unit financial statements have been restated due to the removal of the Virginia Horse Center Foundation as a non-major component unit of the Commonwealth. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedules, schedule of changes in employer's net pension liability, schedule of employer contributions for pension plans, funding progress for other post-employment benefit plans, schedule of employer contributions for other post-employment benefit plans, and claims development information on pages 27 through 37 and 177 through 196 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 the 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 and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth of Virginia's basic financial statements. The accompanying supplementary information, such as the combining and individual fund statements and schedules, and other information such as the introductory and statistical sections, are presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The combining and individual fund statements and schedules are the responsibility of management and were derived from and relate 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 by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the combining and individual fund statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, our report dated December 15, 2015, on our consideration of the Commonwealth'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 is issued in the Commonwealth of Virginia Single Audit Report. 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 Commonwealth's internal control over financial reporting and compliance.

MARTHA S. MAVREDES
AUDITOR OF PUBLIC ACCOUNTS

Management's Discussion and Analysis
(Unaudited)

The following is a discussion and analysis of the Commonwealth of Virginia's (the Commonwealth) financial performance, including an overview and analysis of the financial activities of the Commonwealth for the fiscal year ended June 30, 2015. Readers should consider this information in conjunction with the transmittal letter, which is located in the Introductory Section of this report, and the Commonwealth's financial statements, including the notes to the financial statements, which are located after this analysis.

Financial Highlights

Government-wide Highlights

The primary government's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at June 30, 2015, by $20.8 billion. Net position of governmental activities increased by $868.1 million and net position of business-type activities increased by $303.0 million. Component units reported an increase in net position of $1.1 billion from June 30, 2014.

Fund Highlights

At the end of the fiscal year, the Commonwealth's governmental funds reported a combined ending fund balance of $4.3 billion, an increase of $402.8 million in comparison with the prior year. Of this total fund balance, $282.5 million represents nonspendable fund balance, $2.2 billion represents restricted fund balance, $2.5 billion represents committed fund balance, and $28.8 million represents assigned fund balance. These amounts are offset by a negative $713.1 million unassigned fund balance. The Enterprise Funds reported net position at June 30, 2015, of $1.4 billion, an increase of $303.9 million during the year which is primarily attributable to the Unemployment Compensation Fund and the Virginia College Savings Plan. See page 33 for additional information.

The General Fund recognized higher fund revenues and expenditures, as well as higher assets and deferred outflows of resources and lower liabilities and deferred inflows of resources when compared to fiscal year 2014. See page 34 for additional information.

Long-term Debt

The Commonwealth's total debt rose during the fiscal year to $41.9 billion, an increase of $4.3 billion, or 11.4 percent. During the fiscal year, the Commonwealth issued new debt in the amount of $1.4 billion for the primary government and $5.0 billion for the component units. These debt issuances increased the debt balances to $14.7 billion for the primary government and $27.2 billion for component units.

Overview of the Financial Statements

This discussion and analysis is an introduction to the Commonwealth's basic financial statements, which include three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. The report also contains additional required supplementary information and other information.

Government-wide Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Commonwealth's finances in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the Commonwealth's financial position which helps readers determine whether the Commonwealth's financial position has improved or deteriorated during the fiscal year. These statements include all non-fiduciary financial activity on the full accrual basis of accounting. This means that all revenue and expenditures are reflected in the financial statements even if the related cash has not been received or paid as of June 30.

The Statement of Net Position (pages 40 and 41) presents information on all of the Commonwealth's assets and deferred outflows of resources, and liabilities and deferred inflows of resources; net position represents the difference between all other elements in a statement of financial position and is displayed in three components – net investment in capital assets; restricted; and unrestricted. Over time, increases or decreases in net position may indicate whether the financial position of the Commonwealth is improving or deteriorating.

The Statement of Activities (pages 42 through 44) presents information showing how the Commonwealth's net position changed during fiscal year 2015. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both the Statement of Net Position and Statement of Activities report three separate activities. These activities are described as follows:

Governmental Activities – account for functions of the Commonwealth that are primarily supported by taxes and intergovernmental revenues. The majority of the Commonwealth's basic services, such as education, individual and family services, transportation, resources and economic development, administration of justice, and general government, fall within this category.

Business-type Activities – account for functions that are intended to recover all or a significant portion of their costs through user fees and charges. The major business-type activities of the Commonwealth include the Virginia Lottery, Virginia College Savings Plan, and Unemployment Compensation Fund.

Discretely Presented Component Units – account for functions of legally separate entities for which the Commonwealth is financially accountable. The Commonwealth has 26 non-higher education component units and 22 higher education institutions that are reported as discretely presented component units. Information regarding the individual financial statements of the component units is presented in the notes to the financial statements.

This report includes two schedules (pages 48 and 52) that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities on the appropriate government-wide statements (full accrual accounting). The following indicates some of the reporting differences between the government-wide financial statements and the fund financial statements.

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Long-term liabilities, unless due and payable, are not included in the fund financial statements. These liabilities are only included in the government-wide statements.
- Internal service funds are reported as governmental activities in the government-wide statements, but are reported as proprietary funds in the fund financial statements.
- Other long-term assets that are not available to pay for current period expenditures are deferred in the governmental fund statements, but not deferred in the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures in the fund financial statements.
- Bond proceeds provide current financial resources on the fund financial statements, but are recorded as long-term liabilities in the government-wide financial statements.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the Commonwealth's funds can be divided into three categories: governmental, proprietary, and fiduciary. Each of these categories uses different accounting approaches. Fund financial statements begin on page 46 and provide detailed information about the major individual funds.

- **Governmental funds** – Most of the basic services provided by the Commonwealth are reported in the governmental funds. These statements provide a detailed, short-term view of the functions reported as governmental activities in the government-wide financial statements. The government-wide financial statements are reported using the full accrual basis of accounting, but the governmental fund financial statements are reported using the modified accrual basis of accounting. This allows the reader to focus on assets that can be readily converted to cash and determine whether there are adequate resources to meet the Commonwealth's current needs.

  Because the focus of governmental funds is more limited 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. This comparison can help readers better understand the long-term impact of the Commonwealth's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

  The Commonwealth reports 12 individual governmental funds. Information is presented separately in the governmental fund statements for the General, Commonwealth Transportation, Federal Trust, and Literary funds, which are all considered major funds. Data from the other 8 governmental funds are aggregated into a single column on the fund statements. Individual fund data for these nonmajor governmental funds is provided in the combining financial statements immediately following the required supplementary information.

- **Proprietary funds** – The Commonwealth maintains two different types of proprietary funds, enterprise and internal service. These funds report activities that operate more like those of private-sector business and use the full accrual basis of accounting. Enterprise funds report activities that charge fees for supplies or services to the general public like the Virginia Lottery. Enterprise funds are reported as business-type activities on the government-wide financial statements.

  The enterprise funds use the full accrual basis of accounting and the only differences between amounts reported on the government-wide statements and the enterprise fund statements are due to internal service fund activity (see reconciliations on pages 54 and 56). Internal service funds report activities that charge fees for supplies and services to other Commonwealth agencies, like Fleet Management. Internal service funds are reported as governmental activities in the government-wide statements because these types of services predominantly benefit governments rather than business-type functions.

  The Commonwealth reports 24 individual proprietary funds. Information is presented separately in the proprietary fund statements for the Virginia Lottery, Virginia College Savings Plan, and Unemployment Compensation Funds, all of which are considered major funds. Data from the other enterprise funds are aggregated into a single column on the fund statements. All internal service funds are aggregated into a single column on the fund statements. Individual fund data for all nonmajor proprietary funds is provided in the combining financial statements immediately following the required supplementary information.

- **Fiduciary funds** – These funds are used to account for resources held for the benefit of parties outside the government and use the full accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because the resources of these funds are restricted and cannot be used to finance the Commonwealth's operations. The Commonwealth's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position beginning on page 64.

  The Commonwealth's fiduciary funds are the:

  - Private Purpose Trusts, which reports the activities for 7 separate funds and accounts for transactions of trust arrangements in which the principal and income benefit individuals, private organizations, or other governments;
  - Pension and Other Employee Benefit Trusts, which reports the activities of 13 separate pension and other employment retirement plans for employees;
  - Investment Trust, which accounts for the activities of the external investment pool; and,
  - Agency, which accounts for assets held on behalf of others in 20 separate funds.

  Individual fund data for all fiduciary funds is provided in the combining financial statements immediately following the required supplementary information.

- **Component Units** – The government-wide financial statements report information for all component units aggregated in a single column. Information is provided separately in the component unit fund statements for the Virginia Housing Development Authority, Virginia Public School Authority, Virginia Resources Authority, and Virginia College Building Authority, all of which are considered major component units. Data from the other component units are aggregated into a single column on the fund statements. Individual fund data for all nonmajor component units is provided in the combining financial statements immediately following the required supplementary information.

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 fund financial statements. The notes to the financial statements can be found immediately following the component unit fund financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes budgetary comparison schedules reconciling the statutory and generally accepted accounting principles fund balances at June 30. It also includes information concerning the Commonwealth's funding progress and employer contributions for pension and other postemployment benefits and changes in employers' net pension liability, as well as trend information for Commonwealth-managed risk pools.

Other Information

The combining statements referred to earlier in connection with nonmajor funds and component units can be found beginning on page 197 of this report. The individual fund information is aggregated into a single total on the combining financial statements, which carries forward to the fund financial statements.

Government-wide Financial Analysis

The primary government's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $20.8 billion during the fiscal year. The net position of the governmental activities increased $868.1 million, or 4.7 percent, primarily due to increases in capital assets and deferred outflows of resources offset by increases in total liabilities and deferred inflows of resources. Capital assets are discussed further on page 35, the long-term liabilities are discussed further on page 36, and deferred inflows and outflows of resources are discussed in Note 13, "Deferred Outflows and Deferred Inflows of Resources." Business-type activities had an increase of $303.0 million, or 28.2 percent, primarily due to an increase for the Unemployment Compensation Fund and Virginia College Savings Plan as discussed on page 33. The government-wide beginning balance was restated for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, and the correction of prior year errors to arrive at a restated beginning balance of $19.6 billion.

Figure 11
Net Position as of June 30, 2015 and 2014
(Dollars in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2015	2014 as restated	2015	2014 as restated	2015	2014 as restated
Current and other assets	$ 9,244,081	$ 8,966,466	$ 4,425,736	$ 4,042,573	$ 13,669,817	$ 13,009,039
Capital assets	29,347,883	27,908,070	40,227	168,539	29,388,110	28,076,609
Deferred outflows of resources	507,048	53,940	13,438	-	520,486	53,940
Total assets and deferred outflows of resources	39,099,012	36,928,476	4,479,401	4,211,112	43,578,413	41,139,588
Long-term liabilities outstanding	11,953,821	11,996,146	2,736,277	2,779,870	14,690,098	14,776,016
Other liabilities	4,790,020	4,801,203	342,291	354,809	5,132,311	5,156,012
Deferred inflows of resources	2,918,314	1,562,385	21,371	-	2,939,685	1,562,385
Total liabilities and deferred inflows of resources	19,662,155	18,359,734	3,099,939	3,134,679	22,762,094	21,494,413
Net position:						
Net investment in capital assets	23,406,620	22,326,288	34,519	12,312	23,441,139	22,338,600
Restricted	1,435,961	1,465,891	845,213	586,073	2,281,174	2,051,964
Unrestricted	(5,405,724)	(5,223,437)	499,730	478,048	(4,905,994)	(4,745,389)
Total net position	$ 19,436,857	$ 18,568,742	$ 1,379,462	$ 1,076,433	$ 20,816,319	$ 19,645,175

The largest portion of the primary government's net position reflects its investment in capital assets (e.g., land, buildings, equipment, infrastructure, construction-in-progress, and intangible assets including water rights, easements and software), less any related outstanding debt and deferred inflows of resources used to acquire those assets. These assets are recorded net of depreciation in the financial statements. The primary government uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the primary government's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities (**Figure 11**). The governmental activities net investment in capital assets amount exceeds total net position due to a negative unrestricted net position amount unrelated to capital assets.

An additional portion of the primary government's net position represents restricted net position. These resources are subject to external restrictions or constitutional provisions specifying how they may be used. The remaining balance of negative $4.9 billion is unrestricted net position (**Figure 11**).

Approximately 55.4 percent of the primary government's total revenue came from taxes. While the primary government's expenses cover many services, the largest expenses are for education and individual and family services. General revenues normally fund governmental activities. For fiscal year 2015, governmental program and general revenues exceeded governmental expenses by $274.3 million. Program revenues exceeded expenses from business-type activities by $986.0 million. The following condensed financial information (**Figure 12**) was derived from the Government-wide Statement of Activities and provides detail regarding the change in net position (see page 42).

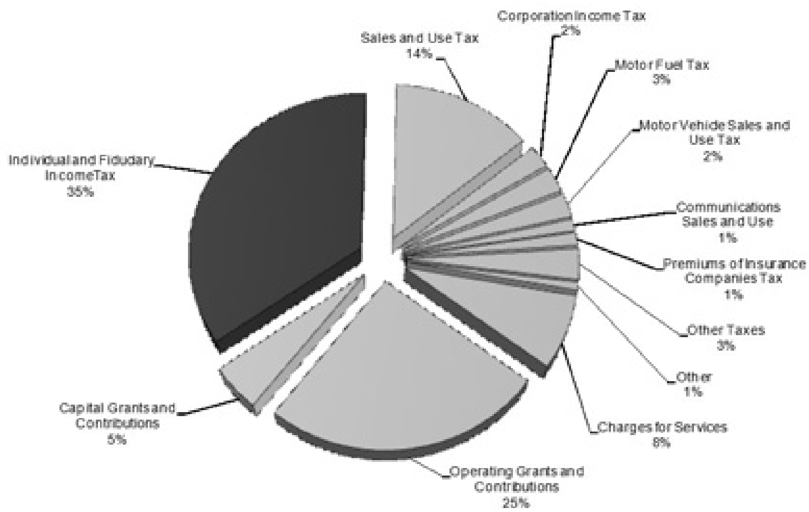
Figure 12
Changes in Net Position for the Fiscal Years Ended June 30, 2015 and 2014
(Dollars in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2015	2014 as restated	2015	2014 as restated	2015	2014 as restated
Revenues:						
Program Revenues:						
Charges for Services	$ 2,594,514	$ 2,560,863	$ 3,953,679	$ 4,131,281	$ 6,548,193	$ 6,692,144
Operating Grants and Contributions	8,914,631	8,731,809	183	264	8,914,814	8,732,073
Capital Grants and Contributions	1,618,761	1,508,880	-	69,595	1,618,761	1,578,475
General Revenues:						
Taxes:						
Individual and Fiduciary Income	12,265,530	11,681,808	-	-	12,265,530	11,681,808
Sales and Use	4,829,677	4,597,105	-	-	4,829,677	4,597,105
Corporation Income	801,165	769,832	-	-	801,165	769,832
Motor Fuel	888,348	791,944	-	-	888,348	791,944
Motor Vehicle Sales and Use	846,197	780,817	-	-	846,197	780,817
Communications Sales and Use	416,051	420,371	-	-	416,051	420,371
Deeds, Contracts, Wills, and Suits	440,896	394,834	-	-	440,896	394,834
Premiums of Insurance Companies	453,376	459,933	-	-	453,376	459,933
Alcoholic Beverage Sales	139,832	132,044	-	-	139,832	132,044
Tobacco Products	178,954	182,110	-	-	178,954	182,110
Estate	92	149	-	-	92	149
Public Service Corporations	118,849	119,074	-	-	118,849	119,074
Beer and Beverage Excise	42,719	43,050	-	-	42,719	43,050
Wine and Spirits/ABC Liter	26,253	25,620	-	-	26,253	25,620
Bank Stock	19,030	22,581	-	-	19,030	22,581
Other Taxes	112,368	95,415	9,142	9,142	121,510	104,557
Unrestricted Grants and Contributions	48,613	48,730	-	-	48,613	48,730
Investment Earnings	15,970	44,571	1,603	1,735	17,573	46,306
Miscellaneous	205,625	233,716	243	358	205,868	234,074
Total Revenues	34,977,451	33,645,256	3,964,850	4,212,375	38,942,301	37,857,631
Expenses:						
General Government	3,267,325	3,545,550	-	-	3,267,325	3,545,550
Education	9,844,625	9,484,561	-	-	9,844,625	9,484,561
Transportation	4,369,089	4,060,677	-	-	4,369,089	4,060,677
Resources and Economic Development	970,515	1,163,797	-	-	970,515	1,163,797
Individual and Family Services	13,276,897	13,875,427	-	-	13,276,897	13,875,427
Administration of Justice	2,751,111	3,641,626	-	-	2,751,111	3,641,626
Interest and Charges on Long-term Debt	223,584	237,782	-	-	223,584	237,782
Virginia Lottery	-	-	1,299,753	1,281,732	1,299,753	1,281,732
Virginia College Savings Plan	-	-	155,331	110,156	155,331	110,156
Unemployment Compensation	-	-	431,437	535,715	431,437	535,715
Alcoholic Beverage Control	-	-	579,945	595,272	579,945	595,272
Risk Management	-	-	10,240	13,839	10,240	13,839
Local Choice Health Care	-	-	349,910	308,295	349,910	308,295
Route 460 Funding Corporation of Virginia	-	-	13,024	82,257	13,024	82,257
Virginia Industries for the Blind	-	-	42,722	39,198	42,722	39,198
Consolidated Laboratory	-	-	8,630	11,244	8,630	11,244
eVA Procurement System	-	-	22,563	23,739	22,563	23,739
Department of Environmental Quality Title V	-	-	10,444	16,287	10,444	16,287
Wireless E-911	-	-	36,804	46,598	36,804	46,598
Museum and Library Gift Shops	-	-	6,618	7,174	6,618	7,174
Behavioral Health Canteen and Work Activity	-	-	466	442	466	442
Total Expenses	34,703,146	36,009,420	2,967,887	3,071,948	37,671,033	39,081,368
Excess before transfers	274,305	(2,364,164)	996,963	1,140,427	1,271,268	(1,223,737)
Special Item	(134,561)	-	34,437	-	(100,124)	-
Transfers	728,371	723,701	(728,371)	(723,701)	-	-
Increase in net position	868,115	(1,640,463)	303,029	416,726	1,171,144	(1,223,737)
Net position, July 1, as restated	18,568,742	20,209,205	1,076,433	659,707	19,645,175	20,868,912
Net position, June 30	$ 19,436,857	$ 18,568,742	$ 1,379,462	$ 1,076,433	$ 20,816,319	$ 19,645,175

Governmental Activities Revenues

Figure 13 is a graphical representation of the Statement of Activities revenues for governmental activities. Governmental activities revenues increased by $1.3 billion, or 4.0 percent. The net increase is mainly attributable to increases in the General Fund, which are discussed on page 34.

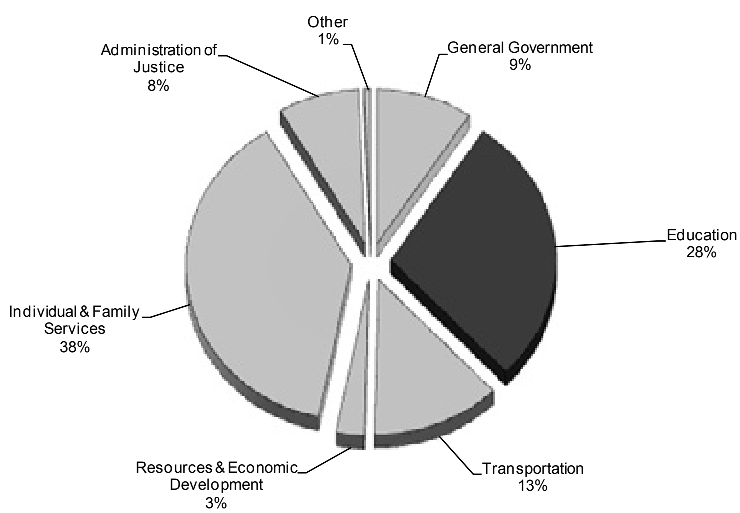
Figure 13
Revenues by Source – Governmental Activities
Fiscal Year 2015



Governmental Activities Expenses

Figure 14 is a graphical representation of the Statement of Activities expenses for governmental activities. Governmental activities expenses decreased by $1.3 billion, or 3.6 percent. This change is primarily attributable to decreases in all expense types with the exception of Education and Transportation. See pages 34 and 35 for additional information.

Figure 14
Expenses by Type – Governmental Activities
Fiscal Year 2015



Net Position of Business-type Activities

Net position of business-type activities increased by $303.0 million during the fiscal year. As shown in **Figure 15**, highlights of the changes in net position for the major enterprise funds were as follows:

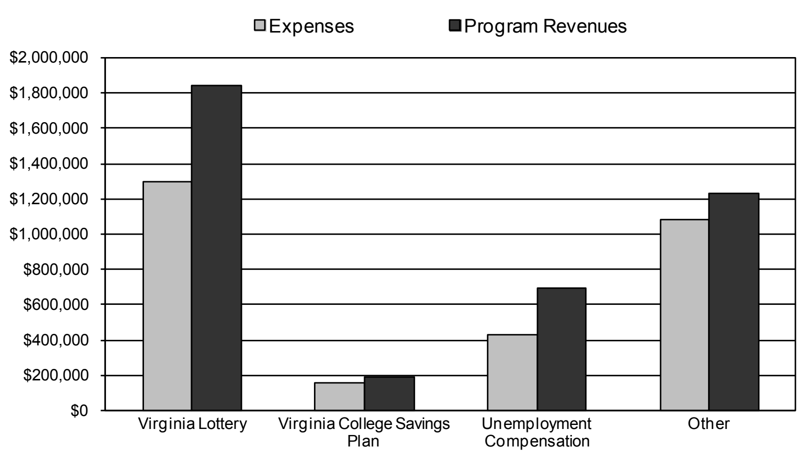
- Lottery sales were $1.8 billion, an increase of $33.1 million over the prior year. Net income was $545.5 million, a decrease of $621,623 (0.1 percent) from fiscal year 2014. Sales of scratch games increased by $29.9 million (3.0 percent) and online sales increased by $3.2 million (0.4 percent). This is offset by an increase of $33.4 million (2.6 percent) in total expenses, primarily attributable to the cost of prizes and claims.

- Virginia College Savings Plan's net position increased by $32.2 million (6.3 percent) during the fiscal year. Although the investment income decreased from the prior year, total revenues still exceeded the increased expenses incurred during fiscal year 2015.

- Unemployment Compensation Fund net position increased by $259.1 million during fiscal year 2015, primarily as a result of a decrease in benefit claims. Operating expenses decreased by $104.3 million. These factors combined give the Trust Fund the large increase.

  Over the one year period from July 1, 2014, to June 30, 2015, the unemployment rate declined from 5.2 percent to 4.9 percent. Additionally, there were approximately 51,270 fewer initial unemployment claims filed than in the previous year. These declines were accompanied by decreases in the average weekly benefit amounts from approximately $290.9 to $290.0 in fiscal year 2015 and decreases in the average benefit duration from 16.3 weeks to 16.0 weeks in fiscal year 2015. These multiple influences led to a decrease in the total benefit payments of $104.3 million over the prior year.

Figure 15
Business-type Activities
Program Revenues and Expenses
Fiscal Year 2015
(Dollars in Thousands)



Fund Statements Financial Analysis

As of the end of the fiscal year, the primary government's governmental funds reported combined ending fund balances of $4.3 billion, including a negative unassigned fund balance of $713.1 million indicating that restricted and committed amounts exceed the available modified accrual basis fund balance. The remainder of fund balance is nonspendable, restricted or committed to indicate that it is not available for new spending.

General Fund Highlights

At the end of the fiscal year, the General Fund reported a combined ending fund balance of $848.4 million, an increase of $218.7 million in comparison with the prior year. Of this total fund balance, $120.0 million represents nonspendable fund balance, $1.1 billion represents restricted fund balance, and $295.7 million represents committed fund balance. These amounts are offset by a negative $653.4 million unassigned fund balance.

Fiscal year 2015 General Fund revenues were 3.5 percent, or $642.6 million, higher than fiscal year 2014 revenues. This revenue change results from increases of $762.2 million primarily attributable to individual and fiduciary income taxes ($590.0 million), sales and use taxes ($94.4 million), deeds, contracts, wills and suits taxes ($35.4 million) and corporation income taxes ($22.4 million) offset by decreases of $119.6 million primarily attributable to interest, dividends, and rents ($50.3 million), other revenue primarily relating to expenditure recoveries from prior years ($34.9 million), and premiums of insurance companies taxes ($14.0 million).

Fiscal year 2015 expenditures increased by 2.6 percent, or $483.4 million, when compared to fiscal year 2014. This was primarily attributable to increases in individual and family services, education, general government, and administration of justice expenditures of $262.4 million, $161.6 million, $30.2 million, and $24.6 million, respectively. Net other financing sources and uses increased by $67.8 million, which is primarily due to lower transfers out to and higher transfers in from nongeneral funds.

Budget Highlights

The General Fund began the year with an original revenue budget that was $943.0 million, or 5.2 percent, higher than the final fiscal year 2014 revenue budget. Additionally, the final revenue budget was slightly lower ($624.4 million or 3.3 percent) than the original budget. The change between the original and final budget was primarily attributable to decreases in the final budget for individual and fiduciary income taxes of $533.6 million and other revenue primarily relating to expenditure recoveries from prior years of $80.4 million due to revised economic forecasts. This was offset by increases in the final budget for premiums of insurance companies taxes of $29.6 million and corporation income taxes of $24.3 million. Total actual General Fund revenues were higher than final budgeted revenues by $531.1 million due to stronger than anticipated collections.

Total final budget expenditures were lower than original budget expenditures by $560.8 million, or 2.8 percent. This decrease was primarily attributable to budgeted expenditures for general government of $561.4 million, individual and family services of $96.0 million, and education of $22.4 million, offset in part by increases in resources and economic development of $56.8 million and administration of justice of $52.7 million.

The Commonwealth spent less than planned so actual expenditures were $272.3 million, or 1.4 percent, lower than final budget expenditures.

Budget Outlook

In order to mitigate the effects of difficult economic conditions over the past several years, the Commonwealth adopted temporary budget solutions such as accelerated sales taxes.

While some of the conditions left by the financial and economic downturn experienced between 2008 and 2010 are still visible in certain sectors, Virginia's economy continued to recover, however, at a slower rate than the national level. Data regarding the primary economic indicators – jobs and new housing units provide some improvement. The unemployment rate has decreased from the previous fiscal year while housing indicators show mixed results. During fiscal year 2015 the two General Fund revenue sources most closely tied to current economic activity – individual income taxes and retail sales taxes – experienced increases when compared to the 2014 collections by $1.1 billion (9.6 percent) and $169.0 million (5.5 percent), respectively. The individual income tax collections and retail sales taxes were more than the estimated revenue by $512.4 million (4.3 percent) and $17.6 million (0.5 percent), respectively. These increases resulted in a strong performance during the second half of the fiscal year.

Although the fiscal year 2015 revenue collections compared to fiscal year 2014 showed improvements over the estimate, the fiscal year 2016 General Fund Revenue estimate calls for a decline of 0.1 percent when compared to the fiscal year 2015 collections. This planned reduction reflects continued uncertainty related to federal spending cuts and concerns in the global market. The Governor will release his amendments to the 2016-2017 biennial budget on December 17, 2015.

Major Special Revenue Fund Highlights

The Commonwealth Transportation Fund ended the fiscal year with a fund balance of $2.3 billion. Approximately $3.9 billion is contractually committed for various highways, public transportation, and rail preservation projects (see Note 20). Additionally, revenues and expenditures increased $434.1 million, or 8.7 percent, and $284.1 million, or 5.5 percent, respectively. The revenue increase was primarily due to increases in tax collection of $332.4 million or 11.2 percent and in other revenue of $68.5 million or 49.7 percent. Expenditures increased mainly for highway maintenance, acquisition, and construction.

The Federal Trust Fund balance decreased by $19.8 million, or 14.7 percent primarily due to a significant decrease in fines and forfeitures of $89.4 million, or 93.7 percent, and a decrease in other revenue of $32.1 million or 22.4 percent, offset by an increase in Federal Grants and Contracts revenue of approximately $25.3 million and a decrease in expenditures of $60.1 million. This change in the Federal Grants and Contracts revenue was mainly attributed to an increase in Medicaid funding ($156.8 million), child and family assistance ($61.8 million), and public safety ($12.7 million), offset by decreases of American Recovery and Reinvestment Act revenue ($21.6 million), unemployment insurance ($78.8 million), food and home energy assistance programs ($97.4 million), and education grants ($28.5 million). The remaining difference is distributed over many other federal programs. Net other financing sources and uses decreased by $10.9 million, or 89.4 percent primarily attributable to lower transfers in from other funds.

The Literary Fund ended the year with a deficit net position of $37.5 million and a fund balance decrease of $51.0 million, or 378.2 percent. These decreases resulted from both operating results and accruals. The net disbursements exceeded net receipts by $63.4 million, offset by a cash transfer in of $12.4 million representing unclaimed prizes from the Virginia Lottery (major enterprise). Additionally, loans of $185.9 million owed to the Virginia Public School Authority (major component unit) exceeded the cash and accrued receivables at year end.

Capital Asset and Long-term Debt

Capital Assets. The primary government's investment in capital assets for its governmental and business-type activities as of June 30, 2015, amounts to $29.4 billion (net of accumulated depreciation totaling $16.4 billion). This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, construction-in-progress, and intangible assets including water rights, easements, and software. Infrastructure assets are items that are normally immovable such as roads, bridges, drainage systems, and other similar assets. As noted on page 30, increases in capital assets and deferred outflows of resources offset by increases in total liabilities and deferred inflows of resources resulted in an increase in net position of the governmental activities of $868.1 million, or 4.7 percent. The increase in the primary government's net investment in capital assets was primarily attributable to increases in infrastructure of $1.2 billion offset by decreases in construction-in-progress of $90.5 million. These changes are primarily attributable to transportation. The primary government reports equipment with a value of $50,000 or greater and an expected useful life of two or more years. The primary government capitalizes all land, buildings, infrastructure, and intangible assets that have a cost or value greater than $100,000 and an expected useful life of two or more years. Additional information on the primary government's capital assets can be found in Note 12, Capital Assets.

Figure 16
Capital Assets as of June 30, 2015
(Net of Depreciation)
(Dollars in Thousands)

	Governmental Activities	Business-type Activities	Total
Land	$ 2,935,504	$ 1,977	$ 2,937,481
Buildings	2,619,679	17,638	2,637,317
Equipment	485,154	12,149	497,303
Water Rights/Easements	69,770	-	69,770
Infrastructure	18,974,616	-	18,974,616
Software	244,070	3,861	247,931
Construction-in-Progress	4,019,090	4,602	4,023,692
Total	$ 29,347,883	$ 40,227	$ 29,388,110

Long-term Debt. The Commonwealth is prohibited from issuing general obligation bonds for operating purposes. At the end of the current fiscal year, the Commonwealth had total debt outstanding of $41.9 billion, including total tax-supported debt of $19.8 billion and total debt not supported by taxes of $22.2 billion. Bonds backed by the full faith and credit of the government and tax-supported total $1.6 billion. Debt is considered tax-supported if Commonwealth tax revenues are used or pledged for debt service payments. An additional $877.9 million is considered moral obligation debt which is not tax-supported. The Commonwealth has no direct or indirect pledge of tax revenues to fund reserve deficiencies. However, in some cases, the Commonwealth has made a moral obligation pledge to consider funding deficiencies in debt service reserves that may occur. The remainder of the Commonwealth's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

During fiscal year 2015, the Commonwealth issued $6.4 billion of new debt for various projects. Of this new debt, $1.4 billion was for the primary government and $5.0 billion for the component units. Additional information on the Commonwealth's outstanding debt can be found in Note 26, "Long-Term Liabilities," as well as in the section entitled "Debt Schedules." The Commonwealth maintains a "triple A" bond rating for general obligation debt from the three rating agencies: Moody's Investors Service; Standard & Poor's Ratings Group, a division of The McGraw Hill Companies, Inc.; and Fitch, Inc.

State statutes limit the amount of general obligation debt the Commonwealth may issue for each specific type of debt. The 9(a) bonds, which may be issued to fund the defense of the Commonwealth; to meet casual deficits in revenue or in anticipation of the collection of revenues; or to redeem previous debt obligations, and are limited to 30.0 percent of 1.15 times the annual tax revenues for fiscal year 2015. The 9(b) bonds, which have been authorized by the citizens of Virginia through bond referenda to finance capital projects, are limited to 1.15 times the average of selected tax revenues for fiscal years 2013, 2014, and 2015. The 9(c) bonds, which have been issued to finance capital projects that will generate revenue upon their completion, are limited to 1.15 times the average of selected tax revenues for fiscal years 2013, 2014, and 2015. The current debt limitation for the Commonwealth is $5.8 billion, $17.6 billion, and $17.3 billion, respectively, for the 9(a), 9(b), and 9(c) general obligation bond issues. These limits significantly exceed the Commonwealth's outstanding general obligation debt. Currently, there is no 9(a) debt outstanding.

Figure 17
Outstanding Debt as of June 30, 2015
General Obligation Bonds
(Dollars in Thousands)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
General obligation bonds				
9(b)	$ 642,181	$ -	$ 642,181	$ -
9(c)	33,190	-	33,190	936,857
Total	$ 675,371	$ -	$ 675,371	$ 936,857

New Accounting Standard

The Commonwealth implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, during fiscal year 2015. The new GASB reporting requirements impact the measurement and recognition of pension-related liabilities, deferred outflows of resources, deferred inflows of resources and pension-related expenses in the Commonwealth's financial statements. As a result of these statements, the beginning net position has been restated for the primary government and component units by $2.5 billion and $1.7 billion, respectively, as further discussed in Note 2, "Restatement of Beginning Balances." The following amounts are reported for Net Pension Liability, Deferred Outflows of Resources and Deferred Inflows of Resources in the Commonwealth's financial statements.

	Primary Government	Component Units
Net Pension Liability	$ 4.3 billion	$ 2.5 billion
Deferred Outflows of Resources	438.8 million	252.5 million
Deferred Inflows of Resources	768.7 million	473.1 million

While the above amounts are reported for the first time in fiscal year 2015, it is important to note that the Net Pension Obligation was previously reported in both the financial statements and notes to the financial statements. Further, the Unfunded Actuarially Accrued Liability amounts were previously reported in the notes to the financial statements and Required Supplementary Information. Additional information can be found in Note 13, Deferred Inflows and Deferred Outflows of Resources, and Note 15, Retirement and Pension Systems.

Economic Factors and Review

During fiscal year 2015, the Commonwealth's economy saw continued improvement, although at a slower rate than at the national level. The Commonwealth experienced a lower job growth rate than at the national level (0.8 percent at the state level versus 2.2 percent nationally), widening the gap between the Commonwealth's job growth rate and that of the nation during the last fiscal year. Personal income growth reached 3.9 percent during fiscal year 2015, compared to 1.3 percent in fiscal year 2014. This is the highest rate in the last three fiscal years. Unemployment in the Commonwealth and at the national level continued to decline during the fiscal year, reaching 4.9 percent and 5.7 percent, respectively. Total taxable sales in the Commonwealth experienced a considerable increase of 3.9 percent over fiscal year 2014. Economic indicators show that during fiscal year 2015, the housing market in the Commonwealth continued to decline while the national level experienced a slight increase. Additionally, housing prices in the Commonwealth again showed a positive change for fiscal year 2015, with an increase of approximately 2.5 percent, compared to just over 5.0 percent at the national level. Fiscal year 2015 indicates that the Commonwealth's economy will continue to improve; however, because of its dependence on federal government spending measures, the Commonwealth's economy may experience some economic unpredictability in the coming fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the Commonwealth's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the State Comptroller's Office, Commonwealth of Virginia, P. O. Box 1971, Richmond, Virginia 23218. This report is also available for download at www.doa.virginia.gov.

The Commonwealth's component units issue their own separate financial statements. Contact information regarding each component unit is provided in Note 1.B.

Statement of Net Position

June 30, 2015
(Dollars in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets and Deferred Outflows of Resources				
Cash and Cash Equivalents (Notes 1 and 6)	$ 3,171,586	$ 1,106,520	$ 4,278,106	$ 2,588,542
Investments (Notes 1 and 6)	1,854,522	2,499,354	4,353,876	13,709,567
Receivables, Net (Notes 1 and 7)	3,071,450	525,378	3,596,828	12,555,512
Contributions Receivable, Net (Notes 1 and 8)	-	-	-	380,944
Internal Balances (Note 1)	(62,763)	62,763	-	-
Due from Primary Government (Note 9)	-	-	-	12,297
Due from Component Units (Note 9)	21,055	-	21,055	143,170
Due from External Parties (Fiduciary Funds) (Note 9)	273	-	273	-
Inventory (Note 1)	157,835	68,089	225,924	129,934
Prepaid Items (Note 1)	114,152	2,119	116,271	139,024
Other Assets (Notes 1 and 10)	4,763	279	5,042	101,883
Loans Receivable from Primary Government (Notes 1 and 9)	-	-	-	185,850
Loans Receivable from Component Units (Notes 1 and 9)	18,992	-	18,992	-
Restricted Cash and Cash Equivalents (Notes 6 and 11)	892,216	135,458	1,027,674	2,158,109
Restricted Investments (Notes 6 and 11)	-	25,776	25,776	5,236,533
Other Restricted Assets (Note 11)	-	-	-	277,678
Nondepreciable Capital Assets (Notes 1 and 12)	7,347,105	6,579	7,353,684	2,696,127
Depreciable Capital Assets, Net (Notes 1 and 12)	22,000,778	33,648	22,034,426	14,371,900
Total Assets	38,591,964	4,465,963	43,057,927	54,687,070
Deferred Outflows of Resources (Notes 1, 13, and 14)	507,048	13,438	520,486	702,655
Total Assets and Deferred Outflows of Resources	39,099,012	4,479,401	43,578,413	55,389,725
Liabilities and Deferred Inflows of Resources				
Accounts Payable (Notes 1 and 24)	980,098	56,911	1,037,009	1,188,754
Amounts Due to Other Governments	852,758	7,439	860,197	114,891
Due to Primary Government (Note 9)	-	-	-	21,055
Due to Component Units (Note 9)	12,297	-	12,297	143,170
Due to External Parties (Fiduciary Funds) (Note 9)	24,991	776	25,767	29,352
Unearned Revenue (Note 1)	215,578	3,897	219,475	337,618
Obligations Under Securities Lending Program (Notes 1 and 6)	200,705	103,163	303,868	20,744
Other Liabilities (Notes 1, 14, and 25)	1,548,317	108,994	1,657,311	1,568,180
Loans Payable to Primary Government (Notes 1 and 9)	-	-	-	18,992
Loans Payable to Component Units (Notes 1 and 9)	185,850	-	185,850	-
Claims Payable (Notes 1 and 23):				
Due Within One Year	201,236	39,268	240,504	100,864
Due in More Than One Year	568,190	21,843	590,033	41,529
Long-term Liabilities (Notes 1, 21, 22, and 26):				
Due Within One Year	614,979	583,199	1,198,178	1,489,788
Due in More Than One Year	11,338,842	2,153,078	13,491,920	25,758,665
Total Liabilities	16,743,841	3,078,568	19,822,409	30,833,602
Deferred Inflows of Resources (Notes 1, 13, 14, and 37)	2,918,314	21,371	2,939,685	580,780
Total Liabilities and Deferred Inflows of Resources	19,662,155	3,099,939	22,762,094	31,414,382

The accompanying notes are an integral part of this financial statement.

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Net Position				
Net Investment in Capital Assets	23,406,620	34,519	23,441,139	10,103,074
Restricted For:				
Nonexpendable:				
Higher Education	-	-	-	3,196,208
Permanent Funds	34,725	-	34,725	-
Other	-	-	-	159,825
Expendable:				
Agriculture and Forestry	1,573	-	1,573	-
Bond Indenture	-	-	-	2,682,279
Capital Projects/Construction/Capital Acquisition	6,059	-	6,059	1,696,896
Debt Service	44,729	-	44,729	101,253
Economic and Technological Development	2,286	-	2,286	-
Educational and Training Programs	10,522	-	10,522	-
Environmental Quality and Natural Resource Preservation	16,705	-	16,705	-
Gifts and Grants	136,170	-	136,170	141,371
Health and Public Safety	78,711	-	78,711	-
Higher Education	-	-	-	5,714,574
Lottery Proceeds Fund	7,063	-	7,063	-
Permanent Funds	1,447	-	1,447	-
Revenue Stabilization Fund	1,073,289	-	1,073,289	-
Transportation Activities	13,737	-	13,737	-
Unemployment Compensation Trust Fund	-	845,213	845,213	-
Virginia Pooled Investment Program	-	-	-	7,747
Virginia Water Supply Assistance Grant Fund	5,634	-	5,634	-
Other	3,311	-	3,311	10,546
Unrestricted	(5,405,724)	499,730	(4,905,994)	161,570
Total Net Position	$ 19,436,857	$ 1,379,462	$ 20,816,319	$ 23,975,343

Statement of Activities

For the Fiscal Year Ended June 30, 2015
(Dollars in Thousands)

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	$ 3,267,325	$ 297,095	$ 146,717	$ 8,067
Education	9,844,625	545,097	976,277	10,069
Transportation	4,369,089	691,049	59,701	1,585,958
Resources and Economic Development	970,515	378,875	157,730	4,260
Individual and Family Services	13,276,897	365,850	7,543,369	6,060
Administration of Justice	2,751,111	316,548	30,837	4,347
Interest and Charges on Long-term Debt	223,584	-	-	-
Total Governmental Activities	34,703,146	2,594,514	8,914,631	1,618,761
Business-type Activities				
Virginia Lottery	1,299,753	1,843,971	-	-
Virginia College Savings Plan	155,331	187,873	-	-
Unemployment Compensation	431,437	692,602	-	-
Alcoholic Beverage Control	579,945	730,043	183	-
Risk Management	10,240	8,487	-	-
Local Choice Health Care	349,910	343,478	-	-
Route 460 Funding Corporation of Virginia	13,024	-	-	-
Virginia Industries for the Blind	42,722	44,276	-	-
Consolidated Laboratory	8,630	10,107	-	-
eVA Procurement System	22,563	19,445	-	-
Department of Environmental Quality Title V	10,444	10,814	-	-
Wireless E-911	36,804	54,604	-	-
Museum and Library Gift Shops	6,618	7,493	-	-
Behavioral Health Canteen and Work Activity	466	486	-	-
Total Business-type Activities	2,967,887	3,953,679	183	-
Total Primary Government	$ 37,671,033	$ 6,548,193	$ 8,914,814	$ 1,618,761
Component Units				
Virginia Housing Development Authority	$ 423,294	$ 447,436	$ 124,973	$ -
Virginia Public School Authority	141,711	135,924	8,161	-
Virginia Resources Authority	158,410	148,908	-	54,357
Virginia College Building Authority	767,765	74,298	42,255	140
Nonmajor	13,924,995	9,541,330	2,483,700	603,781
Total Component Units	$ 15,416,175	$ 10,347,896	$ 2,659,089	$ 658,278

The accompanying notes are an integral part of this financial statement.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (2,815,446)	$ -	$ (2,815,446)	$ -
(8,313,182)	-	(8,313,182)	-
(2,032,381)	-	(2,032,381)	-
(429,650)	-	(429,650)	-
(5,361,618)	-	(5,361,618)	-
(2,399,379)	-	(2,399,379)	-
(223,584)	-	(223,584)	-
(21,575,240)	-	(21,575,240)	-
-	544,218	544,218	-
-	32,542	32,542	-
-	261,165	261,165	-
-	150,281	150,281	-
-	(1,753)	(1,753)	-
-	(6,432)	(6,432)	-
-	(13,024)	(13,024)	-
-	1,554	1,554	-
-	1,477	1,477	-
-	(3,118)	(3,118)	-
-	370	370	-
-	17,800	17,800	-
-	875	875	-
-	20	20	-
-	985,975	985,975	-
(21,575,240)	985,975	(20,589,265)	-
-	-	-	149,115
-	-	-	2,374
-	-	-	44,855
-	-	-	(651,072)
-	-	-	(1,296,184)
-	-	-	(1,750,912)

Continued on next page

Statement of Activities *(Continued from previous page)*

For the Fiscal Year Ended June 30, 2015
(Dollars in Thousands)

	Net (Expense) Revenue and Changes in Net Position			
	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
General Revenues				
Taxes				
Individual and Fiduciary Income	12,265,530	-	12,265,530	-
Sales and Use	4,829,677	-	4,829,677	-
Corporation Income	801,165	-	801,165	-
Motor Fuel	888,348	-	888,348	-
Motor Vehicle Sales and Use	846,197	-	846,197	-
Communications Sales and Use	416,051	-	416,051	-
Deeds, Contracts, Wills, and Suits	440,896	-	440,896	-
Premiums of Insurance Companies	453,376	-	453,376	-
Alcoholic Beverage Sales	139,832	-	139,832	-
Tobacco Products	178,954	-	178,954	-
Estate	92	-	92	-
Public Service Corporations	118,849	-	118,849	-
Beer and Beverage Excise	42,719	-	42,719	-
Wine and Spirits/ABC Liter	26,253	-	26,253	-
Bank Stock	19,030	-	19,030	-
Other Taxes	112,368	9,142	121,510	-
Operating Appropriations from Primary Government	-	-	-	2,101,484
Unrestricted Grants and Contributions	48,613	-	48,613	93,289
Investment Earnings	15,970	1,603	17,573	374,962
Miscellaneous	205,625	243	205,868	104,383
Special Item (Note 31)	(134,561)	34,437	(100,124)	-
Transfers	728,371	(728,371)	-	-
Contributions to Permanent and Term Endowments	-	-	-	154,108
Total General Revenues, Special Item, Transfers, and Contributions	22,443,355	(682,946)	21,760,409	2,828,226
Change in Net Position	868,115	303,029	1,171,144	1,077,314
Net Position, July 1, as restated (Note 2)	18,568,742	1,076,433	19,645,175	22,898,029
Net Position, June 30	$ 19,436,857	$ 1,379,462	$ 20,816,319	$ 23,975,343

The accompanying notes are an integral part of this financial statement.

Governmental Funds

General Fund

The General Fund accounts for transactions related to resources received and used for those services traditionally provided by a state government, which are not accounted for in any other fund.

Special Revenue Funds

Special Revenue Funds account for specific revenue sources that are restricted or committed to finance particular functions and activities of the Commonwealth.

The Commonwealth Transportation Fund accounts for the revenues and expenditures associated with highway operations, maintenance, construction, and other transportation related activities. Funding for these programs is provided from highway user taxes, fees, and funds received from the federal government.

The Federal Trust Fund accounts for all federal dollars received by the Commonwealth except those received by the Commonwealth Transportation Fund, the Unemployment Compensation Fund, certain Medicaid reimbursements recorded in the General Fund, and institutions of higher education. The entire fund is restricted pursuant to federal regulations.

The Literary Fund accounts for revenues from fines, forfeitures, and proceeds from unclaimed property used primarily to support public education in the Commonwealth. This fund provides low interest loans to school divisions for construction, renovations, and expansion of school buildings. While the entire fund is constitutionally restricted for public schools, the accrued liabilities exceed the accrued assets on the modified accrual basis at June 30.

Nonmajor Governmental Funds include those Special Revenue, Debt Service, Capital Projects, and Permanent Funds listed on page 199 in the Combining and Individual Fund Statements and Schedules section of this report.

Balance Sheet – Governmental Funds

June 30, 2015
(Dollars in Thousands)

	General	Special Revenue: Commonwealth Transportation	Special Revenue: Federal Trust	Special Revenue: Literary
Assets and Deferred Outflows of Resources				
Cash and Cash Equivalents (Notes 1 and 6)	$ 117,029	$ 1,838,023	$ 159,085	$ 9,241
Investments (Notes 1 and 6)	1,797,355	2,219	107	31
Receivables, Net (Notes 1 and 7)	1,705,714	398,308	727,723	159,122
Due from Other Funds (Note 9)	18,874	-	2,778	-
Due from Component Units (Note 9)	1,118	-	-	-
Due from External Parties (Fiduciary Funds) (Note 9)	-	-	-	-
Interfund Receivable (Note 9)	-	-	-	-
Inventory (Note 1)	41,838	76,563	15,791	-
Prepaid Items (Note 1)	78,209	8,983	1,420	-
Other Assets (Notes 1 and 10)	970	414	1,625	-
Loans Receivable from Component Units (Notes 1 and 9)	-	-	-	-
Restricted Cash and Cash Equivalents (Notes 6 and 11)	-	544,816	-	-
Total Assets	3,761,107	2,869,326	908,529	168,394
Deferred Outflows of Resources (Notes 1 and 13)	-	-	-	-
Total Assets and Deferred Outflows of Resources	$ 3,761,107	$ 2,869,326	$ 908,529	$ 168,394
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Accounts Payable (Notes 1 and 24)	$ 280,264	$ 328,993	$ 123,686	$ 21
Amounts Due to Other Governments	427,398	45,357	226,667	-
Due to Other Funds (Note 9)	29,929	14,598	9,069	-
Due to Component Units (Note 9)	75	-	4,089	-
Due to External Parties (Fiduciary Funds) (Note 9)	15,909	4,106	2,102	-
Interfund Payable (Note 9)	-	-	7,094	-
Unearned Revenue (Note 1)	-	66,885	26,536	107
Unearned Taxes (Note 1)	73,199	-	-	-
Obligations Under Securities Lending Program (Notes 1 and 6)	120,538	63,540	3,056	883
Other Liabilities (Notes 1 and 25)	1,051,130	1,175	336,886	-
Loans Payable to Component Units (Notes 1 and 9)	-	-	-	185,850
Long-term Liabilities Due Within One Year (Notes 1, 21, and 26)	1,603	122	121	-
Total Liabilities	2,000,045	524,776	739,306	186,861
Deferred Inflows of Resources (Notes 1 and 13)	912,706	73,443	53,787	19,011
Total Liabilities and Deferred Inflows of Resources	2,912,751	598,219	793,093	205,872
Fund Balances (Note 3):				
Nonspendable	120,047	85,546	17,211	-
Restricted	1,085,986	544,980	98,225	-
Committed	295,738	1,662,763	-	-
Assigned	-	-	-	-
Unassigned	(653,415)	(22,182)	-	(37,478)
Total Fund Balances (Deficit), (Note 4)	848,356	2,271,107	115,436	(37,478)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 3,761,107	$ 2,869,326	$ 908,529	$ 168,394

The accompanying notes are an integral part of this financial statement.

Nonmajor Governmental Funds	Total Governmental Funds
$ 933,685	$ 3,057,063
54,576	1,854,288
71,590	3,062,457
9,686	31,338
-	1,118
71	71
122,763	122,763
5,335	139,527
19,741	108,353
1,751	4,760
18,992	18,992
-	544,816
1,238,190	8,945,546
-	-
$ 1,238,190	$ 8,945,546
$ 57,981	$ 790,945
475	699,897
6,019	59,615
21	4,185
2,529	24,646
-	7,094
6,413	99,941
-	73,199
5,989	194,006
3,497	1,392,688
-	185,850
325	2,171
83,249	3,534,237
34,986	1,093,933
118,235	4,628,170
59,720	282,524
450,212	2,179,403
581,177	2,539,678
28,846	28,846
-	(713,075)
1,119,955	4,317,376
$ 1,238,190	$ 8,945,546

Reconciliation of the Balance Sheet – Governmental Funds to the Government-wide Statement of Net Position

June 30, 2015
(Dollars in Thousands)

Total fund balances - governmental funds (see Balance Sheet - Governmental Funds)	$	4,317,376
When capital assets (land, buildings, equipment, construction-in-progress, intangible assets, and/or infrastructure) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the Statement of Net Position includes those capital assets among the assets of the primary government as a whole.		
Nondepreciable Capital Assets		7,294,715
Depreciable Capital Assets		21,907,066
Deferred outflows associated with pension related costs are long-term in nature and therefore not reported in the funds.		419,929
Deferred outflows associated with loss on debt refundings are long-term in nature and therefore not reported in the funds.		81,643
Long-term liabilities applicable to the primary government's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Position.		
Pension Liability		(4,072,715)
OPEB Liability		(643,668)
Capital Leases		(37,177)
Installment Purchases		(81,899)
Compensated Absences		(303,959)
Uninsured Employer's Fund		(33,156)
Bonds		(6,587,140)
Notes		(307)
Accrued Interest Payable		(80,324)
Other Obligations		(52,478)
Pollution Remediation Liability		(11,954)
Internal service funds are used by the primary government to charge costs to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the Statement of Net Position.		(469,592)
Other long-term payables are not due and payable in the current period and, therefore, are not reported in the funds.		(396,297)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		1,093,934
Deferred inflows associated with Service Concession Arrangements are long-term in nature and therefore not reported in the funds.		(2,170,952)
Deferred inflows associated with pension related costs are long-term in nature and therefore not reported in the funds.		(736,188)
Net position of governmental activities (see Government-wide Statement of Net Position)	$	19,436,857

The accompanying notes are an integral part of this financial statement.

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

For the Fiscal Year Ended June 30, 2015
(Dollars in Thousands)

	General	Special Revenue: Commonwealth Transportation	Special Revenue: Federal Trust	Special Revenue: Literary
Revenues				
Taxes	$ 18,157,864	$ 3,310,694	$ -	$ -
Rights and Privileges	78,745	558,852	-	526
Institutional Revenue	38,148	-	-	-
Interest, Dividends, Rents, and Other Investment Income	42,120	20,644	720	12,651
Federal Grants and Contracts	6,414	1,326,091	8,394,672	-
Other (Note 27)	463,215	206,368	117,381	373,086
Total Revenues	18,786,506	5,422,649	8,512,773	386,263
Expenditures				
Current:				
General Government	2,259,292	74,273	143,931	21
Education	7,936,593	1,089	964,002	449,638
Transportation	836	5,327,222	14,355	-
Resources and Economic Development	414,083	10,970	160,976	-
Individual and Family Services	5,766,031	-	7,172,706	-
Administration of Justice	2,567,243	9,632	41,030	-
Capital Outlay	6,722	15,419	12,376	-
Debt Service:				
Principal Retirement	-	-	-	-
Interest and Charges	-	-	-	-
Total Expenditures	18,950,800	5,438,605	8,509,376	449,659
Revenues Over (Under) Expenditures	(164,294)	(15,956)	3,397	(63,396)
Other Financing Sources (Uses)				
Transfers In (Note 32)	844,391	76,502	2,334	12,445
Transfers Out (Note 32)	(466,765)	(381,202)	(25,593)	-
Notes Issued	433	-	-	-
Insurance Recoveries	65	46	3	-
Capital Leases Issued	-	51	33	-
Bonds Issued	-	274,980	-	-
Premium on Debt Issuance	-	26,013	-	-
Refunding Bonds Issued	-	-	-	-
Sale of Capital Assets	4,889	19,438	-	-
Payment to Refunded Bond Escrow Agents	-	-	-	-
Total Other Financing Sources (Uses)	383,013	15,828	(23,223)	12,445
Net Change in Fund Balances	218,719	(128)	(19,826)	(50,951)
Fund Balance, July 1, as restated (Note 2)	629,637	2,271,235	135,262	13,473
Fund Balance (Deficit), June 30 (Note 4)	$ 848,356	$ 2,271,107	$ 115,436	$ (37,478)

The accompanying notes are an integral part of this financial statement.

Nonmajor Governmental Funds	Total Governmental Funds
$ 88,664	$ 21,557,222
339,900	978,023
264,484	302,632
14,572	90,707
-	9,727,177
354,177	1,514,227
1,061,797	34,169,988
66,664	2,544,181
20,624	9,371,946
5,646	5,348,059
343,117	929,146
482,513	13,421,250
71,919	2,689,824
216,912	251,429
441,100	441,100
275,492	275,492
1,923,987	35,272,427
(862,190)	(1,102,439)
770,452	1,706,124
(98,296)	(971,856)
6,921	7,354
591	705
154	238
395,590	670,570
123,726	149,739
535,640	535,640
107	24,434
(617,667)	(617,667)
1,117,218	1,505,281
255,028	402,842
864,927	3,914,534
$ 1,119,955	$ 4,317,376

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Government-wide Statement of Activities

For the Fiscal Year Ended June 30, 2015
(Dollars in Thousands)

Net Change in fund balances - total government funds (See Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds)	$	402,842
When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net position decreases by the amount of depreciation expense charged for the year.		
Nondepreciable Capital Assets Constructed/Acquired		2,111,401
Nondepreciable Capital Assets Disposed		(158,166)
Depreciable Capital Assets Acquired		889,710
Depreciable Capital Assets Disposed		(389,290)
Depreciation Expense		(1,036,573)
Debt proceeds provide current financial resources to governmental funds by issuing debt, which increases long-term debt in the Statement of Net Position.		
Debt Issuance		(670,570)
Capital Lease Proceeds		(238)
Bond Premiums		(149,739)
Refunding Bonds Issued		(535,640)
Installment Purchase Proceeds		(7,354)
Other		(35)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position.		
Debt Service Fund Repayment of Debt Principal		441,100
Payment to Refunded Bond Escrow Agent is an expenditure in the governmental funds, but the refunding reduces long-term debt in the Statement of Net Position.		617,667
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(593,183)
Increases/decreases of expenses reported in the Statement of Activities that do not require the use of, or provide, current financial resources and, therefore, are not reported in the governmental funds.		
Increase in Pension Liability		64,122
Increase in OPEB Liability		(84,397)
Increase in Other Long-term Liabilities		2,224
Increase in Compensated Absences		10,380
Decrease in Interest Expense, Amortization of Long-term Debt premium and discounts, and Accrued Interest Liability		66,785
Decrease in Other Liabilities		(134,251)
Net Increase in Due to Component Units for Capital and Other Projects resulting from appropriation reductions or amounts due to Federal Governments for interest and rebate repayments, which are not reported as expenditures in the fund statements.		(46,725)
Net revenue (expenses) of certain activities of internal service funds is reported within governmental activities.		39,300
Deferred inflows and outflows associated with pension costs are not included in the funds.		3,978
Amortization of deferred inflows and outflows associated with Service Concession Arrangements are not included in the funds.		24,767
Change in net position of governmental activities (See Government-wide Statement of Activities)	$	868,115

The accompanying notes are an integral part of this financial statement.

Proprietary Funds

The Proprietary Funds account for operations that are financed and operated in a manner similar to private business enterprises. It is the intent that the cost of providing such goods or services will be recovered through user charges.

Major Enterprise Funds

The Virginia Lottery accounts for all receipts and expenses from the operations of the Virginia Lottery.

The Virginia College Savings Plan administers the Virginia529 prePAID Program, which is a defined benefit program that offers contracts, for actuarially determined amounts, that provide for full future tuition and mandatory fee payments at Virginia's higher education institutions and differing payouts at private or out-of-state institutions. The fund accounts for the actuarially determined contributions and payments for approved expenses.

The Unemployment Compensation Fund administers the temporary partial income replacement payments to unemployed covered workers.

Nonmajor Enterprise Funds include those operations of state agencies which are listed on page 211 in the Combining and Individual Fund Statements and Schedules section of this report.

Internal Service Funds include those operations of state agencies which are listed on page 227 in the Combining and Individual Fund Statements and Schedules section of this report.

Statement of Fund Net Position – Proprietary Funds

June 30, 2015
(Dollars in Thousands)

	Business-type Activities Enterprise Funds			
	Virginia Lottery	Virginia College Savings Plan	Unemployment Compensation	Nonmajor
Assets and Deferred Outflows of Resources				
Current Assets:				
Cash and Cash Equivalents (Notes 1 and 6)	$ 98,964	$ 83,351	$ 762,607	$ 161,598
Investments (Notes 1 and 6)	21,538	-	-	130
Receivables, Net (Notes 1 and 7)	72,343	69,378	127,812	96,428
Due from Other Funds (Note 9)	-	-	682	733
Due from External Parties (Fiduciary Funds) (Note 9)	-	-	-	-
Due from Component Units (Note 9)	-	-	-	-
Inventory (Note 1)	2,158	-	-	65,931
Prepaid Items (Note 1)	318	172	-	1,629
Other Assets (Notes 1 and 10)	1	-	-	120,391
Restricted Cash and Cash Equivalents (Note 11)	-	-	-	135,458
Restricted Investments (Note 11)	-	-	-	25,776
Total Current Assets	195,322	152,901	891,101	608,074
Noncurrent Assets:				
Investments (Notes 1 and 6)	118,158	2,359,528	-	-
Receivables, Net (Notes 1 and 7)	-	159,417	-	-
Nondepreciable Capital Assets (Notes 1 and 12)	-	-	-	6,579
Depreciable Capital Assets, Net (Notes 1 and 12)	6,504	9,143	-	18,001
Total Noncurrent Assets	124,662	2,528,088	-	24,580
Total Assets	319,984	2,680,989	891,101	632,654
Deferred Outflows of Resources (Notes 1, 13, 14, and 15)	2,756	1,067	-	9,615
Total Assets and Deferred Outflows of Resources	322,740	2,682,056	891,101	642,269
Liabilities and Deferred Inflows of Resources				
Current Liabilities:				
Accounts Payable (Notes 1 and 24)	11,965	942	78	43,926
Amounts Due to Other Governments	-	-	5,155	2,284
Due to Other Funds (Note 9)	4,441	64	2,992	15,722
Due to External Parties (Fiduciary Funds) (Note 9)	155	59	-	562
Interfund Payable (Note 9)	-	-	-	37,065
Unearned Revenue (Note 1)	1,967	-	-	1,930
Obligations Under Securities Lending Program (Notes 1 and 6)	99,456	-	-	3,707
Other Liabilities (Notes 1 and 25)	64,093	1,058	37,663	6,180
Claims Payable Due Within One Year (Notes 1 and 23)	-	-	-	39,268
Long-term Liabilities Due Within One Year (Notes 1, 21, and 26)	19,175	239,900	-	324,124
Total Current Liabilities	201,252	242,023	45,888	474,768
Noncurrent Liabilities:				
Interfund Payable (Note 9)	-	-	-	-
Claims Payable Due in More Than One Year (Notes 1 and 23)	-	-	-	21,843
Long-term Liabilities Due in More Than One Year (Notes 1, 21, and 26)	147,641	1,893,782	-	111,655
Total Noncurrent Liabilities	147,641	1,893,782	-	133,498
Total Liabilities	348,893	2,135,805	45,888	608,266
Deferred Inflows of Resources (Notes 1, 13, 14, and 15)	4,292	1,581	-	15,498
Total Liabilities and Deferred Inflows of Resources	353,185	2,137,386	45,888	623,764
Net Position				
Net Investment in Capital Assets	6,504	3,435	-	24,580
Restricted for Unemployment Compensation	-	-	845,213	-
Unrestricted	(36,949)	541,235	-	(6,075)
Total Net Position (Deficit) (Note 4)	$ (30,445)	$ 544,670	$ 845,213	$ 18,505

Some amounts reported for business-type activities in the Statement of Net Position are different because certain internal service fund assets and liabilities are included in business-type activities.

Net position of business-type activities

The accompanying notes are an integral part of this financial statement.

	Governmental Activities
Total	Internal Service Funds
$ 1,106,520	$ 461,923
21,668	234
365,961	8,993
1,415	52,087
-	202
-	19,340
68,089	18,308
2,119	5,799
120,392	11,061
135,458	-
25,776	-
1,847,398	577,947
2,477,686	-
159,417	-
6,579	52,390
33,648	93,712
2,677,330	146,102
4,524,728	724,049
13,438	5,475
4,538,166	729,524
56,911	82,687
7,439	889
23,219	2,006
776	345
37,065	18,524
3,897	116,142
103,163	6,699
108,994	1,217
39,268	201,236
583,199	10,161
963,931	439,906
-	60,080
21,843	568,190
2,153,078	118,248
2,174,921	746,518
3,138,852	1,186,424
21,371	11,173
3,160,223	1,197,597
34,519	106,581
845,213	-
498,211	(574,654)
$ 1,377,943	$ (468,073)
1,519	
$ 1,379,462	

Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds

For the Fiscal Year Ended June 30, 2015
(Dollars in Thousands)

	Business-type Activities Enterprise Funds		
	Virginia Lottery	Virginia College Savings Plan	Unemployment Compensation
Operating Revenues			
Charges for Sales and Services	$ 1,843,876	$ 160,367	$ 680,122
Interest, Dividends, Rents, and Other Investment Income	-	27,506	12,531
Other (Note 27)	-	-	-
Total Operating Revenues	1,843,876	187,873	692,653
Operating Expenses			
Cost of Sales and Services	133,230	-	-
Prizes and Claims (Note 28)	1,104,203	-	431,420
Tuition Benefits Expense	-	135,063	-
Personal Services	27,626	9,263	-
Contractual Services	29,083	8,801	-
Supplies and Materials	527	43	-
Depreciation	3,117	527	-
Rent, Insurance, and Other Related Charges	1,791	144	-
Interest Expense	-	-	-
Non-recurring Cost Estimate Payments to Providers	-	-	-
Other (Note 29)	-	1,284	-
Total Operating Expenses	1,299,577	155,125	431,420
Operating Income	544,299	32,748	261,233
Nonoperating Revenues (Expenses)			
Interest, Dividends, Rents, and Other Investment Income	859	-	-
Other (Note 30)	321	(182)	(51)
Total Nonoperating Revenues (Expenses)	1,180	(182)	(51)
Income Before Special Item and Transfers	545,479	32,566	261,182
Special Item (Note 31)	-	-	-
Transfers In (Note 32)	-	-	-
Transfers Out (Note 32)	(546,181)	(337)	(2,042)
Change in Net Position	(702)	32,229	259,140
Total Net Position (Deficit), July 1, as restated (Note 2)	(29,743)	512,441	586,073
Total Net Position (Deficit), June 30 (Note 4)	$ (30,445)	$ 544,670	$ 845,213

Some amounts reported for business-type activies in the Statement of Activities are different because the net revenue (expense) of certain internal service funds is reported w ith business-type activities.

Change in Net Position of business-type activities

The accompanying notes are an integral part of this financial statement.

		Governmental Activities
Nonmajor	Total	Internal Service Funds
$ 1,209,240	$ 3,893,605	$ 2,014,248
-	40,037	-
19,284	19,284	-
1,228,524	3,952,926	2,014,248
415,366	548,596	58,683
336,049	1,871,672	1,314,498
-	135,063	-
129,992	166,881	52,778
69,649	107,533	419,470
39,326	39,896	9,199
3,514	7,158	17,217
32,886	34,821	77,307
-	-	8
34,347	34,347	-
6,945	8,229	20,102
1,068,074	2,954,196	1,969,262
160,450	998,730	44,986
1,730	2,589	1,268
(3,619)	(3,531)	(1,882)
(1,889)	(942)	(614)
158,561	997,788	44,372
34,437	34,437	-
57	57	5,293
(179,868)	(728,428)	(11,190)
13,187	303,854	38,475
5,318	1,074,089	(506,548)
$ 18,505	$ 1,377,943	$ (468,073)

	(825)
	$ 303,029

Statement of Cash Flows – Proprietary Funds

For the Fiscal Year Ended June 30, 2015
(Dollars in Thousands)

	Business-type Activities Enterprise Funds			
	Virginia Lottery	Virginia College Savings Plan	Unemployment Compensation	Nonmajor
Cash Flows from Operating Activities				
Receipts for Sales and Services	$ 1,844,350	$ 166,248	$ 706,661	$ 1,208,993
Receipts from Investments	-	-	12,531	-
Internal Activity-Receipts from Other Funds	-	-	5,257	8,970
Internal Activity-Payments to Other Funds	-	(404)	-	(2,380)
Payments to Suppliers for Goods and Services	(135,264)	(1,587)	-	(488,266)
Payments for Contractual Services	(21,341)	(8,282)	-	(69,973)
Payments for Prizes, Claims, and Loss Control (Note 35)	(1,137,625)	-	(447,855)	(339,087)
Payments for Tuition Benefits	-	(158,393)	-	-
Payments to Employees	(27,003)	(8,996)	-	(130,372)
Payments to Providers for Non-recurring Cost Estimates	-	-	-	(43,044)
Payments for Interest	-	-	-	-
Other Operating Revenue (Note 35)	-	(593)	45	6,056
Other Operating Expense (Note 35)	-	(134)	-	(5,421)
Net Cash Provided by Operating Activities	523,117	(12,141)	276,639	145,476
Cash Flows from Noncapital Financing Activities				
Transfers In from Other Funds	-	-	-	57
Transfers Out to Other Funds	(569,977)	(337)	(1,738)	(383,764)
Other Noncapital Financing Receipt Activities (Note 35)	499	-	25	251,556
Other Noncapital Financing Disbursement Activities (Note 35)	-	-	-	(26,693)
Net Cash Used for Noncapital Financing Activities	(569,478)	(337)	(1,713)	(158,844)
Cash Flows from Capital and Related Financing Activities				
Acquisition of Capital Assets	(2,681)	(112)	-	(10,833)
Payment of Principal and Interest on Bonds and Notes	-	(547)	-	(11,726)
Proceeds from Sale of Capital Assets	(67)	-	-	3
Other Capital and Related Financing Disbursement Activities (Note 35)	-	-	-	-
Net Cash Used for Capital and Related Financing Activities	(2,748)	(659)	-	(22,556)
Cash Flows from Investing Activities				
Purchase of Investments	(578)	(1,605,458)	-	-
Proceeds from Sales or Maturities of Investments	23,798	1,527,588	-	10,285
Investment Income on Cash, Cash Equivalents, and Investments	681	113,737	-	1,364
Net Cash Provided by (Used for) Investing Activities	23,901	35,867	-	11,649
Net Increase (Decrease) in Cash and Cash Equivalents	(25,208)	22,730	274,926	(24,275)
Cash and Cash Equivalents, July 1	28,191	60,621	487,681	317,963
Cash and Cash Equivalents, June 30	$ 2,983	$ 83,351	$ 762,607	$ 293,688
Reconciliation of Cash and Cash Equivalents				
Per the Statement of Net Position:				
Cash and Cash Equivalents	$ 98,964	$ 83,351	$ 762,607	$ 161,598
Restricted Cash and Cash Equivalents	-	-	-	135,458
Cash and Travel Advances	1	-	-	209
Less:				
Securities Lending Cash Equivalents	(95,982)	-	-	(3,577)
Cash and Cash Equivalents per the Statement of Cash Flows	$ 2,983	$ 83,351	$ 762,607	$ 293,688

The accompanying notes are an integral part of this financial statement.

	Governmental Activities
Total	Internal Service Funds
$ 3,926,252	$ 754,514
12,531	-
14,227	1,242,533
(2,784)	(10,520)
(625,117)	(139,593)
(99,596)	(392,205)
(1,924,567)	(1,294,554)
(158,393)	-
(166,371)	(52,798)
(43,044)	-
-	(8)
5,508	-
(5,555)	(21,137)
933,091	86,232
57	5,293
(955,816)	(11,110)
252,080	153
(26,693)	(1,900)
(730,372)	(7,564)
(13,626)	(4,538)
(12,273)	(14,381)
(64)	1,502
-	(632)
(25,963)	(18,049)
(1,606,036)	-
1,561,671	-
115,782	1,140
71,417	1,140
248,173	61,759
894,456	393,702
$ 1,142,629	$ 455,461
$ 1,106,520	$ 461,923
135,458	
210	3
(99,559)	(6,465)
$ 1,142,629	$ 455,461

Continued on next page

Statement of Cash Flows – Proprietary Funds *(Continued from previous page)*

For the Fiscal Year Ended June 30, 2015
(Dollars in Thousands)

	Business-type Activities Enterprise Funds			
	Virginia Lottery	Virginia College Savings Plan	Unemployment Compensation	Nonmajor
Reconciliation of Operating Income				
To Net Cash Provided by (Used for)				
Operating Activities:				
Operating Income (Loss)	$ 544,299	$ 32,748	$ 261,233	$ 160,450
Adjustments to Reconcile Operating				
Income to Net Cash Provided by (Used for)				
Operating Activities:				
Depreciation	3,117	527	-	3,514
Interest, Dividends, Rents, and Other Investment Income	(6,749)	(27,506)	-	-
Miscellaneous Nonoperating Income	-	-	(380)	13
Other	-	222	-	(7,997)
Change in Assets, Deferred Outflows of Resources, Liabilities, and				
Deferred Inflows of Resources				
(Increase) Decrease in Accounts Receivable	1,021	5,288	13,910	(3,300)
(Increase) Decrease in Due from Other Funds	-	-	594	119,823
(Increase) Decrease in Due from External Parties (Fiduciary Funds)	-	-	-	-
(Increase) Decrease in Due from Component Units	-	-	-	-
(Increase) Decrease in Other Assets	-	21	-	(120,182)
(Increase) Decrease in Inventory	(2,034)	-	-	(3,743)
(Increase) Decrease in Prepaid Items	(46)	(126)	-	843
(Increase) Decrease in Deferred Outflows of Resources	(1,281)	(524)		(3,428)
Increase (Decrease) in Accounts Payable	(2,217)	(354)	(112)	(6,784)
Increase (Decrease) in Amounts Due to Other Governments	-	-	(945)	1,370
Increase (Decrease) in Due to Other Funds	21	3	153	2,463
Increase (Decrease) in Due to External Parties (Fiduciary Funds)	36	15	-	91
Increase (Decrease) in Unearned Revenue	(548)	-	-	(259)
Increase (Decrease) in Other Liabilities	2,116	843	2,186	(25)
Increase (Decrease) in Claims Payable: Due Within One Year	-	-	-	(2,656)
Increase (Decrease) in Claims Payable: Due in More Than One Year	-	-	-	596
Increase (Decrease) in Long-term Liabilities: Due Within One Year	(5,321)	15,032	-	(44)
Increase (Decrease) in Long-term Liabilities: Due in More Than One Year	(13,589)	(39,911)	-	(10,767)
Increase (Decrease) in Deferred Inflows of Resources	4,292	1,581		15,498
Net Cash Provided by (Used for) Operating Activities	$ 523,117	$ (12,141)	$ 276,639	$ 145,476
Noncash Investing, Capital, and Financing Activities:				
The following transactions occurred prior to the Statement of Net Position date:				
Capital Leases Used to Finance Capital Assets	$ -	$ -	$ -	$ -
Installment Purchases Used to Finance Capital Assets	-	-	-	-
Change in Fair Value of Investments	-	86,230	-	-
Capital Asset Addition Included in Accounts Payable	-	-	-	-
Total Noncash, Investing, Capital, and Financing Activities	$ -	$ 86,230	$ -	$ -

The accompanying notes are an integral part of this financial statement.

	Governmental Activities
Total	Internal Service Funds
$ 998,730	$ 44,986
7,158	17,217
(34,255)	-
(367)	30
(7,775)	(80)
16,919	502
120,417	4,064
-	(8)
-	(1,733)
(120,161)	(7,947)
(5,777)	(1,162)
671	(760)
(5,233)	(1,771)
(9,467)	24,049
425	(2,733)
2,640	314
142	38
(807)	(10,450)
5,120	365
(2,656)	(5,872)
596	25,815
9,667	857
(64,267)	(10,662)
21,371	11,173
$ 933,091	$ 86,232
$ -	$ 9,067
-	8,666
86,230	-
-	1,786
$ 86,230	$ 19,519

Fiduciary Funds

Private Purpose Trust Funds

Private Purpose Trust Funds are trust arrangements that benefit individuals, private organizations, or other governments.

Pension and Other Employee Benefit Trust Funds

Pension and Other Employee Benefit Trust Funds reflect the activities of the retirement systems and postemployment benefits administered by the Virginia Retirement System or the Department of Human Resource Management.

Investment Trust Fund

Investment Trust Fund reflects the external portion of the Local Government Investment Pool sponsored by the Commonwealth.

Agency Funds

Agency Funds report those funds for which the Commonwealth acts solely in a custodial capacity.

A listing of all Fiduciary Funds is located on pages 236-237 in the Combining and Individual Fund Statements and Schedules section of this report. Combining financial statements for all Fiduciary Funds begin on page 238.

Statement of Fiduciary Net Position – Fiduciary Funds

June 30, 2015
(Dollars in Thousands)

	Private Purpose Trust Funds	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund	Agency Funds
Assets and Deferred Outflows of Resources				
Cash and Cash Equivalents (Notes 1 and 6)	$ 83,595	$ 297,567	$ 1,163,404	$ 378,542
Investments (Notes 1 and 6):				
Bonds and Mortgage Securities	88,834	21,012,652	38,229	-
Stocks	342,974	23,695,874	-	-
Fixed Income Commingled Funds	-	745,010	-	-
Index and Pooled Funds	1,592,316	6,978,380	-	-
Real Estate	2,246	6,983,580	-	-
Private Equity	-	8,154,219	-	-
Mutual and Money Market Funds	843,587	-	-	-
Short-term Investments	-	288,384	1,525,541	70,009
Hybrid Defined Contribution Investments	-	23,346	-	-
Other	661,086	3,378,240	-	319,451
Total Investments	3,531,043	71,259,685	1,563,770	389,460
Receivables, Net (Notes 1 and 7):				
Accounts	6	-	-	58,210
Contributions	-	243,323	-	-
Interest and Dividends	2,174	224,154	755	-
Security Transactions	-	1,450,934	-	-
Other Receivables	-	188,069	-	-
Total Receivables	2,180	2,106,480	755	58,210
Due from Other Funds (Note 9)	-	20	-	-
Due from Internal Parties (Governmental Funds and Business-type Activities) (Note 9)	-	25,767	-	-
Due from Component Units (Note 9)	-	29,352	-	-
Prepaid Items (Note 1)	236	-	-	-
Other Assets (Notes 1 and 10)	-	-	-	26
Furniture and Equipment (Note 1)	618	29,889	-	-
Total Assets	3,617,672	73,748,760	2,727,929	826,238
Deferred Outflow of Resources (Notes 1, 13, 14, and 15)	448	-	-	-
Total Assets and Deferred Outflows of Resources	3,618,120	73,748,760	2,727,929	826,238
Liabilities and Deferred Inflows of Resources				
Accounts Payable and Accrued Expenses (Notes 1 and 24)	2,864	44,213	-	6,102
Amounts Due to Other Governments	-	-	-	256,309
Due to Other Funds (Note 9)	20	-	-	-
Due to Internal Parties (Governmental Funds and Business-type Activities) (Note 9)	26	176	-	71
Obligations Under Securities Lending Program (Notes 1 and 6)	188	3,378,981	-	380
Other Liabilities (Notes 1 and 25)	3,786	307,834	-	563,069
Retirement Benefits Payable	-	324,173	-	-
Refunds Payable	-	4,148	-	-
Compensated Absences Payable (Notes 1 and 21)	280	2,819	-	-
Insurance Premiums and Claims Payable	-	64,072	-	307
Payable for Security Transactions	-	1,424,730	-	-
Net Pension Liability	3,288	-	-	-
Other Postemployment Benefits (OPEB) Liability	590	-	-	-
Total Liabilities	11,042	5,551,146	-	826,238
Deferred Inflows of Resources (Notes 1, 13, 14, and 15)	587	-	-	-
Total Liabilities and Deferred Inflows of Resources	11,629	5,551,146	-	826,238
Net Position Held in Trust for Pension/ Other Employment Benefits, Pool Participants, and Other Purposes	$ 3,606,491	$ 68,197,614	$ 2,727,929	$ -

The accompanying notes are an integral part of this financial statement.

Statement of Changes in Fiduciary Net Position – Fiduciary Funds

For the Fiscal Year Ended June 30, 2015
(Dollars in Thousands)

	Private Purpose Trust Funds	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund
Additions:			
Investment Income:			
Interest, Dividends, and Other Investment Income	$ 59,425	$ 3,400,718	$ 2,197
Distributions to Shareholders from Net Investment Income	-	-	(2,197)
Total Investment Income	59,425	3,400,718	-
Less Investment Expenses	4,413	402,089	-
Net Investment Income	55,012	2,998,629	-
Proceeds from Unclaimed Property	10,499	-	-
Contributions:			
Participants	402,333	-	-
Member	-	961,042	-
Employer	-	2,676,817	-
Total Contributions	402,333	3,637,859	-
Shares Sold	-	-	4,134,434
Reinvested Distributions	-	-	2,248
Other Revenue (Note 27)	13	2,164	-
Total Additions	467,857	6,638,652	4,136,682
Deductions:			
Loan Servicing Payments	36	-	-
Educational Expense Benefits	168,798	-	-
Retirement Benefits	-	4,115,209	-
Refunds to Former Members	-	106,236	-
Retiree Health Insurance Credits	-	147,989	-
Insurance Premiums and Claims	62,707	183,973	-
Trust Payments	2,836	-	-
Administrative Expenses	9,497	21,861	-
Other Expenses (Note 29)	-	3,913	-
Shares Redeemed	23,151	-	4,136,004
Long-term Disability Benefits	-	37,731	-
Total Deductions	267,025	4,616,912	4,136,004
Transfers:			
Transfers In	-	10	-
Transfers Out	-	(10)	-
Total Transfers	-	-	-
Net Increase	200,832	2,021,740	678
Net Position Held in Trust for Pension/ Other Employment Benefits, Pool Participants, and Other Purposes			
July 1, as restated (Note 2)	3,405,659	66,175,874	2,727,251
June 30	$ 3,606,491	$ 68,197,614	$ 2,727,929

The accompanying notes are an integral part of this financial statement.

Component Units

Component Units are organizations that are legally separate from the primary government. Each discrete component unit serves or benefits those outside of the primary government.

The Virginia Housing Development Authority provides investment in and stimulates construction of low to moderate income housing for the citizens of the Commonwealth.

The Virginia Public School Authority provides financing to cities and counties for capital construction of primary and secondary schools.

The Virginia Resources Authority provides financing for the construction of local water supply and wastewater treatment facilities and other local infrastructure projects.

The Virginia College Building Authority provides financing of capital projects and equipment purchases by state-supported colleges and universities.

Nonmajor Component Units include those listed on pages 260-261 in the Combining and Individual Fund Statements and Schedules section of this report.

Statement of Net Position – Component Units

June 30, 2015
(Dollars in Thousands)

	Virginia Housing Development Authority	Virginia Public School Authority	Virginia Resources Authority
Assets and Deferred Outflows of Resources			
Cash and Cash Equivalents (Notes 1 and 6)	$ 2,145	$ 19,369	$ 8,141
Investments (Notes 1 and 6)	18,117	3,296,386	4,488
Receivables, Net (Notes 1 and 7)	6,794,866	65,287	4,303,934
Contributions Receivable, Net (Notes 1 and 8)	-	-	-
Due from Primary Government (Note 9)	-	-	-
Due from Component Units (Note 9)	-	-	-
Inventory (Note 1)	-	-	-
Prepaid Items (Note 1)	3,091	-	41
Other Assets (Notes 1 and 10)	9,122	-	393
Loans Receivable from Primary Government (Notes 1 and 9)	-	185,850	-
Restricted Cash and Cash Equivalents (Notes 6 and 11)	656,523	154,325	302,989
Restricted Investments (Notes 6 and 11)	508,388	-	370,099
Other Restricted Assets (Note 11)	52,093	-	-
Nondepreciable Capital Assets (Notes 1 and 12)	8,623	-	-
Depreciable Capital Assets, Net (Notes 1 and 12)	17,704	-	113
Total Assets	8,070,672	3,721,217	4,990,198
Deferred Outflows of Resources (Notes 1, 13, 14, and 15)	-	151,715	80,586
Total Assets and Deferred Outflows of Resources	8,070,672	3,872,932	5,070,784
Liabilities and Deferred Inflows of Resources			
Accounts Payable (Notes 1 and 24)	41,203	67	222
Amounts Due to Other Governments	-	108,742	-
Due to Primary Government (Note 9)	-	-	-
Due to Component Units (Note 9)	-	-	-
Due to External Parties (Fiduciary Funds) (Note 9)	-	-	-
Unearned Revenue (Note 1)	-	-	-
Obligations Under Securities Lending Program (Notes 1 and 6)	-	-	-
Other Liabilities (Notes 1, 14 and 25)	521,867	58,331	48,144
Loans Payable to Primary Government (Notes 1 and 9)	-	-	-
Claims Payable (Notes 1 and 23):			
Due Within One Year	-	-	-
Due in More Than One Year	-	-	-
Long-term Liabilities (Notes 1, 21, and 26):			
Due Within One Year	287,329	291,734	154,205
Due in More Than One Year	4,399,988	3,445,857	3,355,268
Total Liabilities	5,250,387	3,904,731	3,557,839
Deferred Inflows of Resources (Notes 1, 13, 14, 15, and 37)	-	-	29,917
Total Liabilities and Deferred Inflows of Resources	5,250,387	3,904,731	3,587,756
Net Position			
Net Investment in Capital Assets	8,706	-	113
Restricted For:			
Nonexpendable:			
Higher Education	-	-	-
Other	-	-	-
Expendable:			
Bond Indenture	2,682,279	-	-
Capital Projects/Construction/Capital Acquisition	-	-	1,462,097
Debt Service	-	-	-
Gifts and Grants	-	-	-
Higher Education	-	-	-
Virginia Pooled Investment Program	-	-	7,747
Other	-	-	-
Unrestricted	129,300	(31,799)	13,071
Total Net Position (Deficit) (Note 4)	$ 2,820,285	$ (31,799)	$ 1,483,028

The accompanying notes are an integral part of this financial statement.

Virginia College Building Authority	Nonmajor Component Units	Total
$ 47	$ 2,558,840	$ 2,588,542
-	10,390,576	13,709,567
25,184	1,366,241	12,555,512
-	380,944	380,944
4,089	8,208	12,297
-	143,170	143,170
-	129,934	129,934
-	135,892	139,024
-	92,368	101,883
-	-	185,850
167,019	877,253	2,158,109
-	4,358,046	5,236,533
-	225,585	277,678
-	2,687,504	2,696,127
-	14,354,083	14,371,900
196,339	37,708,644	54,687,070
26,191	444,163	702,655
222,530	38,152,807	55,389,725
4	1,147,258	1,188,754
-	6,149	114,891
-	21,055	21,055
135,133	8,037	143,170
-	29,352	29,352
-	337,618	337,618
-	20,744	20,744
80,568	859,270	1,568,180
-	18,992	18,992
-	100,864	100,864
-	41,529	41,529
208,055	548,465	1,489,788
3,312,159	11,245,393	25,758,665
3,735,919	14,384,726	30,833,602
-	550,863	580,780
3,735,919	14,935,589	31,414,382
-	10,094,255	10,103,074
-	3,196,208	3,196,208
-	159,825	159,825
-	-	2,682,279
-	234,799	1,696,896
-	101,253	101,253
-	141,371	141,371
30,665	5,683,909	5,714,574
-	-	7,747
-	10,546	10,546
(3,544,054)	3,595,052	161,570
$ (3,513,389)	$ 23,217,218	$ 23,975,343

Statement of Activities – Component Units

For the Fiscal Year Ended June 30, 2015
(Dollars in Thousands)

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses) Revenue

	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses) Revenue
Virginia Housing Development Authority	$ 423,294	$ 447,436	$ 124,973	$ -	$ 149,115
Virginia Public School Authority	141,711	135,924	8,161	-	2,374
Virginia Resources Authority	158,410	148,908	-	54,357	44,855
Virginia College Building Authority	767,765	74,298	42,255	140	(651,072)
Total Major Component Units	1,491,180	806,566	175,389	54,497	(454,728)
Nonmajor Component Units:					
Higher Education	13,022,422	8,843,459	2,449,364	572,236	(1,157,363)
Other	902,573	697,871	34,336	31,545	(138,821)
Total Nonmajor Component Units	13,924,995	9,541,330	2,483,700	603,781	(1,296,184)
Total Component Units	$ 15,416,175	$ 10,347,896	$ 2,659,089	$ 658,278	$ (1,750,912)

The accompanying notes are an integral part of this financial statement.

General Revenues							
Operating Appropriations from Primary Government	Unrestricted Grants and Contributions	Investment Earnings	Miscellaneous	Contributions to Permanent and Term Endowments	Change in Net Position	Net Position (Deficit) July 1, as restated (Note 2)	Net Position (Deficit) June 30 (Note 4)
$ -	$ -	$ 27,579	$ -	$ -	$ 176,694	$ 2,643,591	$ 2,820,285
-	-	119	320	-	2,813	(34,612)	(31,799)
-	-	-	-	-	44,855	1,438,173	1,483,028
285,915	-	-	-	-	(365,157)	(3,148,232)	(3,513,389)
285,915	-	27,698	320	-	(140,795)	898,920	758,125
1,710,512	75,712	334,479	85,843	151,053	1,200,236	19,985,792	21,186,028
105,057	17,577	12,785	18,220	3,055	17,873	2,013,317	2,031,190
1,815,569	93,289	347,264	104,063	154,108	1,218,109	21,999,109	23,217,218
$ 2,101,484	$ 93,289	$ 374,962	$ 104,383	$ 154,108	$ 1,077,314	$ 22,898,029	$ 23,975,343

Index to the Notes to the Financial Statements

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying financial statements have been prepared in conformance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB).

B. Reporting Entity

For financial reporting purposes, the Commonwealth of Virginia's (the Commonwealth's) reporting entity consists of (1) the primary government, (2) component unit organizations for which the primary government is financially accountable (blended component units), and (3) other component unit organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading, and they are financially accountable to the primary government (discrete component units). The funds of all agencies, boards, commissions, foundations, and authorities that have been identified as part of the primary government or a component unit have been included. GASB standards require the inclusion of numerous organizations that raise and hold funds for the direct benefit of the primary government.

Section 2100 of the GASB *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification) describes the criteria for determining which organizations, functions, and activities should be considered part of the Commonwealth for financial reporting purposes. The basic criteria include appointing a voting majority of an organization's governing body, and the Commonwealth's ability to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Commonwealth. Additionally, in instances where the voting majority is not appointed, the above benefit/burden criteria apply. If the organization's assets are also held for, or can be accessed by, the Commonwealth, the organization is considered part of the reporting entity.

(1) Primary Government – A primary government consists of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, and departments are, for financial reporting purposes, part of the primary government.

(2) Blended Component Units – Though legally separate entities, these component units are, in substance, part of the primary government's operations. The blended component units serve or benefit the primary government almost exclusively. Financial information from these units is combined with that of the primary government. The Commonwealth's blended component units are:

Virginia Public Building Authority (VPBA) (nonmajor governmental fund) – The Authority was created as a body politic and corporate and is fiscally independent. A government instrumentality, the Authority finances the acquisition and construction of buildings for the use of the Commonwealth and other approved purposes. The Governor appoints the 7-member board, and the primary government is able to impose its will on the Authority. The Auditor of Public Accounts audits the Authority, and a separate report is issued from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218-1879.

Route 460 Funding Corporation of Virginia (nonmajor enterprise) – The Corporation, a private, non-stock nonprofit corporation was created to develop, construct, and provide financing for the U.S. Route 460 Corridor Improvements Project. The Corporation is a blended component unit of the Virginia Department of Transportation (VDOT) (primary government) because it is fiscally dependent on the primary government and there is a financial benefit/burden relationship between the primary government and the Corporation. The corporate offices of the Corporation are located at VDOT, 1401 East Broad Street, Richmond, Virginia 23219. Dixon Hughes Goodman, LLP audits the Corporation, and a separate report is available from VDOT. As discussed in Note 31, the continuing operations of the Corporation will cease during fiscal year 2016.

(3) Discrete Component Units – Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading. These discrete component units serve or benefit those outside of the primary government.

GASB statements generally require any organization that raises and holds economic resources for the direct benefit of the reporting entity to be reported as a component unit, even if the reporting entity is not financially accountable for the organization. The entities are included in the Commonwealth's reporting entity as nonprofit charitable organizations and exist solely to support the Commonwealth's higher education institutions and certain state agencies. The higher education institution nonprofit organizations are included in the applicable higher education institution's column in the accompanying financial statements. In all instances where separate disclosure of these nonprofit organizations is required in the accompanying footnotes, the entities' totals are aggregated and disclosed as "foundations."

The criteria for reporting certain component units as major component units focuses on the nature and significance of the component unit's relationship to the primary government versus other component units.

Discretely presented component units are:

Virginia Housing Development Authority (VHDA) (major) – The Authority was created as a political subdivision and instrumentality of the Commonwealth and is granted both politic and corporate powers by the *Code of Virginia*. The Governor appoints a majority of the Authority's board members and the remaining board members are ex-officio. The Commonwealth may make grants to the Authority including, but not limited to, reserve funds, which is a potential financial benefit/burden to the primary government. The Commonwealth is not legally obligated by the debt of the Authority. The Authority was created in the public interest to provide investment in and stimulate construction of low to moderate income housing which benefits the citizens of the Commonwealth. The administrative offices of the Authority are located at 601 South Belvidere Street, Richmond, Virginia 23220. KPMG, LLP audits the Authority, and a separate report is issued.

Virginia Public School Authority (VPSA) (major) – The Authority was created as a public body corporate, and an agency and instrumentality of the Commonwealth to finance capital projects of city and county school boards. The Governor appoints the board members, who serve at his pleasure. Therefore, the primary government is able to impose its will on the Authority. The Auditor of Public Accounts audits the Authority, and a separate report is issued from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218-1879.

Virginia Resources Authority (VRA) (major) – The Authority was created as a public body corporate and a political subdivision of the Commonwealth to provide financing of infrastructure projects for water supply, wastewater, storm water, solid waste treatment, airports, public safety, brownfields remediation and redevelopment, and recycling. The Governor appoints the 11-member board and the Executive Director of the Authority. The primary government is able to impose its will on the Authority, and there is a financial benefit/burden to the primary government. The Commonwealth does not guarantee any bonds issued by the Virginia Resources Authority. The administrative offices of the Authority are located at 1111 East Main Street, Suite 1920, Richmond, Virginia 23219. Brown, Edwards and Company, LLP audits the Authority, and a separate report is issued.

Virginia College Building Authority (VCBA) (major) – The Authority was created as a public body corporate, a political subdivision, and an agency and instrumentality of the Commonwealth. The Governor appoints a majority of the board and members serve at his pleasure. Therefore, the primary government is able to impose its will on the Authority. The Authority finances certain capital projects and equipment purchases of state-supported colleges and universities. The Auditor of Public Accounts audits the Authority, and a separate report is issued from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218-1879.

Only the activity of the Authority that relates to the financing of capital projects and equipment purchases by state-supported colleges and universities is included in the financial statements. The state-supported colleges and universities reported revenue from the Authority of $513.2 million as Program Revenue Capital Grants and Contributions for the 21st Century Program and $62.2 million as Program Revenue Operating Grants and Contributions for equipment. The Authority reported Operating Appropriations from Primary Government of approximately $285.9 million. In addition, the Authority reported approximately $29.8 million in payments from the state-supported colleges and universities for 21st Century and Equipment Program debt service costs and approximately $12.5 million in interest on Build America Bonds. The Authority assists private institutions of higher education in the financing and refinancing of a broad range of facilities. The Authority is authorized to issue obligations and lend the proceeds to private institutions; however, such financings or refinancings are not obligations of the primary government nor the Authority, but are payable solely from the revenues pledged by the respective private institution. This indebtedness, totaling $701.6 million, is not included in the financial statements.

Higher Education Institutions (nonmajor) – The Commonwealth's higher education institutions are granted broad corporate powers by state statutes. The Governor appoints the members of each institution's board of trustees. In addition to the annual appropriations to support the institutions' operations, the Commonwealth provides funding for, and construction of, major academic plant facilities for the institutions. Institutions reported Operating Appropriations from Primary Government of approximately $1.7 billion. Therefore, there is a financial benefit/burden to the primary government. The higher education institutions are: the University of Virginia, including the University of Virginia Medical Center and the University of Virginia's College at Wise; Virginia Polytechnic Institute and State University; Virginia Commonwealth University, including the Virginia Commonwealth University Health System Authority, the College of William & Mary, including Richard Bland College and the Virginia Institute of Marine Science; Virginia Military Institute; Virginia State University; Norfolk State University; University of Mary Washington; James Madison University; Radford University; Old Dominion University; George Mason University; Virginia Community College System; Christopher Newport University; and Longwood University. The Southwest Virginia Higher Education Center, Roanoke Higher Education Authority, Institute for Advanced Learning and Research, Southern Virginia Higher Education Center, and New College Institute are also included as higher education institutions. The colleges and universities are funded through state appropriations, tuition, federal grants, and private donations and grants. As previously noted, certain foundations are considered component units of the higher education institutions, and are included in the accompanying financial statements as well as the higher education institutions' individually published financial statements. The Auditor of Public Accounts (APA) does not audit the Roanoke Higher Education Authority, the Institute for Advanced Learning and Research, and the component units of the higher education institutions, including foundations, but relies on the reports issued by other auditors to render her opinion.

The APA audits the colleges and universities, and individual reports are issued under separate cover. Complete financial statements for each institution may be obtained from their respective administrative offices. The addresses for these institutions may be obtained from the Department of Accounts, 101 North 14th Street, Richmond, Virginia 23219-3638.

Innovation and Entrepreneurship Investment Authority (IEIA) (nonmajor) – The Authority is granted corporate powers by the *Code of Virginia*. The Authority serves to facilitate the marketing, organization, and development of scientific research and technology by the state's institutions of higher education and private industry in the Commonwealth. In addition, the Authority serves to promote the economic development of the Commonwealth by attracting and retaining high technology jobs and businesses in Virginia. The Governor and General Assembly appoint the 15-member board, and there is a financial benefit/burden to the primary government. The Authority's combined financial statements include the accounts of the Center for Innovative Technology (CIT) after elimination of all significant intercompany balances and transactions. CIT is a non-stock, not-for-profit corporation, which acts as the operating arm of the Authority. The address for the administrative offices of the Authority is CIT Building, Suite 600, 2214 Rock Hill Road, Herndon, Virginia 20170-4228. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia Economic Development Partnership (VEDP) (nonmajor) – The Partnership was created as a body corporate and operates to encourage, stimulate, and support the development and expansion of commerce in the Commonwealth. The Governor appoints the 15-member board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 901 East Byrd Street, Post Office Box 798, Richmond, Virginia 23218-0798. The Auditor of Public Accounts audits the Partnership, and a separate report is issued.

Virginia Outdoors Foundation (nonmajor) – The Foundation was created as a body politic and is administratively assigned to the Department of Conservation and Recreation (part of primary government) and charged with promoting preservation through the acceptance of donated conservation easements and raising funds for the purchase of preservation land. The Governor appoints the 7-member board of trustees, and the primary government can impose its will on the Foundation. The administrative offices of the Foundation are located at 39 Garret St, Suite 200, Warrenton, VA 20186. Hicok, Fern & Company CPAs audits the Foundation, and a separate report is issued.

Virginia Port Authority (VPA) (nonmajor) – The Authority was established as a corporate body and operates to serve the citizens and promote commerce through the harbors and ports of Virginia. The Governor appoints a majority of the 12-member board, and the primary government is able to impose its will on the Authority. There is also a financial benefit/burden to the primary government. The administrative offices of the Authority are located at 600 World Trade Center, Norfolk, Virginia 23510. PBMares, LLP, audits the Authority, and a separate report is issued.

Virginia Tourism Authority (nonmajor) – The Authority was created as a public body corporate and as a political subdivision of the Commonwealth. The Authority encourages, stimulates, and promotes tourism and film production industries of the Commonwealth. The Governor appoints all of the board members, and there is a financial benefit/burden to the primary government. The administrative offices are located at 901 East Byrd Street, 19th Floor, Richmond, Virginia 23218-0798. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia Foundation for Healthy Youth (nonmajor) – The Foundation was created as a body corporate and as a political subdivision of the Commonwealth. The Foundation was established to determine the appropriate recipients of monies in the Virginia Tobacco Settlement Fund and to distribute monies in this fund for such efforts as restricting the use of tobacco products by minors and the enforcement of laws restricting the distribution of tobacco products to minors. The Governor appoints the majority of the board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 701 East Franklin Street, Suite 500, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Foundation, and a separate report is issued.

Tobacco Indemnification and Community Revitalization Commission (nonmajor) – The Commission was created as a body corporate and as a political subdivision of the Commonwealth. The Commission was established to determine the appropriate recipients of the monies in the Tobacco Indemnification and Community Revitalization Fund. This fund is to provide payments to tobacco farmers as compensation for the adverse economic effects resulting from loss of investment in specialized tobacco equipment and barns, as well as lost tobacco production opportunities. It also provides monies to revitalize tobacco dependent communities. The Governor appoints the majority of the board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 701 East Franklin Street, Suite 501, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Commission, and a separate report is issued.

Hampton Roads Sanitation District Commission (nonmajor) – The Commission was established as a political subdivision of the Commonwealth and a government instrumentality. The Commission, which is the governing board of the district, was granted corporate powers by the *Code of Virginia*. The Governor appoints the Commission members, who serve at his pleasure. Therefore, the primary government is able to impose its will on the Commission. The Commonwealth is not obligated by the debt of the Commission. The Commission was established to benefit the inhabitants of the district and operates a sewage system for 17 localities in the Chesapeake Bay area. The address for the administrative offices of the Commission is 1434 Air Rail Avenue, Virginia Beach, Virginia 23455. KPMG, LLP, audits the Commission, and a separate report is issued.

Virginia Biotechnology Research Partnership Authority (nonmajor) – The Authority is a legally separate, political subdivision of the Commonwealth created by the General Assembly to assist in the development of a biotechnology research park. The Governor appoints the board members of the Authority, and there is a potential financial benefit/burden to the primary government. The administrative offices of the Authority are located at 800 East Leigh Street, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

The Authority issued the 2002 Series, the 2013B Series, and the 2013A Series of revenue bonds for specific customers. The 2002 Series variable rate revenue bonds were for a facility built specifically for the United Network for Organ Sharing. The 2013B Series variable rate revenue bonds were for the Virginia Blood Services project. The 2013A Series variable rate revenue bonds were to assist the Institute for Transfusion Medicine (ITxM). The bonds are secured by a letter of credit and are payable solely from the payments made by the borrower under the loan agreement. Neither of these bonds constitutes a debt or pledge of the Authority or the Commonwealth. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

Virginia Small Business Financing Authority (VSBFA) (nonmajor) – Section 2.2-2280 of the *Code of Virginia* established the Authority as a public body corporate and a political subdivision of the Commonwealth. The Governor appoints the 11-member board, and the primary government is able to impose its will on the Authority. The Authority was created to assist small businesses in the Commonwealth in obtaining financing for new businesses or the expansion of existing businesses. The Authority can provide financial assistance to small businesses by providing loans, guarantees, insurance, and other assistance, thereby encouraging the investment of private capital in small businesses in the Commonwealth. The Authority can loan money to local governments as defined by the *Code of Virginia* for economic development purposes. The Authority also guarantees loans made to small businesses by banks. The administrative offices of the Authority are located at 101N. 14th Street, 11th Floor, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

The Authority has issued Industrial Development Revenue Bonds to provide financial assistance to private sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private sector entity served by the bond issuance. Neither the Authority nor the Commonwealth is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities on the accompanying financial statements.

Virginia School for the Deaf and Blind Foundation (nonmajor) – The Foundation operates as a nonprofit educational and fundraising organization solely in connection with, and exclusively for the benefit of the Virginia School for the Deaf and Blind (part of primary government). The Foundation uses a December 31 calendar year-end. The administrative offices are located at Post Office Box 2069, Staunton, Virginia 24402.

Science Museum of Virginia Foundation (nonmajor) – The Foundation is a non-stock, nonprofit corporation established to implement and fund programs, projects, and operations that are authorized and approved by the trustees of the Science Museum of Virginia (part of primary government). There is a financial benefit/burden relationship between the primary government and the Foundation. The administrative offices of the Foundation are located at 2500 West Broad Street, Richmond, Virginia, 23220. Cherry, Bekaert, & Holland, LLP, audits the Foundation, and a separate report is issued.

Virginia Commercial Space Flight Authority (VCSFA) (nonmajor) – The Authority is a legally separate political subdivision of the Commonwealth created by the General Assembly to facilitate and coordinate scientific and technological research and development and to promote the industrial and economic development of the Commonwealth. The Governor appoints the 9-member board and there is a potential financial benefit/burden to the primary government. The Commonwealth provided $26.0 million in bond offerings through the Virginia Public Building Authority (nonmajor) to the VCSFA in fiscal year 2009. The Commonwealth provided $25.6 million in capital contributions through a memorandum of understanding in September 2012. The Commonwealth provided an additional $10.0 million of capital contributions through a settlement agreement by and among the VCSFA, the Commonwealth, and Orbital Sciences Corporation to the VCSFA in January 2014. The Commonwealth approved the conversion of a $5.0 million interest-free note to repair Pad 0A into a grant in March 2015. The administrative offices of the Authority are located at 4111 Monarch Way, Suite 303, Norfolk, Virginia 23508. Dixon Hughes Goodman, LLP audits the Authority, and a separate report is issued.

Danville Science Center, Inc. (nonmajor) – The Center is a nonprofit corporation formed for the purpose of implementing and funding those programs, projects and operations which are authorized and approved by the trustees of the Science Museum of Virginia (part of primary government). There is a financial benefit/burden to the primary government. The administrative offices of the Center are located at 677 Craghead Street, Post Office Box 167, Danville, Virginia 24541. Kania & Associates, LLP, audits the Center, and a separate report is issued.

Virginia Museum of Fine Arts Foundation (nonmajor) – The Foundation operates as a nonprofit corporation under the laws of Virginia to fund exhibitions, programs, and capital asset expansion to ensure that the Virginia Museum of Fine Arts (part of primary government) has the space and resources for art to help improve the quality of life for many. There is a financial benefit/burden to the primary government. The administrative offices of the Foundation are located at 200 North Boulevard, Richmond, Virginia 23220. Dixon Hughes Goodman, LLP, audits the Foundation, and a separate report is issued.

A. L. Philpott Manufacturing Extension Partnership (nonmajor) – The Partnership has the mission to foster economic growth by enhancing the competitiveness of Virginia's manufacturers. The Partnership provides manufacturing firms with fee-based technology consulting services, access to business modernization resources, and support for interfirm collaboration. Further, the Partnership provides direct assistance to increase sales, decrease costs, and improve quality, productivity, and competitiveness. The Partnership has a 24-member board of trustees. The board consists of the presidents of two public four-year institutions of higher education; three community college presidents; one president of a private four-year institution of higher education; the director of Virginia's Center for Innovative Technology; Virginia's Secretary of Commerce and Trade; Virginia's Secretary of Technology; and 15 citizen members, representing manufacturing industries, appointed by the Governor. There is also a financial benefit/burden to the primary government. The administrative office is located at 32 Bridge Street, Suite 200, Martinsville, VA 24112. The Auditor of Public Accounts audits the Partnership, and a separate report is issued.

Virginia University Research Partnership (nonmajor) – The Partnership was created as a nonprofit, non-stock corporation to receive grant monies appropriated by the General Assembly. The Partnership oversees the administration of those grant payments for use by a nonprofit, public benefit research institute that conducts research and development for government agencies, commercial businesses, foundations, and other organizations as well as commercializes technology. Due to the primary government being the sole source of funding, it is able to impose its will on the Partnership. The administrative offices are located at 901 East Byrd Street, Post Office Box 798, Richmond, Virginia 23218-0798.

Fort Monroe Authority (nonmajor) – The Authority is a legally separate, political subdivision of the Commonwealth created by the General Assembly to assist in formulating a reuse plan for Fort Monroe. The Governor appoints a majority of the 17-member board, and there is a potential financial benefit/burden to the primary government. The administrative offices of the Authority are located at 20 Ingalls Road, Fort Monroe, Virginia 23651. Cherry, Bekaert, & Holland, LLP, audits the Authority, and a separate report is issued.

Assistive Technology Loan Fund Authority (nonmajor) – The Authority was created as a political subdivision and public body corporate by the *Code of Virginia*. The Governor appoints the board of directors as directed by the *Code* and the primary government is able to impose its will on the Authority. The Authority manages a fund to provide loans to individuals to acquire assistive technology, other equipment, or other authorized purposes designed to help disabled individuals become more independent. The administrative offices are located at 1602 Rolling Hills Drive, Suite 107, Henrico, Virginia 23229. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia Sesquicentennial of the American Civil War Foundation (nonmajor) – The Foundation was established to prepare for and commemorate the sesquicentennial of Virginia's participation in the American Civil War. The Foundation was formed under the Virginia Nonstock Corporation Act. The economic resources received or held by the Foundation are entirely or almost entirely for the direct benefit of the primary government. The administrative offices are located at the General Assembly Building, 2nd Floor, 201 North 9th Street, Richmond, VA 23219. Brown, Edwards & Company, LLP, audits the Foundation, and a separate report is issued.

Virginia Land Conservation Foundation (nonmajor) – The Foundation was created as a body politic and corporate to serve the Department of Conservation and Recreation (part of primary government) by acquiring interests in preservation land and providing grants to other entities to acquire interests in preservation land. The Governor appoints the 18-member board, and the primary government can impose its will on the Foundation. The administrative offices of the Foundation are located at 600 East Main Street, 24th Floor, Richmond, VA 23219. The Auditor of Public Accounts audits the Foundation as part of the Department of Conservation and Recreation (part of primary government) and discloses its existence in that report.

Virginia Arts Foundation (nonmajor) – The Foundation was created as a body politic and corporate to serve the Virginia Commission for the Arts (part of primary government) by promoting the arts in the Commonwealth. The Governor appoints the board of trustees for the Virginia Commission for the Arts, which also serves as the board for the Virginia Arts Foundation. The Director of the Virginia Commission for the Arts serves as the board chairman. In addition, the primary government can impose its will on the Foundation. The administrative offices of the Foundation are located at 1001 East Broad Street, Suite 3300, Richmond, VA 23219. The Auditor of Public Accounts audits the Foundation as part of the Virginia Commission for the Arts.

Library of Virginia Foundation (nonmajor) – The Foundation was created as a private, nonprofit 501(c)(3) corporation supporting the Library of Virginia (part of primary government). The Foundation was established upon receipt of a major bequest. The articles of incorporation stipulate that the Foundation shall at all times be operated solely in connection with, and exclusively for the benefit of, the Library of Virginia. The Foundation is governed by a separate board of directors, and promotes and supports the Library of Virginia in all activities. The administrative offices of the Foundation are located at 800 East Broad Street, Richmond, Virginia 23219. Mitchell, Wiggins and Company, LLP audits the Foundation, and a separate report is issued.

Virginia Health Workforce Development Authority (nonmajor) – The Authority is a legally separate public body corporate and a political subdivision of the Commonwealth created by the General Assembly. The Authority facilitates the development of a statewide health professions pipeline. The Governor appoints a majority of the board members, and the primary government is able to impose its will on the Authority. The administrative offices of the Authority are located at 6800 Paragon Place, Suite 620, Richmond, Virginia 23294. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

(4) Related Organizations – Organizations for which the primary government appoints a majority of the board, but is not financially accountable, are related organizations. Related organizations are:

Tobacco Settlement Financing Corporation – The Corporation was created by the Tobacco Settlement Financing Corporation Act, Chapters 482 and 488 of the Acts of the General Assembly during the 2002 General Assembly Session. The Corporation is a public body corporate entity and an independent instrumentality of the Commonwealth, managed by a 6-member board, including the State Treasurer. The Corporation purchased all of the future tobacco settlement revenue allocated to the Tobacco Indemnification and Community Revitalization Commission (nonmajor component unit). Neither the Commonwealth's nor the Virginia Foundation for Healthy Youth's (nonmajor component unit) tobacco revenue was securitized. The administrative offices of the Corporation are located at 101 N. 14th Street, 3rd Floor, Post Office Box 1879, Richmond, Virginia 23218-1879. Brown, Edwards, and Company, LLP audits the Corporation, and a separate report is issued.

Virginia Recreational Facilities Authority – The Authority was created as a political subdivision and instrumentality of the Commonwealth and given separate corporate powers by the *Code of Virginia*. The Governor appoints the 13-member board of directors. The Authority operates educational programs, tourism, and commerce in the Roanoke Valley. The address for the administrative offices of the Authority is 5204 Bernard Drive SW, Post Office Box 29800, Roanoke, Virginia 24018.

Jamestown-Yorktown Foundation, Inc. – The nonprofit corporation was created by the *Code of Virginia* to assist the Jamestown-Yorktown Foundation (Foundation). The corporation board consists of five members selected from the Foundation's board of trustees. Several Commonwealth officials serve as ex-officio members of the Foundation's board, and the Governor appoints 12 members. The Corporation's basic activities consist of soliciting and collecting contributions, purchasing artifacts, sponsoring events and exhibits, and overseeing investments. The administrative offices of the Corporation are located at 2207 Colonial Parkway, Post Office Box 3605, Williamsburg, Virginia 23187. Keiter Certified Public Accountants audits the Corporation, and a separate report is issued.

Jamestown-Yorktown Educational Trust – The Trust was created as a nonprofit corporation by the *Code of Virginia* to assist the Jamestown-Yorktown Foundation (Foundation). The Trust board consists of six members selected from the Foundation's board of trustees. Several Commonwealth officials serve as ex-officio members of the Foundation's board, and the Governor appoints 12 members. The Trust operates the Jamestown Settlement and Yorktown Victory Centers' gift shops and café. The address for the administrative offices of the Trust is 2207 Colonial Parkway, Post Office Box 3605, Williamsburg, Virginia 23187. Keiter Certified Public Accountants audits the Trust, and a separate report is issued.

Virginia Birth-Related Neurological Injury Compensation Program – The Program was created to provide a no-fault alternative for birth-related neurological injuries. The Governor appoints the 9-member board. The administrative offices of the Program are located at 7501 Boulders View Drive, Suite 210, Richmond, Virginia 23225. KPMG, LLP, audits the Program, and a separate report is issued.

Chesapeake Bay Bridge and Tunnel Commission – The Commission was created to establish policy and administer operations of the Chesapeake Bay Bridge Tunnel District. Any of the 11 members of the Commission appointed or reappointed on or after July 1, 1998, shall be appointed by the Governor, subject to confirmation by each house of the General Assembly. The administrative offices of the Commission are located at 32386 Lankford Highway, Cape Charles, Virginia 23310. KPMG, LLP, audits the Commission, and a separate report is issued.

C. Government-wide and Fund Financial Statements

The government-wide financial statements, the Statement of Net Position and the Statement of Activities, report information on all nonfiduciary activities of the primary government and component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Also, the primary government activity is reported separately from the legally separate component units for which the Commonwealth is financially accountable.

The Statement of Activities demonstrates the degree to which direct expenses of a specific function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. In addition, to the extent that indirect costs are allocated to the various functions, the program expenses will include both direct and indirect costs. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit, as well as investment income generated by operations. Program revenues also include grants, contributions, and investment income that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Taxes and other items properly excluded from program revenues are reported as general revenues.

Fund equity is restricted when constraints are placed on them that are imposed by external parties or constitutional provisions. When both restricted and unrestricted resources are available for use, the Commonwealth's policy is to use the restricted resources first. Some institutions of higher education may follow a different policy. When committed, assigned, and unassigned resources are available for use, the Commonwealth's policy is to use the committed resources first, assigned resources next, and unassigned resources last.

Separate financial statements are provided for governmental funds, proprietary funds, fiduciary funds, and component units. However, fiduciary funds are not included in the government-wide statements. Major governmental funds, enterprise funds, and component units are reported in separate columns in the fund financial statements, with nonmajor funds being aggregated into a single column.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the primary government considers revenues to be available if they are collected within 60 days of the end of the current fiscal year (or one year for Medicaid). Significant revenues subject to accrual include federal grants and income and sales taxes. Income tax revenues for tax underpayments are only recognized to the extent of the primary government's estimated refunds for tax overpayments received. Revenues that the primary government earns by incurring obligations are recognized in the same period as when the obligations are recognized.

Expenditures generally are recorded when a liability is incurred, as under full accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when the payment is due.

The primary government reports the following major governmental funds:

General Fund – Accounts for the transactions related to resources received and used for those services traditionally provided by a state government, and which are not accounted for in any other fund. These services include general government, legislative and judicial activities, public safety, health and behavioral health programs, resources and economic development, licensing and regulation, and primary and secondary education.

Commonwealth Transportation Special Revenue Fund – Accounts for the revenues and expenditures associated with highway operations, maintenance, construction, and other transportation related activities. Funding for these programs is received from highway user taxes, fees, and funds received from the federal government.

Federal Trust Special Revenue Fund – Accounts for all federal dollars received by the Commonwealth except those received by the Commonwealth Transportation Fund, the Unemployment Compensation Fund, certain Medicaid reimbursements recorded in the General Fund, and component units.

Literary Fund Special Revenue Fund – Accounts for revenues from fines, forfeitures, and proceeds from unclaimed property used primarily to support public education in the Commonwealth. This fund provides low interest loans to school divisions for construction, renovations, and expansion of school buildings.

Proprietary Funds, Fiduciary Funds, and Component Units Financial Statements – The financial statements of the proprietary funds, fiduciary funds, and component units are reported using the economic resources measurement focus and the full accrual basis of accounting. As with the government-wide statements, revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds have no measurement focus since they only report assets and liabilities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating.

Foundations' (component units) financial statements are prepared using the economic resources measurement focus and the full accrual basis of accounting. The financial statements are prepared under FASB rather than GASB standards. In some instances, activities of the foundations (component units) are reported separately within the footnotes because of the different reporting standards. Also, some foundations (component units) have a December 31st or March 31st year-end rather than a fiscal year-end. Foundations (component units) with different year-ends are included in these financial statements for the year ending December 31, 2014, or March 31, 2015. Significant intrafund activity/balances between each higher education institution and their foundations have been eliminated.

The following amounts could not be eliminated due to the differing year-ends:

- University of Virginia (nonmajor component unit):
  - institution assets of $429,925
  - institution revenue of $7.7 million
  - foundation assets of $1.0 million
  - foundation liabilities of $436,727
  - foundation expenses of $7.1 million

- Old Dominion University (nonmajor component unit):
  - institution liabilities of $62.1 million
  - foundation assets of $51.0 million

The primary government reports the following major enterprise funds:

Virginia Lottery Fund – Accounts for all receipts and expenses of the Virginia Lottery.

Virginia College Savings Plan Fund – Administers the Virginia529 prePAID Program.

Unemployment Compensation Fund – Accounts for receipts from employers and expenses incurred to provide benefits to eligible unemployed workers.

Additionally, the primary government reports the following fund types:

Governmental Fund Types:

Special Revenue Funds – Account for transactions related to resources received and used for restricted, committed, or specific purposes.

Debt Service Funds – Account for transactions related to resources retained and used for the payment of interest and principal on long-term obligations.

Capital Project Funds – Account for transactions related to resources received and used for the acquisition, construction, or improvement of capital facilities not reported in the other governmental or proprietary funds. The primary resource for these funds is the proceeds of bond issues and energy performance contracts. Principal uses are for construction and improvement of state office buildings, correctional and behavioral health facilities, and parks.

Permanent Funds – Account for transactions of the Commonwealth Health Research Fund and the Behavioral Health Endowment Funds whose principal must remain intact and whose income is used to benefit the Commonwealth's citizens and behavioral health patients.

Proprietary Fund Types:

Enterprise Funds – Account for transactions related to resources received and used for financing self-supporting activities of the primary government that offer products and services on a user-charge basis to external users.

Internal Service Funds – Account for transactions related to the financing and sale of goods or services provided by the agencies of the primary government to other agencies and institutions of the Commonwealth. Activities include the provision of information technology, manufacturing activities, insurance programs, fleet services, facilities and property management, engineering and payroll services.

Fiduciary Fund Types:

Private Purpose Trust Funds – Account for transactions of all other trust arrangements in which the principal and income benefit individuals, private organizations, or other governments. These trusts include those for escheat property, educational savings plan, and others.

Pension and Other Employee Benefit Trust Funds – Account for transactions of the Commonwealth administered retirement systems and other employment benefits.

Investment Trust Fund – Accounts for the external portion of the Local Government Investment Pool that is sponsored by the Commonwealth.

Agency Funds – Account for amounts held in trust by the primary government for others. Agency funds include those funds established to account for the collection of taxes and fees for distribution to localities and other states, employee benefits, deposits of insurance carriers, child support collections and other miscellaneous accounts.

E. Budgetary Process

Budgetary amounts shown in the Required Supplementary Information and Combining and Individual Fund Statements and Schedules Sections represent the total of the original budgeted amounts and all supplemental appropriations. The

Commonwealth's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be reappropriated for expenditure in the following fiscal year. The Governor, as required by the *Code of Virginia*, submits a budget composed of all proposed expenditures for the Commonwealth, and of estimated revenues and borrowing for a biennium, to the General Assembly. Budgets are adopted for the General and Special Revenue Funds, except for the Literary Fund (major special revenue). Formal budgetary integration is not employed for the Capital Projects (nonmajor governmental), Debt Service (nonmajor governmental), Permanent Funds (nonmajor governmental), and the Literary (major special revenue) Funds because effective budgetary control is alternatively achieved through the General Fund and the remaining Special Revenue Funds.

The budget is prepared on a biennial basis; however, the budgets of the General and Special Revenue Funds contain separate appropriations for each year within the biennial budget, as approved by the General Assembly and signed into law by the Governor. For management control purposes, the budget is controlled at the program level. The Governor may transfer an appropriation within a state agency or from one state agency to another, provided that total fund appropriations, as contained within the budget, are not exceeded. Increases in General Fund appropriations must be approved by the General Assembly.

Appropriations for programs funded from Special Revenue Funds may allow expenditures in excess of the original appropriations to the extent that revenues of the funds exceed original budget estimates and such additional expenditures are approved by the Governor through supplemental appropriations.

F. Cash, Cash Equivalents, Investments, and Derivatives

Cash

In order to maximize the Commonwealth's earning potential, the majority of the primary government's cash balances are pooled together in the general account for investment purposes. The amounts required for operations are liquidated as needed. Since all amounts not required for operations are held in investment securities, it is possible that the cash balances could be negative due to timing differences in liquidating the investments.

As of June 30, 2015, the General Fund had a negative cash balance of $3.9 billion. In order to properly reflect the general account position, this negative cash balance has been eliminated in the accompanying statements and offset against the primary government's cash equivalents and investments (see Note 6).

Cash Equivalents

Cash equivalents are investments with an original maturity of 90 days or less.

Investments

Investments are principally comprised of monies held by component units, Pension and Other Employee Benefit Trust Funds, and monies held by the State Treasurer in both the general account and other fiduciary accounts.

Governmental and proprietary funds, both primary government and component units, report investments in money market and in the Commonwealth sponsored investment pools at amortized cost which approximates fair value. All other investments are reported at fair value, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Investments administered by the Virginia Retirement System (the System) are reported at fair value. The cost of investments sold is the average cost of the aggregate holding of the specific investment sold. Investments in affiliated organizations are accounted for on the equity method of accounting and the System’s share of their earnings (losses) for the period is included in investment income using the equity method.

Investments of higher education institutions (nonmajor component units) are reported at fair value, except for money market investments and investments in the Commonwealth sponsored investment pools, which are reported at amortized cost.

Derivatives

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes (see Note 14).

G. Receivables

Receivables in the governmental funds consist primarily of the accrual of taxes, as well as receivables of the primary government's Medicaid program. Receivables in the proprietary funds consist primarily of tuition contribution receivables and unemployment compensation. Receivables of fiduciary funds are primarily the accrual of security transactions in the Pension and Other Employee Benefit Trust Funds. Receivables of the component units consist primarily of mortgage receivables, loan receivables, patient receivables, and student receivables. Receivables are recorded net of allowances for doubtful accounts (see Note 7).

H. Contributions Receivable, Net

Contributions Receivable reported by the foundations (component units) represents pledges or unconditional promises to give that have been discounted (see Note 8).

I. Internal Balances

Interfund receivables and payables have been eliminated from the Statement of Net Position, except for the residual amounts due between governmental and business-type activities (see Note 9).

J. Inventory

Inventories consist of materials and supplies and are reported as expenditures when consumed. These assets are classified as nonspendable fund balance. Inventories exceeding $1.0 million of the General and the Special Revenue Funds are maintained at cost using the first-in, first-out (FIFO) methodology, except for the following:

- Department of State Police (VSP)
- Virginia Department of Transportation (VDOT)

VSP inventories are recorded in the General (major) and Other Special Revenue (nonmajor) Funds using the average cost methodology and are maintained at cost. VDOT inventories are recorded in the Commonwealth Transportation Fund (major special revenue) using the FIFO and average cost methodologies and are maintained at either cost or average cost.

In addition to inventories maintained as stated above, the following agencies reported donated inventory balances on hand at June 30, 2015:

- Department of Health (VDH)
- Department of Corrections (VADOC)
- Department of Behavioral Health and Developmental Services (DBHDS)
- Department of Juvenile Justice (DJJ)

Inventories maintained by the Virginia Museum of Fine Arts (nonmajor enterprise fund), the Science Museum of Virginia (nonmajor enterprise fund), and the Consolidated Laboratory (nonmajor enterprise fund) are stated at cost using FIFO.

Inventories maintained by the Department of Alcoholic Beverage Control (nonmajor enterprise fund) are stated at average cost using FIFO.

Inventories maintained by the Virginia Lottery (major enterprise fund) and the Virginia Industries for the Blind (nonmajor enterprise fund) are stated at cost using the average cost methodology.

Inventories maintained by Correctional Enterprises (internal service fund) are stated at the lower of cost or market using FIFO. Inventories maintained by the internal service funds except for Correctional Enterprises are stated at cost using FIFO.

Institutions of higher education (nonmajor component units) use several methods for inventory valuations, including cost using FIFO, the lower of cost or market using FIFO, or weighted average methods. Inventories maintained by the Virginia Port Authority (nonmajor component unit), the Hampton Roads Sanitation District Commission (nonmajor component unit), and the Danville Science Center (nonmajor component unit) are reported using the moving average unit cost methodology. Inventories at the gift shop run by the Library of Virginia Foundation (nonmajor component unit) are stated at lower of cost or market using FIFO.

K. Prepaid Items

Prepaid assets for rent, insurance, and similar items are recognized when purchased and expensed when used.

L. Interfund Loans Receivable/Payable

Loans Receivable/Payable represents working capital advances from one fund to another (see Note 9).

M. Other Assets

Other Assets include those balances of a miscellaneous nature that are not specifically classified elsewhere (see Note 10).

N. Capital Assets

Capital assets of governmental funds are recorded as expenditures at the time of purchase and capitalized in the governmental activities column of the Government-wide Statement of Net Position. Capital assets of the other funds and component units are capitalized in the fund in which they are utilized. All depreciable capital assets are depreciated on the straight-line basis over their useful lives (see Note 12).

Capital assets are stated at historical cost or, in some instances, estimated historical cost. Donated capital assets from entities external to the reporting entity are stated at fair market value at the time of donation. Asset transfers or donations from within the reporting entity are recorded at the carrying value of the transferring entity as required by GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. The primary government capitalizes all equipment that has a cost or value greater than $50,000 and expected useful life of greater than two years. The primary government capitalizes all land, water rights/easements, buildings, infrastructure, and software that have a cost or value greater than $100,000 and an expected useful life of greater than two years. Selected agencies, business-type entities, and component units utilize a capitalization limit lower or higher than the primary government's established thresholds for various reasons. Accordingly, reported capital assets may include some items that cost less than those thresholds. Infrastructure, including highways, bridges, and rights-of-way, is capitalized using the historical approach and includes any assets acquired prior to fiscal year 1980.

The primary government's capitalization policy regarding works of art/historical treasures is that capitalization is encouraged, but not required, for works of art/historical treasures that meet the following conditions:

- The collection is held for public exhibition, education, or research in furtherance of public service, rather than financial gain;
- The collection is protected, kept unencumbered, cared for and preserved; and,
- The collection is subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for the collection.

The primary government capitalizes construction-in-progress when project expenditures, including construction of intangible assets, exceed $100,000. Interest incurred during construction is not capitalized in governmental funds. Interest incurred during the construction of proprietary fund assets is included in the capitalized value of the asset. The total interest cost incurred during the fiscal year was $15.1 million. None of the interest cost incurred this fiscal year was capitalized.

Expenditures are classified as construction-in-progress if:

(1) They extend the asset life, improve productivity, or improve the quality of service; and,

(2) They fall into the planning, acquisition, construction, improvement, renovation, repair, replacement, relocation, or demolition phase of the asset life.

The estimated lives of capital assets are as follows:

	Years
Buildings	10–75
Equipment	2–50
Infrastructure	5–50
Software	5–35

Selected agencies, business-type entities, and component units may utilize estimated lives and policies that differ from the above for various reasons.

O. Deferred Outflows of Resources

Deferred outflows of resources are a consumption of assets by the government that is applicable to a future reporting period. Deferred outflows have a natural debit balance and, therefore increase net position similar to assets (see Notes 13, 14, and 15).

P. Accounts Payable

Accounts payable represent amounts, including salaries and wages, owed for goods and services received prior to year-end. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, accounts payable also includes payments for nonexchange transactions that met eligibility requirements prior to fiscal year-end (see Note 24).

Q. Unearned Revenue

Unearned revenue represents monies received or revenues accrued but not earned as of June 30, 2015. The majority of unearned revenue is reported by higher education institutions (nonmajor component units), where it is primarily composed of revenue for student tuition accrued in advance of the semester and advance payments on grants and contracts. In the special revenue funds, unearned revenue is composed primarily of prepaid toll revenue and contributions from localities and private sectors for highway construction projects recorded in the Commonwealth Transportation Special Revenue Fund (major governmental). In the enterprise funds, a majority of unearned revenue represents online ticket monies received by the Virginia Lottery (major enterprise) for which corresponding drawings have not been held.

Unearned revenue in the internal service funds primarily represents unearned premiums in the Risk Management Fund; the transfer and purchase of assets for transition agencies, as well as advanced customer receipts in the Virginia Information Technologies Agency Fund; and prepaid rent and work orders in the Property Management Fund.

Unearned revenues in the other component units consist primarily of fees related to various activities.

R. Unearned Taxes

Unearned taxes represent income taxes related to the period January through June 2015. This amount is the estimate to be refunded (overpayments by taxpayers) reduced by the estimate to be received (underpayments from taxpayers) that will be finalized when income tax returns are filed in subsequent years. Individual income tax estimated overpayments total $928.1 million and estimated underpayments total $863.6 million. This results in unearned taxes of $64.5 million.

Corporate income tax estimated overpayments total $45.4 million and estimated underpayments total $36.7 million. This results in unearned taxes of $8.7 million.

S. Obligations Under Securities Lending Program

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, liabilities resulting from these transactions have been recorded as obligations under securities lending transactions.

T. Other Liabilities

Other liabilities represent amounts owed for various governmental and proprietary activities. Some of these amounts will be paid shortly after fiscal year-end (see Note 25).

U. Claims Payable

Claims payable, reported in the proprietary funds of the primary government, represent both health and liability insurance claims payable at June 30, 2015. This includes both actual claims submitted, as well as actuarially determined claims incurred but not reported. Claims relating to the primary government's liability insurance programs are reported in the Risk Management – internal service fund and the Risk Management – nonmajor enterprise fund. Also, health insurance claims are reported in the Health Care – internal service fund and the Local Choice Health Care – nonmajor enterprise fund (see Notes 23.A. and 23.B.). Claims payable reported by the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University – nonmajor component unit) represents estimated malpractice, workers' compensation, and medical claims payable amounts.

V. Long-term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities column. The governmental fund statements reflect the portion of long-term liabilities that will be paid from expendable resources that represent payments to employees for separations that occurred prior to June 30. The proprietary fund statements and discrete component unit statements reflect total long-term liabilities and distinguish between those portions payable within one year and those payable in future years (see Note 26).

Bond premiums and discounts are amortized over the life of the bond. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs, excluding prepaid insurance, are expensed.

Expenditures for principal and interest payments for governmental fund general obligation bonds and revenue bonds are recognized in the Debt Service Fund (nonmajor) when due. In these fund statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures (see Note 26).

W. Deferred Inflows of Resources

Deferred inflows of resources are an acquisition of assets by the government that is applicable to a future reporting period. Deferred inflows have a natural credit balance and, therefore decrease net position similar to liabilities (see Notes 13, 14, 15, and 37).

X. Nonspendable Fund Balances

Nonspendable fund balances indicate that portion of fund balance that cannot be spent because it is either not in spendable form or is legally or contractually required to be maintained intact.

Y. Restricted Fund Balances

Restricted fund balances are amounts that have constraints placed on the use of resources that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Z. Committed Fund Balances

Committed fund balances are amounts that have constraints placed on the use of resources that are imposed by the formal action of the government's highest level of decision-making authority through legislative action. The distinction between restricted and committed fund balances is the source and strength of the constraints placed on them. The highest level of decision authority for the Commonwealth is the General Assembly and the Governor.

AA. Assigned Fund Balances

Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Assignments are identified by Commonwealth management pursuant to the delegation of authority granted by the General Assembly and Governor specified in the Appropriation Act.

BB. Unassigned Fund Balances

Unassigned fund balance is the amount of fund balance that has not been assigned to other funds and has not been restricted, committed or assigned to specific purposes with the General Fund. Additionally, accrued liabilities exceed accrued assets on the modified accrual basis for the Commonwealth Transportation Fund (major special revenue) and Literary Fund (major special revenue) by $22.2 million and $37.5 million, respectively. As there are no assigned balances in these funds to offset the negative fund balance restricted for specific purposes, these amounts are reported as Unassigned Fund Balance.

CC. Cash Management Improvement Act

Included in Amounts Due to Other Governments is the Commonwealth's Cash Management Improvement Act (CMIA) interest liability to the federal government, which is calculated in accordance with the interest calculation and exchange provisions of the Federal Cash Management Improvement Act of 1990. The Commonwealth's interest liability is subject to review and final confirmation by the Bureau of the Fiscal Service (BFS) of the U.S. Treasury. If required, the payment is to be made on March 31 of the following year. Payment will be made from a sum sufficient appropriation authorized for this purpose by the Appropriation Act. The CMIA interest rate of exchange is based by law on the average of the bond equivalent rates of 13-week Treasury Bills auctioned during the annual reporting period as calculated by BFS. There was no payment required as of June 30, 2015.

DD. Investment Income

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, all investment income reported in the accompanying financial statements include changes in the fair value of investments and the amount reported may be negative. Additionally, the Commonwealth's policy is to record all unrealized gains or losses for the State Treasurer's Portfolio in the General Fund.

EE. Intrafund Eliminations

Eliminations have been incorporated into the report to eliminate intrafund transactions within the related fund type. These eliminations prevent overstatement of financial activity.

FF. Interfund Activity

Generally, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are 1) activities between funds reported as governmental activities and funds reported as business-type activities, and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions.

In the fund financial statements, transfers represent the movement of resources between funds. For example, transfers are recorded when a fund receives revenue and subsequently disburses the resources to another fund for expenditure.

2. RESTATEMENT OF BEGINNING BALANCES

The government-wide beginning balance restatements resulted from the following:

Government-wide Activities

- **Governmental Activities**

  The Governmental Activities were restated for the following:

  - The Commonwealth implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68,* effective for the fiscal year ended June 30, 2015. This implementation resulted in restatements for the difference between the beginning net pension liability less the beginning deferred outflows of resources for fiscal year 2014 employer contributions and the prior year's net pension obligation under the previous GASB Statement No. 27. Accordingly, the Governmental Activities were restated by $2.4 billion.

  - Capital Asset balances were restated by $9.5 million due to errors that resulted in an understatement of previous balances.

  - The Commonwealth Transportation (major special revenue) balances were restated by $6.5 million due to errors that resulted in an overstatement of prior year liabilities.

- **Business-type Activities**

  - As a result of the implementation of GASB Statement No. 68 and GASB Statement No. 71 discussed previously, Virginia Lottery (major), Virginia College Savings Plan (major), and numerous nonmajor enterprise funds have restated beginning balances by $15.9 million, $5.8 million, and $55.5 million, respectively.

  - The Wireless E-911 Service Board (nonmajor enterprise) beginning balance was restated by $8.2 million due to errors attributable primarily to the overstatement of receivables and the understatement of liabilities.

Fund Statements

The fund statement beginning balance restatements resulted from the following:

- The Commonwealth Transportation (major special revenue) balances were restated by $6.5 million due to errors that resulted in an overstatement of prior year liabilities as discussed previously.

- As a result of the implementation of GASB Statement No. 68 and GASB Statement No. 71 discussed previously, the following funds have been restated:

    - Virginia Lottery (major), Virginia College Savings Plan (major), and numerous nonmajor enterprise funds have restated beginning balances by $15.9 million, $5.8 million, and $55.5 million, respectively.
    - Internal Service funds have been restated by $41.4 million.
    - The Private Purpose Trust Funds have been restated by $2.0 million.

- The Wireless E-911 Service Board (nonmajor enterprise) beginning balance was restated by $8.2 million due to errors attributable primarily to the overstatement of receivables and the understatement of liabilities as discussed previously.

Component Units

The government-wide and fund statements were restated for the following.

- As a result of the implementation of GASB Statement No. 68 and GASB Statement No. 71 discussed previously, Virginia Resources Authority (major) and nonmajor component units restated balances by $317,016 and $1.7 billion, respectively.

- The Virginia College Building Authority (major) has restated balances by $8.5 million to reflect the removal of unamortized premiums related to bonds that matured in prior years.

- The University of Virginia (nonmajor) has restated balances by $121.5 million for the inclusion of The College Foundation of the University of Virginia.

- The Virginia Commonwealth University Health System Authority (blended component unit of Virginia Commonwealth University - nonmajor) has restated balances by $46.1 million for the Community Memorial Hospital affiliation.

- The nonmajor component unit balance has been restated by $8.6 million due to contractual modifications in January 2015 resulting in the removal of the Virginia Horse Center Foundation from the Commonwealth's reporting entity.

- The Virginia Port Authority (nonmajor) has restated balances by $28.7 million due to errors resulting in the understatement of capitalized interest.

- The Hampton Roads Sanitation District Commission (nonmajor) has restated balances by $25.1 million due to errors resulting in the understatement of inventory.

Beginning Balance Restatement

(Dollars in Thousands)

	Balance as of June 30, 2014	GASBS No. 68 Pension-Related Items	Change in Reporting Entity	Correction of Prior Year Errors	Balance June 30, 2014 as restated
Government-wide Activities:					
Primary Government:					
Governmental Activities	$ 20,962,156	$ (2,409,435)	$ -	$ 16,021	$ 18,568,742
Business-type Activities	1,161,822	(77,159)	-	(8,230)	1,076,433
Total Primary Government	$ 22,123,978	$ (2,486,594)	$ -	$ 7,791	$ 19,645,175
Component Units	$ 24,425,826	$ (1,749,089)	$ 158,973	$ 62,319	$ 22,898,029
Fund Statements - Governmental Funds					
Major Governmental Funds:					
General	$ 629,637	$ -	$ -	$ -	$ 629,637
Special Revenue Funds:					
Commonwealth Transportation	2,264,744	-	-	6,491	2,271,235
Federal Trust	135,262	-	-	-	135,262
Literary	13,473	-	-	-	13,473
Nonmajor Governmental Funds	864,927	-	-	-	864,927
Total Governmental Funds	$ 3,908,043	$ -	$ -	$ 6,491	$ 3,914,534
Fund Statements - Proprietary Funds					
Major Enterprise Funds:					
Virginia Lottery	$ (13,850)	$ (15,893)	$ -	$ -	$ (29,743)
Virginia College Savings Plan	518,243	(5,802)	-	-	512,441
Unemployment Compensation	586,073	-	-	-	586,073
Nonmajor Enterprise Funds	69,012	(55,464)	-	(8,230)	5,318
Total Enterprise Funds	$ 1,159,478	$ (77,159)	$ -	$ (8,230)	$ 1,074,089
Internal Service	$ (465,192)	$ (41,356)	$ -	$ -	$ (506,548)
Fiduciary Funds					
Private Purpose Funds	$ 3,407,620	$ (1,961)	$ -	$ -	$ 3,405,659
Pension and Other Employee Benefit Trust Funds	$ 66,175,874	$ -	$ -	$ -	$ 66,175,874
Investment Trust Funds	$ 2,727,251	$ -	$ -	$ -	$ 2,727,251
Fund Statements - Component Units:					
Virginia Housing Development Authority	$ 2,643,591	$ -	$ -	$ -	$ 2,643,591
Virginia Public School Authority	(34,612)	-	-	-	(34,612)
Virginia Resources Authority	1,437,856	317	-	-	1,438,173
Virginia College Building Authority	(3,156,748)	-	-	8,516	(3,148,232)
Nonmajor Component Units	23,535,739	(1,749,406)	158,973	53,803	21,999,109
Total Component Units	$ 24,425,826	$ (1,749,089)	$ 158,973	$ 62,319	$ 22,898,029

3. NET POSITION/FUND BALANCE CLASSIFICATIONS

Fund Balance

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* improves the reporting of fund balance so that classifications are more easily understood and can be applied consistently between information reported in the government-wide financial statements and the governmental fund financial statements. The governmental fund balance classifications defined in GASB Statement No. 54 are: Nonspendable, Restricted, Committed, Assigned, and Unassigned.

Nonspendable fund balance includes inventories, prepaid items, and the principal of a permanent fund. These funds are not available for expenditure in the current or following period.

Restricted fund balances include amounts that have constraints placed on the use of resources by the Constitution of Virginia or a party external to the Commonwealth.

Committed fund balances include amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the General Assembly and Governor through enacted legislation. The distinction between restricted and committed fund balances is the source and strength of the constraints placed on them.

Assigned fund balances are those that the government intends to use for a specific purpose, but for which the use is not legislatively mandated. The assignments are identified by Commonwealth management pursuant to the delegation of authority granted by the General Assembly and Governor specified in the Appropriation Act. The following schedule includes committed and assigned amounts that share the same purpose and title. The distinction between these classifications results from whether there is a statutory restriction on certain amounts contained within the fund.

Unassigned fund balance for the General Fund (major) is the residual classification. A negative amount indicates that restricted and committed amounts exceed the available modified accrual basis fund balance. Unassigned fund balance for the Commonwealth Transportation Fund (major special revenue) and Literary Fund (major special revenue) indicates that the amounts restricted for specific purposes exceeds the modified accrual basis fund balance available for these specific purposes.

The governmental fund balance classifications and amounts at June 30, 2015, are shown in the following table.

Governmental Fund Balance Classifications

(Dollars in Thousands)

	General Fund	Commonwealth Transportation	Federal Trust	Literary	Nonmajor Governmental	Total
Nonspendable						
Inventory	$ 41,838	$ 76,563	$ 15,791	$ -	$ 5,254	$ 139,446
Prepaid Items	78,209	8,983	1,420	-	19,741	108,353
Permanent Funds	-	-	-	-	34,725	34,725
Total Nonspendable	120,047	85,546	17,211	-	59,720	282,524
Restricted						
Agriculture and Forestry	-	-	-	-	1,573	1,573
Capital Projects/Construction/Capital Acquisition	-	-	-	-	288,127	288,127
Debt Service	-	-	-	-	44,729	44,729
Economic and Technological Development	-	-	-	-	12	12
Educational and Training Programs	-	-	-	-	10,522	10,522
Environmental Quality and Natural Resource Preservation	-	-	-	-	16,704	16,704
Gifts and Grants	-	-	98,225	-	2,211	100,436
Government Operations:						
Legislative Services	-	-	-	-	7	7
Administrative Services	-	-	-	-	3,304	3,304
Health and Public Safety	-	-	-	-	83,023	83,023
Lottery Proceeds Fund	7,063	-	-	-	-	7,063
Revenue Stabilization Fund	1,073,289	-	-	-	-	1,073,289
Transportation Activities	-	544,980	-	-	-	544,980
Virginia Water Supply Assistance Grant Fund	5,634	-	-	-	-	5,634
Total Restricted	1,085,986	544,980	98,225	-	450,212	2,179,403
Committed						
Agriculture and Forestry	66	-	-	-	23,512	23,578
Amount Required for Mandatory Reappropriation	58,543	-	-	-	-	58,543
Amount Required for Reappropriation of 2015 Unexpended Balances for Capital Outlay	21,487	-	-	-	-	21,487
Capital Projects/Construction/Capital Acquisition	543	-	-	-	573	1,116
Central Capital Planning Fund	13,790	-	-	-	-	13,790
Commonwealth's Development Opportunity Fund	23,543	-	-	-	-	23,543
Communications Sales and Use Tax	2,157	-	-	-	-	2,157
Contract and Debt Administration	-	10,285	-	-	1,119	11,404
Economic and Technological Development	32,521	-	-	-	50,556	83,077
Educational and Training Programs	624	1,574	-	-	6,797	8,995
Environmental Quality and Natural Resource Preservation	3,800	-	-	-	102,257	106,057
Federal Action Contingency Trust Fund	437	-	-	-	-	437
Government Operations:						
Legislative Services	-	-	-	-	180	180
Administrative Services	84	-	-	-	80,585	80,669
Health and Public Safety	9,095	3,375	-	-	177,441	189,911
Natural Disaster Sum Sufficient	24,110	-	-	-	-	24,110
Regulatory Oversight	-	-	-	-	131,096	131,096
Transportation Activities	-	1,647,529	-	-	7,061	1,654,590
Virginia Health Care Fund	10,390	-	-	-	-	10,390
Virginia Water Quality Improvement Fund	94,548	-	-	-	-	94,548
Total Committed	295,738	1,662,763	-	-	581,177	2,539,678
Assigned						
Agriculture and Forestry	-	-	-	-	114	114
Economic and Technological Development	-	-	-	-	1,750	1,750
Educational and Training Programs	-	-	-	-	6,734	6,734
Environmental Quality and Natural Resource Preservation	-	-	-	-	8,325	8,325
Health and Public Safety	-	-	-	-	11,923	11,923
Total Assigned	-	-	-	-	28,846	28,846
Unassigned	(653,415)	(22,182)	-	(37,478)	-	(713,075)
Total Fund Balance	$ 848,356	$ 2,271,107	$ 115,436	$ (37,478)	$ 1,119,955	$ 4,317,376

4. DEFICIT FUND BALANCES/NET POSITION

The Literary Fund (major special revenue) ended the year with a deficit fund balance of $37.5 million. The deficit was the result of current year expenditures for teacher retirement and education technology loans exceeding revenue, coupled with the fund accruing loans payable to the Virginia Public School Authority (major component unit) that exceeded the accrued assets on the modified accrual basis.

The Virginia Lottery (major enterprise fund), the Department of Alcoholic Beverage Control (nonmajor enterprise fund), the Department of General Services' Consolidated Laboratory Services Fund (nonmajor enterprise fund), the Department of Environmental Quality's Title V Air Pollution Permit Fund (nonmajor enterprise fund), and the Payroll Service Bureau (internal service fund) ended the year with deficit net positions of $30.4 million, $84.8 million, $146,069, $8.3 million, and $2.2 million, respectively. This was solely attributable to the net pension liability resulting from GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68,* and the net other postemployment benefits (OPEB) obligation resulting from GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

The Risk Management Fund (nonmajor enterprise fund) ended the year with a deficit net position balance of $13.8 million. The deficit was a result of increasing claims liability for constitutional officers' programs.

The Virginia Information Technologies Agency (internal service fund) ended the year with a deficit net position balance of $36.7 million. The deficit was a result of transfers to the General Fund mandated by the Appropriation Act, operating expenses exceeding revenues in previous years, and noncurrent liabilities related to net pension liabilities and other postemployment benefit obligations.

The Enterprise Application Fund (internal service fund) ended the year with a deficit net position balance of $4.7 million. This deficit was the result of high capital expenses and significant expenses relating to Phase III of the Cardinal project which were excluded from billing, coupled with noncurrent liabilities related to net pension liabilities and other postemployment benefit obligations.

The Property Management Fund (internal service fund) ended the year with a deficit net position balance of $25.8 million. This deficit was the result of the purchase of a leasehold interest in a state-owned building in fiscal year 2006. Also, the Property Management Fund incurred additional capital lease liabilities due to transfers of leases from other state agencies in fiscal year 2009. Additionally, in fiscal year 2012, the Property Management Fund entered into three energy leases where the asset is reported in the governmental fund and the liability is recorded in the internal service fund. Further, there are noncurrent liabilities related to net pension liabilities and other postemployment benefit obligations.

The Risk Management Fund (internal service fund) ended the year with a deficit net position balance of $521.4 million. The deficit was the result of the Worker's Compensation Program having estimated claims payable exceeding the available equity in the fund. Claims are paid on a pay-as-you-go basis. To the extent that claims exceed current resources, they will ultimately become a liability of the fund from which the claim originated.

The Virginia Public School Authority (major component unit) ended the year with a deficit net position balance of $31.8 million. This deficit is the result of an accrued credit against future debt service payments on Local School Bonds due from the localities subsequent to June 30.

The Virginia College Building Authority (major component unit) ended the year with a deficit net position balance of $3.5 billion. This deficit occurs because the Authority issued bonds for the 21st Century College and Equipment programs subject to future appropriations from the General Fund of the Commonwealth without any other security. These future appropriations are not included as assets of the Authority.

The Southern Virginia Higher Education Center (nonmajor component unit) ended the year with a deficit net position balance of $547,614. This was solely attributable to the entries for the net pension liability resulting from GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*.

The Virginia Economic Development Partnership (nonmajor component unit) ended the year with a deficit net position balance of $11.1 million. This deficit occurs because the partnership's Statement of Net Position reflects $13.0 million in non-current liabilities related to compensated absences, net pension liabilities, and net other postemployment benefit obligation. The Partnership is funded mainly by state appropriations, which show current funding only.

The Virginia Tourism Authority (nonmajor component unit) ended the year with a deficit net position balance of $2.4 million. This deficit occurs because the Authority's Statement of Net Position reflects $7.3 million in non-current liabilities related to compensated absences, net pension liabilities, and net other postemployment benefit obligation.

5. REVENUE STABILIZATION FUND

In accordance with Article X, Section 8 of the Constitution of Virginia, the amount estimated as required for deposit to the Revenue Stabilization Fund must be appropriated for that purpose by the General Assembly. A deposit of $243.2 million was made during fiscal year 2015 as required by Section 2.2-1829 of the *Code of Virginia*, which includes the advance reservation of $95.0 million provided in Chapter 2, 2014 Acts of Assembly. Additionally, during fiscal year 2015, in accordance with the provisions of Article X, Section 8 of the Constitution of Virginia and Section 2.2-1830 of the *Code of Virginia*, a withdrawal of $467.7 million was made from the fund. Further, Chapter 665, 2015 Acts of Assembly, authorizes an additional withdrawal estimated at $235.0 million from the fund during fiscal year 2016.

Under the provisions of Article X, Section 8 of the Constitution of Virginia, a deposit of $605.6 million is required during fiscal year 2017 based on fiscal year 2015 revenue collections. This required deposit is included as a restricted component of fund balance and includes the advance reservation of $129.5 million provided in Chapter 665, 2015 Acts of Assembly.

Section 2.2-1829(b) of the *Code of Virginia* requires an additional deposit into the Fund when specific criteria have been met. No such deposit is required since the specified criteria were not met for fiscal year 2015.

The Revenue Stabilization Fund has principal and interest on deposit of $467.7 million restricted as a part of General Fund balance. Pursuant to the constitutional amendment of Article X, Section 8, effective January 1, 2011, the amount on deposit cannot exceed fifteen percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years. As of June 30, 2015, the Constitutional maximum is $2.4 billion.

6. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2015, the carrying amount of cash for the primary government was $3.4 billion and the bank balance was $476.7 million. The carrying amount of cash for component units was $2.2 billion and the bank balance was $957.0 million. Cash equivalents are investments with an original maturity of 90 days or less. Cash and cash equivalents for foundations (component units) totaled $386.8 million as of year-end. A portion of this amount and some balances during the year exceeded Federal Deposit Insurance Corporation (FDIC) insurance coverage. Foundation investments are disclosed in the Interest Rate Risk section of this note.

For purposes of this note, primary government includes governmental, business-type activities, and fiduciary funds. The deposits of the primary government and the component units, excluding foundations (component units), are secured in accordance with the provisions of the Virginia Security for Public Deposits Act, Section 2.2-4400 of the *Code of Virginia*. The act requires any public depository that receives or holds public deposits to pledge collateral to the Treasury Board to cover public deposits in excess of Federal deposit insurance. The required collateral percentage is determined by the Treasury Board and ranges from 50.0 percent to 100.0 percent for financial institutions choosing the pooled method of collateralization, and from 105.0 percent to 130.0 percent for financial institutions choosing the dedicated method of collateralization. As stated in Note 1.DD, unrealized gains or losses for the State Treasurer's Portfolio are recorded in the General Fund.

Certain deposits are held by trustees in accordance with the Trust Subsidiary Act, Section 6.2-1057 of the *Code of Virginia*. The act requires that cash held by trustees while awaiting investment or distribution is not to be 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 fair value of the trust funds held on deposit in excess of amounts insured by the FDIC.

The Commonwealth is authorized, in accordance with the guidelines set forth in Section 2.2-4500 et seq. of the *Code of Virginia*, to invest public funds in the following:

- U.S. Treasury and agency securities
- Corporate debt securities
- Asset–backed securities
- Mortgage–backed securities
- Municipal securities
- AAA rated obligations of foreign governments
- Bankers' acceptances and bank notes
- Negotiable certificates of deposit
- Repurchase agreements
- Money market funds

Permitted investments include agency mortgage-backed securities, corporate or private label mortgage-backed securities, and asset-backed securities which by definition usually expose the investor to prepayment risk. Prepayment risk, or the prepayment option granted the borrower, can create uncertainty concerning cash flows, can affect the price of the security causing negative convexity, and can expose the investor to reinvestment risk. Similarly, many agency and corporate securities are callable after some predetermined date at a predetermined price. The call options in regular agency debentures and some corporate securities can be open ended and may significantly impact cash flows, security pricing, and reinvestment risks of these securities.

At June 30, 2015, the State Treasurer held no security that was in default as to principal or interest. The State Treasurer, with the exception of securities lending and one security in one nonmajor component unit portfolio with a one-day (July 1, 2015) maturity, had no securities that were out of compliance with guidelines.

Public funds held by the Commonwealth, public officers, municipal corporations, political subdivisions, and any other public body of the Commonwealth shall be held in trust for the citizens of the Commonwealth. Any investment of such funds pursuant to the provisions of this chapter shall be made solely in the interest of the citizens of the Commonwealth and with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

Certain investments held in trust by the State Treasurer in accordance with bond indentures and resolutions may have more restrictive investment policies. Investment policies of institutions of higher education (component units) are established by the institutions' governing boards.

The Board of Trustees of the Virginia Retirement System (the System) (part of primary government) has full power to invest and reinvest the trust funds in accordance with Section 51.1–124.30 of the *Code of Virginia*, as amended. This section requires the Board to discharge its duties solely in the interest of the beneficiaries and to invest the assets with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Board must also diversify such investments so as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so. The System does not have investment policies that place specific restrictions on investments related to custodial risk, interest rate risk, credit risk, or foreign currency risk. The System investment portfolio is intended to be managed through diversification and prudent judgment, rather than through specific policy restrictions.

The information presented for the external investment pool was obtained from audited financial statements. Copies of the Local Government Investment Pool (LGIP) report may be obtained by writing the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218. Participation in this pool is voluntary.

Custodial Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Commonwealth may not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Policies related to custodial credit risk pertaining to the Commonwealth's securities lending program are found in the securities lending section of this note.

As of June 30, 2015, the primary government had $2.1 billion of cash equivalents and investments that were exposed to custodial risk as uninsured and uncollateralized. The majority of this amount, held by the System, consisted of various types of debt and equity securities that were held by counterparties' trust departments or agents, but not in the System's name. Common and preferred stocks represented $1.6 billion of the total. The remainder was for various types of debt securities. The component units had no cash equivalents and investments that were exposed to custodial risk as uninsured and uncollateralized.

As of June 30, 2015, the investments of the Pension and Other Employee Benefit Trust Funds were approximately 80.7 percent of the primary government investments, and 99.9 percent of those were exposed to custodial risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Commonwealth has elected the Segmented Time Distribution method of disclosure.

The State Treasurer's guidelines limit the following maximum durations for any single security of the following investment types:

Security Type	Maximum Duration
Corporate Security	15 years
Asset-Backed Securities	5 years
Sovereign Government Obligations (excluding U.S.)	5 years
Negotiable Certificates of Deposit and Negotiable Bank Notes	5 years

The State Treasurer's guidelines further describe target durations for the overall general account portfolio of 1.7 years.

The System manages the risk within the portfolio using the effective duration or option-adjusted methodology. It is widely used in the management of fixed income portfolios in that it quantifies, to a much greater degree, the risk of interest rate changes. The methodology takes into account optionality on bonds and scales the risk of price changes on bonds depending upon the degree of change in rates and the slope of the yield curve. All of the System's fixed income portfolios are managed in accordance with the System's investment guidelines, most of which are specific as to the degree of interest rate risk that can be taken.

At June 30, 2015, the Commonwealth had the following investments and maturities:

Primary Government Investments

(Dollars in Thousands)

Investment Type	Fair Value	Investment Maturities (in years) Less Than 1	1-5	6-10	More Than 10
Debt Securities					
U. S. Treasury and Agency Securities	$ 5,416,720	$ 554,148	$ 3,384,874	$ 941,967	$ 535,731
Corporate Bonds and Notes	13,825,977	3,890,846	4,962,172	3,404,876	1,568,083
Commercial Paper	3,870,883	3,870,883	-	-	-
Negotiable Certificates of Deposit	3,046,197	3,045,895	302	-	-
Repurchase Agreements	1,537,266	1,537,266	-	-	-
Municipal Securities	261,636	2,649	37,700	104,324	116,963
Asset-Backed Securities	576,120	316,619	96,135	46,311	117,055
Agency Mortgage-Backed Securities	2,640,167	208,636	1,587,664	728,920	114,947
Agency Unsecured Bonds and Notes	2,415,108	1,726,719	451,182	11,810	225,397
Mutual and Money Market Funds (Includes SNAP)	1,595,375	1,595,375	-	-	-
The Boston Company Pooled Employee Trust Fund	221,875	221,875	-	-	-
Guaranteed Investment Contracts	778,274	-	778,274	-	-
Fixed Income and Commingled Funds	1,243,271	256	267,647	975,368	-
Investments held by broker-dealers under securities loans					
U. S. Government and Agency Securities	430	102	328	-	-
Corporate Bonds	1,139	325	521	293	-
Other	1,108,199	456,644	387,664	206,625	57,266
Total	$ 38,538,637	$ 17,428,238	$ 11,954,463	$ 6,420,494	$ 2,735,442

Component Unit Investments

(Dollars in Thousands)

Investment Type	Fair Value	Investment Maturities (in years) Less Than 1	1-5	6-10	More Than 10
Debt Securities					
U. S. Treasury and Agency Securities	$ 1,065,757	$ 112,636	$ 247,685	$ 30,153	$ 675,283
Corporate Bonds and Notes	437,752	147,404	244,794	40,903	4,651
Commercial Paper	323,819	319,819	4,000	-	-
Negotiable Certificates of Deposit	52,761	23,119	29,642	-	-
Repurchase Agreements	25,741	25,741	-	-	-
Reverse Repurchase Agreements	340,000	340,000	-	-	-
Municipal Securities	3,516,659	20,989	78,418	98,432	3,318,820
Asset-Backed Securities	176,753	10,207	122,115	9,474	34,957
Agency Unsecured Bonds and Notes	320,016	263,036	49,966	6,723	291
Agency Mortgage-Backed Securities	121,518	17,270	38,589	11,641	54,018
Mutual and Money Market Funds (Includes SNAP)	971,923	789,728	19,477	158,625	4,093
Guaranteed Investment Contracts	57,278	2,155	9,775	19,066	26,282
Fixed Income and Commingled Funds	46,437	892	44,637	908	-
Other	7,476	6,233	1,178	65	-
Total	$ 7,463,890	$ 2,079,229	$ 890,276	$ 375,990	$ 4,118,395

Foundation Investments

(Dollars in Thousands)

Investment Type	Fair Value
U.S. Treasury and Agency Securities	$ 1,025,876
Common & Preferred Stocks	941,811
Corporate Bonds and Notes	193,776
Negotiable Certificates of Deposit	14,048
Municipal Securities	3,180
Repurchase Agreements	443
Asset Backed Securities	1,361
Agency Mortgage Backed	5,201
Mutual and Money Market Funds	754,639
Real Estate	547,452
Index Funds	154,109
Hedge Funds	2,356,270
Partnerships	2,135,161
Venture Capital	384,142
Others	3,301,328
Total	$ 11,818,797

Note: Foundations represent FASB reporting entities defined in Note 1.B. A portion of these amounts are reported at cost rather than fair value because fair value was not available or readily determinable.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State Treasurer places emphasis on securities of high credit quality and marketability. At the time of purchase, the following limitations are in place:

- Bankers acceptances: P-1, Moody's Investors Service (Moody's) and A-1, Standard & Poor's (S&P)
- Negotiable CDs and bank notes:
  - maturities of one year or less: P-1, Moody's and A-1, S&P
  - maturities over one year: Aa, Moody's and AA, S&P
- Commercial paper: P-1, Moody's and A-1, S&P
- Corporate Notes and Bonds: A3/A- or equivalent by two nationally recognized rating agencies, one of which must be Moody's or S&P. However, each external investment manager may invest up to 10.0 percent of their portfolio in Baa2/BBB rated bonds which, at a minimum, must be rated Baa2/BBB by two nationally recognized rating agencies, one of which must be either Moody's or S&P.
- Municipal Bonds: A3/A- or equivalent by two nationally recognized rating agencies, one of which must be Moody's or S&P
- Asset-backed securities: AAA by two nationally recognized rating agencies, one of which must be Moody's or S&P
- Dollar denominated obligations of sovereign governments: Aaa, Moody's and AAA, S&P
- Commercial Mortgage-Backed Securities (CMBS) and Collateralized Mortgage Obligations (CMOs): AAA by two nationally recognized rating agencies, one of which must be Moody's or S&P

The following tables present the credit ratings for the majority of the investments of the primary government and component units as of June 30, 2015. The ratings presented are using S&P and Moody's rating scales. Within the primary government, the investments presented in the table represented 83.3 percent of the total debt securities. Within the component units, the investments presented in the table represented 87.3 percent of the total debt securities, 44.2 percent of which were invested in unrated Municipal Securities.

Credit risk for derivative instruments held by the Commonwealth results from counterparty risk assumed by the Commonwealth. This is essentially the risk that the borrower will be unable to meet its obligation. Information regarding the Commonwealth's credit risk related to derivatives is found in Note 14.

Policies related to credit risk pertaining to the Commonwealth's securities lending program are found in the Securities Lending section of this note.

Credit Rating - Primary Government
(Dollars in Thousands)

Investment	Amount	Rating Agency	Rating	Percent of Portfolio
U. S. Treasury and Agency Securities	$ 5,416,720	N/A	N/A	14.1%
Commercial Paper	2,461,000	Moody's	P-1	6.4%
Agency Mortgage Backed Securities	2,444,628	Moody's	Aaa	6.3%
Agency Unsecured Bonds and Notes	2,072,195	Standard & Poor's	AA+	5.4%
Corporate Bonds and Notes	1,925,346	Moody's	NR	5.0%
Negotiable Certificates of Deposit	1,526,351	Standard & Poor's	A-1	4.0%
Negotiable Certificates of Deposit	1,384,418	Moody's	P-1	3.6%
Corporate Bonds and Notes	1,158,783	Moody's	Baa2	3.0%
Corporate Bonds and Notes	1,083,140	Moody's	Baa1	2.8%
Corporate Bonds and Notes	998,931	Moody's	A3	2.6%
Corporate Bonds and Notes	932,203	Moody's	Aa3	2.4%
Corporate Bonds and Notes	851,803	Moody's	Aa2	2.2%
Corporate Bonds and Notes	797,714	Moody's	Baa3	2.1%
Corporate Bonds and Notes	791,931	Moody's	A1	2.1%
Commercial Paper	790,233	Standard & Poor's	A-1	2.1%
Guaranteed Investment Contracts	778,274	N/A	N/A	2.0%
Corporate Bonds and Notes	634,271	Moody's	A2	1.7%
Other Debt Securities	632,067	Moody's	Aaa	1.6%
Repurchase Agreements	623,581	Moody's	NR	1.6%
Commercial Paper	619,650	Moody's	P-2	1.6%
Repurchase Agreements	600,000	Standard & Poor's	AA+	1.6%
Mutual and Money Market Funds (Include SNAP)	589,187	Standard & Poor's	A-3	1.5%
Corporate Bonds and Notes	584,225	Moody's	B1	1.5%
Fixed Income and Commingled Funds	538,026	Moody's	Baa1	1.4%
Fixed Income and Commingled Funds	497,121	N/A	N/A	1.3%
Mutual and Money Market Funds (Include SNAP)	466,158	Standard & Poor's	Aaa	1.2%
Corporate Bonds and Notes	412,163	Moody's	Ba3	1.1%
Corporate Bonds and Notes	411,878	Moody's	Ba1	1.1%

Credit Rating - Component Units
(Dollars in Thousands)

Investment	Amount	Rating Agency	Rating	Percent of Portfolio
Municipal Securities	$ 3,301,153	N/A	N/A	44.2%
U. S. Treasury and Agency Securities	1,065,757	N/A	N/A	14.3%
Mutual and Money Market Funds (Include SNAP)	618,586	Standard & Poor's	AAA	8.3%
Reverse Repurchase Agreements	340,000	Standard & Poor's	BBB-	4.6%
Agency Unsecured Bonds and Notes	276,821	Moody's	Aaa	3.7%
Mutual and Money Market Funds (Include SNAP)	243,057	N/A	N/A	3.3%
Commercial Paper	228,747	Moody's	P-1	3.1%
Asset Backed Securities	83,504	Moody's	Aaa	1.1%
Commercial Paper	72,083	N/A	N/A	1.0%
Corporate Bonds and Notes	65,000	Moody's	A1	0.9%
Corporate Bonds and Notes	58,175	N/A	N/A	0.8%
Guaranteed Investment Contracts	53,291	Moody's	A2	0.7%
Agency Mortgage Backed Securities	49,521	Standard & Poor's	AA+	0.7%
Fixed Income and Commingled Funds	46,437	N/A	N/A	0.6%

Concentration of Credit Risk

Concentration of credit risk is related to the risk of loss that may be attributed to the magnitude of a government's investment in a single issuer. The Commonwealth holds no investment in the securities of a single issuer that is more than 5.0 percent of the total market value of its investments. In addition, the State Treasury and the System have individual investment policies limiting the amounts that may be invested in any single issuer.

It is the State Treasurer's policy that each portfolio will be diversified with no more than 4.0 percent of the value of the fund invested in the securities of any single issuer. This limitation shall not apply to the U.S. Government, or agency thereof, or U.S. Government sponsored corporation securities and fully insured and/or collateralized certificates of deposit. Certain portfolios are limited to amounts less than 4.0 percent of the value of the fund invested in the securities of any single issuer.

The System investment guidelines for each specific portfolio also limit investments in any corporate entity to no more than 5.0 percent of the market value of the account for both the internally and externally managed portfolios. There is no concentration of investments in any one organization that represents 5.0 percent or more of plan net position available for benefits.

Foreign Currency Risk

Primary Government

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. All primary government investments exposed to foreign currency risk were part of the System, the Virginia College Savings Plan, and the Unclaimed Property portfolios at June 30, 2015.

Foreign currency risk exposure, or exchange rate risk, primarily exists in the international and global equity investment holdings. From time to time, external managers may hedge their portfolios' foreign currency exposures with currency forward contracts. This will depend upon their views about a specific foreign currency relative to the U.S. dollar. Exposure to foreign currency risk is highlighted in the following table.

Component Units

All nonmajor component unit investments exposed to foreign currency risk were part of the College of William and Mary, James Madison University, the Virginia Economic Development Partnership, and the Virginia Biotechnology Research Partnership Authority portfolios at June 30, 2015.

Foreign Currency Exposures by Asset Class - Primary Government
(Dollars in Thousands)

Currency	Cash & Cash Equivalents	Equity	Fixed Income	Private Equity	Real Estate	Corporate Bonds	International Funds	Total
Euro Currency Unit	$ 24,798	$ 1,232,550	$ (55,109)	$ 738,777	$ 59,682	$ 21,699	$ -	$ 2,022,397
Japanese Yen	22,445	1,147,646	(1,216)	-	498	6,002	-	1,175,375
Hong Kong Dollar	2,226	673,036	(2,281)	-	4,939	3,552	-	681,472
British Pound Sterling	4,783	628,210	(316)	-	(184,953)	3,278	-	451,002
South Korean Won	1,467	395,561	(23,077)	-	-	-	-	373,951
Australian Dollar	1,494	390,771	(1,981)	-	(35,998)	-	-	354,286
Sw iss Franc	4,501	302,137	7	-	1,084	2,188	-	309,917
Canadian Dollar	1,076	251,299	441	-	23,330	2,817	-	278,963
New Taiw an Dollar	3,441	255,486	-	-	-	-	-	258,927
US Dollar	-	-	-	-	-	-	251,608	251,608
Brazil Real	1,743	179,751	32,295	-	-	-	-	213,789
South African Comm Rand	886	168,480	44,268	-	-	-	-	213,634
New Turkish Lira	473	100,564	46,206	-	-	-	-	147,243
Norw egian Krone	717	144,307	-	-	(1,073)	-	-	143,951
Indian Rupee	292	87,734	35,390	-	-	-	-	123,416
Mexican New Peso	1,238	48,888	69,970	-	810	-	-	120,906
Thailand Baht	404	88,130	23,901	-	-	-	-	112,435
Sw edish Krona	109	99,552	-	-	-	-	-	99,661
Malaysian Ringgit	581	56,753	39,225	-	-	-	-	96,559
Indonesian Rupiah	1,011	57,564	37,398	-	-	-	-	95,973
Polish Zloty	1,204	25,038	44,933	-	-	-	-	71,175
Danish Krone	99	68,739	-	-	(406)	-	-	68,432
Chilean Peso	436	38,905	319	-	-	-	-	39,660
Philippine Peso	148	18,902	9,935	-	-	-	-	28,985
Colombian Peso	700	298	22,548	-	-	-	-	23,546
Russian Ruble	241	2,758	15,234	-	-	-	-	18,233
Hungarian Forint	257	7,012	7,418	-	-	-	-	14,687
Turkish Lira	7,189	-	-	-	-	-	-	7,189
Egyptian Pound	105	6,561	-	-	-	-	-	6,666
Peruvian Nuevo Sol	-	9	6,411	-	-	-	-	6,420
Nigerian Naira	285	-	4,153	-	-	-	-	4,438
Romanian Leu	140	-	4,051	-	-	-	-	4,191
Qatari Riyal	-	1,330	-	-	-	-	-	1,330
UAE Dirham	-	945	-	-	-	-	-	945
Isreali Shekel	786	558	(525)	-	-	-	-	819
Czech Koruna	4	488	-	-	-	-	-	492
Chinese Yuan Renminbi	1	-	-	-	-	-	-	1
Moroccan Dirham	1	-	-	-	-	-	-	1
Singapore Dollar	1,976	(66,163)	(19,667)	-	-	1,236	-	(82,618)
New Zealand Dollar	342	(110,004)	260	-	-	-	-	(109,402)
Total	$ 87,599	$ 6,303,795	$ 340,191	$ 738,777	$ (132,087)	$ 40,772	$ 251,608	$ 7,630,655

Foreign Currency Exposures by Asset Class - Component Units
(Dollars in Thousands)

Currency	Cash & Cash Equivalents	Equity	Fixed Income	Private Equity	Real Estate	International Funds	Total
U.S. Dollar	$ -	$ -	$ -	$ -	$ -	$ 574	$ 574
British Pound Sterling	1,327	-	-	-	-	-	1,327
Euro Currency Unit	2,808	-	-	-	-	-	2,808
Other	4	-	-	-	-	-	4
Total	$ 4,139	$ -	$ -	$ -	$ -	$ 574	$ 4,713

Securities Lending

The State Treasury's securities lending program is managed by Deutsche Bank AG, New York (Deutsche Bank), under a contract dated March 28, 2014. The enabling legislation for the securities lending program is Section 2.2-4506 of Chapter 45 of the *Code of Virginia*, as amended. No violations of legal or contractual provisions were noted during the year. The general account participated in a securities lending program for the entire year.

All securities lending loans are on an open-ended or one-day basis and may be terminated by the State Treasury with a 24-hour notice or are term loans with the right of substitution. While all securities may be recalled on a daily basis, securities are often on loan for much longer periods. Generally cash reinvestments security maturities do not match the maturities of loans. Per the contract with Deutsche Bank, all cash collateral reinvestment securities attributable to loans made on the Commonwealth's behalf shall be maintained by Deutsche Bank, and the State Treasury cannot pledge or sell such collateral absent a default.

The State Treasury's contract with Deutsche Bank provides for loss indemnification against insolvency default with respect to lending transactions and in the case of reverse transactions (Repurchase Agreements) as defined in the applicable Agency Securities Lending and Repurchase Agreement. Additionally, Deutsche Bank AG is liable for any losses experienced from reinvestment of cash collateral in investments not authorized by the provisions of the investment guidelines for the Commonwealth of Virginia agreed upon by both parties and made a part of the Agency Securities Lending and Repurchase Agreement. There were no realized losses resulting from default during this reporting period.

When securities are loaned, the collateral received is at least 100.0 percent of fair value of the securities loaned and must be maintained at 100.0 percent or greater. There are no stated restrictions on the amount of securities that may be loaned, but the basic composition of the general account portfolio effectively restricts the maximum percentage of the portfolio that may be loaned. During the past fiscal year, approximately 9.4 percent of the general account securities were on loan.

During the past year, a combination of U.S. Treasury, agency, agency mortgage and corporate securities have been loaned, with the majority of the loaned securities being U.S. Treasury and agency securities. At June 30, 2015, all collateral received was in the form of cash.

Securities loaned for the State Treasurer's cash collateral reinvestment pool, which consisted of 69.4 percent general account funds and 30.6 percent Virginia Lottery funds as of June 30, 2015, had a carrying value of $270.4 million and a fair value of $319.3 million. The fair value of the collateral received was $325.1 million providing for coverage of 101.8 percent. At year-end, the State Treasury's securities lending program has no credit risk exposure to borrowers because the amounts it owes the borrowers exceeded the amounts the borrowers owe Treasury's securities lending program. All securities are marked to market daily. The carrying value of the cash collateral reinvestment pool received was $325.1 million and the fair value of the investments purchased with the cash collateral was $325.0 million. As of June 30, 2015, the State Treasurer's cash collateral reinvestment pool had an unrealized loss of $15,055, and is recorded in the General Fund as stated in Note 1.DD. This amount is included in the total State Treasurer's Portfolio discussed earlier in this note.

Cash collateral reinvestment guidelines were amended effective April 16, 2014. Approved investment instruments include Indemnified Repurchase Agreements marked to market daily and preapproved Government Money Market Funds. Term repurchase agreements are limited to 93 days. At June 30, 2015, approximately 96.5 percent of cash collateral reinvestments were in indemnified repurchase agreements, and 3.5 percent were legacy direct investments of asset-backed (including mortgage-backed) floating rate securities.

At June 30, 2015, the cash collateral reinvestment portfolio had a weighted average maturity of four days using the next interest reset date as the maturity date for floating rate securities. Using the expected maturity date, the weighted average maturity was 261 days and using the final maturity date, which assumes no pay downs on any asset-backed or mortgage-backed securities, the weighted average maturity was 1.4 years.

At June 30, 2015, $11.4 million, or 3.5 percent, of the total par value of the cash collateral reinvestment portfolio was out of compliance with the State Treasury's current cash collateral reinvestment guidelines due to various security ratings downgrades during the past few years and adoption of more restrictive reinvestment guidelines in 2014. The securities are not in default and are making principal payments. Approximately 69.4 percent of these out of compliance securities are part of the general account portion of the securities lending program and the other 30.6 percent is the Virginia Lottery's portion of the securities lending program. The Commonwealth regularly evaluates these positions to determine the most beneficial course of action going forward.

Under authorization of the Board, the Virginia Retirement System (the System) lends its fixed income and equity securities to various broker-dealers on a temporary basis. This program is administered through an agreement with the System's custodial agent bank. All security loan agreements are collateralized by cash, securities, or an irrevocable letter of credit issued by a major bank, and have a market value equal to at least 102.0 percent of the market value for domestic securities and 105.0 percent for international securities. Securities received as collateral cannot be pledged or sold by the System unless the borrower defaults. Contracts require the lending agents to indemnify the System if the borrowers fail to return the securities lent and related distributions and if the collateral is inadequate to replace the securities lent. All securities loans can be terminated on demand by either the System or the borrowers. The majority of loans are open loans, meaning the rebate is set daily. This results in a maturity of one or two days on average, although securities are often on loan for longer periods. The maturity of loans generally does not match the maturity of collateral investments, which averages 26 days. At year-end, the System has no credit risk exposure to borrowers because the amounts it owes the borrowers exceeded the amounts the borrowers owe the System. All securities are marked to market daily and carried at market value. The market value of securities on loan at June 30, 2015, was $7.5 billion. The June 30, 2015, balance was composed of U.S. Government and agency securities of $3.1 billion, corporate and other bonds of $254.1 million and common and preferred stocks of $4.2 billion. The value of collateral (cash and non-cash) at June 30, 2015, was $8.0 billion.

At June 30, 2015, the invested cash collateral had a market value of $3.4 billion and was composed of commercial paper of $375.8 million, certificates of deposit of $323.0 million, floating rate notes of $2.1 billion, asset-backed securities of $0.2 million, money funds of $190.2 million, and repurchase agreements of $385.5 million.

7. RECEIVABLES

The following schedule (dollars in thousands) details the accounts, loans, interest, taxes, prepaid tuition contributions, security transactions, and other receivables presented in the major funds, aggregated nonmajor funds by type, internal service funds, fiduciary funds, major component units, and aggregated nonmajor component units, as of June 30, 2015.

	Accounts Receivable	Loans / Mortgage Receivable	Interest Receivable	Taxes Receivable	Prepaid Tuition Contributions Receivable
Primary Government:					
General	$ 1,031,333	$ 260	$ 353,324	$ 1,797,693	$ -
Major Special Revenue Funds:					
Commonwealth Transportation	135,391	113,410	-	178,520	-
Federal Trust	733,922	228	-	-	-
Literary	272,327	127,800	28,223	-	-
Nonmajor Governmental Funds	106,482	291	12,007	7,145	-
Major Enterprise Funds:					
Virginia Lottery	72,343	-	-	-	-
Virginia College Savings Plan	15,003	-	4,523	-	209,269
Unemployment Compensation	157,284	-	-	-	-
Nonmajor Enterprise Funds	98,195	-	-	-	-
Internal Service Funds	9,479	-	-	-	-
Private Purpose Trust Funds	2	4	2,174	-	-
Pension and Other Employee Benefit Trust Funds (1)	243,323	-	224,154	-	-
Investment Trust Fund	-	-	755	-	-
Agency Funds	641	-	-	104,946	-
Total Primary Government (2)	$ 2,875,725	$ 241,993	$ 625,160	$ 2,088,304	$ 209,269
Discrete Component Units:					
Virginia Housing Development Authority (3)	$ -	$ 6,949,124	$ 31,649	$ -	$ -
Virginia Public School Authority	-	-	65,287	-	-
Virginia Resources Authority	-	4,273,425	29,668	-	-
Virginia College Building Authority	-	-	25,184	-	-
Nonmajor Component Units (4)	1,652,679	172,284	3,124	5,929	-
Total Component Units	$ 1,652,679	$ 11,394,833	$ 154,912	$ 5,929	$ -

Note (1): Other Receivables of the Pension and Other Employee Benefit Trust Fund of $188,069 (dollars in thousands) are made up of $176,313 (dollars in thousands) in pending investment transactions, which includes $174,203 (dollars in thousands) futures margins receivable and $2,110 (dollars in thousands) in securities lending; and $11,756 (dollars in thousands) in other receivables related to benefit plans.

Note (2): Fiduciary net receivables in the amount of $2,167,625 (dollars in thousands) are not included in the Government-wide Statement of Net Position.

Note (3): Virginia Housing Development Authority (major component unit) reports $6,670,592 (dollars in thousands) as Restricted Loans Receivable, $29,853 (dollars in thousands) as Restricted Interest Receivable, and $339,849 as Restricted Other Receivables.

Note (4): Other Receivables of the nonmajor component units are primarily comprised of pledges receivable of $20,007 (dollars in thousands) reported by the University of Virginia; sponsors accounts receivable of $25,050 (dollars in thousands) reported by Virginia Commonwealth University; premium receivables of $78,859 (dollars in thousands) and third-party settlements and non-patient receivables of $60,193 (dollars in thousands) reported by Virginia Commonwealth University Health System Authority (blended component unit of Virginia Commonwealth University); grants and contracts receivable of $23,987 (dollars in thousands) reported by George Mason University; and $58,386 (dollars in thousands) reported by foundations of the higher education institutions representing FASB reporting entities defined in Note 1.B.; and $28,250 (dollars in thousands) reported by the Virginia Biotechnology Research Partnership Authority.

Security Transactions	Other Receivables	Allowance for Doubtful Accounts	Net Accounts Receivable	Amounts to be Collected Greater than One Year
$ -	$ -	$ (1,476,896)	$ 1,705,714	$ 375,568
-	-	(29,013)	398,308	3,786
-	-	(6,427)	727,723	10
-	-	(269,228)	159,122	111,319
-	1	(54,336)	71,590	285
-	-	-	72,343	-
-	-	-	228,795	159,417
-	-	(29,472)	127,812	-
-	-	(1,767)	96,428	-
-	-	(486)	8,993	-
-	-	-	2,180	-
1,450,934	188,069	-	2,106,480	-
-	-	-	755	-
-	-	(47,377)	58,210	5,816
$ 1,450,934	$ 188,070	$ (1,915,002)	$ 5,764,453	$ 656,201
$ -	$ 7,949	$ (193,856)	$ 6,794,866	$ 6,428,428
-	-	-	65,287	-
-	1,154	(313)	4,303,934	4,030,520
-	-	-	25,184	-
-	322,115	(789,890)	1,366,241	245,235
$ -	$ 331,218	$ (984,059)	$ 12,555,512	$ 10,704,183

8. CONTRIBUTIONS RECEIVABLE, NET

The following schedule details the contributions receivable for foundations[1] included with the nonmajor component units, as of June 30, 2015. The major component units reported no contributions receivable for fiscal year 2015.

(Dollars in Thousands)

	Due in Less Than One Year	Due Between One and Five Years	Due in More Than Five Years	Subtotal	Present Value Discount (2)	Allowance for Doubtful Accounts	Contributions Receivable, Net
Discrete Component Units:							
Nonmajor Component Units	$ 143,141	$ 219,429	$ 67,873	$ 430,443	$ (23,734)	$ (25,765)	$ 380,944
Total Component Units	$ 143,141	$ 219,429	$ 67,873	$ 430,443	$ (23,734)	$ (25,765)	$ 380,944

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.
Note (2): The discount rate used to determine present value ranges from 0.1 percent to 10.0 percent.

9. INTERFUND AND INTER-ENTITY ASSETS / LIABILITIES

Due from/to Other Funds

Due from Other Funds are amounts to be received from one fund by another fund for goods sold or services rendered. Due to Other Funds are amounts owed by one fund to another fund for goods purchased or services obtained.

The following line items are included in the category "Due from Other Funds":

- Due from Other Funds
- Due from Internal Parties (Governmental Funds and Business-type Activities)
- Due from External Parties (Fiduciary Funds)

The following line items are included in the category "Due to Other Funds":

- Due to Other Funds
- Due to Internal Parties (Governmental Funds and Business-type Activities)
- Due to External Parties (Fiduciary Funds)

The following schedule shows the Due from/to Other Funds as of June 30, 2015.

Schedule of Due from/to Other Funds

June 30, 2015

(Dollars in Thousands)

Due From	Amount	Due To	Amount
Primary Government		**Primary Government**	
General Fund	$ 18,874	Major Special Revenue Funds:	
		Federal Trust	$ 347
		Major Enterprise Funds:	
		Virginia Lottery	4,255
		Nonmajor Enterprise Funds	13,056
		Internal Service Funds	1,216
Major Special Revenue Funds:			
Federal Trust	2,778	Major Enterprise Funds:	
		Unemployment Compensation	2,778
Nonmajor Governmental Funds	9,686	Major Special Revenue Funds:	
		Commonwealth Transportation	5,374
		Federal Trust	3,008
		Nonmajor Governmental Funds	400
		Major Enterprise Funds:	
		Unemployment Compensation	214
		Nonmajor Enterprise Funds	611
		Internal Service Funds	79
Major Enterprise Funds:			
Unemployment Compensation	682	General Fund	550
		Major Special Revenue Funds:	
		Commonwealth Transportation	1
		Federal Trust	22
		Nonmajor Governmental Funds	91
		Major Enterprise Funds:	
		Virginia Lottery	4
		Nonmajor Enterprise Funds	14
Nonmajor Enterprise Funds	733	General Fund	169
		Major Special Revenue Funds:	
		Commonwealth Transportation	294
		Federal Trust	79
		Nonmajor Governmental Funds	116
		Nonmajor Enterprise Funds	12
		Internal Service Funds	63
Internal Service Funds	52,087	General Fund	29,210
		Major Special Revenue Funds:	
		Commonwealth Transportation	8,929
		Federal Trust	5,613
		Nonmajor Governmental Funds	5,412
		Major Enterprise Funds:	
		Virginia Lottery	182
		Virginia College Savings Plan	64
		Nonmajor Enterprise Funds	2,029
		Internal Service Funds	648
Pension and Other Employee Benefit Trust Funds	20	Private Purpose Trust Funds	20
Total Primary Government	$ 84,860	Total Primary Government	$ 84,860

Schedule of Due from/to Internal/External Parties
June 30, 2015

(Dollars in Thousands)

Due From	Amount	Due To	Amount
Primary Government		**Primary Government**	
Nonmajor Governmental Funds	$ 71	Agency	$ 71
Internal Service Funds	202	Private Purpose Trust	26
		Pension and Other Employee Benefit Trust Funds	176
Pension and Other Employee Benefit Trust Funds	25,767	General Fund	15,909
		Major Special Revenue Funds:	
		Commonwealth Transportation	4,106
		Federal Trust	2,102
		Nonmajor Governmental Funds	2,529
		Major Enterprise Funds:	
		Virginia Lottery	155
		Virginia College Savings Plan	59
		Nonmajor Enterprise Funds	562
		Internal Service Funds	345
Total Primary Government	$ 26,040	Total Primary Government	$ 26,040

Interfund Receivables/Payables

Interfund Receivables/Payables are loans made by one fund to another.

The following schedule shows the Interfund Receivables/Payables for the primary government as of June 30, 2015. There were no Interfund Receivables/Payables for the component units as of June 30, 2015.

(Dollars in Thousands)

Receivable From:	Amount	Payable To:	Amount
Primary Government		**Primary Government**	
Nonmajor Governmental Funds	$ 122,763	Major Special Revenue Funds:	
		Federal Trust	$ 7,094
		Nonmajor Enterprise Funds	37,065
		Internal Service Funds	78,604
Total Primary Government	$ 122,763	Total Primary Government	$ 122,763

Due from/to Primary Government and Component Units

Included in this category is activity between the Commonwealth and its component units, as well as activity between component units.

A due from primary government amount that is due from the Federal Trust Fund (major special revenue) to the Virginia College Building Authority (major component unit) of $4.1 million is for interest on Build America Bonds (BABs).

A $8.2 million due from primary government amount represents General Fund (major governmental) appropriation available amounts that are due from the General Fund to higher education institutions (nonmajor component units). The General Fund reports $74,929 in the fund financial statements and $8.1 million in the government-wide financial statements.

A $20,798 due from primary government amount represents an amount due from a nonmajor governmental fund related to the Department of the Treasury's reimbursement programs to a higher education institution (nonmajor component unit).

A $1.1 million due from component units amount represents amounts due to the General Fund (major governmental) from higher education institutions (nonmajor component units) related to interest.

A $19.3 million due from component units in the Health Care Fund (internal service fund) represents amounts due from the nonmajor component units.

A $596,684 due from component units represents monies owed for administrative and project expenses from the Science Museum of Virginia Foundation (nonmajor component unit) to a nonmajor governmental fund. The entire nonmajor governmental amount is reported in the government-wide financial statements.

The $135.1 million due from component units amount represents amounts due from the Virginia College Building Authority (major component unit) for the Department of the Treasury's reimbursement programs to higher education institutions (nonmajor component units). There is a due to component units of $8.0 million from a foundation of the Old Dominion University (nonmajor component unit) to the Virginia Commercial Space Flight Authority (nonmajor component unit).

Due from/to Component Units and Fiduciary Funds

A $29.4 million due from component units in the Pension and Other Employee Benefit Trust Funds (fiduciary funds) represents amounts due from nonmajor component units.

Loans Receivable/Payable Between Primary Government and Component Units

The Richard Bland College (part of the College of William and Mary – nonmajor component unit) loan of $129,092 was to advance fund the VCBA Equipment Trust Fund program. The George Mason University and the Virginia Community College System (nonmajor component units) loans of $12.5 million and $4.0 million, respectively, were used to advance fund federally-funded programs. The Roanoke Higher Education Authority (nonmajor component unit) loan of $2.4 million was used to advance fund the VCBA 21st Century program. These amounts are due to a nonmajor governmental fund.

The $185.9 million in loans receivable from primary government represents loans from the Virginia Public School Authority (VPSA) (major component unit) to the Literary Special Revenue Fund (major governmental fund). The VPSA makes grants to local school divisions to finance the purchase of educational technology equipment. The VPSA makes these grants using the proceeds of notes issued for that purpose, which will be repaid from appropriations to be made by the Virginia General Assembly from the Literary Special Revenue Fund (major governmental fund).

10. OTHER ASSETS

The following table summarizes Other Assets as of June 30, 2015.

(Dollars in Thousands)

	Cash and Travel Advances	Other Assets	Total Other Assets
Primary Government:			
General	$ 970	$ -	$ 970
Major Special Revenue Funds:			
Commonwealth Transportation	414	-	414
Federal Trust	1,625	-	1,625
Nonmajor Governmental Funds	729	1,022	1,751
Major Enterprise Funds:			
Virginia Lottery	1	-	1
Nonmajor Enterprise Funds (1)	209	120,182	120,391
Internal Service Funds (2)	3	11,058	11,061
Agency Funds (3)	-	26	26
Total Primary Government (3)	$ 3,951	$ 132,288	$ 136,239
Discrete Component Units:			
Virginia Housing Development Authority	$ -	$ 9,122	$ 9,122
Virginia Resources Authority	-	393	393
Nonmajor Component Units	2,819	89,549	92,368
Total Component Units	$ 2,819	$ 99,064	$ 101,883

Note (1): Of the $120,391 (dollars in thousands) shown above, $120,113 (dollars in thousands) represents amounts owed to the Route 460 Funding Corporation of Virginia (nonmajor enterprise) by the Commonwealth Transportation Fund (major special revenue) that will not be received within 60 days. This amount is reclassified to an internal balance on the Government-wide Statement of Net Position.

Note (2): Of the $11,061 (dollars in thousands) shown above, $9,079 (dollars in thousands) and $1,979 (dollars in thousands) represent Virginia Information Technologies Agency and Virginia Correctional Enterprises, respectively, amounts due from various governmental funds that will not be received within 60 days. These amounts are reclassified to an internal balance on the Government-wide Statement of Net Position.

Note (3): Other Assets of the Agency Funds represent prepaid expenses and advances to third party agents. The $26 (dollars in thousands) shown above is not included in the Government-wide Statement of Net Position.

11. RESTRICTED ASSETS

Restricted assets represent monies or other resources that must be used for specific legal or contractual requirements. The Commonwealth Transportation Fund (major special revenue), Debt Service Fund (nonmajor governmental), and Capital Project Fund (nonmajor governmental) reported $892.2 million in restricted assets related to bond agreements.

The Route 460 Funding Corporation of Virginia (nonmajor enterprise) reported restricted assets of $161.2 million for future debt service payments.

The Virginia Housing Development Authority, the Virginia Public School Authority, and the Virginia College Building Authority (all major component units) reported restricted assets totaling $1.2 billion, $154.3 million, and $167.0 million, respectively. These major component units' assets are restricted for debt service under a bond indenture or other agreement, or for construction and equipment.

The Virginia Resources Authority (major component unit) reported restricted assets of $673.1 million. Of this amount, $665.4 million is restricted for loans to local governments, bond indentures, or federal and state regulations for various revolving funds, and $7.7 million is restricted for the Operating Reserve Fund for the Virginia Pooled Financing Program.

The Virginia Port Authority (nonmajor component unit) reported restricted assets of $156.0 million primarily for debt service under bond agreements, construction and other project funds.

The Tobacco Indemnification and Community Revitalization Commission (nonmajor component unit) reported restricted assets of $214.0 million to be used for financial aid to tobacco growers and to foster community economic growth.

The Hampton Roads Sanitation District Commission (nonmajor component unit) reported restricted assets of $86.5 million. Of this amount, $66.2 million is for debt service and $20.3 million is revenue bond construction funds.

The Virginia Small Business Financing Authority (nonmajor component unit) reported restricted assets of $38.3 million for gifts and grants.

The higher education institutions (nonmajor component units) reported restricted assets totaling approximately $4.7 billion primarily for endowment and other contractual obligations. Included in this amount is approximately $4.0 billion of foundations' restricted assets. The two museum foundations, the Virginia Museum of Fine Arts Foundation (nonmajor component unit) and the Science Museum of Virginia Foundation (nonmajor component unit) had restricted assets of $259.4 million and $20.0 million, respectively, primarily for donor-imposed restricted endowments.

The remaining $4.8 million is spread among the following nonmajor component units: the Virginia Outdoors Foundation, the Danville Science Center, the Fort Monroe Authority, the Virginia Arts Foundation, the Library of Virginia Foundation, and the Virginia Health Workforce Development Authority.

12. CAPITAL ASSETS

The following schedule presents the changes in the Capital Assets as of June 30, 2015.

Schedule of Changes in Capital Assets

Governmental Activities

(Dollars in Thousands)

	Balance July 1, as restated (1)	Increases	Decreases	Balance June 30
Nondepreciable Capital Assets:				
Land	$ 2,821,876	$ 164,548	$ (50,920)	$ 2,935,504
Water Rights and/or Easements	64,870	4,900	-	69,770
Infrastructure	322,741	-	-	322,741
Construction-in-Progress (2)	3,981,983	1,961,045	(1,923,938)	4,019,090
Total Nondepreciable Capital Assets	7,191,470	2,130,493	(1,974,858)	7,347,105
Depreciable Capital Assets:				
Buildings (3)	3,830,496	205,517	(24,949)	4,011,064
Equipment	1,117,366	70,746	(26,267)	1,161,845
Infrastructure (4)	30,670,853	2,430,551	(410,904)	32,690,500
Softw are	475,847	21,047	-	496,894
Total Capital Assets being Depreciated	36,094,562	2,727,861	(462,120)	38,360,303
Less Accumulated Depreciation for:				
Buildings	1,313,636	93,396	(15,647)	1,391,385
Equipment	632,590	65,807	(21,706)	676,691
Infrastructure	13,209,454	864,048	(34,877)	14,038,625
Softw are	222,282	30,542	-	252,824
Total Accumulated Depreciation	15,377,962	1,053,793	(72,230)	16,359,525
Total Depreciable Capital Assets, Net	20,716,600	1,674,068	(389,890)	22,000,778
Total Capital Assets, Net	$ 27,908,070	$ 3,804,561	$ (2,364,748)	$ 29,347,883

Note (1): Beginning balances have been restated by $9.5 million as discussed in Note 2. There have also been reclassifications in the beginning balances of certain line items above.
Note (2): Decreases include permanently impaired assets with a carrying value of $93,265 (dollars in thousands) as discussed in Note 31.
Note (3): Includes temporarily impaired assets with a carrying value of $3,353 (dollars in thousands).
Note (4): Decreases include permanently impaired assets with a carrying value of $41,296 (dollars in thousands) as discussed in Note 31.

Depreciation Expense Charged to Functions of the Primary Government

June 30, 2015

(Dollars in Thousands)

Governmental Activities:	
General Government	$ 32,349
Education	13,409
Transportation	894,868
Resources and Economic Development	18,407
Individual and Family Services	28,983
Administration of Justice	48,557
Capital Assets held by the Internal Service Funds are charged to various functions	17,220
Total	$ 1,053,793

Schedule of Changes in Capital Assets
Business-type Activities

(Dollars in Thousands)

	Balance July 1	Increases	Decreases	Balance June 30
Nondepreciable Capital Assets:				
Land	$ 1,977	$ -	$ -	$ 1,977
Construction-in-Progress (1)	132,165	5,120	(132,683)	4,602
Total Nondepreciable Capital Assets	134,142	5,120	(132,683)	6,579
Depreciable Capital Assets:				
Buildings	30,639	145	-	30,784
Equipment	63,835	3,960	(2,215)	65,580
Software	4,790	2,424	(175)	7,039
Total Capital Assets being Depreciated	99,264	6,529	(2,390)	103,403
Less Accumulated Depreciation for:				
Buildings	12,586	560	-	13,146
Equipment	50,174	5,527	(2,270)	53,431
Software	2,107	1,071	-	3,178
Total Accumulated Depreciation	64,867	7,158	(2,270)	69,755
Total Depreciable Capital Assets, Net	34,397	(629)	(120)	33,648
Total Capital Assets, Net	$ 168,539	$ 4,491	$ (132,803)	$ 40,227

Note (1): Decreases include permanently impaired assets with a carrying value of $131,351 (dollars in thousands) as discussed in Note 31.

Schedule of Changes in Capital Assets
Component Units

(Dollars in Thousands)

	Balance July 1 as restated (1)	Increases	Decreases	Subtotal June 30	Foundations (2)	Total June 30
Nondepreciable Capital Assets:						
Land	$ 587,699	$ 18,186	$ (5,675)	$ 600,210	$ 281,216	$ 881,426
Construction-in-Progress	1,240,006	1,261,682	(830,383)	1,671,305	41,380	1,712,685
Inexhaustible Works of Art/Historical Treasures	77,899	609	-	78,508	20,440	98,948
Livestock	1,012	156	-	1,168	1,900	3,068
Total Nondepreciable Capital Assets	1,906,616	1,280,633	(836,058)	2,351,191	344,936	2,696,127
Depreciable Capital Assets:						
Buildings	14,118,340	645,231	(21,971)	14,741,600	1,198,517	15,940,117
Infrastructure	3,141,538	169,871	(347)	3,311,062	4,606	3,315,668
Equipment	3,126,695	386,825	(91,649)	3,421,871	149,150	3,571,021
Improvements Other Than Buildings	491,572	20,892	(2,787)	509,677	74,962	584,639
Library Books	812,428	30,732	(9,732)	833,428	-	833,428
Software	408,441	31,174	(2,836)	436,779	-	436,779
Other Intangible Assets	2,000	-	-	2,000	-	2,000
Total Capital Assets being Depreciated	22,101,014	1,284,725	(129,322)	23,256,417	1,427,235	24,683,652
Less Accumulated Depreciation for:						
Buildings	4,317,512	407,534	(10,147)	4,714,899	297,911	5,012,810
Infrastructure	1,419,290	86,120	(160)	1,505,250	2,668	1,507,918
Equipment	2,068,695	323,344	(89,303)	2,302,736	102,283	2,405,019
Improvements Other Than Buildings	282,316	21,594	(1,058)	302,852	47,341	350,193
Library Books	684,000	33,173	(9,675)	707,498	-	707,498
Software	298,621	30,539	(2,313)	326,847	-	326,847
Other Intangible Assets	1,333	134	-	1,467	-	1,467
Total Accumulated Depreciation	9,071,767	902,438	(112,656)	9,861,549	450,203	10,311,752
Total Depreciable Capital Assets, Net	13,029,247	382,287	(16,666)	13,394,868	977,032	14,371,900
Total Capital Assets, Net	$ 14,935,863	$ 1,662,920	$ (852,724)	$ 15,746,059	$ 1,321,968	$ 17,068,027

Note (1): Beginning balances have been restated by $46,465 (dollars in thousands) by nonmajor component units.

Note (2): Foundations represent FASB reporting entities defined in Note 1.B. Since foundations follow FASB rather than GASB reporting requirements, no amounts are reported in the software and other intangible assets categories for foundations.

13. DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, requires certain items to be classified as either deferred outflows or deferred inflows of resources. Additionally, deferred outflows or deferred inflows of resources are also required by other GASB statements. While all deferred outflows or deferred inflows of resources applicable to the Commonwealth are listed below, see Notes 14, 15, and 37 for additional information regarding these items.

Deferred Outflows

Deferred outflows of resources are a consumption of assets by the government that is applicable to a future reporting period.

Deferred Inflows

Deferred inflows of resources are an acquisition of assets by the government that is applicable to a future reporting period.

The following tables summarize deferred outflows and deferred inflows as of June 30, 2015.

Government-wide Statements

(Dollars in Thousands)	Primary Government			
	Governmental Actvities	Business-type Activities	Total	Total Component Units
Deferred Outflows of Resources				
Effective Hedges in a Loss Position	$ -	$ -	$ -	$ 6,019
Loss on Refunding of Debt	81,643	-	81,643	444,181
Pension Related	425,405	13,438	438,843	252,455
Total Deferred Outflows of Resources	$ 507,048	$ 13,438	$ 520,486	$ 702,655
Deferred Inflows of Resources				
Effective Hedges in a Gain Position	$ -	$ -	$ -	$ 4,828
Service Concession Arrangements	2,170,952	-	2,170,952	72,970
Gain on Refunding of Debt	-	-	-	29,843
Pension Related	747,362	21,371	768,733	473,139
Total Deferred Inflows of Resources	$ 2,918,314	$ 21,371	$ 2,939,685	$ 580,780

Fund Statements

(Dollars in Thousands)	Primary Government - Governmental Funds					
	General	Commonwealth Transportation	Federal Trust	Literary	Nonmajor Governmental Funds	Total Governmental Funds
Deferred Outflows of Resources						
Total Deferred Outflows of Resources	$ -	$ -	$ -	$ -	$ -	$ -
Deferred Inflows of Resources						
Revenues Considered Unavailable	$ 912,706	$ 73,443	$ 53,787	$ 19,011	$ 34,986	$ 1,093,933
Total Deferred Inflows of Resources	$ 912,706	$ 73,443	$ 53,787	$ 19,011	$ 34,986	$ 1,093,933

(Dollars in Thousands)	Business-type Activities Enterprise Funds					
	Virginia Lottery	Virginia College Savings Plan	Nonmajor	Total Business-type Activities	Internal Service Funds	Private Purpose Trust Funds
Deferred Outflows of Resources						
Effective Hedges in a Loss Position	$ -	$ -	$ -	$ -	$ -	$ -
Loss on Refunding of Debt	-	-	-	-	-	-
Pension Related	2,756	1,067	9,615	13,438	5,475	448
Total Deferred Outflows of Resources	$ 2,756	$ 1,067	$ 9,615	$ 13,438	$ 5,475	$ 448
Deferred Inflows of Resources						
Effective Hedges in a Gain Position	$ -	$ -	$ -	$ -	$ -	$ -
Service Concession Arrangements	-	-	-	-	-	-
Gain on Refunding of Debt	-	-	-	-	-	-
Pension Related	4,292	1,581	15,498	21,371	11,173	587
Total Deferred Inflows of Resources	$ 4,292	$ 1,581	$ 15,498	$ 21,371	$ 11,173	$ 587

(Continued on next page)

Fund Statements *(continued from previous page)*

(Dollars in Thousands)	Component Units				
	Virginia Public School Authority	Virginia Resources Authority	Virginia College Building Authority	Nonmajor Component Units	Total Component Units
Deferred Outflows of Resources					
Effective Hedges in a Loss Position	$ -	$ -	$ -	$ 6,019	$ 6,019
Loss on Refunding of Debt	151,715	80,539	26,191	185,736	444,181
Pension Related	-	47	-	252,408	252,455
Total Deferred Outflows of Resources	$ 151,715	$ 80,586	$ 26,191	$ 444,163	$ 702,655
Deferred Inflows of Resources					
Effective Hedges in a Gain Position	$ -	$ -	$ -	$ 4,828	$ 4,828
Service Concession Arrangements	-	-	-	72,970	72,970
Gain on Refunding of Debt	-	29,843	-	-	29,843
Pension Related	-	74	-	473,065	473,139
Total Deferred Inflows of Resources	$ -	$ 29,917	$ -	$ 550,863	$ 580,780

14. DERIVATIVES

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* requires additional reporting and disclosures for derivative instruments.

Primary Government

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates or financial indexes. They include futures, forwards, options and swap contracts. Some traditional securities, such as structured notes, can have derivative-like characteristics. In this case, the return may be linked to one or more indexes and asset-backed securities, such as collateralized mortgage obligations (CMOs), which are sensitive to changes in interest rates and pre-payments. Futures, forwards, options and swaps generally are not recorded on the financial statements, whereas structured notes and asset-backed investments generally are recorded.

Virginia College Savings Plan (Virginia529)

GASB Statement No. 53 defines stable value investment vehicles as synthetic guaranteed investment contracts. Stable value funds are invested in a high quality, diversified, intermediate term, fixed income portfolio that is protected against interest rate volatility by wrap or investment contracts from banks and insurance companies that guarantee the payment of benefits at book value (cost plus accrued interest), which enables the entire investment to be carried at its book value. The Virginia529 utilizes stable value investments in both the Virginia529 prePAID Program (major enterprise fund) and Virginia529 inVEST Fund (Private Purpose Trust Fund). Virginia529's stable value investments meet the definition of fully benefit-responsive synthetic guaranteed investment contracts and are reported at contract value. At June 30, 2015, Virginia529 had the following stable value investments outstanding (dollars in thousands) in the respective programs as shown in the table below.

Stable Value Investments

Fund	Wrap Provider	Notional Amount	Effective Date	Maturity Date	Credit Rate	June 30, 2015 Fair Value	June 30, 2014 Fair Value
Enterprise	American General Life	$ 36,546	2/21/2014	Open ended	1.5%	$ 120,898	$ 114,438
	Voya Retirement & Annuity	57,932	12/3/2002	Open ended	2.5%		
	State Street Bank	24,048	5/1/2002	Open ended	2.8%		
Private Purpose	American General Life	$ 131,667	1/16/2014	Open ended	1.4%	$ 666,733	$ 486,917
	Voya Retirement & Annuity	132,324	12/3/2002	Open ended	2.3%		
	Voya Retirement & Annuity	131,586	10/5/2012	Open ended	1.3%		
	Prudential Retirement Insurance & Annuity	132,092	1/30/2014	Open ended	2.1%		
	State Street Bank	132,077	5/1/2002	Open ended	1.9%		

The following table (dollars in thousands) contains information relating to fair value, changes in fair value, and notional value for U.S. Treasury Futures Contracts.

Investment Derivatives - U.S. Treasury Futures Contracts

	Changes in Fair Value		Fair Value at June 30, 2015		
Fund	Classification	Amount	Classification	Amount	Notional Amount
Enterprise	Revenue	$ 95	Investment	$ 95	$ 32,391

Pursuant to its investment management agreement, Advent Capital Management, LLC may invest in derivatives for hedging purposes or for the use of efficient portfolio management. Synthetic positions are not allowed and the use of derivatives should not be considered as an alpha generator. Advent primarily uses forward foreign exchange contracts to hedge the value of investments denominated in non-U.S. dollar currencies. Credit risk of exchange traded currency contracts lies with the clearinghouse of the exchange at which the contracts are traded, while credit risk of currency contracts traded over the counter lies with the counterparty. Counterparty risk exposure is generally equal to the unrealized gain on in-the-money contracts. The following table (dollars in thousands) contains a breakdown of these forward contracts by currency.

Virginia prePAID Currency Forwards

Currency	Cost	Foreign Exchange Purchases	Foreign Exchange Sales	Market Value
British Pound Sterling	$ 3,795	$ -	$ (3,812)	$ (3,812)
Canadian Dollar	2,766	-	(2,725)	(2,725)
Euro	23,280	2,797	(26,109)	(23,312)
Hong Kong Dollar	3,662	-	(3,663)	(3,663)
Japanese Yen	6,207	-	(6,150)	(6,150)
Singapore Dollar	1,463	-	(1,455)	(1,455)
Swiss Franc	2,270	-	(2,268)	(2,268)
U.S. Dollar	(43,443)	46,248	(2,804)	43,444
Total	$ -	$ 49,045	$ (48,986)	$ 59

Virginia Retirement System

The Virginia Retirement System (the System) is a party, directly and indirectly, to various derivative financial investments that may or may not appear on the financial statements and that are used in the normal course of business to enhance returns on investments and manage risk exposure to changes in value resulting from fluctuations in market conditions. These investments may involve, to varying degrees, elements of credit and market risk in excess of amounts recognized on the financial statements.

At June 30, 2015, the System had four types of derivative financial instruments: futures, currency forwards, options and swaps. Futures, currency forwards, and options contracts provide the System with the opportunity to build passive benchmark positions, manage portfolio duration in relation to various benchmarks, adjust portfolio yield curve exposure and gain market exposure to various indexes in a more efficient way and at lower transaction costs. Credit risks depend on whether the contracts are exchange-traded or exercised over-the-counter. Market risks arise from adverse changes in market prices, interest rates and foreign exchange rates.

Futures Contracts

Futures contracts are contracts to deliver or receive securities at a specified future date and at a specified price or yield. Futures contracts are traded on organized exchanges (exchange-traded) and require an initial margin (collateral) in the form of cash or marketable securities. The net change in the futures contract value is settled daily, in cash, with the exchanges. The net gains or losses resulting from the daily settlements are included in the System's financial statements. Holders of futures contracts look to the exchange for performance under the contract and not to the entity holding the offsetting futures position. Accordingly, the amount at risk posed by nonperformance of counterparties to futures contracts is minimal. The notional value of the System's investment in futures contracts at June 30, 2015 and 2014 is shown in the following table.

Futures Contracts
as of June 30
(Dollars in Thousands)

	2015	2014
Cash & Cash Equivalent Derivatives Futures:		
Long	$ -	$ 77,225
Short	(183,747)	-
Equity Derivatives Futures:		
Long	827,881	61,465
Short	-	(4,295)
Fixed Income Derivatives Futures:		
Long	89,556	12,201
Short	(606,020)	(197,647)
Total Futures	$ 127,670	$ (51,051)

Currency Forwards

Currency forwards represent foreign exchange contracts and are used by the System to effect settlements and to protect the base currency ($US) value of portfolio assets denominated in foreign currencies against fluctuations in the exchange rates of those currencies. A forward foreign currency exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated price. The credit risk of currency contracts that are exchange-traded lies with the clearinghouse of the exchange where the contracts are traded. The credit risk of currency contracts traded over-the-counter lies with the counterparty, and exposure usually is equal to the unrealized profit on in-the-money contracts. The market risk in foreign currency contracts is related to adverse movements in currency exchange rates. Information on the System's currency forwards contracts at June 30, 2015 and 2014 is shown in the following table.

Currency Forwards
as of June 30

(Dollars in Thousands)

Currency	Cost	Pending Foreign Exchange Purchases	Pending Foreign Exchange Sales	Fair Value 2015	Fair Value 2014
Australian Dollar	$ (222,668)	$ 227,230	$ (449,717)	$ (222,487)	$ (314,166)
Brazil Real	(57,621)	1,468	(58,995)	(57,527)	(51,138)
British Pound Sterling	(1,041,765)	208,787	(1,259,334)	(1,050,547)	(951,315)
Canadian Dollar	(568,352)	119,984	(686,260)	(566,276)	(446,996)
Chilean Peso	332	1,942	(1,623)	319	2,632
Chinese Yuan Renminbi	-	-	-	-	12
Colombian Peso	(7,933)	3,438	(11,252)	(7,814)	(5,860)
Danish Krone	(94,713)	29,693	(124,012)	(94,319)	(95,551)
Euro Currency Unit	(1,040,144)	406,950	(1,444,843)	(1,037,893)	(1,401,501)
Hong Kong Dollar	(166,459)	18,780	(185,240)	(166,460)	(211,954)
Hungarian Forint	1,138	7,201	(6,118)	1,083	(4,298)
Indian Rupee	19,274	24,289	(4,812)	19,477	7,245
Indonesian Rupiah	1,056	2,640	(1,583)	1,057	784
Israeli Shekel	(69,241)	2,640	(72,089)	(69,449)	(63,912)
Japanese Yen	(1,047,916)	267,131	(1,319,534)	(1,052,403)	(601,319)
Malaysian Ringgit	15,965	16,582	(742)	15,840	10,721
Mexican Peso	11,126	19,371	(8,633)	10,738	14,488
New Turkish Lira	4,437	11,827	(7,181)	4,646	6,181
New Zealand Dollar	(131,860)	75,524	(202,775)	(127,251)	(22,593)
Norwegian Krone	70,018	202,728	(134,300)	68,428	77,181
Peruvian Nuevo Sol	2,345	3,494	(1,149)	2,345	(727)
Philippine Peso	8,823	8,874	(141)	8,733	(605)
Polish Zloty	7,460	10,044	(2,766)	7,278	11,275
Romanian Leu	(1,599)	1,451	(3,081)	(1,630)	(50)
Russian Ruble	(6,358)	2,983	(8,964)	(5,981)	394
Singapore Dollar	(253,653)	87,127	(340,189)	(253,062)	(191,259)
South African Rand	(2,163)	14,727	(16,808)	(2,081)	(11,809)
South Korean Won	(23,121)	268	(23,345)	(23,077)	2,784
Swedish Krona	(157,625)	79,347	(237,633)	(158,286)	(329,656)
Swiss Franc	(293,533)	162,102	(455,104)	(293,002)	(611,653)
Thai Baht	7,465	7,924	(498)	7,426	4,585
U.S. Dollar	5,037,287	7,041,074	(2,003,787)	5,037,287	5,162,660
Total Forwards Subject to Foreign Currency Risk				$ (4,888)	$ (15,420)

Options Contracts

Options may be either exchange-traded or negotiated directly between two counterparties over-the-counter. Options grant the holder the right, but not the obligation, to purchase (call) or sell (put) a financial instrument at a specified price and within a specified period of time from the writer of the option. As a purchaser of options, the System typically pays a premium at the outset. This premium is reflected as an asset on the financial statements. The System then retains the right, but not the obligation, to exercise the options and purchase the underlying financial instrument. Should the option not be exercised, it expires worthless and the premium is recorded as a loss.

A writer of options assumes the obligation to deliver or receive the underlying financial instrument on exercise of the option. Certain option contracts may involve cash settlements based on specified indexes such as stock indexes. As a writer of options, the System receives a premium at the outset.

This premium is reflected as a liability on the financial statements, and the System bears the risk of an unfavorable change in the price of the financial instrument underlying the option. Information on the System's options balances at June 30, 2015 and 2014 is shown in the following table.

Options Contracts
as of June 30

(Dollars in Thousands)

	2015	2014
Cash and Cash Equivalent Options:		
Call	$ (3)	$ (117)
Put	14	(23)
Equity Options:		
Call	-	-
Put	-	-
Fixed Income Options:		
Call	(12)	-
Put	(37)	-
Swaptions:		
Call	(12)	(110)
Put	(51)	(53)
Total Options	$ (101)	$ (303)

Swap Agreements

Swaps are negotiated contracts between two counterparties for the exchange of payments at certain intervals over a predetermined timeframe. The payments are based on a notional principal amount and calculated using either fixed or floating interest rates or total returns from certain instruments or indexes. Swaps are used to manage risk and enhance returns. To reduce the risk of counterparty nonperformance, the System generally requires collateral on any material gains from these transactions. During fiscal year 2015, the System entered into credit defaults, interest rate and total return swaps. Information on the System's swap balances at June 30, 2015 and 2014 is shown in the following table.

Swap Agreements
as of June 30

(Dollars in Thousands)

Counterparty	Notional Amount	VRS Rate	Counterparty Rate	Maturity Date	Buying/ Selling Protection	Pay/ Receive Rate	Fair Value 2015	Fair Value 2014
Credit Default Swaps:								
Barclays Bank PLC	$ 3,900			6/20/2019	Selling	1.0%	$ 47	$ 75
Barclays Bank PLC	3,700			12/20/2018	Buying	1.0%	(64)	(63)
Barclays Bank PLC	3,450			9/20/2020	Selling	1.0%	(53)	-
Barclays Bank PLC	3,400			6/20/2019	Selling	1.0%	(57)	38
Barclays Bank PLC	2,600			9/20/2015	Selling	1.0%	(9)	2
Barclays Bank PLC	1,800			12/20/2018	Buying	1.0%	(33)	(28)
Barclays Bank PLC	1,800			9/20/2015	Selling	1.0%	(1)	(5)
Barclays Bank PLC	800			9/20/2015	Selling	1.0%	1	-
Barclays Bank PLC	700			12/20/2018	Buying	1.0%	(9)	(9)
Barclays Bank PLC	600			6/20/2019	Selling	1.0%	(4)	8
Barclays Bank PLC	4,381			3/20/2021	Selling	5.0%	-	536
Barclays Bank PLC	1,400			6/20/2015	Selling	1.0%	-	7
Barclays Bank PLC	1,369			3/20/2021	Selling	5.0%	-	180
Barclays Bank PLC	1,100			12/20/2018	Buying	1.0%	-	(18)
Barclays Bank PLC	1,000			6/20/2019	Selling	1.0%	-	(33)
Barclays Bank PLC	958			6/20/2019	Selling	5.0%	-	76
Barclays Bank PLC	548			9/20/2022	Selling	5.0%	-	68
Barclays Bank PLC	200			3/20/2019	Selling	1.0%	-	(6)
Credit Suisse Group AG	3,400			12/20/2018	Buying	1.0%	(52)	(93)
Credit Suisse Group AG	1,300			6/20/2020	Selling	5.0%	35	-
Credit Suisse Group AG	800			12/20/2016	Selling	1.0%	8	14
Credit Suisse Group AG	225			12/20/2015	Selling	5.0%	3	-
Credit Suisse Group AG	200			12/20/2016	Selling	1.0%	2	2
Credit Suisse Group AG	150			12/20/2016	Selling	5.0%	5	-
Credit Suisse Group AG	6,250			12/20/2016	Buying	1.0%	-	(111)
Credit Suisse Group AG	1,000			12/20/2018	Selling	1.0%	-	16
Credit Suisse Group AG	500			12/20/2018	Buying	5.0%	-	(96)
Deutsche Bank AG	8,875			6/20/2019	Selling	1.0%	(421)	(341)
Deutsche Bank AG	5,300			12/20/2018	Selling	1.0%	24	64
Deutsche Bank AG	2,900			6/20/2019	Selling	1.0%	-	25
Deutsche Bank AG	2,600			9/20/2015	Selling	1.0%	(9)	2
Deutsche Bank AG	1,400			9/20/2015	Selling	1.0%	1	11
Deutsche Bank AG	1,200			12/20/2016	Selling	1.0%	12	21
Deutsche Bank AG	800			9/20/2015	Selling	1.0%	1	-
Deutsche Bank AG	700			6/20/2018	Selling	1.0%	(21)	(3)
Deutsche Bank AG	400			3/20/2020	Selling	1.0%	(4)	-
Deutsche Bank AG	400			3/20/2016	Selling	1.0%	-	-
Deutsche Bank AG	6,000			12/20/2018	Selling	1.0%	-	(63)
Deutsche Bank AG	3,000			9/20/2014	Selling	1.0%	-	-
Deutsche Bank AG	3,000			9/20/2014	Selling	1.0%	-	(2)
Deutsche Bank AG	2,300			9/20/2014	Selling	1.0%	-	2
Deutsche Bank AG	1,600			3/20/2021	Selling	5.0%	-	135
Deutsche Bank AG	1,500			3/20/2021	Selling	5.0%	-	125
Deutsche Bank AG	1,100			12/20/2018	Selling	1.0%	-	7
Deutsche Bank AG	1,100			6/20/2019	Buying	5.0%	-	(169)
Deutsche Bank AG	700			12/20/2018	Buying	5.0%	-	(134)
Deutsche Bank AG	700			6/20/2015	Selling	1.0%	-	5
Deutsche Bank AG	500			9/20/2014	Selling	1.0%	-	1
Deutsche Bank AG	300			9/20/2014	Buying	10.0%	-	1
Goldman Sachs Group Inc	6,600			6/20/2019	Selling	1.0%	(110)	75
Goldman Sachs Group Inc	5,800			9/20/2019	Selling	1.0%	(301)	-
Goldman Sachs Group Inc	5,225			3/20/2020	Selling	5.0%	(37)	-
Goldman Sachs Group Inc	5,200			6/20/2020	Selling	1.0%	(362)	-
Goldman Sachs Group Inc	5,200			9/20/2015	Selling	1.0%	2	41
Goldman Sachs Group Inc	5,000			12/20/2018	Selling	1.0%	(99)	30
Goldman Sachs Group Inc	4,900			6/20/2020	Selling	5.0%	(67)	-
Goldman Sachs Group Inc	3,400			6/20/2019	Selling	1.0%	(22)	46
Goldman Sachs Group Inc	2,300			3/20/2019	Selling	5.0%	263	319
Goldman Sachs Group Inc	2,100			12/20/2019	Selling	5.0%	83	-
Goldman Sachs Group Inc	2,100			12/20/2019	Selling	1.0%	(258)	-
Goldman Sachs Group Inc	1,950			9/20/2015	Selling	1.0%	(799)	-
Goldman Sachs Group Inc	1,050			12/20/2020	Selling	1.0%	(33)	(60)
Goldman Sachs Group Inc	900			3/20/2020	Buying	1.0%	88	-
Goldman Sachs Group Inc	700			3/20/2016	Selling	1.0%	1	-
Goldman Sachs Group Inc	650			6/20/2019	Buying	1.0%	(16)	(57)
Goldman Sachs Group Inc	650			6/20/2020	Selling	5.0%	46	-
Goldman Sachs Group Inc	300			12/20/2018	Selling	1.0%	(3)	4
Goldman Sachs Group Inc	9,600			9/20/2014	Selling	1.0%	-	16
Goldman Sachs Group Inc	5,100			6/20/2019	Selling	1.0%	-	20
Goldman Sachs Group Inc	3,150			12/20/2016	Buying	1.0%	-	(58)
Goldman Sachs Group Inc	1,300			3/20/2018	Selling	5.0%	-	(35)
Goldman Sachs Group Inc	1,000			3/20/2021	Selling	5.0%	-	83
Goldman Sachs Group Inc	800			12/20/2018	Buying	1.0%	-	(12)
Goldman Sachs Group Inc	600			3/20/2015	Selling	1.0%	-	3
Goldman Sachs Group Inc	400			3/20/2015	Selling	1.0%	-	(2)
Goldman Sachs Group Inc	100			9/20/2018	Selling	5.0%	-	13
HSBC Securities Inc	5,300			9/20/2020	Selling	1.0%	(81)	-
HSBC Securities Inc	2,100			3/20/2020	Selling	1.0%	(21)	-
HSBC Securities Inc	1,500			9/20/2019	Selling	1.0%	(78)	-
HSBC Securities Inc	1,300			9/20/2015	Selling	1.0%	-	10
HSBC Securities Inc	1,100			6/20/2019	Selling	1.0%	(7)	15
HSBC Securities Inc	1,000			6/20/2019	Selling	1.0%	(17)	11
HSBC Securities Inc	900			3/20/2019	Selling	1.0%	(27)	(26)

Continued on next page

Swap Agreements
as of June 30
(Continued from previous page)

(Dollars in Thousands)

Counterparty	Notional Amount	VRS Rate	Counterparty Rate	Maturity Date	Buying/ Selling Protection	Pay/ Receive Rate	Fair Value 2015	Fair Value 2014
Credit Default Swaps *(continued)*:								
HSBC Securities Inc	700			6/20/2018	Selling	1.0%	(21)	(3)
HSBC Securities Inc	400			3/20/2019	Selling	1.0%	(12)	(11)
HSBC Securities Inc	400			6/20/2019	Selling	1.0%	(11)	(33)
HSBC Securities Inc	200			3/20/2023	Selling	1.0%	(19)	(18)
HSBC Securities Inc	100			3/20/2023	Selling	1.0%	(10)	(9)
HSBC Securities Inc	6,000			9/20/2014	Selling	1.0%	-	5
HSBC Securities Inc	4,600			9/20/2014	Selling	1.0%	-	2
HSBC Securities Inc	1,900			3/20/2015	Selling	1.0%	-	10
HSBC Securities Inc	1,500			3/20/2019	Selling	1.0%	-	(44)
HSBC Securities Inc	1,400			12/20/2018	Selling	1.0%	-	23
HSBC Securities Inc	844			6/20/2019	Selling	1.0%	-	3
HSBC Securities Inc	756			6/20/2019	Selling	1.0%	-	3
Intercontinental Exchange Holdings	26,159			6/20/2020	Selling	5.0%	1,633	-
Intercontinental Exchange Holdings	18,300			6/20/2020	Selling	1.0%	(1,685)	-
Intercontinental Exchange Holdings	5,000			6/20/2020	Selling	5.0%	346	-
Intercontinental Exchange Holdings	17,700			6/20/2019	Selling	5.0%	-	2,101
Totals-Credit Default Swaps	269,140						(2,232)	2,712
Interest Rate Swaps:								
Banque Nationale de Paris	89,000	Brazil Cetip Interbank Deposit	13.5%	1/2/2017			(155)	-
Barclays PLC	1,481	Brazil Cetip Interbank Deposit	13.8%	1/4/2016			(2)	-
Barclays PLC	1,288	Brazil Cetip Interbank Deposit	12.4%	1/2/2018			(17)	-
Barclays PLC	733	3-month Johannesburg (JIBAR)	8.0%	12/18/2023			(8)	(9)
Barclays PLC	650	Mexico Interbank 28-day Index	5.0%	2/26/2018			9	-
Barclays PLC	404	3-month Johannesburg (JIBAR)	7.5%	12/17/2019			(2)	-
Barclays PLC	544	Brazil Cetip Interbank Deposit	10.63% CDI	1/2/2017			-	(5)
Barclays PLC	136	Brazil Cetip Interbank Deposit	11.5%	1/2/2017			-	(1)
BlackRock Inc	786	Mexico Interbank 28-day Index	5.0%	2/26/2018			-	16
Chicago Mercantile Exchange Inc	183,813	3-month LIBOR	1.5%	9/15/2017			1,663	-
Chicago Mercantile Exchange Inc	140,213	3-month LIBOR	1.5%	9/15/2017			1,268	-
Chicago Mercantile Exchange Inc	12,813	6-month EURIBOR +100 bps	0.8%	9/16/2025			571	-
Chicago Mercantile Exchange Inc	10,397	3.0%	3-month LIBOR	9/15/2045			(72)	-
Chicago Mercantile Exchange Inc	8,300	1.3%	3-month LIBOR	5/6/2017			(12)	-
Chicago Mercantile Exchange Inc	7,400	2.0%	3-month LIBOR	12/16/2019			(56)	-
Chicago Mercantile Exchange Inc	6,290	Mexico Interbank 28-day Index	5.6%	7/7/2021			(16)	-
Chicago Mercantile Exchange Inc	5,209	1.0%	6-month LIBOR - Japanese Yen	9/18/2023			(208)	(210)
Chicago Mercantile Exchange Inc	4,246	2.0%	6-month LIBOR - British Pound	9/16/2025			82	-
Chicago Mercantile Exchange Inc	3,617	3.0%	6-month LIBOR - British Pound	9/17/2024			(274)	(56)
Chicago Mercantile Exchange Inc	1,785	Mexico Interbank 28-day Index	5.8%	6/5/2023			(41)	-
Chicago Mercantile Exchange Inc	1,651	Mexico Interbank 28-day Index + 100 bps	6.2%	1/3/2035			(168)	-
Chicago Mercantile Exchange Inc	1,553	1.0%	6-month LIBOR - Japanese Yen	9/20/2024			(10)	-
Chicago Mercantile Exchange Inc	1,262	Mexico Interbank 28-day Index	5.6%	11/10/2021			(13)	-
Chicago Mercantile Exchange Inc	1,114	6-month EURIBOR	0.8%	9/16/2025			50	-
Chicago Mercantile Exchange Inc	1,114	1.5%	6-month EURIBOR	3/16/2046			68	-
Chicago Mercantile Exchange Inc	196	0.5%	6-month LIBOR - Japanese Yen	9/17/2021			(2)	-
Chicago Mercantile Exchange Inc	134	Mexico Interbank 28-day Index + 100 bps	5.5%	2/22/2023			(5)	-
Chicago Mercantile Exchange Inc	49,000	2.0%	3-month LIBOR	6/18/2019			-	(742)
Chicago Mercantile Exchange Inc	37,400	3-month LIBOR	3.0%	6/18/2024			-	1,314
Chicago Mercantile Exchange Inc	8,010	2.0%	6-month EURIBOR	9/17/2024			-	(388)
Chicago Mercantile Exchange Inc	4,100	3.8%	3-month LIBOR	6/18/2044			-	(361)
Chicago Mercantile Exchange Inc	1,780	0.4%	3-month EURIBOR	3/14/2015			-	(3)
Chicago Mercantile Exchange Inc	1,369	6-month EURIBOR	1.5%	3/19/2019			-	56
Credit Suisse Group AG	3,058	Brazil Cetip Interbank Deposit	12.2%	1/4/2021			(5)	-
Deutsche Bank AG	13,907	Brazil Cetip Interbank Deposit	12.8%	1/4/2021			148	-
Deutsche Bank AG	11,267	Brazil Cetip Interbank Deposit	13.9%	1/2/2017			(2)	-
Deutsche Bank AG	6,664	10.9%	Brazil Cetip Interbank Deposit	1/2/2017			202	-
Deutsche Bank AG	6,503	12.3%	Brazil Cetip Interbank Deposit	1/2/2017			45	-
Deutsche Bank AG	4,603	Brazil Cetip Interbank Deposit	11.7%	1/4/2021			(97)	-
Deutsche Bank AG	1,550	Colombia IBR Overnight Interbank	5.3%	8/29/2019			10	-
Deutsche Bank AG	1,497	Brazil Cetip Interbank Deposit	12.9%	4/1/2021			34	-
Deutsche Bank AG	1,299	Klibor Interbank Offered Rate	3.3%	4/19/2018			(13)	(30)
Deutsche Bank AG	1,217	Mexico Interbank 28-day Index	5.0%	10/10/2019			(6)	-
Deutsche Bank AG	915	Colombia IBR Overnight Interbank	6.1%	10/16/2024			(6)	-
Deutsche Bank AG	701	5.3%	Mexican Interbank Equlibrium	9/6/2019			4	8
Deutsche Bank AG	415	Brazil Cetip Interbank Deposit	12.4%	1/2/2018			(6)	-
Deutsche Bank AG	338	6-month LIBOR-Thai Baht	2.6%	1/29/2025			(5)	-
Deutsche Bank AG	231	Colombia IBR Overnight Interbank	5.3%	3/17/2020			1	-
Deutsche Bank AG	148	6-month LIBOR-Thai Baht	3.4%	1/15/2021			9	2
Deutsche Bank AG	148	6-month LIBOR-Thai Baht	3.4%	1/21/2021			9	(2)
Deutsche Bank AG	59	6-month LIBOR-Thai Baht	3.4%	11/19/2018			3	1
Deutsche Bank AG	30	6-month LIBOR-Thai Baht	3.4%	11/14/2018			1	1
Deutsche Bank AG	18	6-month LIBOR-Thai Baht	2.2%	1/29/2020			-	-
Deutsche Bank AG	1,406	Brazil Cetip Interbank Deposit	10.6%	1/2/2017			-	(13)
Goldman Sachs Group Inc	4,058	3-month New Zeland Bank Bill	5.0%	12/17/2024			360	-
Goldman Sachs Group Inc	404	3-month Johannesburg (JIBAR)	7.5%	12/17/2019			(2)	-
HSBC Securities Inc	15,870	13.8%	Brazil Cetip Interbank Deposit	1/2/2017			12	-
HSBC Securities Inc	6,535	13.9%	Brazil Cetip Interbank Deposit	1/6/2017			(1)	-
HSBC Securities Inc	4,893	12.2%	Brazil Cetip Interbank Deposit	1/4/2021			(8)	-
HSBC Securities Inc	2,189	Brazil Cetip Interbank Deposit	13.8%	4/1/2016			(7)	-
HSBC Securities Inc	585	3-month Johannesburg (JIBAR)	7.5%	12/17/2024			(29)	-
HSBC Securities Inc	579	Brazil Cetip Interbank Deposit	12.8%	1/4/2021			6	-
HSBC Securities Inc	483	Brazil Cetip Interbank Deposit	11.5%	1/4/2021			(14)	-
HSBC Securities Inc	477	6-month LIBOR-Thai Baht	2.5%	1/28/2025			(10)	-
HSBC Securities Inc	442	Colombia IBR Overnight Interbank	6.2%	3/21/2024			3	4

Continued on next page

Swap Agreements
as of June 30
(Continued from previous page)

(Dollars in Thousands)

Counterparty	Notional Amount	VRS Rate	Counterparty Rate	Maturity Date	Buying/ Selling Protection	Pay/ Receive Rate	Fair Value 2015	Fair Value 2014
Interest Rate Swaps *(continued)* **:**								
HSBC Securities Inc	382	Mexico Interbank 28-day Index	5.5%	2/22/2023			(13)	(19)
HSBC Securities Inc	290	Brazil Cetip Interbank Deposit	12.1%	1/4/2021			(2)	13
HSBC Securities Inc	186	6-month Warsaw Interbank	2.8%	12/17/2024			(3)	-
HSBC Securities Inc	150	6.4%	Colombia IBR Overnight Interbank	7/2/2025			(1)	-
HSBC Securities Inc	110	6-month LIBOR-Thai Baht	2.1%	1/28/2020			2	-
HSBC Securities Inc	2,158	Mexico Interbank 28-day Index	5.8%	6/5/2023			-	(32)
UBS AG	11,106	Brazil Cetip Interbank Deposit	12.6%	1/4/2021			125	326
UBS AG	8,853	10.9%	Brazil Cetip Interbank Deposit	1/2/2017			268	-
UBS AG	3,509	11.7%	Brazil Cetip Interbank Deposit	1/4/2021			74	-
UBS AG	2,801	Brazil Cetip Interbank Deposit	11.6%	1/2/2018			(83)	-
UBS AG	1,370	Mexico Interbank 28-day Index	5.6%	10/11/2021			(9)	-
UBS AG	966	Brazil Cetip Interbank Deposit	9.1%	1/2/2017			(66)	(48)
UBS AG	191	5.3%	Mexican Interbank Equlibrium	9/6/2019			1	2
UBS AG	6,577	Brazil Cetip Interbank Deposit	12.4%	1/2/2018			(88)	-
UBS AG	11,169	Mexico Interbank 28-day Index	5.6%	10/11/2021			-	433
Total Interest Rate Swaps	730,095						3,491	257
Return Swaps:								
Goldman Sachs Group Inc	186,653	3-month LIBOR + 42 bps	MSCI ACWI	7/16/2015			(5,306)	-
Goldman Sachs Group Inc	226,219	3-month LIBOR + 42 bps	MSCI ACWI	7/16/2015			(6,430)	-
Goldman Sachs Group Inc	150,616	3-month LIBOR + 42 bps	MSCI ACWI IMI	7/16/2015			(4,281)	-
Goldman Sachs Group Inc	150,120	3-month LIBOR + 42 bps	MSCI ACWI IMI	7/16/2015			(2,832)	-
Goldman Sachs Group Inc	142,767	3-month LIBOR + 42 bps	MSCI Daily Small Cap	8/20/2014			-	11,702
Goldman Sachs Group Inc	32,278	3-month LIBOR	Kuraray Co. Ltd.	8/20/2014			-	(471)
Goldman Sachs Group Inc	5,533	3-month LIBOR	Shionogi Co. Ltd.	8/20/2014			-	(727)
Goldman Sachs Group Inc	5,321	3-month LIBOR	MSAD Insurance Group	8/20/2014			-	(193)
Goldman Sachs Group Inc	5,085	3-month LIBOR	Canon Inc.	8/20/2014			-	65
Goldman Sachs Group Inc	4,684	3-month LIBOR	Itochu Corp.	8/20/2014			-	(555)
Goldman Sachs Group Inc	4,638	3-month LIBOR	Trend Micro Inc.	8/20/2014			-	(253)
Goldman Sachs Group Inc	4,582	3-month LIBOR	Takeda Pharmaceutical	8/20/2014			-	(210)
Goldman Sachs Group Inc	4,491	3-month LIBOR	Daiichi Sankyo Co.	8/20/2014			-	(500)
Goldman Sachs Group Inc	4,428	3-month LIBOR	Dai Nippon Printing	8/20/2014			-	(375)
Goldman Sachs Group Inc	4,409	3-month LIBOR	Asahi Glass Co. Ltd.	8/20/2014			-	(240)
Goldman Sachs Group Inc	4,325	3-month LIBOR	Eisai Co. Ltd.	8/20/2014			-	(159)
Goldman Sachs Group Inc	4,166	3-month LIBOR	Mitsui Co. Ltd.	8/20/2014			-	(319)
Goldman Sachs Group Inc	4,166	3-month LIBOR	NKSJ Holdings Inc.	8/20/2014			-	(142)
Goldman Sachs Group Inc	4,164	3-month LIBOR	Sumitomo Corp.	8/20/2014			-	(256)
Goldman Sachs Group Inc	4,031	3-month LIBOR	Shiseido Co. Ltd.	8/20/2014			-	(392)
Goldman Sachs Group Inc	3,878	3-month LIBOR	Mitsubishi Corp.	8/20/2014			-	(282)
Goldman Sachs Group Inc	3,795	3-month LIBOR	Fast Retailing Co. Ltd.	8/20/2014			-	(1,577)
Goldman Sachs Group Inc	3,703	3-month LIBOR	Sharp Corp.	8/20/2014			-	(391)
Goldman Sachs Group Inc	3,001	3-month LIBOR	Nippon Telegraph	8/20/2014			-	(351)
Goldman Sachs Group Inc	2,746	3-month LIBOR	Marubeni Corp.	8/20/2014			-	(250)
Goldman Sachs Group Inc	2,741	3-month LIBOR	JX Holdings Inc.	8/20/2014			-	(197)
Goldman Sachs Group Inc	2,676	3-month LIBOR	Alps Electric Co. Ltd.	8/20/2014			-	(724)
Goldman Sachs Group Inc	2,290	3-month LIBOR	Sumitomo Mitsui Trust	8/20/2014			-	(272)
Goldman Sachs Group Inc	2,274	3-month LIBOR	Nippon Electric Glass	8/20/2014			-	(410)
Goldman Sachs Group Inc	2,241	3-month LIBOR	Sumitomo Mitsui Financial	8/20/2014			-	(224)
Goldman Sachs Group Inc	2,211	3-month LIBOR	Show a Shell Sekiyu	8/20/2014			-	(384)
Goldman Sachs Group Inc	2,013	3-month LIBOR	Oji Paper Co. Ltd.	8/20/2014			-	10
Goldman Sachs Group Inc	1,905	3-month LIBOR	Sumitomo Chemical Co.	8/20/2014			-	(66)
Goldman Sachs Group Inc	1,693	3-month LIBOR	NTN Corp.	8/20/2014			-	(495)
Goldman Sachs Group Inc	1,634	3-month LIBOR	Aozora Bank Ltd.	8/20/2014			-	(174)
Goldman Sachs Group Inc	1,409	3-month LIBOR	Denki Kagaku Kogyo	8/20/2014			-	(127)
Goldman Sachs Group Inc	1,075	3-month LIBOR	Mizuho Financial Group	8/20/2014			-	(55)
Goldman Sachs Group Inc	1,054	3-month LIBOR	NTT Docomo Inc.	8/20/2014			-	(57)
Goldman Sachs Group Inc	908	3-month LIBOR	Mitsui Engineering & Shipbuilding	8/20/2014			-	(212)
Goldman Sachs Group Inc	799	3-month LIBOR	Chubu Electric Pow er	8/20/2014			-	(55)
Goldman Sachs Group Inc	790	3-month LIBOR	Toyobo Co. Ltd.	8/20/2014			-	(64)
Goldman Sachs Group Inc	753	3-month LIBOR	Kansai Electric Pow er	8/20/2014			-	(8)
Goldman Sachs Group Inc	513	3-month LIBOR	Nippon Suisan Kaisha	8/20/2014			-	(137)
Goldman Sachs Group Inc	2	3-month LIBOR + 42 bps	MSCI ACWI	9/24/2014			-	-
Total Return Swaps	998,780						(18,849)	473
Total Swaps	$ 1,998,015						$ (17,590)	$ 3,442

Additional information is available in the System's separately issued financial statements, which may be obtained from the Virginia Retirement System at P.O. Box 2500, Richmond, Virginia 23218-2500.

Component Units

Investment Derivative Instruments

The Virginia Housing Development Authority (major) had a forward sales contract investment derivative with a $239.1 million notional value and a fair value of negative $224,949 as of June 30, 2015. This amount is reported as part of investment losses and other liabilities.

Hedging Derivative Instruments

In April 2015, the University of Virginia (UVA) (nonmajor) refunded the Series 2003A bonds and the commercial paper associated with the fixed-payer interest rate swaps which terminated hedge accounting. The fixed-payer interest rate swaps are no longer effective hedges. At the time of termination, the accumulated change in fair value of the swaps was negative $38.2 million and was included in the calculation of the deferred loss on refunding. At June 30, 2015, the negative fair value of the swaps of $28.9 million is included in other liabilities and the change in fair value of $9.3 million was reported as investment earnings in the accompanying financial statements. During fiscal year 2015, UVA established two fixed-receiver interest rate swaps with a total notional amount of $128.0 million to provide a hedge against fixed interest rates on Series 2015B bonds and these are considered effective hedges. At June 30, 2015, the negative fair value of the fixed-receiver interest rate swaps of $648,468 is included in other liabilities and the cumulative change in fair value of these swaps of $648,468 is included in deferred outflows of resources in the accompanying financial statements.

At June 30, 2015, the Virginia Commonwealth University (VCU) (nonmajor) had two fixed-payer interest rate swaps with a notional amount of $60.3 million, which declines to $4.8 million at the termination date of November 1, 2030. The swaps are used as cash flow hedges by VCU in order to provide a hedge against changes in interest rates on variable rate Series 2012A and 2012B bonds. The Series 2012A and 2012B bonds refunded prior Series 2006A and 2006B bonds that resulted in the termination of the prior hedging relationship between the interest rate swaps and the 2006A and 2006B bonds. At the time of the refunding in November 2012, the accumulated change in fair value of the interest rate swaps was negative $14.1 million and was included in the calculation of the deferred loss on refunding. There was also a reestablishment of hedge accounting on the new debt. At June 30, 2015, the negative fair value of VCU's swaps of $9.3 million is included in other liabilities and the cumulative change in fair value of VCU's swaps of $4.8 million is included in deferred inflows of resources in the accompanying financial statements.

At June 30, 2015, the Medical College of Virginia Hospitals (MCVH), which is a division of the Virginia Commonwealth University Health System Authority (a blended component unit of VCU), had two interest rate swap agreements with a notional amount of $119.9 million and another interest rate swap agreement with a notional amount of $68.2 million. The swaps are used as cash flow hedges by MCVH in order to provide a hedge against changes in interest rates on variable rate Series 2013A and 2013B bonds. The Series 2013A and 2013B bonds refunded prior Series 2005 and 2008 bonds that resulted in the termination of the prior hedging relationship between the interest rate swaps and the Series 2005 and 2008 bonds. At the time of the refunding in June 2013, the accumulated change in fair value of the interest rate swaps was negative $42.1 million and was included in the calculation of the deferred loss on refunding. There was also a reestablishment of hedge accounting on the new debt. At June 30, 2015, the negative fair value of MCVH's swaps of $47.5 million is included in other liabilities and the cumulative change in fair value of MCVH's swaps of $5.4 million is included in deferred outflows of resources in the accompanying financial statements.

The following schedule shows debt service requirements of UVA, VCU, and MCVH bonds payable debt of $355.6 million and net receipts/payments on associated derivative instruments. These amounts assume that current variable and reference rates on the hedging instruments will remain the same for their terms. As these rates vary, net receipt/payments on the hedging instruments will vary. Additional information is available in the individually published financial statements of the higher education institution.

Maturity	Principal	Interest	Derivative Instruments, Net	Total
2016	$ 4,995,000	$ 5,981,399	$ 7,559,547	$ 18,535,946
2017	5,700,000	6,891,093	7,388,913	19,980,006
2018	5,930,000	6,845,270	7,194,564	19,969,834
2019	6,095,000	6,798,064	6,992,318	19,885,382
2020	6,395,000	6,748,600	6,784,587	19,928,187
2021-2025	146,940,000	14,958,361	35,214,068	197,112,429
2026-2030	66,500,000	5,020,433	27,712,254	99,232,687
2031-2035	67,630,000	2,352,743	15,911,642	85,894,385
2036-2040	45,370,000	297,314	3,414,115	49,081,429
Total	$ 355,555,000	$ 55,893,277	$ 118,172,008	$ 529,620,285

Various foundations of higher education institutions have derivative instruments. The foundations follow FASB rather than GASB reporting requirements. Disclosures for the foundations' derivatives can be found in the individually published financial statements of the foundations.

15. RETIREMENT AND PENSION SYSTEMS

A separately issued financial report that includes financial statements and required supplemental information for each of the individual plans discussed below is publicly available. Copies may be obtained by writing to Virginia Retirement System, P. O. Box 2500, Richmond, Virginia 23218-2500.

A. Administration

The Virginia Retirement System (the System) is an independent agency of the Commonwealth that administers pension plans, other employee benefit plans, and other funds for Commonwealth employees, teachers, political subdivision employees, and other qualifying employees. The Board of Trustees is responsible for the general administration and operation of the plans. The Board consists of five members appointed by the Governor and four members appointed by the Joint Rules Committee, all subject to confirmation by the General Assembly. The Board of Trustees appoints a director to serve as the chief administrative officer of the System and a chief investment officer to direct, manage, and administer the investment of the System's funds. The Board of Trustees has appointed BNY Mellon as the custodian of designated assets of the System.

The System administers four pension trust funds: the Virginia Retirement System (VRS); State Police Officers' Retirement System (SPORS); Virginia Law Officers' Retirement System (VaLORS); and the Judicial Retirement System (JRS). In addition to the pension plans, the System administers five Other Employee Benefit Plans: Group Life Insurance Fund; Retiree Health Insurance Credit Fund; the Virginia Sickness and Disability Program (VSDP); the Line of Duty Act Trust Fund; and the Virginia Local Disability Program (VLDP).

B. Summary of Significant Accounting Policies (Virginia Retirement System)

Basis of Accounting

The financial statements of the pension and other employee benefit trust funds are prepared using the flow of economic resources measurement focus and the accrual basis of accounting consistent with the plans. Employee and employer contributions are recognized when due, pursuant to formal commitments, as well as statutory or contractual requirements. Investment income is recognized as earned by the plans. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Method Used to Value Investments

Investments are reported at fair value as determined by the System's master custodian, BNY Mellon, from its Global Pricing System. This pricing system assigns a price source, based on asset type and the vendor pricing products to which the master custodian subscribes, for every security held immediately following its acquisition. Prices supplied by these sources are monitored on a daily basis by the master custodian.

When a pricing source is unable to provide a price, quotes are sought from major investment brokers and market-making dealers; or internal calculations are applied if feasible. As a last resort, the master custodian will contact investment managers for a price. The master custodian prices commingled funds, partnerships, and real estate assets from statements received from the funds, partnerships, or investment managers.

The pricing sources utilized by the master custodian provide daily prices for equity securities, corporate, government and mortgage-backed fixed income securities, private placement securities, futures and options on futures, open-ended funds, and foreign exchange rates. Depending on the vendor, collateralized mortgage obligations (CMOs), adjustable rate mortgages (ARMs) and asset-backed securities are priced daily, weekly or twice a month and at month-end. Municipal fixed income securities and options on Treasury/Government National Mortgage Association securities are priced at month-end.

The System's investment guidelines for each specific portfolio limits investments in any corporate entity to no more than 5.0 percent of the market value of the account for both the internally and externally managed portfolios. There is no concentration of investments in any one organization that represents 5.0 percent or more of plan net position available for benefits.

C. Plan Description

Retirement Plans

The Virginia Retirement System is a qualified governmental retirement plan that administers three retirement benefit structures: Plan 1, Plan 2, and Hybrid Plan, for state employees, public school board employees, employees of participating political subdivisions, and other qualifying employees. VRS is a combination of mixed-agent and cost-sharing, multiple-employer retirement plans. Each plan's accumulated assets may legally be used to pay all the plan benefits provided to any of the plan's members, retirees, and beneficiaries. Contributions for fiscal year 2015 were $3.1 billion with a reserve balance available for benefits of $64.0 billion. At June 30, 2015, the VRS had 827 contributing employers.

Single-employer Retirement Plans

The Commonwealth also administers the following single-employer retirement plans and benefit structures:

- State Police Officers' Retirement System (SPORS) – Plan 1 and Plan 2
- Virginia Law Officers' Retirement System (VaLORS) – Plan 1 and Plan 2
- Judicial Retirement System (JRS) – Plan 1, Plan 2, and Hybrid Plan

All full-time, salaried permanent employees of VRS participating employers are automatically covered under VRS, SPORS, VaLORS or JRS with the following exceptions: (1) certain full-time faculty and administrative staff of public colleges and universities; and (2) eligible classified employees of the two state teaching hospitals. These employees have the option to elect not to participate in the Virginia Retirement System. Benefit provisions and all other requirements are established by Title 51.1 of the *Code of Virginia*, as amended.

Benefits vest for all plans after five years of service credit. Vested VRS members in the VRS Plan 1 are eligible for an unreduced retirement benefit at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit as elected by the employer. Vested VRS members in the VRS Plan 2 and the Hybrid Plan are eligible for unreduced retirement benefits at normal social security retirement age with at least five years of service credit or when age and service credit equal 90. Vested SPORS and VaLORS members in both the VRS Plan 1 and the VRS Plan 2 are eligible for an unreduced benefit at age 60 with at least five years of hazardous duty service credit or age 50 with at least 25 years of total service credit.

Annual retirement benefits are payable monthly for life in an amount equal to 1.7 percent of eligible members' average final compensation (AFC) for each year of service credit. Under the VRS Plan 2, the multiplier for general employees was reduced to 1.65 percent beginning January 1, 2013. Under the Hybrid Plan, the multiplier for the defined benefit component is 1.0 percent. AFC is the average of the member's 36 consecutive months of highest creditable compensation for members under the VRS Plan 1. Under the VRS Plan 2 and the Hybrid Plan, a member's AFC is the average of the member's 60 consecutive months of highest creditable compensation. The benefit for members of SPORS is calculated using a 1.85 percent multiplier. Members of SPORS also are eligible for a hazardous duty supplement, paid monthly, until they reach full Social Security retirement age.

Members of VaLORS hired before July 1, 2001, were allowed to make a one-time election to increase the multiplier from 1.7 to 2.0 percent instead of receiving a monthly hazardous duty supplement. VaLORS members who elected to retain the 1.7 percent multiplier are eligible for the supplement until age 65. Members of VaLORS hired after June 20, 2001, have their benefit computed using the 2.0 percent multiplier and are not eligible for the supplement.

Members of JRS receive weighted years of service credit for each year of actual service under JRS. VRS, SPORS, VaLORS, and JRS also provide death and disability benefits.

A cost-of-living allowance (COLA), based on changes in the Consumer Price Index and limited to 5.0 percent per year for VRS Plan 1 and 3.0 percent for VRS Plan 2 and Hybrid Plan, is granted on July 1 of the second calendar year after retirement and is effective each July 1 thereafter. Beginning January 2013, a member who retires with less than 20 years of service must receive an allowance for one full calendar year after reaching unreduced retirement age to be eligible for a COLA. Members within five years of eligibility for an unreduced benefit as of January 1, 2013 were grandfathered.

Benefits for all vested members are actuarially reduced if they retire before becoming eligible for an unreduced retirement benefit, provided they meet age requirements for a reduced retirement benefit.

As required by Title 51.1 of the *Code of Virginia*, as amended, members contribute 5.0 percent of their annual compensation to the retirement plans. Employers may assume the 5.0 percent member contribution. If a member leaves covered employment, the accumulated contributions plus earned interest may be refunded to the member. Each participating employer is required by state statute to contribute the remaining amounts necessary to fund the retirement plans using the entry age normal actuarial cost method adopted by the Board of Trustees. Contributions for fiscal year 2015 were \$34.1 million, \$34.7 million, and \$79.2 million, and reserved balances available for benefits were \$733.4 million, \$456.5 million, and \$1.2 billion, for SPORS, JRS, and VaLORS, respectively. State statute may be amended only by the General Assembly. To the extent that the employer's long-term obligation to provide pension benefits (total pension liability) is larger than the value of the assets available in the plan to pay these benefits (fiduciary net position), there is a net pension liability which is reported in the accompanying financial statements as a component of Long-term Liabilities Due in More than One Year.

Further information about the benefits provided in these retirement plans and their different benefit structures can be found in the Virginia Retirement System's Comprehensive Annual Financial Report.

The following table provides participant information.

	VRS	SPORS	VaLORS	JRS
Retirees and Beneficiaries Receiving Benefits	52,521	1,234	3,781	497
Terminated Employees Entitled to Benefits but not Receiving Them	10,447	108	584	3
Total	62,968	1,342	4,365	500
Active Members:				
Vested	55,637	1,510	5,746	328
Non-Vested	22,567	490	3,033	76
Total	78,204	2,000	8,779	404

D. Funding Policy

The funding policy of the retirement plans provides for periodic employer contributions at actuarially determined rates, which will remain relatively level over time as a percentage of payroll and will accumulate sufficient assets to meet the cost of all basic benefits when due. Contribution rates are developed using the entry age normal cost method for both normal cost and amortization of the unfunded actuarial accrued liability. Gains and losses are reflected in the unfunded actuarial accrued liability that is being amortized as a level percentage of payroll within 30 years or less.

The System's actuary, Cavanaugh MacDonald Consulting, LLC, computed the amount of contributions to be provided by state agency employers, state police and other Virginia law employers. The contribution rates for fiscal year 2015 were based on the actuary's valuation as of June 30, 2013. Employer contributions by the Commonwealth to VRS, SPORS, VaLORS, and JRS were 12.3 percent, 25.8 percent, 17.7 percent, and 51.7 percent, respectively. These rates were lower than the actuary's recommended rates to VRS, SPORS, VaLORS, and JRS of 15.8 percent, 30.8 percent, 21.1 percent, and 57.8 percent, respectively.

In addition to determining contribution requirements, the actuarial computations present an estimate of the discounted present value of the prospective accrued liability contributions that employers will have to pay in the future so that such contributions, together with the assets on hand, the normal contributions to be made in the future by employers and members and the income earned by investing funds, will be sufficient to provide all benefits to be paid to present members in the future as well as the annuitants and their designated beneficiaries.

E. Changes in Net Pension Liability

The Commonwealth implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68,* during fiscal year 2015. The total pension liability was determined based on the actuarial valuation as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014. The following disclosures have been added, as well as new Required Supplementary Information schedules.

The following tables (dollars in thousands) show the Commonwealth's total pension liability, plan fiduciary net position, and net pension liability for the VRS, SPORS, JRS, and VaLORS for the current and prior years.

Primary Government

	VRS Increase (Decrease) Total Pension Liability (a)	VRS Plan Fiduciary Net Position (b)	VRS Net Pension Liability (a) - (b)	SPORS Increase (Decrease) Total Pension Liability (a)	SPORS Plan Fiduciary Net Position (b)	SPORS Net Pension Liability (a) - (b)
Balances at June 30, 2014	$ 11,856,894	$ 8,161,556	$ 3,695,338	$ 996,690	$ 625,562	$ 371,128
Changes for the year						
Service cost	207,731	-	207,731	18,341	-	18,341
Interest	808,180	-	808,180	67,977	-	67,977
Differences between expected and actual experience	-	-	-	-	-	-
Contributions - employer	-	193,177	(193,177)	-	42,683	(42,683)
Contributions - employee	-	111,448	(111,448)	-	5,646	(5,646)
Net investment income	-	1,262,865	(1,262,865)	-	98,682	(98,682)
Benefit payments, including refunds	(622,936)	(622,936)	-	(51,152)	(51,152)	-
Administrative expense	-	(6,945)	6,945	-	(431)	431
Other changes	-	69	(69)	-	-	-
Net changes	392,975	937,678	(544,703)	35,166	95,428	(60,262)
Balances at June 30, 2015	$ 12,249,869	$ 9,099,234	$ 3,150,635	$ 1,031,856	$ 720,990	$ 310,866

	JRS Increase (Decrease) Total Pension Liability (a)	JRS Plan Fiduciary Net Position (b)	JRS Net Pension Liability (a) - (b)	VaLORS Increase (Decrease) Total Pension Liability (a)	VaLORS Plan Fiduciary Net Position (b)	VaLORS Net Pension Liability (a) - (b)
Balances at June 30, 2014	$ 590,626	$ 388,835	$ 201,791	$ 1,616,994	$ 920,785	$ 696,209
Changes for the year						
Service cost	24,024	-	24,024	43,164	-	43,164
Interest	40,014	-	40,014	110,491	-	110,491
Differences between expected and actual experience	-	-	-	-	-	-
Contributions - employer	-	27,727	(27,727)	-	62,636	(62,636)
Contributions - employee	-	3,051	(3,051)	-	16,622	(16,622)
Net investment income	-	60,833	(60,833)	-	145,526	(145,526)
Benefit payments, including refunds	(37,984)	(37,984)	-	(77,111)	(77,111)	-
Administrative expense	-	(268)	268	-	(632)	632
Other changes	-	-	-	-	-	-
Net changes	26,054	53,359	(27,305)	76,544	147,041	(70,497)
Balances at June 30, 2015	$ 616,680	$ 442,194	$ 174,486	$ 1,693,538	$ 1,067,826	$ 625,712

Component Units

	VRS Increase (Decrease) Total Pension Liability (a)	VRS Plan Fiduciary Net Position (b)	VRS Net Pension Liability (a) - (b)	VaLORS Increase (Decrease) Total Pension Liability (a)	VaLORS Plan Fiduciary Net Position (b)	VaLORS Net Pension Liability (a) - (b)
Balances at June 30, 2014	$ 9,211,757	$ 6,340,806	$ 2,870,951	$ 125,116	$ 71,246	$ 53,870
Changes for the year						
Service cost	161,389	-	161,389	3,340	-	3,340
Interest	627,884	-	627,884	8,549	-	8,549
Differences between expected and actual experience	-	-	-	-	-	-
Contributions - employer	-	150,082	(150,082)	-	4,847	(4,847)
Contributions - employee	-	86,586	(86,586)	-	1,286	(1,286)
Net investment income	-	981,134	(981,134)	-	11,260	(11,260)
Benefit payments, including refunds	(483,966)	(483,966)	-	(5,966)	(5,966)	-
Administrative expense	-	(5,396)	5,396	-	(49)	49
Other changes	-	54	(54)	-	-	-
Net changes	305,307	728,494	(423,187)	5,923	11,378	(5,455)
Balances at June 30, 2015	$ 9,517,064	$ 7,069,300	$ 2,447,764	$ 131,039	$ 82,624	$ 48,415

The amounts in the previous tables include governmental and component unit activity for the Commonwealth's VRS State Plan. The table also excludes the non-VRS State Plan net pension liability of $41.5 million for all other component units and includes the fiduciary net pension liability of $3.3 million.

The 2014 actuarial valuations were prepared using the entry age normal cost method. The actuarial assumptions included (a) 7.0 percent investment rate of return, per year compounded annually; (b) projected salary increases ranging from 3.5 percent to 6.0 percent, including a 2.5 percent inflation component and (c) COLA of 2.5 percent for Plan 1 and 2.3 percent for Plan 2. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

For more detailed actuarial information, refer to the Virginia Retirement System's financial statements, including mortality rates shown in the "Actuarial Assumptions and Methods – Pension Plans" schedule.

F. Changes to and Sensitivity of Discount Rate

The discount rate used to measure the total pension liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be based on the actuarially determined rates based on the Board's funding policy, which certifies the required rates under Title 51.1 of the *Code of Virginia* (1950), as amended. Based in those assumptions, the fiduciary net position was projected to be available to make all of the projected future benefit payments of current plan members. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability. In accordance with GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25,* regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the employers' net pension liability for each of the plans calculated using the discount rate of 7.0 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1.0 percent lower (6.0 percent) or 1.0 percent higher (8.0 percent) than the current rate. The following table (dollars in thousands) shows the Commonwealth's changes in the discount rate.

Primary Government

VRS			**SPORS**		
Net Pension Liability			Net Pension Liability		
1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)	1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)
$ 4,615,433	$ 3,150,635	$ 1,922,363	$ 434,119	$ 310,866	$ 207,412

JRS			**VaLORS**		
Net Pension Liability			Net Pension Liability		
1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)	1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)
$ 230,771	$ 174,486	$ 125,641	$ 854,988	$ 625,712	$ 437,200

Component Units

VRS			**VaLORS**		
Net Pension Liability			Net Pension Liability		
1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)	1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)
$ 3,585,662	$ 2,447,764	$ 1,493,604	$ 66,151	$ 48,415	$ 33,833

The long-term expected rate of return on the System's investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocations are based on the Strategic Asset Allocation Implementation Schedule and Allowable Ranges document, which was approved by the VRS Board of Trustees on June 20, 2013. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation are summarized in the following table.

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.5%	6.5%	1.3%
Developed Non U.S Equity	16.5%	6.3%	1.0%
Emerging Market Equity	6.0%	10.0%	0.6%
Fixed Income	15.0%	0.1%	0.0%
Emerging Debt	3.0%	3.5%	0.1%
Rate Sensitive Credit	4.5%	3.5%	0.2%
Non Rate Sensitive Credit	4.5%	5.0%	0.2%
Convertibles	3.0%	4.8%	0.1%
Public Real Estate	2.2%	6.1%	0.1%
Private Real Estate	12.8%	7.1%	0.9%
Private Equity	12.0%	10.4%	1.3%
Cash	1.0%	-1.5%	0.0%
Total	100.0%		5.8%
	Inflation		2.5%
	* Expected arithmetic nominal return		8.3%

The allocation in the previous table provides a one-year expected return of 8.3 percent. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the pension system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.4 percent, including expected inflation of 2.5 percent.

G. Pension Related Deferred Outflows and Deferred Inflows

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, require certain pension related items to be reported as either deferred outflows or deferred inflows of resources. The following table (dollars in thousands) summarizes these amounts as of June 30, 2015.

Primary Government

	VRS		SPORS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -	$ -	$ -
Changes of assumptions	-	-	-	-
Net difference between projected and actual earnings on plan investments	-	578,735	-	44,006
Changes in proportion and difference between employer contributions and proportionate share of contributions	42,240	44,879	-	-
Employer contributions subsequent to the Measurement Date	270,918	-	28,417	-
Total	$ 313,158	$ 623,614	$ 28,417	$ 44,006

	JRS		VALORS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -	$ -	$ -
Changes of assumptions	-	-	-	-
Net difference between projected and actual earnings on plan investments	-	27,102	-	63,975
Changes in proportion and difference between employer contributions and proportionate share of contributions	-	-	10,796	10,623
Employer contributions subsequent to the Measurement Date	31,561	-	55,359	-
Total	$ 31,561	$ 27,102	$ 66,155	$ 74,598

Component Units

	VRS		VaLORS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -	$ -	$ -
Changes of assumptions	-	-	-	-
Net difference between projected and actual earnings on plan investments	-	420,511	-	5,855
Changes in proportion and difference between employer contributions and proportionate share of contributions	35,270	32,632	799	972
Employer contributions subsequent to the Measurement Date	207,317	-	4,465	-
Total	$ 242,587	$ 453,143	$ 5,264	$ 6,827

Additionally, during fiscal year 2015, the Commonwealth recognized pension expense for primary government and component units of $315,517 (dollars in thousands) and $174,347 (dollars in thousands), respectively. The component unit amounts include deferred outflows of resources and deferred inflows of resources of $4,604 (dollars in thousands) and $13,169 (dollars in thousands), respectively, not related to the VRS State Plan.

Deferred Amounts to be Recognized in Fiscal Years Following Reporting Date

The following tables (dollars in thousands) provide the net estimated amount of the deferred inflows and deferred outflows of resources that will be recognized in the Commonwealth's pension expense for each of the next five fiscal years.

Primary Government

	VRS	SPORS	JRS	VaLORS
2016	$ (144,684)	$ (11,001)	$ (6,775)	$ (15,994)
2017	(144,684)	(11,001)	(6,775)	(15,994)
2018	(144,684)	(11,001)	(6,775)	(15,994)
2019	(144,683)	(11,003)	(6,777)	(15,993)
2020	-	-	-	-

Component Units

	VRS	VaLORS
2016	$ (105,128)	$ (1,464)
2017	(105,128)	(1,464)
2018	(105,128)	(1,464)
2019	(105,127)	(1,463)
2020	-	-

H. Defined Contribution Plan for Political Appointees

Officers appointed by the Governor, officers elected by popular vote or the General Assembly, and executive branch chief deputies and confidential assistants may participate in the deferred contribution plan for Political Appointees, rather than the VRS. This optional retirement plan is authorized by the *Code of Virginia* and offered through the ICMARC. This is a defined contribution plan where the retirement benefits are based upon the Commonwealth's 12.3 percent and the employee's (5.0 percent) contributions, plus interest and dividends. The Commonwealth pays the required employee contributions. During the year ended June 30, 2015, the total contributions to this plan were $1.3 million.

The summary of significant accounting policies for the plan is in accordance with those discussed in Note 15. B.

I. Defined Contribution Plan for Public School Superintendents

The Public School Superintendent Plan is a defined contribution pension plan that provides optional postemployment benefits for school superintendents. This plan is authorized by the *Code of Virginia*. The Board of Trustees of the System manages the investments of the fund as custodian. School boards may elect to offer this plan as an option to the standard VRS plan that is available for school board members. Contributions are provided by the school board for credit to the member. At June 30, 2015, there were four participants in this plan. Total contributions to the plan for fiscal year 2015 were $79,811.

J. Virginia Supplemental Retirement Plan

The Public School Teacher Supplemental Retirement Plan is a defined contribution pension plan established by the Department of Education to provide an optional postemployment benefit plan for turnaround specialists in the public school system. This plan is utilized as an incentive to attract highly skilled teachers for participating public schools pursuant to the *Code of Virginia* by Title 51.1-617. The Board of Trustees of the System manages the investments of the fund as custodian. School boards may elect to offer this plan as an option to the standard VRS plan that is available for school board members. Contributions are provided by the school boards for credit to the members. At June 30, 2015, there were two participants in this plan. There were no contributions to the plan for fiscal year 2015.

K. Higher Education Fund (Nonmajor Component Unit)

The Commonwealth's colleges and universities participate in the retirement plans administered by VRS. In addition, full-time faculty and certain administrative staff of the Commonwealth's colleges and universities may participate in optional retirement plans as authorized by Section 51.1-126 of the *Code of Virginia* rather than the VRS retirement plans. These optional retirement plans are defined contribution plans offered through Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF), and Fidelity Investments Tax-Exempt Services Company. There are two defined contribution plans. Plan 1 is for employees hired prior to July 1, 2010, and retirement benefits received are based upon the employer's 10.4 percent contributions, plus net investment gains. Plan 2 is for employees hired on or after July 1, 2010, and retirement benefits received are based upon the employer's 8.5 percent not to exceed 8.9 percent contribution and the employee's 5.0 percent contribution, plus net investment gains. For Plan 2, the employer contributions for fiscal year 2015 were 8.5 percent except the employer contributions for the University of Virginia (nonmajor) were 8.9 percent. Vesting is full and immediate for both employer and employee contributions. For fiscal year 2015, total pension expense recognized was $137.4 million. For fiscal year 2015, contributions were calculated using the base salary amount of $1.4 billion.

University of Virginia Medical Center (part of the University of Virginia – nonmajor) employees hired after July 1, 1999, cannot participate in Plan 1 or Plan 2 noted above but have the option of participating in the Medical Center's Optional Retirement Plan. For information regarding this plan, see the institution's individually published financial statements.

Prior to July 1, 1997, certain employees of the Virginia Commonwealth University Health System Authority (Authority) (a blended component unit of Virginia Commonwealth University – nonmajor) were eligible to participate in the VRS pension plan.

Effective July 1, 1997, the Authority established the Virginia Commonwealth University Health System Authority Defined Contribution Plan. The Authority has also established the Virginia Commonwealth University Health System Authority Health Care Providers Defined Contribution Plan. The Authority and the MCV Associated Physicians (MCVAP – a component unit of the Authority) sponsor the VCUHS Savings Plan (VCUHS 457(b) plan). MCVAP also sponsors the VCUHS 401(a) Retirement Plan and the MCVAP 401(a) Retirement Plan. VA Premier (a component unit of the Authority) adopted a 401(k) plan. For information regarding these plans, see the Authority's individually published financial statements.

Effective January 1, 1997, James Madison University (nonmajor) established a Supplemental Retirement Plan for tenured faculty members. The plan is a qualified plan within the meaning of section 401(c) of the Internal Revenue Code of 1986 (the Code) and is a governmental plan within the meaning of section 414(d) of the Code. For information regarding this plan, see the University's individually published financial statements.

The Center for Innovative Technology (CIT) is a blended component unit of the Innovation and Entrepreneurship Investment Authority (nonmajor). The CIT has a defined contribution retirement plan covering substantially all employees. Under the plan, CIT makes contributions fixed at a percentage of each employee's compensation to pay premiums for individual retirement annuity contracts written by TIAA-CREF. For information regarding this plan, see the Authority's individually published financial statements.

L. Other Component Units

Note 1.B. outlines the component units included in the Commonwealth's reporting entity. The Virginia Public Building Authority (blended - primary government), the Virginia Public School Authority (major), the Virginia College Building Authority (major), the Virginia University Research Partnership (nonmajor), and the Virginia School for the Deaf and Blind Foundation (nonmajor) have no employees. Virginia Resources Authority (major) and the following nonmajor component units participate in the retirement plans administered by VRS: the Virginia Economic Development Partnership, the Virginia Small Business Financing Authority, the Hampton Roads Sanitation District Commission, the Virginia Biotechnology Research Partnership Authority, the Virginia Tourism Authority, the Tobacco Indemnification and Community Revitalization Commission, the Virginia Foundation for Healthy Youth, and the Fort Monroe Authority.

The Virginia Housing Development Authority (major) has two defined contribution plans and incurs employment retirement savings expense under these plans equal to between 8.0 and 11.0 percent of full-time employees' compensation. For additional information regarding these plans, see the Authority's individually published financial statements.

The Virginia Outdoors Foundation (nonmajor) maintains a 401(k) contribution plan and provides an employer contribution to all eligible employees of 2.0 percent of their salary. Employees can contribute to the plan up to the IRS limit and the Foundation will match up to an additional 2.0 percent for a maximum of 4.0 percent of an employees' contribution. For information regarding this plan, see the Foundation's individually published financial statements.

The Virginia Commercial Space Flight Authority (nonmajor) maintains a 401(a) contribution plan and provides an employer contribution to all eligible employees of 11.0 percent of their base salary. For information regarding this plan, see the Authority's individually published financial statements.

The Virginia Port Authority (VPA) (nonmajor) maintains two defined benefit plans for its employees. Employees of record on July 1, 1997, had the option of continuing to maintain their benefit status as a State employee, and their benefits maintained under the VRS, or elect to be covered under a newly created pension plan (the VPA Defined Benefit Plan). The VPA Defined Benefit Plan covers all employees hired between July 1, 1997 and February 1, 2014. Employees hired after February 1, 2014 are eligible for a defined contribution plan only. The Virginia International Terminals (VIT) (a blended component unit of VPA – nonmajor) has a Virginia International Terminals, LLC Pension Plan that is a single employer, noncontributory defined benefit pension plan administered by VIT. VIT also sponsors noncontributory supplemental plans covering certain key employees. For information regarding this plan, see the Authority's individually published financial statements.

Employees of the Virginia Museum of Fine Arts Foundation (nonmajor) who are age 21 or older are eligible to participate in the Employee's Savings Plan, a 401(k) defined contribution profit sharing plan. Also, the Foundation entered into a supplemental retirement agreement to pay a key employee of the Museum upon retirement the difference between the amount accrued under the VRS retirement plan, based on salary, and the amount based on the supplemental salary. For additional information regarding these plans, see the Foundation's individually published financial statements.

The Science Museum of Virginia Foundation (nonmajor) has a 403(b) defined contribution pension plan through the Teachers Insurance and Annuity Association (TIAA) and the College Retirement Equities Fund (CREF) Retirement Plan for employees meeting age and service requirements. For additional information regarding this plan, see the Foundation's individually published financial statements.

16. OTHER EMPLOYMENT BENEFITS

In addition to the pension plans, the Commonwealth participates in two other employment benefit plans, Group Life Insurance and the Virginia Sickness and Disability Program, which are administered by the Virginia Retirement System (the System). The System administers a third other employment benefit plan, the Volunteer Firefighters' and Rescue Squad Workers' Fund, in which the Commonwealth does not participate, but may provide funding. The significant accounting policies for all three plans are the same as those described in Note 15 for pension plans. A separately issued financial report that includes financial statements for the Group Life Insurance and Virginia Sickness and Disability Program is publicly available. Copies may be obtained by writing to the Virginia Retirement System, P. O. Box 2500, Richmond, Virginia 23218-2500.

Group Life Insurance

The Group Life Insurance Plan was established for Commonwealth employees, teachers, employees of political subdivisions participating in the VRS, state police officers, other state law enforcement and correctional officers, judges, and other qualifying employees. The program provides life insurance for natural death coverage equal to a member's annual compensation rounded to the next highest $1,000 and then doubled. Accidental death coverage is double the natural death benefit. The program also provides coverage for accidental dismemberment and accidental blindness, a safety belt benefit, a repatriation benefit, a felonious assault benefit and an accelerated death benefit for terminal conditions. Approximately 358,323 members participate in the program at June 30, 2015.

Participating employers and their covered employees are required by Title 51.1 of the *Code of Virginia*, as amended, to contribute to the cost of group life insurance benefits. Employers may assume the employees' contributions.

An optional Group Life Insurance Fund was established for members covered under the group life program as a supplement to that plan. Members may purchase optional life insurance coverage for themselves, their spouses and/or their dependent children. The optional program provides natural death coverage equal to one, two, three or four times the member's annual compensation rounded to the next highest $1,000, up to a maximum of $750,000. Spouse coverage is available for up to one-half of the member's optional insurance amount. Minor children who are at least 15 days old can be insured for $10,000, $20,000 or $30,000, depending on the option chosen by the member. An additional accidental death and dismemberment benefit is payable for death or bodily injuries. Approximately 66,882 members were covered under this program at June 30, 2015.

Optional group life insurance coverage ends for members when they retire or terminate their employment, or when their basic coverage ends. Optional life insurance amounts begin to reduce by 25.0 percent based on the retiree's age, beginning with the retiree's normal retirement age under his or her plan ending at age 80. Retirees may elect to continue coverage within 31 days of retirement. Spouse coverage terminates should a couple divorce or when the member leaves employment. Children's coverage ends with the termination of the member's coverage or when the child marries or turns 21 years of age (25 years of age for full-time college students).

Employers of members who elect optional life insurance coverage deduct the premiums from the members' paychecks, as required by Title 51.1 of the *Code of Virginia*, as amended. Premiums are based on the member's age and determined by the Board of Trustees. Because optional life insurance is an insured product, the carrier bills each employer directly, and the employer makes the contribution payments to the carrier. Any differences and adjustments are settled between the employer and the carrier.

Virginia Sickness and Disability Program

The System administers the Virginia Sickness and Disability Program (VSDP) to provide income protection in the event of a disability for eligible state employees hired on or after January 1, 1999. State agencies are required by Title 51.1 of the *Code of Virginia* to contribute to the cost of providing long-term disability benefits and administering the program.

VSDP benefits include sick, family and personal leave and short-term and long-term disability benefits. After a seven-calendar day waiting period following the first day of disability, eligible employees receive short-term disability benefits from 60.0 percent to 100.0 percent of their compensation. After 125 work days of short-term disability, eligible employees receive long-term disability benefits equal to 60.0 percent of their compensation. If the employee's condition becomes catastrophic, income replacement increases to 80.0 percent until the condition is no longer catastrophic. Long-term disability benefits continue until employees return to work, retire or reach age 65 (age 60 for state police officers and other state law enforcement and correctional officers) or die.

Full-time permanent salaried state employees, including state police officers and other Virginia law and correctional officers, are automatically enrolled in the VSDP. Part-time permanent salaried state employees who work at least 20 hours a week and accrue leave also are automatically enrolled. Teaching, administrative and research faculty of Virginia public colleges and universities who elect VRS as their retirement plan must make an irrevocable election to participate in either the VSDP or the institution's disability program. If there is no institution program, the faculty member is covered under VSDP.

Eligible state employees and state police officers employed before January 1, 1999, had the option to elect to participate in the VSDP or remain under the Commonwealth's existing sick leave program and retain their eligibility for disability retirement benefits under VRS and SPORS. (Members of VaLORS have been automatically enrolled in the VSDP since October 1, 1999, when VaLORS was created.) Eligible employees enrolled in the VSDP are not eligible for disability retirement benefits under VRS, SPORS, or VaLORS. Employees hired or rehired on or after July 1, 2009, must satisfy eligibility periods before becoming eligible for non-work related short-term disability coverage and certain income replacement levels. Approximately 73,986 members were covered under the program at June 30, 2015.

Volunteer Firefighters' and Rescue Squad Workers' Fund

Volunteer firefighters and rescue squad workers may participate in an optional employment benefit plan. This optional plan is authorized by the *Code of Virginia*. The Board of Trustees of the System manages the investments of the fund as custodian. Members of the plan contribute $30 per quarter. The Commonwealth will contribute an amount determined by the Board and appropriated by the General Assembly, if such funds are appropriated, for a period not to exceed 20 years. For fiscal year 2015, there were no monies appropriated for administration of the program. At June 30, 2015, there were 1,789 workers participating in the fund.

17. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. Virginia Retirement System (The System) Administered Plans

The Governmental Accounting Standards Board (GASB) issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which requires additional reporting and disclosures for OPEB plans. The statement became effective for System-administered OPEB plans beginning with the fiscal year ended June 30, 2007. The assets and actuarial accrued liabilities for the following other postemployment benefits were determined through an actuarial valuation performed as of June 30, 2014, by Millman, Inc. for the long-term care component of the Disability Insurance Trust Fund and by Cavanaugh MacDonald Consulting, LLC, and are presented in the Required Supplemental Schedule of Funding Progress for Other Postemployment Benefit Plans. The significant accounting policies for all five plans are the same as those described in Note 15 for pension plans and a separately issued report is available as previously discussed.

Group Life Insurance Benefits

Employees who retire or terminate from service after age 50 with at least ten years of service credit or at age 55 with at least five years of service credit (age 50 for vested state police officers, other state law enforcement and correctional officers and hazardous duty employees of participating political subdivisions), or who retire because of disability, are entitled to postemployment group life insurance benefits. Employees enrolled in JRS who retire or terminate from service after age 60 with at least 30 years of service credit or at age 65 with at least five years of service credit are entitled to postemployment group life insurance benefits. At retirement or termination, accidental death benefits cease and natural death coverage reduces at a rate equal to 25.0 percent on January 1 of the first full calendar year following retirement or termination and on January 1 of each year thereafter, until it reaches 25.0 percent of its original value. These group life insurance benefit provisions and requirements are established by Title 51.1 of the *Code of Virginia*. There were approximately 163,482 retirees in the Basic Group Life Insurance Program and 2,764 retirees were covered under the Optional Group Life Insurance Program in fiscal year 2015.

Since 1960, when the group life insurance program was established, a portion of the premium contributions collected during members' active careers has been placed in an advance premium deposit reserve. This reserve was established to pre-fund death benefits to members after retirement.

Employers providing life insurance benefits are part of a cost-sharing pool. Therefore, separate measurements of assets and actuarial accrued liabilities are not made for individual employers participating in the program.

Retiree Health Insurance Credit Program

The Retiree Health Insurance Credit Program was established on January 1, 1990, to provide benefits for retired state employees, state police officers, other state law enforcement and correctional officers and judges who have at least 15 years of service credit under the retirement plans. The program provides a credit reimbursement of $4 per month per year of service credit against the monthly health insurance premiums of eligible retirees.

A similar program was established on July 1, 1993, to provide a health insurance credit for retired teachers and employees of participating political subdivisions with at least 15 years of service credit under the retirement plans. Retired teachers are eligible for a monthly credit of $4 per month per year of service credit. Local government retirees may receive a maximum credit of $1.50 per month per year of service with a maximum monthly credit of $45.

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 of the *Code of Virginia*. The amount required to fund all credits is financed by the employers based on contribution rates determined by the System's actuary. Approximately 112,053 retired members were covered under this program at June 30, 2015. The Retiree Health Insurance Credit Program is an agent, multiple-employer defined benefit OPEB plan.

Disability Insurance Trust Fund

The Commonwealth provides OPEB disability insurance benefits, in accordance with state statutes, to eligible retired and terminated employees. State agencies are required by Title 51.1 of the *Code of Virginia* to contribute to the cost of providing long-term disability benefits and administering the program. There were approximately 2,860 former members receiving benefits from the program during fiscal year 2015. The Disability Insurance Trust Fund is a single-employer defined benefit OPEB plan.

Line of Duty Death and Disability

The Commonwealth provides death and health benefits to the beneficiaries of certain law enforcement and rescue personnel disabled or killed in the line of duty. A trust fund has been established to account for this activity. Benefit provisions and eligibility requirements are established by Title 9.1 Chapter 4 of the *Code of Virginia*. The significant accounting policies for this plan are the same as those described in Note 15 for pension plans. There were approximately 937 retirees and 945 other participants in the program in fiscal year 2015. The Line of Duty Death and Disability Program is a cost-sharing, multiple-employer defined benefit OPEB plan. The employer contribution rate was determined by the System's actuary using the anticipated costs and the number of covered individuals associated with all of the covered employers. Additionally, the Department of Accounts provides certain administrative support in claims administration.

Virginia Local Disability Program

The Virginia Local Disability Program (VLDP) was a new program for the System in fiscal year 2014. The program provides eligible local government employees who are members of the Hybrid retirement plan with sick, family and personal leave and short-term and long-term disability benefits for non-work-related and work-related illnesses and injuries. The System is responsible for administering the disability program and the payment of long-term disability benefits. Local employers are responsible for administering the leave program and the payment of short-term disability benefits.

During fiscal year 2015, the System collected contributions for eligible employees and implemented the structure for administering the program going forward. At June 30, 2015, there were 5,666 participants in the program.

B. Pre-Medicare Retiree Healthcare

The Commonwealth provides a healthcare plan established by Title 2.2, Chapter 28 of the *Code of Virginia* for retirees who are not yet eligible to participate in Medicare. For a retiree to participate in the Plan, the participant must be eligible for a monthly annuity from the VRS or a periodic benefit from one of the qualified Optional Retirement Plan (ORP) vendors, and:

- be receiving (not deferring) the annuity or periodic benefit immediately upon retirement;
- have his or her last employer before retirement be the state;
- be eligible for coverage as an active employee in the State Health Benefits Program until his or her retirement date (not including Extended Coverage); and,
- have submitted within 31 days of his or her retirement date an Enrollment Form to his or her Benefits Administrator to enroll.

This fund is reported as part of the Commonwealth's Healthcare Internal Service Fund. The significant accounting policies for this plan are the same as those described in Note 15 for pension plans. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan and is administered by the Department of Human Resource Management. There were approximately 6,835 retirees in the program in fiscal year 2015.

C. Annual OPEB Cost and Net OPEB Obligation

The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which required additional reporting and disclosures for OPEB plans beginning with the fiscal year ending June 30, 2008. The Commonwealth calculated an OPEB liability as of June 30, 2015 for each of the five OPEB plans covering Commonwealth employees. The Retiree Health Insurance Credit Fund, Disability Insurance Trust Fund, and Pre-Medicare Retiree Healthcare OPEB liabilities were \$182.3 million, \$191.1 million, and \$1.1 billion, respectively. These amounts are reported in the accompanying financial statements as a component of Long-Term Liabilities Due in More than One year. There is no liability for the Group Life Insurance Fund or Line of Duty Death and Disability.

The following table (dollars in thousands) shows the Commonwealth's annual OPEB cost and net OPEB obligation (asset) for the current and prior years.

	Group Life Insurance Fund			Retiree Health Insurance Credit Fund		
	2015	2014	2013	2015	2014	2013
Annual required contribution	$ 63,778	$ 63,250	$ 60,457	$ 81,253	$ 72,322	$ 67,804
Interest on net OPEB obligation	-	-	-	11,437	10,515	9,626
Adjustment to annual required contribution	-	-	-	(9,911)	(9,092)	(8,336)
Annual OPEB cost	63,778	63,250	60,457	82,779	73,745	69,094
Contributions made	(63,778)	(63,250)	(60,457)	(64,025)	(60,219)	(56,636)
Increase in net OPEB obligation	-	-	-	18,754	13,526	12,458
Net OPEB obligation, beginning of year	-	-	-	163,552	150,026	137,568
Net OPEB obligation, end of year	$ -	$ -	$ -	$ 182,306	$ 163,552	$ 150,026
Percentage of annual OPEB cost contributed	100.0%	100.0%	100.0%	77.3%	81.7%	82.0%

	Disability Insurance Trust Fund			Line of Duty Death and Disability		
	2015	2014	2013	2015 (3)	2014 (2)	2013 (1)
Annual required contribution	$ 36,831	$ 30,302	$ 29,862	$ 6,122	$ 6,486	$ 5,925
Interest on net OPEB obligation	12,315	11,262	10,247	-	-	-
Adjustment to annual required contribution	(10,681)	(9,763)	(8,900)	-	-	-
Annual OPEB cost	38,465	31,801	31,209	6,122	6,486	5,925
Contributions made	(23,642)	(16,644)	(16,986)	(6,122)	(6,486)	(5,925)
Increase in net OPEB obligation	14,823	15,157	14,223	-	-	-
Net OPEB obligation, beginning of year	176,273	161,116	146,893	-	-	-
Net OPEB obligation, end of year	$ 191,096	$ 176,273	$ 161,116	$ -	$ -	$ -
Percentage of annual OPEB cost contributed	61.5%	52.3%	54.4%	100.0%	100.0%	100.0%

	Pre-Medicare Retiree Healthcare		
	2015	2014	2013
Annual required contribution	$ 206,590	$ 198,451	$ 182,566
Interest on net OPEB obligation	36,398	30,013	23,274
Adjustment to annual required contribution	(37,762)	(31,007)	(24,117)
Annual OPEB cost	205,226	197,457	181,723
Contributions made	(35,028)	(34,229)	(15,479)
Increase in net OPEB obligation	170,198	163,228	166,244
Net OPEB obligation, beginning of year	911,695	748,467	582,223
Net OPEB obligation, end of year	$ 1,081,893	$ 911,695	$ 748,467
Percentage of annual OPEB cost contributed	17.1%	17.3%	8.5%

(1) During fiscal year 2013, the required annual contributions of $5.9 million were paid by the Commonwealth. Additionally, the loan increased to $14.9 million that will be repaid in future periods with contributions received.
(2) During fiscal year 2014, the required annual contributions of $6.5 million were paid by the Commonwealth. Additionally, the loan decreased to $8.3 million that will be repaid in future periods with contributions received.
(3) During fiscal year 2015, the required annual contributions of $6.1 million were paid by the Commonwealth.

The amounts in the previous table include Governmental and Component Unit activity for which the Commonwealth is considered the employer. It does not include the OPEB liability for the following nonmajor component units: the Virginia Economic Development Partnership, the Virginia Tourism Authority, the Fort Monroe Authority, and the Virginia Outdoors Foundation of $2.0 million, $1.1 million, $349,553, and $56,475, respectively. The table also excludes non-Commonwealth sponsored OPEB liabilities of $48.5 million for all other component units and includes the fiduciary OPEB liability of $589,370.

The annual required contributions for the current year were determined during the actuarial valuations conducted as of June 30, 2013, as that is the most recent report that reflects the current funding policies. Employer contributions by the Commonwealth for Group Life Insurance, Retiree Health Insurance Credit and Disability Insurance were 1.2 percent, 1.0 percent, and 0.7 percent, respectively, of covered payrolls for fiscal year 2015. The valuations were prepared using the entry age normal cost method for all plans except for the Disability Insurance trust fund and the Line of Duty Act trust fund for which the Projected Unit Credit actuarial cost method was used. The Pre-Medicare Retiree Healthcare plan uses a 4.0 percent investment rate of return, per year compounded annually, which approximates the projected rate of return on the State Treasurer's Portfolio. The Group Life Insurance, Retiree Health Insurance Credit and Disability Insurance use a 7.0 percent investment rate of return, per year compounded annually. The Line of Duty Act trust fund uses a 4.8 percent rate of return compounded annually. The actuarial assumptions for all but the Pre-Medicare Retiree Healthcare plan included a projected salary increase of 3.0 percent, including a 2.5 percent inflation component. Valuation techniques were applied to smooth the effects of short-term volatility in the market value of investments over a five year period. The actuarial assumptions for the Pre-Medicare Retiree Healthcare plan as to current claim cost, projected increases in health insurance costs, mortality, turnover, retirement, disability and discount rate include (a) projected salary increases ranging from 3.8 percent to 5.6 percent, including a 2.5 percent inflation component; and, (b) assumption that there is no liability associated with those retirees eligible for Medicare, as costs for members aged 65 and older are not subsidized by the active population (no implicit subsidy), participants pay 100.0 percent of the costs, and the liability associated with the health insurance credit is measured and held by the Virginia Retirement System. Initial healthcare costs trend rates used were 10.0 percent, 11.0 percent, and 6.0 percent for medical, pharmacy, and dental benefits, respectively. The ultimate trend rates used were 5.0 percent, 5.0 percent, and 4.0 percent for medical, pharmacy, and dental benefits, respectively. The remaining open amortization period at June 30, 2013, was 30 years.

D. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2014, per the most recent actuarial valuation, was as follows:

(Dollars in Millions)

Actuarial Valuation Date June 30	Actuarial Value of Assets [a]	Actuarial Accrued Liability (AAL) [b]	Unfunded AAL (UAAL) [b-a]	Funded Ratio [a/b]	Covered Payroll [c]	UAAL as a Percentage of Covered Payroll [b-a]/[c]
			Group Life Insurance Fund			
2014	$ 992	$ 2,701	$ 1,709	36.7%	$ 17,559	9.7%
			Retiree Health Insurance Credit Fund			
2014	$ 162	$ 2,334	$ 2,172	7.0%	$ 14,956	14.5%
			Disability Insurance Trust Fund			
2014	$ 380	$ 239	$ (141)	159.0%	$ 3,585	(3.9%)
			Line of Duty Death and Disability			
2014	$ 7	$ 226	$ 219	3.1%	N/A	N/A
			Pre-Medicare Retiree Healthcare			
2014	$ -	$ 1,342	$ 1,342	-	$ 4,011	33.5%

Actuarial valuations of ongoing plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future and reflect a long-term perspective. Amounts determined regarding the funded status of the plans and the annual contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing costs between the employer and plan members to that point. The schedule of funding progress presented as required supplementary information following the notes to the financial statements presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

E. Higher Education Fund (Nonmajor Component Unit)

The University of Virginia has a Retiree Health Plan that covers employees who retire before becoming eligible for Medicare until they reach age 65 and can then participate in the Commonwealth's Medicare Supplement Plan. Additional information on this plan can be found in the individually published financial statements of the University.

F. Other Component Units

The Virginia Housing Development Authority (major) has a Retiree Health Care Plan, a single-employer defined benefit plan which is administered through the Virginia Housing Development Authority Retiree Health Care Plan Trust, an irrevocable trust to be used solely for providing benefits to eligible participants. Effective January 1, 2006, eligible retirees must be at least 55 years of age with 15 years of service or at least 55 years of age with 10 years of service if employed by the Authority prior to such date. For the year ended June 30, 2015, the Authority's Annual OPEB cost was $231,871; the percentage of Annual OPEB Cost Contributed was 511.0 percent; and the ending Net OPEB asset was $3.1 million.

Hampton Roads Sanitation District Commission (nonmajor) provides other postemployment benefits for its employees through a single employer defined benefit plan. The plan was established and may be amended by the Commission. The plan furnishes health and dental benefits for life for all employees with at least 15 years of service and who also qualify for an unreduced retirement benefit through the VRS. The plan allows the retiree at their expense to cover their spouse and dependents under the district's health care provider. Contribution requirements are actuarially determined and funding is subject to approval by the Commission. The current rate is 6.0 percent of annual covered payroll. For 2015, the Commission's annual OPEB cost was $2.2 million; the percentage of annual OPEB cost contributed was 100.0 percent.

The Virginia Port Authority (VPA) (nonmajor) offers post retirement medical and dental benefits to employees who retire under either VRS or the VPA pension plan. For employees and their spouses, who are participants in the VPA medical plan, not participants under the state health care plan VRS, benefit provisions and obligations are established and may be amended by the board of commissioners of the Authority. For the year ended June 30, 2015, the Authority's annual OPEB cost was $48,800; contribution towards OPEB cost was $270,227; the percentage of annual OPEB cost contributed was 553.7 percent; and the ending net OPEB asset was $26,718.

18. DEFERRED COMPENSATION PLANS

The Commonwealth offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457(b). The Virginia Retirement System (the System) administers the deferred compensation plan, pursuant to the Government Employees Deferred Compensation Plan Act, Section 51.1, Chapter 6 et seq. of the *Code of Virginia*. The System contracts with private corporations or institutions subject to the standards set forth in the *Code* to provide investment products as well as any other goods and services related to the administration of the deferred compensation plan. The Department of Accounts is responsible for the accounting, reconciliation, payment to the plan through payroll deductions, and timely transfer of withheld funds to the trustee designated by the System for investment. The plan provides a number of investment options and is designed so that each participant retains investment control of his/her individual account. The plan, available to all state employees, permits them to defer a portion of their salary until future years. The deferred compensation is held in trust for the exclusive benefit of plan participants and their beneficiaries and is not available to employees until termination, retirement, death, unforeseeable emergency, or an in-service distribution at age 70 ½ or later. Since the System has no fiduciary relationship with plan participants, plan assets at June 30, 2015, of $2.1 billion are not included in the financial statements.

In addition, the Commonwealth provides a cash match under Internal Revenue Code Section 401(a) for employees participating in the deferred compensation plan. The match amount for an employee was established at 50.0 percent of the voluntary contributions to the deferred compensation plan. During the current fiscal year, the maximum match was $20 per pay period or $40 per month. The fair value of assets in the cash match savings plan at June 30, 2015, was $369.8 million, which is also excluded from the financial statements.

Most employees of the Commonwealth's colleges and universities may participate in the Commonwealth's deferred compensation plan in accordance with Internal Revenue Code Section 457(b) and/or the institution's deferred compensation plan in accordance with Internal Revenue Code Section 403(b). Under either plan, the institution's cash match under the Internal Revenue Code Section 401(a) during fiscal year 2015 was a maximum match up to $20 per pay period or $40 per month. This employer match is for either plan but not both plans. Employer contributions under these plans were approximately $13.7 million for fiscal year 2015.

The deferred compensation plan for the University of Virginia Medical Center (part of the University of Virginia – nonmajor component unit) employees hired on or after September 30, 2002, allows employee contributions up to 4.0 percent of their salary and the employer match is 50.0 percent of the 4.0 percent deferral not to exceed 2.0 percent of the employees' salary. Employer contributions under this plan were approximately $2.5 million for fiscal year 2015.

The Virginia Housing Development Authority (major component unit) and the Virginia Resources Authority (major component unit) have deferred compensation plans available to all employees created in accordance with Internal Revenue Section 457(b). The plan permits participants to defer a portion of their salary or wage until future years. The deferred compensation is not available to employees until termination, retirement, or death. The assets of the plan are in an irrevocable trust with an external trustee and, accordingly, no assets or liabilities are reflected in the financial statements.

The Assistive Technology Loan Fund Authority (nonmajor component unit) employees contribute an amount of their choosing into Deferred Compensation Plans administered by the Virginia Retirement System and into a qualified 403(b) plan.

The Virginia Port Authority (VPA) (nonmajor component unit) offers three deferred compensation plans and two matching savings plans under Internal Revenue Code Sections 457 and 401(a), respectively. Employees who maintain status under VRS are covered under the deferred compensation plan administered by the System. The VPA deferred compensation plan covers all employees hired between July 1, 1997 and February 1, 2014, and those employees electing coverage under the authority's deferred compensation plan. Employees hired after February 1, 2014, are eligible for a defined contribution plan. In January 2014, the VPA Board of Commissioners voted to amend the VPA Defined Benefit Plan to freeze participation and to provide that no new participants shall be admitted or readmitted after January 28, 2014. The VPA also offers a matching savings plan that covers substantially all employees. The matching savings plan requires the VPA to match contributions in an amount equal to half of the first 6.0 percent of the participant's base pay contributed to the plan. The VPA's total contribution to the matching savings plan was $115,081 for the fiscal year ended June 30, 2015. Employees transferring to the VPA from Virginia International Terminals, LLC (VIT) (a blended component unit of the VPA), as part of the Port of Virginia (POV) restructure or shared services agreement, that had been hired by the VIT prior to July 1, 2012, and were active participants of the VIT's pension plan at the time of the transfer, and are not eligible for the Enhanced Defined Contribution plan, are eligible for a matching contribution in an amount equal to half of the first 3.0 percent of compensation contributed to the deferred compensation plan. The VPA's total contribution to the matching savings plan for the VIT plan participants was $15,915 for the fiscal year ended June 30, 2015. Further, the rights to modify, alter, amend, or terminate the deferred compensation plan and matching savings plan rests with the VPA Board of Commissioners.

The third deferred compensation plan and second matching savings plan covers substantially all non-union employees with 90 days or more of service. The matching savings plan requires the VPA to match employee contributions in an amount equal to half of the first 3.0 percent of the participant's base pay contributed to the deferred compensation plan. The VPA's total contribution to the matching savings plan was $366,389 for the fiscal year ended June 30, 2015.

19. STATE NON-ARBITRAGE POOL

The Commonwealth sponsors the Virginia State Non-Arbitrage Program (SNAP) for use by the Commonwealth and local governments to invest bond proceeds. The Commonwealth's responsibility is limited to hiring service providers to manage SNAP. The investment manager and the custodian have the fiduciary responsibility for SNAP.

The SNAP fund is a class of the PFM Funds Prime Series, a money market mutual fund registered with the Securities and Exchange Commission. PFM Funds is a diversified, open-end management investment company organized as a Virginia business trust. Shares of the SNAP fund are solely available to investors participating in the SNAP program. The PFM Funds Board of Trustees has overall responsibility for supervising the SNAP fund's business and affairs, including the oversight of organizations providing investment advisory, administration, and distribution services to the SNAP fund. PFM Asset Management LLC serves as the investment adviser of the SNAP fund. The SNAP individual investment portfolios are the responsibility of the SNAP investment manager and the governments investing proceeds in the portfolios. These investments are held solely in the SNAP participants' names. Since the Commonwealth has no fiduciary relationship with local governmental entities participating in the plan, these assets of $2.2 billion are not included in the financial statements.

20. COMMITMENTS

A. Construction Projects

Primary Government

Highway Projects

At June 30, 2015, the Department of Transportation had contractual commitments of approximately $3.6 billion for construction of various highway projects. Funding for these expenditures is expected to be provided as follows: (1) federal funds – approximately 25.0 percent or $905.0 million, (2) state funds – approximately 68.0 percent or $2.4 billion, and (3) Proceeds from Bonds – approximately 7.0 percent or $254.0 million.

Mass Transit Projects

At June 30, 2015, the Department of Rail and Public Transportation had contractual commitments of approximately $315.2 million for various public transportation, rail preservation, and rail enhancement projects. Funding of the future expenditures is expected to be as follows: 1) State funds – approximately 65.3 percent or $206.0 million, and 2) Federal funds – approximately 34.7 percent or $109.2 million.

Wastewater Treatment Projects

At June 30, 2015, the Department of Environmental Quality was committed to grant contracts with localities to reimburse a portion of construction costs for nutrient reduction facilities at wastewater treatment plants totaling $102.6 million provided by bond proceeds and the Water Quality Improvement Fund.

Other Construction Projects

At June 30, 2015, the Department of Behavioral Health and Developmental Services had construction commitments of approximately $45.4 million.

At June 30, 2015, the Department of General Services had construction commitments of approximately $33.8 million for renovations to the Ninth Street Office Building.

At June 30, 2015, the Department of Conservation and Recreation had construction commitments of approximately $15.4 million.

At June 30, 2015, the Department of Forensic Science had contractual commitments of approximately $12.7 million and non-contractual commitments of $920,998 for construction contracts.

At June 30, 2015, the Department of Veterans Services had construction commitments of approximately $7.7 million for an addition to the Sitter and Barfoot Veterans Care Center.

At June 30, 2015, the Jamestown-Yorktown Foundation had construction commitments of approximately $7.3 million for the Yorktown Museum Project.

At June 30, 2015, the Department of Military Affairs had construction commitments of approximately $4.7 million.

Component Units

Port Projects

At June 30, 2015, the Virginia Port Authority (nonmajor) was committed to construction contracts totaling $93.6 million.

Wallops Island Project

At June 30, 2015, the Virginia Commercial Space Flight Authority (nonmajor) was committed to construction programs totaling $11.0 million.

Treatment Plant

At June 30, 2015, the Hampton Roads Sanitation District Commission (nonmajor) was committed to construction contracts totaling $166.8 million.

Higher Education Institutions

Colleges and universities (nonmajor) had contractual commitments as of June 30, 2015, of approximately $762.8 million primarily for construction contracts. Higher education foundations' commitments total approximately $36.0 million and are primarily for construction contracts.

B. Operating Leases

The Commonwealth has entered into numerous agreements to lease land, buildings, and equipment. Most of the operating leases contain the provision that the Commonwealth may renew the operating leases at the expiration date of the lease on a month-to-month basis. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases of a similar nature. Rental expense for the primary government under these operating leases for the year ended June 30, 2015, was $68.8 million for governmental activities (including internal service funds) and $25.5 million for business-type activities. Rental expense for the discrete component units (excluding foundations) for the year ended June 30, 2015, was $153.5 million. The Commonwealth has, as of June 30, 2015, the following minimum rental payments due under the above leases (dollars in thousands):

	Primary Government		
	Governmental Activities	Business-type Activities	Component Units (1)
2016	$ 61,721	$ 23,012	$ 123,204
2017	47,541	17,782	112,221
2018	39,573	13,539	106,638
2019	32,144	9,485	97,073
2020	24,088	5,746	91,020
2021-2025	64,263	9,771	459,206
2026-2030	5,181	-	522,166
2031-2035	1,003	-	3,388
2036-2040	23	-	823
2041-2045	23	-	823
2046-2050	23	-	659
Total	$ 275,583	$ 79,335	$ 1,517,221

Note (1): The above amounts exclude operating lease obligations of foundations.

	Foundations (2)
2016	$ 3,749
2017	2,173
2018	1,554
2019	1,322
2020	1,192
Thereafter	3,578
Total	$ 13,568

Note (2): Foundations represent FASB reporting entities defined in Note 1.B. Rental expense for the year ended June 30, 2015, was approximately $4.5 million.

Lease agreements are for various terms and contain nonappropriation clauses indicating that continuation of the lease is subject to funding by the General Assembly.

C. Investment Commitments – Virginia Retirement System

The Virginia Retirement System extends investment commitments in the normal course of business, which, at June 30, 2015, amounted to $9.0 billion.

D. Virginia Transportation Infrastructure Bank

Section 33.2-1500 of the *Code of Virginia* states the Virginia Transportation Infrastructure Bank is intended to help alleviate a critical financing need for present and future highways within the Commonwealth. This includes toll facilities; mass transit; freight, passenger, and commuter rail; and port, airport and other transportation facilities. As of June 30, 2015, the Department of Transportation had $88.4 million in outstanding loans to the City of Chesapeake for the Dominion Boulevard Project and Loudoun County for the Pacific Boulevard Project coordinated through the Virginia Resources Authority.

E. Tobacco Grants

The Tobacco Indemnification and Community Revitalization Commission (nonmajor component unit) had $136.3 million in grant award commitments not reflected in the accompanying financial statements since eligibility requirements were not met as of June 30, 2015, in accordance with GASB Statement No. 33.

The Virginia Foundation for Healthy Youth (nonmajor component unit) had $8.4 million in grant commitments and outstanding contracts not reflected in these statements since eligibility requirements were not met as of June 30, 2015, in accordance with GASB Statement No. 33.

F. Other Commitments

Primary Government

At June 30, 2015, the Department of Corrections had contractual commitments of approximately $120.4 million and non-contractual commitments of approximately $150.0 million for detention services, medical care, and food services.

At June 30, 2015, the Department of Motor Vehicles had contractual commitments of approximately $31.8 million for security technology services.

At June 30, 2015, the Virginia Department of Health had commitments of approximately $26.4 million to localities, trauma centers, trainers, grants to rescue squads, and water supply assistance grants.

At June 30, 2015, the Virginia Employment Commission had contractual commitments of approximately $9.4 million and non-contractual commitments of approximately $7.7 million for an information systems modernization project. The agency also had $109,146 in other contractual commitments.

The Virginia College Savings Plan (major enterprise fund) administers the Virginia529 prePAID Program. At June 30, 2015, the Program had $240.0 million in private equity commitments.

The Virginia Wireless E-911 (nonmajor enterprise fund) had $4.7 million in outstanding grants awarded but not yet disbursed to localities as of June 30, 2015, since all of the eligibility criteria have not been met in accordance with GASB Statement No. 33.

Component Units

The Virginia Housing Development Authority (major) had $402.3 million in commitments to fund new loans as of June 30, 2015, since all of the eligibility criteria have not been met in accordance with GASB Statement No. 33.

The Virginia Resources Authority (major) was obligated to disburse $120.7 million in loan commitments to various localities and other governmental entities in the Commonwealth of Virginia as of June 30, 2015, since all of the eligibility criteria have not been met in accordance with GASB Statement No. 33.

The Virginia Small Business Financing Authority (nonmajor) had $3.5 million in loan commitments to banks and borrowers as of June 30, 2015, since all of the eligibility criteria have not been met in accordance with GASB Statement No. 33.

21. ACCRUED LIABILITY FOR COMPENSATED ABSENCES

Employees accrue annual leave at a rate of four to nine hours semimonthly, depending on their length of service. The maximum leave accumulation is dependent upon years of service, but in no case may it exceed 432 hours at the end of the leave year. The maximum compensation for annual leave balances is also dependent upon years of service, but in no case may an employee be compensated for more than 336 hours upon separation.

All employees hired after January 1, 1999, are required to enroll in the Virginia Sickness and Disability Program (VSDP) (see Note 16). Under the VSDP, employees receive a specified number of sick and personal leave hours, depending on their length of service, and any balances at the end of the leave year revert. Individuals employed at January 1, 1999, had the option of converting to the VSDP or remaining in the traditional sick leave plan. If converting, the employee's sick leave balance could be used to purchase retirement credits or be converted to disability credits. If an employee opted to remain in the traditional sick leave program, sick leave accrues at a rate of five hours semimonthly. Employees who leave state service after a minimum of five years employment receive the lesser of 25.0 percent of the value of their disability credits or accumulated sick leave at their current earnings rate or $5,000. All employees leaving state service are paid for accrued annual leave up to the maximum leave year limit at their current earnings rate.

In conformance with Section C60 of the GASB Codification, the monetary value of accumulated vacation, compensatory, overtime, recognition, and sick leave payable upon termination is included in the accompanying financial statements and is reported as Compensated Absences. In the government-wide statements, proprietary fund statements, and discrete component unit fund statements, compensated absence amounts are segregated into two components – the amount due within one year and the amount due in more than one year. Compensated absences due within one year consist of an estimate of the amount that will be used by active employees for paid time off and/or paid upon termination, plus the actual amount paid after June 30 for employees terminating on or before June 30. In the governmental fund statements, amounts to be paid from expendable resources are recognized as fund liabilities in the applicable governmental fund types as long-term liabilities and represent payments to employees for separations that occurred on or before June 30. Amounts not payable from expendable resources are reflected in the governmental activities column in the Government-wide Statement of Net Position (see Note 26). All amounts related to the fiduciary funds are recognized in those funds.

The liability at June 30, 2015, was computed using salary rates effective at that date, and represents vacation, compensatory, overtime, recognition, and sick leave earned, or disability credits held by employees, up to the allowable ceilings.

22. POLLUTION REMEDIATION OBLIGATIONS

The Commonwealth has pollution remediation obligations of $12.0 million, of which $2.0 million is due within one year. With the exception of the Department of Environmental Quality (DEQ), agencies estimated future obligations based on professional consultant estimates and/or historical project expenses of similar projects; however, there is the potential for change in estimates due to price increases or reductions, technology, or applicable laws and regulations. Remediations for DEQ are not estimates but contractual obligations between the Commonwealth and the U.S. Environmental Protection Agency (EPA), and any change due to a reconciliation of incurred costs requires mutual consent and contract amendment.

The estimated Commonwealth pollution remediation liability relates to the anticipated cost of hazardous waste removal, cleanup relating to leakage of underground storage tanks, soil and groundwater contaminations, dump site cleanups, asbestos, lead contamination and remediation relating to superfund state contracts.

Agencies involved in remediation include:

- Department of Corrections (DOC)
- Department of Emergency Management (VDEM)
- Department of Environmental Quality (DEQ)
- Department of Juvenile Justice (DJJ)
- Department of Transportation (VDOT)

A Facility Lead Agreement was signed between the EPA and VDOT to resolve an issue concerning the storage of lab wastewater in an outdoor lined surface impoundment that operated between 1979 and 1983 for which contamination is present in soil and groundwater. DOC was fined by the EPA in September/October 2003. DOC proposed to conduct a Supplemental Environmental Project (SEP) which included the formation of the Pollution Prevention Section of the Environmental Services Unit, disclosure of all environmental deficiencies to both the EPA and DEQ and corrections of those deficiencies.

The following pollution remediation outlays could not reasonably be estimated as of June 30, 2015:

- VDEM relating to cleanup of an emergency fuel storage facility
- DEQ relating to groundwater treatment and landfill clean-up
- VDOT relating to groundwater contamination
- DJJ relating to petroleum storage tank removal

23. INSURANCE

A. Self-Insurance

The Commonwealth maintains two types of self-insurance plans. The first type of self-insurance is a health care plan administered by the Department of Human Resource Management for Commonwealth employees. The plan is accounted for in the Health Care Internal Service Fund. Interfund premiums are accounted for as internal activity receipts from other funds. At June 30, 2015, $118.0 million is reported as the estimated claims payable for this fund, which is undiscounted as nearly all health care claims are current in nature. The estimated liability is based upon actual claims that have been submitted as well as actuarially determined claims incurred but not reported as described in Note 1.U. Changes in the balances of claims liabilities (dollars in thousands) during the current and prior fiscal years are as follows:

	Balance July 1,	Current Year Claims and Changes in Estimates	Claim Payments	Balance June 30, (1)
2014-2015	$ 124,890	$ 1,215,569	$ (1,222,454)	$ 118,005
2013-2014	$ 116,432	$ 1,112,747	$ (1,104,289)	$ 124,890

(1) The entire ending balance shown above is due within one year.

The second type of plan, Risk Management, is administered by the Department of the Treasury, Division of Risk Management and the Department of Human Resource Management, Worker's Compensation Program. These plans are accounted for in the Risk Management Internal Service Fund. The Department of the Treasury administers risk management programs providing property, general (tort) liability, medical malpractice, automobile and surety bond exposures for the Commonwealth of Virginia as provided in Sections 2.2-1834 through 1838 and Section 2.2-1840 of the *Code of Virginia*. Established subject to the approval of the Governor, risk management plans provide state agencies with protection through purchased insurance, self-insurance or a combination thereof. Interfund premiums for the fund are accounted for as internal activity receipts from other funds. The claims payable is an estimated liability based upon actual claims that have been submitted as well as actuarially determined claims incurred but not reported. At June 30, 2015, $651.4 million is reported as the estimated claims payable for the risk management plan. This amount is discounted to present value at a rate of 3.0 percent. Undiscounted claims payable at June 30, 2015, is $960.4 million. The estimated losses are based upon actual claims that have been submitted, as well as claims incurred but not reported. Changes in the balances of claims liabilities (dollars in thousands) during the current and prior fiscal years are as follows:

	Balance July 1,	Current Year Claims and Changes in Estimates	Claim Payments	Balance June 30, (1)
2014-2015	$ 624,543	$ 98,941	$ (72,063)	$ 651,421
2013-2014	$ 622,835	$ 71,103	$ (69,345)	$ 624,593

(1) Of the balance shown above, $83.2 million is due within one year.

For workers' compensation, the Commonwealth assumes the full risk of claims filed. For tort and automobile, liability is assumed at a maximum of $2.0 million per occurrence. Medical malpractice is assumed at the maximum per occurrence recovery limited stated in Section 8.01-581.15 of the *Code of Virginia*. Risk Management purchases commercial insurance to protect state-owned property with deductibles as stated in the insurance policies.

The Commonwealth has not had any insurance settlements exceed the coverage during the past three years.

At June 30, 2015, the Virginia Commonwealth University Health System Authority (Authority) (a blended component unit of the Virginia Commonwealth University – nonmajor component unit) reports the following claims payable amounts: estimated workers' compensation claims of $21.5 million and estimated losses on malpractice claims of $2.8 million. MCV Associated Physicians (component unit of the Authority) reports claims payable of $23.1 million for estimated losses on malpractice claims. Virginia Premier Health Plan (component unit of the Authority) reports claims payable of $95.0 million for estimated medical claims payable. Additional information on claims payable can be found in the Authority's individually published financial statements.

Virginia International Terminals, LLC (VIT) (a blended component unit of the Virginia Port Authority – nonmajor) is partially self-insured for certain workers' compensation claims. The Authority maintains insurance coverage of $5.0 million per claim, but is obligated to pay the first $1.0 million of any individual's claims per incident. The Authority is also partially self-insured for employee health coverage. The Authority is responsible for actual claim costs up to $125,000 per individual per calendar year. Insurance coverage is maintained for claims in excess of the individual employee limit and for aggregate claims in excess of $8.4 million.

B. Public Entity Risk Pools

The Commonwealth administers two types of public entity risk pools for the benefit of local governmental units: health care and risk management insurance. The Local Choice Health Care plan was established to make comprehensive health care insurance available to localities and political subdivisions at affordable rates and with stable premiums. During the fiscal year, there were 322 local government units participating in the pool. This includes 34 school districts, 42 counties, 117 cities/towns, and 129 other subdivisions. This program is accounted for in the Local Choice Health Care Enterprise Fund (nonmajor).

The Department of Human Resource Management, under Section 2.2-1204 of the *Code of Virginia*, has the authority to design, set rates, and administer the Local Choice Health Care fund. The pool's standard contract period is one year. However, a member group may withdraw on the last day of any month with three month's written notice. Contributions are based on the current necessary contribution and the amortization of experience adjustments in the pool. At June 30, 2015, $31.8 million is reported as the actuarially determined estimated claims payable for this fund based on claims incurred but not reported.

The actuarial liability is determined for the membership pool in total and then adjusted for each locality based on individual historic and demographic data. If the pool's assets were to be exhausted, the program participants would share the responsibility for any liabilities or deficits.

The Department of the Treasury, Division of Risk Management administers risk management programs for political subdivisions, constitutional officers and others in accordance with Section 2.2-1839 of the *Code of Virginia*. These pools were established to provide an economical, low-cost alternative to the commercial insurance market for the Commonwealth's political subdivisions. These risk programs are accounted for in the Risk Management Enterprise Fund (nonmajor). The pool is established subject to approval by the Governor. It may be insurance, self-insurance, or any combination thereof, and must provide protection and legal defense against liability. Participation is voluntary and open to those identified in Section 2.2-1839, *Code of Virginia*. As of June 30, 2015, there were 489 units of local government in the pool, including 3 cities, 23 towns, and 29 counties. The remaining 434 units include a large variety of boards, commissions, authorities, and special districts.

The pool has a minimum membership period of one year. However, a member group can cancel membership and withdraw from the plan on their coverage anniversary date or at the end of the fiscal year with 30 days notice.

The pool is actuarially valued annually and is considered sound. No excess insurance or reinsurance is provided, but a "stability fund" is incorporated into the actuarially determined required reserves. For the liability insurance pool, participation is voluntary and open to those identified in Section 2.2-1839 of the *Code of Virginia*. The risk assumed by the local public entity pool for member liability is $1.0 million per occurrence.

At June 30, 2015, $29.3 million is reported as estimated claims payable for these programs. This figure is actuarially determined for the fund in total and is reported at gross and does not reflect possible reimbursements for insurance recoveries.

The following schedule (dollars in thousands) shows the changes in claims liabilities for the past two fiscal years.

	Local Choice Health Care		Risk Management	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Unpaid Claims and Claim Adjustment Expenses at Beginning of Fiscal Year	$ 33,028	$ 31,225	$ 30,143	$ 27,404
Incurred Claims and Claim Adjustment Expenses:				
Provision for Insured Events of the Current Fiscal Year	327,910	293,514	(204)	204
Changes in Provision for Insured Events of Prior Fiscal Years	-	-	(414)	2,261
Total Incurred Claims and Adjustment Expenses	327,910	293,514	(618)	2,465
Payments:				
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Fiscal Year	329,099	291,711	922	367
Total Payments	329,099	291,711	922	367
Change in Provision for Discounts	-	-	669	641
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Discounted) (1) (2) (3)	$ 31,839	$ 33,028	$ 29,272	$ 30,143
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Undiscounted)	$ 31,839	$ 33,028	$ 31,551	$ 32,337

Note (1): The entire balance for Local Choice Health Care, $31,839 (dollars in thousands) is due within one year.
Note (2): Of the balance shown above for Risk Management, $7,429 (dollars in thousands) is due within one year.
Note (3): The interest rate used for discounting is 3.0 percent.

24. ACCOUNTS PAYABLE

The following table (dollars in thousands) summarizes Accounts Payable as of June 30, 2015.

	Vendor	Salary/ Wage	Retainage	Other	Foundations (1)	Total
Primary Government:						
General	$ 186,710	$ 93,534	$ 20	$ -	$ -	$ 280,264
Major Special Revenue Funds:						
Commonwealth Transportation	295,987	29,714	3,292	-	-	328,993
Federal Trust	103,209	16,483	3,994	-	-	123,686
Literary	21	-	-	-	-	21
Nonmajor Governmental Funds	34,005	18,120	5,565	291	-	57,981
Major Enterprise Funds:						
Virginia Lottery (2)	6,472	1,312	-	4,181	-	11,965
Virginia College Savings Plan (2)	328	460	-	154	-	942
Unemployment Compensation	78	-	-	-	-	78
Nonmajor Enterprise Funds	38,281	5,645	-	-	-	43,926
Internal Service Funds	78,263	2,789	1,635	-	-	82,687
Private Purpose Trust Funds	217	160	-	2,487	-	2,864
Pension and Other Employee Benefit Trust Funds (3)	224	2,040	-	41,949	-	44,213
Agency Funds	1,968	-	-	4,134	-	6,102
Total Primary Government (4)	$ 745,763	$ 170,257	$ 14,506	$ 53,196	$ -	$ 983,722
Discrete Component Units:						
Virginia Housing Development Authority	$ 2,669	$ 2,062	$ -	$ 36,472	$ -	$ 41,203
Virginia Public School Authority	67	-	-	-	-	67
Virginia Resources Authority	215	7	-	-	-	222
Virginia College Building Authority	4	-	-	-	-	4
Nonmajor Component Units	549,342	433,903	42,945	19,720	101,348	1,147,258
Total Component Units	$ 552,297	$ 435,972	$ 42,945	$ 56,192	$ 101,348	$ 1,188,754

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.
Note (2): Other Accounts Payable for the Virginia Lottery represents administrative costs payable. Other Accounts Payable for the Virginia College Savings Plan represents program distributions payable.
Note (3): Other Accounts Payable for the Pension and Other Employee Benefit Trust Fund consists of $25,969 (dollars in thousands) in investment management expense and $15,980 (dollars in thousands) in program benefit liabilities.
Note (4): Fiduciary liabilities of $53,179 (dollars in thousands) are not included in the Government-wide Statement of Net Position. In addition, governmental fund liabilities of $106,466 (dollars in thousands) are included in the Government-wide Statement of Net Position, but excluded from the above amounts.

25. OTHER LIABILITIES

The following table (dollars in thousands) summarizes Other Liabilities as of June 30, 2015.

	Primary Government				
	General	Commonwealth Transportation	Federal Trust	Nonmajor Governmental Funds	Virginia Lottery
Lottery Prizes Payable	$ -	$ -	$ -	$ -	$ 64,093
Due to Program Participants, Escrows, and Providers	-	-	-	-	-
Medicaid Payable	327,235	-	329,749	-	-
Family Access to Medical Insurance Security Payable	3,843	-	7,137	-	-
Accrued Interest Payable	-	-	-	-	-
Tax Refunds Payable	452,946	-	-	-	-
Insurance Carrier Surety Deposit	-	-	-	-	-
Deposits Pending Distribution	3,712	1,175	-	3,085	-
Car Tax Payable	263,025	-	-	-	-
Other Liabilities	369	-	-	412	-
Total Other Liabilities	$ 1,051,130	$ 1,175	$ 336,886	$ 3,497	$ 64,093

	Primary Government				
	Virginia College Savings Plan	Unemployment Compensation	Nonmajor Enterprise Funds	Internal Service Funds (1)	Private Purpose Trust Funds
Lottery Prizes Payable	$ -	$ -	$ -	$ -	$ -
Due to Program Participants, Escrows, and Providers	1,058	37,663	-	-	3,786
Medicaid Payable	-	-	-	-	-
Family Access to Medical Insurance Security Payable	-	-	-	-	-
Accrued Interest Payable	-	-	5,863	-	-
Tax Refunds Payable	-	-	-	-	-
Insurance Carrier Surety Deposit	-	-	-	-	-
Deposits Pending Distribution	-	-	178	300	-
Car Tax Refund Payable	-	-	-	-	-
Other Liabilities	-	-	139	917	-
Total Other Liabilities	$ 1,058	$ 37,663	$ 6,180	$ 1,217	$ 3,786

Note (1): The Other Liabilities amount of $917 (dollars in thousands) is due to third party clearing amounts that have decreased from the prior year due to the closing of an account therefore less timing issues with checks clearing the bank.

	Primary Government		
	Pension and Other Employee Benefit Trust Funds (2)	Agency Funds	Total Primary Government (3)
Lottery Prizes Payable	$ -	$ -	$ 64,093
Due to Program Participants, Escrows, and Providers	-	44,118	86,625
Medicaid Payable	-	-	656,984
Family Access to Medical Insurance Security Payable	-	-	10,980
Accrued Interest Payable	-	-	5,863
Tax Refunds Payable	-	-	452,946
Insurance Carrier Surety Deposit	-	438,824	438,824
Deposits Pending Distribution	-	78,171	86,621
Car Tax Refund Payable	-	-	263,025
Other Liabilities	307,834	1,956	311,627
Total Other Liabilities	$ 307,834	$ 563,069	$ 2,377,588

Note (2): Other Liabilities of $307,834 (dollars in thousands) reported in Pension and Other Employee Benefit Trust Funds are made up of $35,846 (dollars in thousands) in funds held for the Commonwealth Health Research Fund; $34,298 (dollars in thousands) in other funds managed by the System; $227,347 (dollars in thousands) in pending investment transactions, including $166,200 (dollars in thousands) in hedge fund margin collateral, $60,425 (dollars in thousands) for net foreign exchange contracts, $722 (dollars in thousands) in other investment payables; $2,034 (dollars in thousands) in other payables related to the System benefit plans; $2,901 (dollars in thousands) in foreign taxes payables related to the System benefit plans, and $5,408 (dollars in thousands) in interest and dividends payable related to the System benefit plans.

Note (3): Fiduciary liabilities of $874,689 (dollars in thousands) are not included in the Government-wide Statement of Net Position. Governmental fund liabilities of $154,412 (dollars in thousands) are included in the Government-wide Statement of Net Position, but excluded from the above amounts.

	Component Units					
	Virginia Housing Development Authority	Virginia Public School Authority	Virginia Resources Authority	Virginia College Building Authority	Nonmajor Component Units	Total Component Units
Accrued Interest Payable	$ 57,042	$ 58,331	$ 27,040	$ 80,568	$ 69,290	$ 292,271
Other Liabilities	225	-	21,104	-	222,350	243,679
Deposits Pending Distribution	-	-	-	-	444,942	444,942
Short-term Debt	464,600	-	-	-	117,161	581,761
Grants Payable	-	-	-	-	5,527	5,527
Total Other Liabilities	$ 521,867	$ 58,331	$ 48,144	$ 80,568	$ 859,270	$ 1,568,180

Medicaid Payable

Medicaid Payable represents services rendered but not billed by providers and potential liability resulting from cost reports not settled as of year-end. Providers subject to cost settlement are paid in the interim based on established per diem or diagnosis related group rates for services.

The Department of Medical Assistance Services (DMAS) estimates, based on past experience, the total amount of Medicaid claims that will be paid from the Medicaid program in the future which relate to services provided before year-end. At June 30, 2015, the estimated liability related to Medicaid claims totaled $657.0 million. Of this amount, $327.2 million is reflected in the General Fund (major governmental) and $329.8 million in the Federal Trust Special Revenue Fund (major governmental).

Family Access to Medical Insurance Security Payable

DMAS estimates the total amount of claims that will be paid from the Family Access to Medical Insurance Security program in the future which relate to services provided before year-end. At June 30, 2015, the estimated liability related to claims totaled $11.0 million. Of this amount, $3.9 million is reflected in the General Fund (major governmental) and $7.1 million in the Federal Trust Special Revenue Fund (major governmental).

Tax Refunds Payable

Tax refunds payable represent refunds due on individual tax returns filed for the calendar year ended on or before December 31, 2014, and on business tax returns filed for corporate fiscal years ending on or before June 30, 2015. The individual tax return filing deadline is May 1 of each year for the preceding calendar year. The corporate tax return filing deadline is the 15th day of the fourth month following the close of the corporate fiscal year.

Car Tax Refund Payable

During the year ended June 30, 1998, the General Assembly passed the Personal Property Tax Relief Act. Under the terms of this legislation, the Commonwealth assumed financial responsibility for a portion, ranging from 12.5 percent to 70.0 percent, of the personal property taxes assessed by localities.

During 2004, the General Assembly modified this legislation. Chapter 1 of Special Session 1 (2004) established a $950.0 million limit on the amount the Commonwealth would appropriate for personal property tax relief, beginning in tax year 2006. It further established that each county, city, and town would receive a fixed percentage of the $950.0 million, with payments to begin on or after July 1, 2006 (fiscal year 2007). The accrued liability amount of $263.0 million reflects payments owed to localities as of June 30 and paid in July.

Termination Benefits

During fiscal year 2015, the Commonwealth laid off 467 employees. The affected employees had the option of volunteering for enhanced retirement benefits or severance benefits. The enhanced retirement benefits option was elected by 142 employees, and the remaining 325 employees elected severance benefits. The severance benefits include salary payments based on years of service and insurance premium payments for health and life insurance. All severance benefits were initiated during fiscal year 2015 and will end no later than June 30, 2016. The benefit cost expended and the outstanding liability as of June 30, 2015 for governmental funds, are $4.5 million and $1.2 million, respectively. Since the severance benefits last for a maximum of 12 months, discounting of future cash flows is unnecessary. Additionally, the estimated payments are calculated using the Department of Human Resources' Termination Benefits Calculator and actual costs.

Short-term Debt

Short-term debt results from borrowings from anticipation notes, lines of credit, and similar loans with parties external to the primary government. The primary government's policy is to disclose activity related to short-term borrowings occurring during the fiscal year. For fiscal year 2015, the primary government's agencies did not participate in short-term borrowings with external parties.

Various higher education institutions and foundations (nonmajor component units) have short-term debt totaling $117.1 million. Of this amount, $89.0 million provides bridge financing for capital projects. The remaining short-term debt is for working capital, property acquisition, and operating costs. The Virginia Housing Development Authority (major component unit) has borrowing from lines of credit in the amount of $464.6 million. The Library of Virginia Foundation (nonmajor component unit) has a $33,500 note with a related party.

The balance of Other Liabilities is spread among various other funds.

26. LONG-TERM LIABILITIES

Commonwealth bonds are issued pursuant to Section 9 of Article X of the Constitution of Virginia. Section 9(a) bonds have been issued to redeem previous debt obligations. Section 9(b) bonds have been authorized by the citizens of Virginia through bond referenda to finance capital projects. These bonds are retired through the use of state appropriations. Section 9(c) bonds are issued to finance capital projects which, when completed, will generate revenue to repay the debt. Section 9(a), 9(b), and 9(c) bonds are tax-supported general obligation bonds and are backed by the full faith and credit of the Commonwealth. No other long-term debt obligations are backed by the full faith and credit of the Commonwealth.

Section 9(d) bonds are revenue bonds that are not backed by the full faith and credit of the Commonwealth. These bonds are not general obligation bonds and are not deemed to constitute a legal liability of the Commonwealth. However, this debt may be supported by state appropriations in whole or in part, as in the case of certain debt of the Virginia Port Authority (nonmajor component unit) and the Commonwealth Transportation Board (primary government). Other 9(d) revenue bonds are payable from general revenues of the component units, or from revenues of specific revenue-producing capital projects such as the teaching hospitals, dormitories, student centers, and dining halls at the various colleges and universities (nonmajor component units).

The 9(d) Route 460 Funding Corporation of Virginia Bonds (primary government) are special, limited obligations of the Corporation, secured by a gross revenue pledge and payable solely from revenues.

Certain 9(d) bonds are considered, with 9(a), 9(b), and 9(c) bonds, to be tax-supported debt of the Commonwealth. Tax-supported debt includes all bonds and short-term debt for which debt service payments are made or are ultimately pledged to be made from tax revenues (net of sinking fund requirements).

Other 9(d) revenue bonds are considered debt not supported by taxes. For this debt, the Commonwealth has no direct or indirect pledge of tax revenues. In certain limited cases, the Commonwealth has made a moral obligation pledge. A government's moral obligation pledge provides a deficiency make-up for bondholders in the event pledged revenues prove to be insufficient. If a revenue deficiency exists, monies held in a debt service reserve fund are used to pay bondholders. The issuer then requests that the legislative body provide an appropriation to replenish the reserve fund before subsequent debt service is due. The legislative body may, but is not legally required to, replenish the reserve fund.

The following schedule presents the total long-term liabilities of the Commonwealth, and the portion of these amounts which are due within one year, as reported on the Government-wide Statement of Net Position.

Total Long-term Liabilities
June 30, 2015

(Dollars in Thousands)	Balance At June 30	Amount Due Within One Year
Primary Government:		
Governmental Activities:(1)		
General Obligation Bonds: (2)		
9(b) Public Facilities (3)	$ 642,181	$ 60,795
9(c) Parking Facilities (3)	16,036	722
9(c) Transportation Facilities (3)	17,154	2,520
Total General Obligation Bonds	675,371	64,037
Nongeneral Obligation Bonds - 9(d):		
Transportation Debt (3) (4)	3,288,321	183,890
Virginia Public Building Authority (3)	2,623,447	160,470
Total Nongeneral Obligation Bonds	5,911,768	344,360
Other Long-term Obligations:		
Net Pension Liability	4,133,117	-
OPEB Liability	654,173	-
Compensated Absences	311,406	168,728
Capital Lease Obligations	57,948	12,941
Pollution Remediation Obligations	11,954	2,041
Notes Payable	307	192
Installment Purchase Obligations	113,373	12,290
Economic Development Authority Obligations (3)	51,249	5,590
Other Liabilities	33,155	4,800
Total Other Long-term Obligations	5,366,682	206,582
Total Governmental Activities (3)	11,953,821	614,979
Business-type Activities: (1) (5)		
Nongeneral Obligation Bonds - 9(d):		
Route 460 Funding Corporation of Virginia Bonds	320,110	320,110
Other Long-term Obligations:		
Net Pension Liability	125,294	-
OPEB Liability	22,051	-
Compensated Absences	10,123	5,426
Capital Lease Obligations	5,708	365
Tuition Benefits Payable	2,116,769	239,234
Lottery Prizes Payable	136,222	18,064
Total Other Long-term Obligations	2,416,167	263,089
Total Business-type Activities	2,736,277	583,199
Total Primary Government	14,690,098	1,198,178

Total Long-term Liabilities
June 30, 2015

(Dollars in Thousands)	Balance At June 30	Amount Due Within One Year
Component Units:		
General Obligation Bonds: (2)		
Higher Education Fund - 9(c) Bonds (3)	936,857	51,653
Nongeneral Obligation Bonds:		
Higher Education Institutions - 9(d) (3) (5)	2,038,579	24,891
Virginia College Building Authority (3)	3,520,214	208,055
Virginia Port Authority (3) (6)	545,102	15,295
Virginia Housing Development Authority (3) (5)	4,498,847	240,617
Virginia Resources Authority (3) (7)	3,509,028	153,865
Virginia Public School Authority (3) (5)	3,551,741	234,559
Hampton Roads Sanitation District Commission (5)	748,397	28,135
Virginia Biotechnology Research Park Authority (3)	30,619	3,525
Foundations (5) (8)	999,302	30,359
Total Nongeneral Obligation Bonds	19,441,829	939,301
Other Long-term Obligations:		
Net Pension Liability (9) (10)	2,537,695	-
OPEB Liability (11)	830,507	-
Compensated Absences	288,320	206,034
Capital Lease Obligations	77,456	6,012
Notes Payable (5)	2,083,619	162,671
Installment Purchase Obligations	63,812	12,671
Trust and Annuity Obligations (5) (12)	1,752	-
Other Liabilities (5)	299,960	68,036
Total Other Long-term Obligations (Excluding Foundations)	6,183,121	455,424
Other Long-term Obligations (Foundations): (5) (8)		
Compensated Absences	14,596	11,382
Capital Lease Obligations	251	158
Notes Payable	272,503	7,623
Trust and Annuity Obligations (12)	80,377	5,266
Other Liabilities	318,919	18,981
Total Other Long-term Obligations - Foundations	686,646	43,410
Total Other Long-term Obligations	6,869,767	498,834
Total Component Units	27,248,453	1,489,788
Total Long-term Liabilities	$ 41,938,551	$ 2,687,966

1. Pursuant to GASB Statement No. 34, governmental activities include internal service funds. Business-type activities are considered enterprise funds.
2. Total general obligation debt of the Commonwealth is $1.6 billion.
3. Amounts are net of any unamortized discounts and premiums.
4. This debt includes $736.2 million that is not supported by taxes.
5. This debt is not supported by taxes.
6. This debt includes $256.7 million that is not supported by taxes.
7. This debt is not supported by taxes; however, $877.9 million is considered moral obligation debt.
8. Foundations represent FASB reporting entities defined in Note 1.B.
9. This includes net pension liabilities that do not relate to the Virginia Retirement System's State Plan from the Hampton Roads Sanitation District Commission and the Virginia Port Authority of $27.5 million and $14.0 million, respectively. This debt is not supported by taxes.
10. This does not include net pension liabilities from fiduciary funds of $3.3 million.
11. This includes OPEB obligations that do not relate to the Virginia Retirement System from University of Virginia of $47.2 million and Virginia Port Authority of $1.4 million. It does not include OPEB obligations from fiduciary funds of $589,370.
12. These generally represent split-interest agreements that represent donor contributed assets with the requirement that an annual distribution be made to the donor or specified beneficiary. The annual distributions are usually for a fixed dollar amount or a fixed percentage of the trust's fair market value. The present value of these commitments is reported as Trust and Annuity Obligations.

Primary Government

Transportation Facilities Debt

Transportation Facilities Bonds include $17.2 million of Section 9(c) general obligation bonds and $3.3 billion of Transportation Facilities Section 9(d) debt. The Section 9(d) debt includes $2.6 billion of Section 9(d) revenue bonds, $30.6 million of outstanding Commonwealth of Virginia Federal Highway Reimbursement Anticipation Notes, and $705.6 million of Grant Anticipation Revenue Vehicles (GARVEES) in addition to the outstanding Section 9(d) revenue bonds. 9(c) principal and interest requirements for the current year totaled $3.2 million. 9(d) principal and interest requirements for the current year totaled $313.7 million. The Section 9(c) Transportation Facilities Bonds were issued to fund the construction and improvement of the George P. Coleman Bridge. The Section 9(d) Transportation Facilities Bonds were issued to fund the construction of State Route 28, U.S. Route 58, the Northern Virginia Transportation District Program, and the Oak Grove Connector (Chesapeake). The Commonwealth of Virginia Federal Highway Reimbursement Anticipation Notes were issued to finance various capital transportation projects throughout the Commonwealth. The interest rates for these bonds range from 3.0 percent to 5.0 percent and the issuance date was September 28, 2005. The GARVEES were issued to finance various Federal Aid Transportation projects throughout the Commonwealth. The interest rates for these bonds range from 1.0 percent to 5.0 percent and the issuance dates range from March 15, 2012 to November 21, 2013.

On December 3, 2014, the Commonwealth Transportation Board issued $270.0 million of Commonwealth of Virginia Capital Projects Transportation Revenue Bonds, Series 2014. Series 2014 will be maturing in annual installments on May 15 in the years 2015 to 2039 and interest is payable on May 15 and November 15 at rates varying from 2.0 to 5.0 percent. The net proceeds of the Series 2014 bonds will be used to pay for the costs of certain transportation projects in the Commonwealth and certain costs related to the issuance of the 2014 bonds.

The following schedules detail the annual funding requirements necessary to amortize Transportation Facilities 9(c) bonds and 9(d) debt. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth expects to receive an interest subsidy to reimburse interest payments of $101.9 million for Build America Bonds (BABs) issued. The BABs are applicable to Commonwealth of Virginia Transportation Series 2010A Capital Project Revenue Bonds and Series 2009A Northern Virginia Transportation District Revenue Bonds.

9(c) TRANSPORTATION FACILITIES BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2016	$ 2,520,000	$ 665,850	$ 3,185,850
2017	2,620,000	568,200	3,188,200
2018	2,730,000	463,400	3,193,400
2019	2,840,000	354,200	3,194,200
2020	2,950,000	240,600	3,190,600
2021-2025	3,065,000	122,600	3,187,600
Add:			
Unamortized Premium	429,382	-	429,382
Total	$ 17,154,382	$ 2,414,850	$ 19,569,232

9(d) TRANSPORTATION FACILITIES DEBT
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2016	$ 183,890,000	$ 139,192,991	$ 323,082,991
2017	161,275,000	131,071,326	292,346,326
2018	168,210,000	123,382,794	291,592,794
2019	166,720,483	115,822,876	282,543,359
2020	148,703,337	107,904,646	256,607,983
2021-2025	755,510,875	433,296,809	1,188,807,684
2026-2030	656,465,576	255,612,440	912,078,016
2031-2035	566,315,000	118,131,088	684,446,088
2036-2040	182,420,000	13,146,475	195,566,475
Less:			
Unamortized Discount	(95,612)	-	(95,612)
Add:			
Accretion on Capital Appreciation Bonds	23,138,940	-	23,138,940
Unamortized Premium	275,767,391	-	275,767,391
Total	$ 3,288,320,990	$ 1,437,561,445	$ 4,725,882,435

Fairfax Economic Development Authority Obligations

In fiscal year 2006, the Fairfax County Economic Development Authority (EDA) issued Section 9(d) revenue bonds to pay for the Commonwealth's (VDOT) costs of the planning, design and construction of a transportation infrastructure and related public safety operations complex to be developed on the contiguous sites in the county commonly referred to as "Camp 30" for the joint use of VDOT and the county. In fiscal year 2014, Fairfax County EDA issued a series of revenue refunding bonds, which partially refunded Series 2006 revenue bonds. The Commonwealth's obligation is set out in a payment agreement between Fairfax County EDA and the Commonwealth of Virginia, Department of Transportation, in which the Commonwealth agrees to make payments equal to the debt service from amounts appropriated by the General Assembly. The interest rates for these bonds range from 1.0 percent to 5.0 percent and the issue dates were April 12, 2006 and March 26, 2014. The principal and interest requirements for the current year totaled $7.8 million. The following schedule details the annual funding requirements necessary to repay these bonds.

FAIRFAX COUNTY ECONOMIC DEVELOPMENT AUTHORITY
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2016	$ 5,590,000	$ 2,237,000	$ 7,827,000
2017	5,870,000	1,957,500	7,827,500
2018	6,165,000	1,664,000	7,829,000
2019	6,470,000	1,355,750	7,825,750
2020	6,795,000	1,032,250	7,827,250
2021-2025	13,850,000	1,028,250	14,878,250
Unamortized Premium	6,509,361	-	6,509,361
Total	$ 51,249,361	$ 9,274,750	$ 60,524,111

Route 460 Funding Corporation of Virginia Debt

At June 30, 2015, Route 460 Funding Corporation of Virginia (nonmajor enterprise) bonds included $231.6 million of Current Interest bonds, $61.8 million of Capital Appreciation bonds, and $8.2 million of accreted value in Capital Appreciation bonds. No principal payments were required for fiscal year 2015; however, interest payments of $11.7 million were paid during fiscal year 2015. An interest payment of $5.9 million is due July 1, 2015, and is therefore recorded as accrued interest payable. The Route 460 Funding Corporation of Virginia issued $231.6 million of Toll Road Senior Revenues Bonds (Current Interest Bonds), Series 2012A. Under the original terms, Series 2012A would have matured in annual installments on July 1 in the years 2045 to 2052 and interest would have been payable on January 1 and July 1 at rates varying from 5.0 percent to 5.1 percent beginning July 1, 2013 through July 1, 2052. The proceeds of the series 2012A bonds were to be used to pay a portion of the costs of the design, construction, and financing of the Project including, without limitation, to pay interest payable on the series 2012A bonds through January 1, 2018, and to pay certain costs of issuance of the Series 2012 Senior Lien Bonds or as otherwise permitted by the Indenture. The Route 460 Funding Corporation of Virginia also issued $61.8 million of Toll Road Senior Revenues Bonds (Capital Appreciation Bonds), Series 2012B. Under the original terms, the Series 2012B would have matured in annual installments on July 1 in the years 2024 to 2045. The Series 2012B Bonds would not bear current interest, but each Series 2012B would have accreted in value, compounded semiannually from its date of issuance on January 1 and July 1 at interest rates varying from 4.0 percent to 5.2 percent and interest would have been payable only upon maturity or early redemption date. The proceeds of the series 2012B bonds would have been used to pay a portion of the costs of the design, construction, and financing of the Project including, without limitation, and to pay certain costs of issuance of the Series 2012 Senior Lien Bonds or as otherwise permitted by the Indenture.

As discussed in Note 31, the Corporation's continuing operations will cease during fiscal year 2016. As discussed in Note 41, the outstanding bonds were paid in September 2015; therefore, all amounts are reported as due within one year.

9(d) ROUTE 460 FUNDING CORPORATION OF VIRGINIA BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2016	$ 445,865,000	$ 5,862,956	$ 451,727,956
Less:			
Unaccreted Capital			
Appreciation			
Bonds	(144,345,011)	-	(144,345,011)
Add:			
Unamortized Premium	18,589,523	-	18,589,523
Total	$ 320,109,512	$ 5,862,956	$ 325,972,468

Public Facilities Bonds

Section 9(b) general obligation bonds consist of Public Facilities Bonds, Series 2006B, Series 2007A, Series 2007B, Series 2008A, Series 2008B, Series 2009A, Series 2009D Refunding, Series 2009E, Series 2012A Refunding, Series 2013B Refunding, Series 2014B Refunding, and Series 2015B Refunding. Bonds were issued to fund construction projects for higher educational institutions, behavioral health, and/or park facilities. The Series 2009D bonds were issued to advance refund outstanding Series 2004A, Series 2005A, and Series 2006B bonds. The Series 2012A bonds were issued to advance refund outstanding Series 2002, Series 2003A, Series 2004A, and Series 2005A bonds. The Series 2013B bonds were issued to advance refund outstanding Series 2005A, Series 2006B, Series 2007A, and Series 2007B. The Series 2014B bonds were issued to advance refund outstanding Series 2004B Refunding. The Series 2015B bonds were issued to advance refund certain maturities of outstanding Series 2007B, Series 2008A, and Series 2008B bonds. Principal and interest requirements for the current year totaled $94.6 million. The interest rates for all bonds range from 3.4 percent to 5.0 percent and the issuance dates range from November 15, 2006, to May 6, 2015. The following schedule details the annual funding requirements necessary to repay these bonds. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth expects to receive an interest subsidy to reimburse interest payments of $4.0 million for Build America Bonds (BABs) issued. The BABs are applicable to Series 2009E Public Facilities Revenue Bonds.

9(b) PUBLIC FACILITIES BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2016	$ 60,795,000	$ 26,422,473	$ 87,217,473
2017	53,110,000	23,565,345	76,675,345
2018	49,120,000	20,974,503	70,094,503
2019	48,220,000	18,718,147	66,938,147
2020	48,280,000	16,426,345	64,706,345
2021-2025	228,310,000	48,026,955	276,336,955
2026-2030	79,485,000	7,189,065	86,674,065
Add:			
Unamortized Premium	74,860,819	-	74,860,819
Total	$ 642,180,819	$ 161,322,833	$ 803,503,652

Parking Facilities Bonds

Section 9(c) general obligation bonds consist of Parking Facilities Bonds, Series 2009B and 2009D Refunding, and 2012A Refunding. The Series 2009B bonds were issued to fund the construction of a new 1,000 vehicle parking structure at 7th and Franklin Streets. The Series 2009D Refunding bonds were issued to advance refund outstanding Series 2004A bonds. The Series 2012A Refunding bonds were issued to advance refund outstanding Series 2002 Refunding and Series 2004A bonds. The interest rate for these bonds is 5.0 percent, and the issuance dates range from October 21, 2009, to March 7, 2012. Current year principal and interest requirements totaled $1.6 million. The following schedule details the annual funding requirements necessary to repay these bonds.

9(c) PARKING FACILITIES BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2016	$ 722,093	$ 704,073	$ 1,426,166
2017	890,000	667,610	1,557,610
2018	940,000	623,110	1,563,110
2019	985,000	576,110	1,561,110
2020	1,035,000	526,860	1,561,860
2021-2025	5,559,045	1,818,064	7,377,109
2026-2030	4,025,000	515,250	4,540,250
Add:			
Unamortized Premium	1,880,172	-	1,880,172
Total	$ 16,036,310	$ 5,431,077	$ 21,467,387

Virginia Public Building Authority

Virginia Public Building Authority Section 9(d) bonds consist of 2005A Refunding, 2005B Refunding, 2005C, 2005D, 2006A, 2006B, 2007A, 2008B, 2009A, 2009B, 2009C, 2009D Refunding, 2010A, 2010B-1, 2010B-2, 2010B-3 Refunding, 2011A, 2011B, 2012A Refunding, 2013A, 2013B Refunding, 2014A, 2014B, 2014C Refunding, 2015A, and 2015B Refunding. All bonds were issued for the purpose of constructing, improving, furnishing, maintaining, and acquiring public buildings for the use of the Commonwealth and also to reimburse localities, regional jail authorities or other combination of localities under the Regional Jail Financing Program. The Series 2005B bonds were issued to advance refund outstanding Series 1996A, Series 1998B, and Series 1999A bonds. The Series 2009D bonds were issued to advance refund outstanding series 2001A and 2002A Revenue bonds. The Series 2010B-3 bonds were issued to advance refund outstanding series 2002A and 2004B Revenue bonds. The Series 2012A bonds were issued to advance refund outstanding series 2004B and 2005C Revenue bonds. The Series 2013B bonds were issued to advance refund 2006A and 2006B revenue bonds. The Series 2014C bonds were issued to advance refund outstanding Series 2004A Refunding, 2004B, 2004C Refunding, and 2004D Refunding bonds, and certain maturities of the 2005C, 2006A, 2006B, and 2007A bonds. The interest rates for all fixed rate bonds range from 0.2 percent to 5.9 percent and the issuance dates range from March 1, 2005, to June 9, 2015. The Series 2005D bonds are variable rate bonds and the rates are reset weekly by the remarketing agent. Current year principal and interest requirements totaled $283.1 million. The following schedule details the annual funding requirements necessary to repay these bonds. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth expects to receive an interest subsidy to reimburse interest payments of $81.3 million for Build America Bonds (BABs) issued. The BABs are applicable to Series 2010 Revenue Bonds.

9(d) VIRGINIA PUBLIC BUILDING AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2016	$ 160,470,000	$ 101,511,008	$ 261,981,008
2017	177,020,000	99,321,360	276,341,360
2018	160,770,000	91,145,746	251,915,746
2019	145,340,000	83,775,314	229,115,314
2020	146,580,000	76,881,112	223,461,112
2021-2025	721,355,000	284,391,530	1,005,746,530
2026-2030	636,335,000	124,780,953	761,115,953
2031-2035	252,590,000	22,307,974	274,897,974
2036-2040	17,000,000	340,000	17,340,000
Add:			
Unamortized Premium	205,987,462	-	205,987,462
Total	$ 2,623,447,462	$ 884,454,997	$ 3,507,902,459

Component Units

Higher Education Institution Bonds

Higher Education Institution Bonds are comprised of both 9(c) general obligation bonds and 9(d) revenue bonds. Section 9(d) bonds are from several sources as shown on the following schedule (dollars in thousands).

College and university bonds backed by pledge of general revenue or revenue from specific revenue-producing capital projects	$ 1,531,950
College and university debt backed exclusively by pledged revenues of an institution	506,629
Total Higher Education Institution 9(d) debt	$ 2,038,579

The interest rates for these bonds range from 0.1 percent to 6.4 percent and the issuance dates range from April 16, 2003, to June 11, 2015. The Virginia College Building Authority Series 2006B and 2006C bonds, the Virginia Commonwealth University Series 2012A and 2012B bonds, and the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University – nonmajor) Series 2013A and 2013B bonds are variable rate bonds and the rates are reset weekly by the remarketing agent.

The following schedules detail the annual funding requirements necessary to amortize Higher Education Institution 9(c) and 9(d) bonds. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth expects to receive an interest subsidy to reimburse interest payments of $322.8 million for Build America Bonds (BABs) issued. The BABs are applicable to General Obligation Series 2010A Bonds, Series 2009F and 2010B 21st Century Virginia College Building Authority Education Facilities Bonds, and the University of Virginia's Series 2009 and 2010 General Revenue Bonds.

9(c) HIGHER EDUCATION INSTITUTION BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2016	$ 51,652,907	$ 37,060,140	$ 88,713,047
2017	52,115,000	34,782,191	86,897,191
2018	49,200,000	32,406,271	81,606,271
2019	49,400,000	30,206,921	79,606,921
2020	49,120,000	28,005,901	77,125,901
2021-2025	253,785,955	106,906,426	360,692,381
2026-2030	224,175,000	51,984,864	276,159,864
2031-2035	111,070,000	14,478,135	125,548,135
2036-2040	12,295,000	1,366,530	13,661,530
Add:			
Unamortized Premium	84,043,125	-	84,043,125
Total	$ 936,856,987	$ 337,197,379	$ 1,274,054,366

9(d) HIGHER EDUCATION INSTITUTION BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest (1)	Total
2016	$ 24,890,774	$ 83,394,733	$ 108,285,507
2017	19,554,307	83,799,076	103,353,383
2018	20,296,785	83,320,031	103,616,816
2019	20,694,933	82,803,293	103,498,226
2020	21,558,771	82,199,743	103,758,514
2021-2025	251,967,043	381,520,826	633,487,869
2026-2030	138,894,036	352,525,888	491,419,924
2031-2035	160,731,311	334,364,324	495,095,635
2036-2040	640,860,000	281,461,342	922,321,342
2041-2045	648,185,000	87,123,300	735,308,300
Add:			
Unamortized Premium	90,946,362	-	90,946,362
Total	$ 2,038,579,322	$ 1,852,512,556	$ 3,891,091,878

Note (1): The future interest requirements exclude any net payments associated with hedging derivative instruments. See Note 14 for more details on hedging derivative instruments.

9(d) VIRGINIA COLLEGE BUILDING AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2016	$ 208,055,000	$ 136,164,991	$ 344,219,991
2017	218,935,000	131,833,075	350,768,075
2018	206,850,000	122,092,585	328,942,585
2019	193,235,000	112,798,668	306,033,668
2020	192,165,000	104,117,294	296,282,294
2021-2025	931,750,000	395,675,052	1,327,425,052
2026-2030	888,710,000	204,905,604	1,093,615,604
2031-2035	428,555,000	41,754,463	470,309,463
Add:			
Unamortized Premium	251,959,224	-	251,959,224
Total	$ 3,520,214,224	$ 1,249,341,732	$ 4,769,555,956

Various higher education institutions' foundations (component units) and a museum foundation (component unit) have bonds outstanding as of year-end. The purpose of a majority of these bonds is for construction, property acquisition, and defeasance of prior debt. The following schedule details the future principal payments.

FOUNDATIONS' BONDS (1)
Debt Service Requirements to Maturity

Maturity	Principal
2016	$ 30,359,431
2017	29,512,494
2018	56,465,986
2019	107,436,446
2020	35,378,900
Thereafter	740,148,760
Total	$ 999,302,017

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.

Virginia Port Authority

The Virginia Port Authority (VPA) (nonmajor) has issued Section 9(d) revenue bonds and notes pursuant to powers provided to its board of commissioners by the *Code of Virginia*. The interest rates for these bonds range from 0.7 percent to 5.5 percent, and the issuance dates range from April 14, 2005, to June 23, 2015. Series 2006A bonds were issued to advance refund $22.9 million of outstanding Series 1996 bonds. Series 2010 bonds were issued to currently refund in full the outstanding principal amount of the Authority's Series 2009 Bond Anticipation Note. Series 2012 bonds were issued to currently refund in full the outstanding principal amount of the Authority's Commonwealth Port Fund Revenue Bonds and to pay all or a portion of the expenses incurred with respect to the issuance of the Series 2012 Bonds and the refunding of the Series 2002 Bonds. Series 2012B and 2012C bonds were issued to pay the cost of refunding all or a portion of the Series 2005A and 2005B bonds, and to pay costs of issuance of the 2012B and 2012C bonds. Series 2013 bonds were issued to pay the costs of refunding all or a portion of Series 2003 and 2006 bonds and series 2013 issuance costs. Series 2015A bonds were issued to pay the costs of refunding all of the remaining Series 2003 and 2006 bonds, and to pay costs of issuance of the Series 2015A bonds. Series 2015B bonds were issued to pay the costs of refunding a portion of the remaining Series 2007 bonds, and to pay costs of issuance of the Series 2015B bonds. The following schedule details the annual funding requirements necessary to amortize VPA bonds.

9(d) VIRGINIA PORT AUTHORITY DEBT
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2016	$ 15,295,000	$ 17,826,202	$ 33,121,202
2017	17,070,000	19,990,624	37,060,624
2018	17,605,000	19,583,500	37,188,500
2019	17,965,000	19,216,775	37,181,775
2020	18,350,000	18,786,266	37,136,266
2021-2025	99,735,000	85,565,536	185,300,536
2026-2030	117,405,000	67,030,966	184,435,966
2031-2035	119,205,000	39,140,813	158,345,813
2036-2040	85,830,000	12,162,250	97,992,250
2041-2045	13,180,000	329,500	13,509,500
Add:			
Unamortized Premium	23,462,404	-	23,462,404
Total	$ 545,102,404	$ 299,632,432	$ 844,734,836

Virginia Housing Development Authority

The Virginia Housing Development Authority (VHDA) (major) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 2.1 percent to 6.8 percent and the origination dates range from March 20, 2002, to May 12, 2015. The following schedule details the annual funding requirements necessary to amortize these bonds.

9(d) VIRGINIA HOUSING DEVELOPMENT AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2016	$ 240,616,781	$ 185,951,229	$ 426,568,010
2017	199,710,000	177,972,284	377,682,284
2018	199,800,000	170,957,105	370,757,105
2019	202,190,000	163,661,886	365,851,886
2020	213,150,000	155,606,908	368,756,908
2021-2025	776,725,000	669,541,405	1,446,266,405
2026-2030	602,550,000	529,370,049	1,131,920,049
2031-2035	666,237,064	391,209,544	1,057,446,608
2036-2040	661,013,873	228,300,079	889,313,952
2041-2045	726,294,252	77,690,972	803,985,224
2046-2050	10,585,000	490,136	11,075,136
Less: Unamortized Discount	(2,339,297)	-	(2,339,297)
Add: Unamortized Premium	2,314,584	-	2,314,584
Total	$ 4,498,847,257	$ 2,750,751,597	$ 7,249,598,854

Virginia Resources Authority

The Virginia Resources Authority (VRA) (major) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 0.5 percent to 6.3 percent and the origination dates range from March 1, 2000, to May 28, 2015. The following schedule details the annual funding requirements necessary to amortize these bonds.

9(d) VIRGINIA RESOURCES AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2016	$ 153,865,000	$ 141,423,435	$ 295,288,435
2017	171,840,000	135,283,214	307,123,214
2018	183,400,000	127,519,303	310,919,303
2019	164,995,000	119,708,985	284,703,985
2020	171,815,000	112,194,643	284,009,643
2021-2025	835,330,000	443,537,350	1,278,867,350
2026-2030	797,025,000	254,151,812	1,051,176,812
2031-2035	486,075,000	111,999,800	598,074,800
2036-2040	209,615,000	38,789,779	248,404,779
2041-2045	73,970,000	4,519,323	78,489,323
Less: Unaccreted Capital Appreciation Bonds	(34,935,096)	-	(34,935,096)
Add: Unamortized Premium	296,032,824	-	296,032,824
Total	$ 3,509,027,728	$ 1,489,127,644	$ 4,998,155,372

Virginia Public School Authority

The Virginia Public School Authority (VPSA) (major) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 0.0 percent to 5.5 percent, and the origination dates range from December 21, 2001, to May 14, 2015. The following schedule details the annual funding requirements necessary to amortize these bonds. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth expects to receive an interest subsidy to reimburse interest payments of $185.1 million for Qualified School Construction Bonds (QSCBs) issued. The QSCBs are applicable to Series 2010-1, 2011-1, 2011-2, and 2012-1 Revenue Bonds.

9(d) VIRGINIA PUBLIC SCHOOL AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2016	$ 234,559,060	$ 141,746,377	$ 376,305,437
2017	231,028,003	131,136,329	362,164,332
2018	225,305,000	120,101,355	345,406,355
2019	216,655,000	109,512,075	326,167,075
2020	213,055,000	99,502,943	312,557,943
2021-2025	922,956,000	358,759,651	1,281,715,651
2026-2030	819,440,000	158,247,343	977,687,343
2031-2035	394,010,000	33,263,289	427,273,289
2036-2040	43,750,000	3,963,222	47,713,222
2041-2045	3,755,000	104,163	3,859,163
Add:			
Unamortized Premium	247,227,603	-	247,227,603
Total	$ 3,551,740,666	$ 1,156,336,747	$ 4,708,077,413

Hampton Roads Sanitation District Commission

The Hampton Roads Sanitation District Commission (nonmajor) issued bonds under a Master Trust Indenture and a Trust Agreement dated December 1, 1993 and March 1, 2008. The interest cost for these bonds range from 0.1 percent to 5.9 percent. The following schedule details the annual funding requirements necessary to amortize these bonds.

HAMPTON ROADS SANITATION DISTRICT COMMISSION
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2016	$ 28,135,000	$ 29,751,000	$ 57,886,000
2017	22,871,000	29,029,000	51,900,000
2018	23,327,000	28,326,000	51,653,000
2019	23,905,000	27,360,000	51,265,000
2020	24,788,000	26,417,000	51,205,000
2021-2025	133,731,000	116,189,000	249,920,000
2026-2030	150,428,000	85,965,000	236,393,000
2031-2035	144,715,000	53,161,000	197,876,000
2036-2040	110,915,000	18,381,000	129,296,000
2041-2045	45,385,000	2,092,000	47,477,000
Add:			
Unamortized Premium	40,197,000	-	40,197,000
Total	$ 748,397,000	$ 416,671,000	$ 1,165,068,000

Virginia Biotechnology Research Partnership Authority

The Virginia Biotechnology Research Partnership Authority (nonmajor) consists of Series 2009 Commonwealth of Virginia Lease Revenue bonds. Coupon interest rates range from 3.0 percent to 5.0 percent.

VIRGINIA BIOTECH RESEARCH PARTNERSHIP AUTHORITY
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2016	$ 3,525,000	$ 1,231,950	$ 4,756,950
2017	3,665,000	1,088,150	4,753,150
2018	3,815,000	938,550	4,753,550
2019	3,990,000	762,500	4,752,500
2020	4,200,000	557,750	4,757,750
2021-2025	9,055,000	458,375	9,513,375
Add:			
Unamortized Premium	2,368,683	-	2,368,683
Total	$ 30,618,683	$ 5,037,275	$ 35,655,958

Total principal outstanding at June 30, 2015, on all component unit bonds amounted to $20.4 billion.

The following schedule summarizes the changes in long-term liabilities:

Schedule of Changes in Long-term Debt and Obligations (1) (2)

(Dollars in Thousands)

	Balance July 1 as restated (3)	Issuances and Other Increases	Retirements and Other Decreases	Subtotal June 30
Primary Government				
Governmental Activities:				
Long-term Debt Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
General Obligation Bonds - 9(b) and 9(c):				
Public Facilities Bonds	$ 643,175	$ 102,520	$ (178,375)	$ 567,320
Parking Facilities Bonds	15,004	-	(848)	14,156
Transportation Facilities Bonds	19,130	-	(2,405)	16,725
Add: Unamortized Premium	65,560	23,003	(11,393)	77,170
Total General Obligation Bonds	742,869	125,523	(193,021)	675,371
Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Transportation Facilities Bonds	2,887,746	274,979	(173,215)	2,989,510
Virginia Public Building Authority Bonds	2,227,555	828,710	(638,805)	2,417,460
Economic Development Authority Obligations	50,165	-	(5,425)	44,740
Add: Unamortized Premium	427,431	126,735	(65,902)	488,264
Accretion on Capital Appreciation Bonds	20,759	2,380	-	23,139
Less: Unamortized Discount	(100)	4	-	(96)
Installment Purchase Obligations	113,936	16,020	(16,583)	113,373
Notes Payable - Aviation	529	-	(222)	307
Compensated Absences	321,520	192,671	(202,785)	311,406
Capital Lease Obligations	60,916	9,305	(12,273)	57,948
Net Pension Liability	4,842,060	-	(708,943)	4,133,117
OPEB Liability	568,764	85,409	-	654,173
Pollution Remediation Liability	13,186	-	(1,232)	11,954
Other	36,632	-	(3,477)	33,155
Total Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth	11,571,099	1,536,213	(1,828,862)	11,278,450
Total Governmental Activities	12,313,968	1,661,736	(2,021,883)	11,953,821
Business-type Activities:				
Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Non-General Obligation Bonds - 9(d)				
Route 460 Funding Corporation of Virginia Bonds	445,865	-	-	445,865
Add: Unamortized Premium	19,131	-	(541)	18,590
Less: Unaccreted Capital Appreciation Bonds	(147,691)	3,346	-	(144,345)
Capital Lease Obligations	6,072	-	(364)	5,708
Compensated Absences	10,102	2,614	(2,593)	10,123
Net Pension Liability	142,765	-	(17,471)	125,294
OPEB Liability	18,709	3,403	(61)	22,051
Lottery Prizes Payable	152,693	578	(17,049)	136,222
Tuition Benefits Payable	2,140,430	135,063	(158,724)	2,116,769
Total Business-type Activities	2,788,076	145,004	(196,803)	2,736,277
Total Primary Government	$ 15,102,044	$ 1,806,740	$ (2,218,686)	$ 14,690,098

Foundations (4)	Balance June 30	Due Within One Year
$ -	$ 567,320	$ 60,795
-	14,156	722
-	16,725	2,520
-	77,170	-
-	675,371	64,037
-	2,989,510	183,890
-	2,417,460	160,470
-	44,740	5,590
-	488,264	-
-	23,139	-
-	(96)	-
-	113,373	12,290
-	307	192
-	311,406	168,728
-	57,948	12,941
-	4,133,117	-
-	654,173	-
-	11,954	2,041
-	33,155	4,800
-	11,278,450	550,942
-	11,953,821	614,979
-	445,865	445,865
-	18,590	18,590
-	(144,345)	(144,345)
-	5,708	365
-	10,123	5,426
-	125,294	-
-	22,051	-
-	136,222	18,064
-	2,116,769	239,234
-	2,736,277	583,199
$ -	$ 14,690,098	$ 1,198,178

Continued on next page

Schedule of Changes in Long-term Debt and Obligations (1) (2)

(continued)

(Dollars in Thousands)

	Balance July 1 as restated (3)	Issuances and Other Increases	Retirements and Other Decreases	Subtotal June 30
Component Units				
Long-term Debt Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
General Obligation Bonds - Higher Education 9(c) (5)	$ 925,086	$ 187,184	$ (175,413)	$ 936,857
Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Bonds (5) (6)	18,223,278	3,330,829	(3,111,580)	18,442,527
Installment Purchase Obligations	76,526	2,834	(15,548)	63,812
Capital Lease Obligations	82,667	564	(5,775)	77,456
Notes Payable	2,072,530	400,148	(389,059)	2,083,619
Compensated Absences	281,692	288,575	(281,947)	288,320
Net Pension Liability	2,946,922	1,788	(411,015)	2,537,695
OPEB Liability	701,715	128,792	-	830,507
Trust and Annuity Obligations	3,687	-	(1,935)	1,752
Other (7)	269,525	1,034,407	(1,003,972)	299,960
Total Component Units	$ 25,583,628	$ 5,375,121	$ (5,396,244)	$ 25,562,505

Note (1) Pursuant to GASB Statement No. 34, governmental activities include internal service funds. Business-type activities are considered enterprise funds.

Note (2) Payments on bonded debt that pertain to the Commonwealth's governmental activities are made through the debt service funds. Payments for installment purchases, compensated absences, capital leases, pension, and other obligations that pertain to the Commonwealth's governmental activities are made through the general and all special revenue funds, excluding the Literary Fund (major). Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for these funds are included as part of the total for governmental activities. Enterprise funds, or business-type activities, are self-supporting funds. Accordingly, long-term liabilities are paid from each respective fund.

Note (3) As a result of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68,* the following items have been restated: pension liability for governmental activities by $2,727,257 (dollars in thousands); business-type activities by $85,365 (dollars in thousands); and nonmajor component units by $1,880,284 (dollars in thousands). Additionally, Capital Lease Obligations, Notes Payable, and Compensated Absences of the component units have been restated by $478 (dollars in thousands), $5,492 (dollars in thousands), and $1,455 (dollars in thousands) respectively for nonmajor component units.

Note (4) Foundations represent FASB reporting entities defined in Note 1.B.

Note (5) Amounts are net of any unamortized discounts and premiums.

Note (6) Bonds payable of component units have been restated for by $8,516 (dollars in thousands) for Virginia College Building Authority (major) to reflect the removal of unamortized premiums related to bonds that matured in prior years.

Note (7) Other Long-term Liabilities have been restated for the following reclassifications among liability line items: $52 (dollars in thousands) from Other Liabilities for the Virginia Housing Development Authority (major); and $17,522 (dollars in thousands) from Deposits Pending Distribution and $2,909 (dollars in thousands) from Pension Liability for nonmajor component units.

Foundations (4)	Balance June 30	Due Within One Year
$ -	$ 936,857	$ 51,653
999,302	19,441,829	939,301
-	63,812	12,671
251	77,707	6,170
272,503	2,356,122	170,294
14,596	302,916	217,416
-	2,537,695	-
-	830,507	-
80,377	82,129	5,266
318,919	618,879	87,017
$ 1,685,948	$ 27,248,453	$ 1,489,788

Bond and Note Defeasance

Primary Government

In September 2014, the Virginia Public Building Authority (VPBA) issued $298.4 million of Series 2014C Public Facilities Revenue Refunding Bonds with a true interest cost (TIC) of 2.1 percent to refund $319.4 million of certain outstanding bonds. The bonds that were refunded include Public Facilities Revenue Bonds, Series 2004A, 2004B, 2004C, 2004D, 2005C, 2006A, 2006B, and 2007A. The net proceeds from the sale of the Refunding Bonds of $341.1 million (after payment of underwriter's fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service and redemption premiums on the refunded bonds. The debt defeasance resulted in an accounting loss of $10.7 million. It will, however, reduce total debt service payments over the next 14 years by $27.6 million, resulting in an economic gain of $27.1 million discounted at the rate of 2.3 percent.

In May 2015, the Commonwealth issued $214.3 million General Obligation Refunding Bonds, Series 2015B, pursuant to Sections 9(b) and 9(c) of Article X of the Constitution of Virginia, with a true interest cost (TIC) of 2.3 percent to refund $229.6 million of certain outstanding bonds. The bonds that were refunded include $118.4 million of outstanding Higher Education Institution Bonds, Series 2006B, 2007B, and 2008B and $111.2 million of Public Facilities Bonds, Series 2007B, 2008A, and 2008B. The net proceeds from the sale of the Refunding Bonds of $258.2 million (after payment of underwriter's fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service and redemption premiums on the refunded bonds. The debt defeasance resulted in an accounting loss of $24.1 million. It will, however, reduce total debt service payments over the next 22 years by $28.2 million, resulting in an economic gain of $23.3 million discounted at the rate of 2.1 percent.

In June 2015, VPBA issued $134.7 million of Series 2015B Public Facilities Revenue Refunding Bonds with a true interest cost (TIC) of 2.4 percent to refund $136.7 million of certain outstanding bonds. The bonds that were refunded include Public Facilities Revenue Bonds, Series 2005A, 2005B, 2006A, and 2008B. The net proceeds from the sale of the Refunding Bonds of $151.5 million (after payment of underwriter's fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service and redemption premiums on the refunded bonds. The debt defeasance resulted in an accounting loss of $13.7 million. It will, however, reduce total debt service payments over the next 14 years by $11.8 million resulting in an economic gain of $10.2 million discounted at the rate of 2.9 percent.

Component Units

Higher education institutions (nonmajor) participate in the Virginia College Building Authority Pooled Bond Program. In November 2014, the Virginia College Building Authority (VCBA) (major) issued $186.0 million of Series 2014B Pooled Bond Program refunding bonds. The bonds were issued to refund $8.8 million of its 2004A bonds, $25.3 million of its 2004B bonds, $15.0 million of its 2005A bonds, $57.8 million of its 2006A bonds, and $90.5 million of its 2007A bonds. The net proceeds from the sale of the refunding bonds of $215.0 million were deposited in an irrevocable trust with an escrow agent to provide for all future debt service on the defeased bonds. This defeasance resulted in an accounting loss of $15.4 million. Total debt service payments over the next 22 years will be reduced by $39.8 million resulting in a present value savings of $36.6 million discounted at the rate of 2.2 percent.

In April 2015, VCBA issued $204.9 million of Series 2015B 21st Century Program refunding bonds. The bonds were issued to refund $10.2 million of its 2007B bonds, $46.8 million of its 2008A bonds, and $123.4 million of its 2009A bonds. The net proceeds from the sale of the refunding bonds of $204.6 million were deposited in an irrevocable trust with an escrow agent to provide for all future debt service on the defeased bonds. This defeasance resulted in an accounting loss of $16.7 million. Total debt service payments over the next 12 years will be reduced by $17.2 million resulting in a present value savings of $15.0 million discounted at the rate of 2.5 percent.

The University of Virginia (nonmajor) issued $291.6 million of Series 2015A-1, 2015A-2, and 2015B bonds to refund $217.9 million of commercial paper and $109.7 million of Series 2003A and 2005 bonds. For additional information regarding these refundings, see the institution's individually published financial statements.

GASB Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt*, provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of June 30, 2015, there were $765.1 million in bonds from the primary government that have been refunded and defeased in-substance from the governmental activities column by placing existing assets and the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments. In addition, there were $1.9 billion in bonds and notes outstanding considered defeased from the component units.

Arbitrage Rebate

The Tax Reform Act of 1986 requires that governmental entities issuing tax-exempt debt 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. Governmental issuers must comply with the rebate regulations in order for their bonds to maintain 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 proceeds 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 liability, if any, must be paid every five years over the life of the bonds. Governmental issuers may elect to pay a penalty in lieu of rebate. Some bonds may be exempt from the rebate requirements if they qualify for certain regulatory exceptions. If the issuer meets one of the exceptions, the issuer retains any arbitrage earnings. Rebate and penalty payments are calculated and paid as required by law on bond issues that do not qualify for an exception.

Although rebatable arbitrage need only be calculated for tax purposes every fifth year that debt is outstanding, and consistent with modified accrual basis of accounting, is not recognized as a liability in governmental funds until amounts actually become due and payable, a liability is recognized in accrual basis government-wide statements as soon as the underlying event has occurred. Accordingly, as of June 30, 2015, the Commonwealth has recognized a government-wide liability of $1.2 million and the Virginia Resources Authority (major component unit) has recognized a liability of $177,630.

Amounts remitted to the federal government for rebate liability are generally paid from earnings derived from the issue. However, if all proceeds (including earnings) have been expended and depending on the type of issue, it may be necessary to use project revenues or general or nongeneral fund appropriations to satisfy any rebate liability. During fiscal year 2015, no rebate payments were owed on the Commonwealth's General Obligation Bonds, Virginia Public Building Authority, Commonwealth Transportation Board, or the Virginia College Building Authority 21st Century or Pooled Bond Programs, Virginia Public School Authority, or the Virginia Port Authority.

Capital Leases

The Commonwealth leases buildings and equipment under various agreements that are accounted for as capital leases. The lease agreements are for various terms and all leases contain nonappropriation clauses indicating that continuation of the lease is subject to funding by the General Assembly.

Gross minimum lease payments, together with the present value of the net minimum lease payments as of June 30, 2015, are shown in the following table (dollars in thousands).

	Governmental Activities	Business-Type Activities	Component Units (1)
2016	$ 17,011	$ 560	$ 8,664
2017	9,996	575	7,049
2018	9,010	589	6,892
2019	6,880	604	6,247
2020	6,685	619	6,233
2021-2025	18,659	3,333	26,187
2026-2030	6,127	3,771	25,846
2031-2035	2,145	4,267	13,560
2036-2040	2,329	4,828	714
2041-2045	891	2,114	650
2046-2050	-	-	1,281
Total Gross Minimum Lease Payments	79,733	21,260	103,323
Less: Amount Representing Executory Costs	(6,874)	-	-
Net Minimum Lease Payments	72,859	21,260	103,323
Less: Amount Representing Interest	(14,911)	(15,552)	(25,867)
Present Value of Net Minimum Lease Payments	$ 57,948	$ 5,708	$ 77,456

Note (1): The above amounts exclude capital lease obligations of foundations.

	Foundations (2)
2016	$ 164
2017	65
2018	24
2019	8
Net Minimum Lease Payments	261
Less: Amount Representing Interest	(10)
Present Value of Net Minimum Lease Payments	$ 251

Note (2): Foundations represent FASB reporting entities defined in Note 1.B.

At June 30, 2015, assets purchased under capital leases were included in depreciable capital assets as follows (dollars in thousands). The amounts are net of accumulated depreciation where applicable. For a portion of these assets, ownership will pass to the Commonwealth at the end of the lease term.

	Buildings	Equipment	Total
Governmental Activities:			
Gross Capital Assets	$ 176,097	$ 4,128	$ 180,225
Less: Accumulated Depreciation	(72,466)	(2,710)	(75,176)
Total Governmental Activities	$ 103,631	$ 1,418	$ 105,049
Business-Type Activities:			
Gross Capital Assets	$ 8,800	$ -	$ 8,800
Less: Accumulated Depreciation	(940)	-	(940)
Total Business-Type Activities	$ 7,860	$ -	$ 7,860
Component Units:			
Gross Capital Assets	$ 131,872	$ 5,527	$ 137,399
Less: Accumulated Depreciation	(46,023)	(3,249)	(49,272)
Subtotal (excluding Foundations)	85,849	2,278	88,127
Foundations:			
Gross Capital Assets	-	733	733
Less: Accumulated Depreciation	-	(469)	(469)
Subtotal Foundations	-	264	264
Total Component Units (3)	$ 85,849	$ 2,542	$ 88,391

Note (3): Land purchased under capital leases by the University of Virginia (nonmajor) is $8,095 (dollars in thousands).

Notes Payable

Notes Payable consist of several items as shown in the following schedule (dollars in thousands):

Primary Government	
Aviation Note	$ 307
Installment Notes	113,373
Total Primary Government	113,680
Component Units	
Virginia Public School Authority	185,850
Virginia Resources Authority	325
Nonmajor Component Units	1,897,444
Installment Notes	63,812
Subtotal (excluding Foundations)	2,147,431
Foundations:	
Notes Payable	272,503
Subtotal - Foundations	272,503
Total Component Units	2,419,934
Total Notes Payable	$ 2,533,614

The Department of Aviation (primary government) Note represents a loan agreement with the Virginia Resources Authority (major component unit) with an outstanding balance of $306,763. The purpose of the loan was to finance and refinance grants-in-aid made to the Peninsula Airport Commission to provide funding for capital improvements at the Newport News/Williamsburg International Airport. The principal amount shall be paid semi-annually with the final payment due in 2017.

The Virginia Public School Authority (major component unit) notes of $185.9 million are for the School Equipment Financing Notes Educational Technology program. The note proceeds were used to make grants to school divisions for the purchase of educational technology equipment. The notes will be repaid from appropriations to be made by the Virginia General Assembly from the Literary Fund (major special revenue).

The Virginia Resources Authority (major component unit) notes of $325,103 are Equipment and Term Financing loans.

An additional amount of $1.9 billion is comprised primarily of higher education institutions' (nonmajor component units) promissory notes with the Virginia College Building Authority (VCBA) (major component unit) to finance the construction of various higher education facilities. Interest rates range from 1.0 percent to 5.6 percent and shall be paid semi-annually. The final principal payment is due in 2045. The following higher education institutions (nonmajor component units) reported notes payables primarily for construction: Virginia Commonwealth University Health System Authority (Authority) (a blended component unit of the Virginia Commonwealth University – nonmajor component unit) $25.5 million, which includes $11.7 million reported by the University Health Services (a component unit of the Authority); Virginia State University $1.1 million; Norfolk State University $21,785; and the Institute for Advanced Learning and Research $786,731.

Various foundations (component units) have notes outstanding as of year-end. The purpose of a majority of these notes is for property acquisition, working capital, and construction. Future principal payments as of June 30, 2015, are shown in the following table (dollars in thousands).

Foundations' Notes Payable (Component Units) (1)

Maturity	Principal
2016	$ 7,623
2017	96,948
2018	37,444
2019	42,218
2020	5,191
Thereafter	83,079
Total	$ 272,503

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.

Installment purchase obligations have been entered into by agencies and institutions of the Commonwealth. These agreements, other than those in the component units and certain institutions of higher education, contain nonappropriation clauses indicating that continuation of the installment purchase obligations is subject to funding by the General Assembly. Installment purchase obligations represent $177.2 million of the total outstanding debt of the Commonwealth. Presented in the following tables are repayment schedules for installment purchase obligations as of June 30, 2015.

Installment Purchase Obligations - Governmental Funds
June 30, 2015

Maturity	Principal	Interest	Total
2016	$ 12,289,270	$ 3,243,564	$ 15,532,834
2017	12,080,965	2,859,375	14,940,340
2018	12,020,121	2,543,967	14,564,088
2019	12,269,062	2,219,999	14,489,061
2020	11,869,296	1,891,649	13,760,945
2021-2025	39,862,443	5,350,992	45,213,435
2026-2030	12,981,584	812,936	13,794,520
Total	$ 113,372,741	$ 18,922,482	$ 132,295,223

Installment Purchase Obligations - Component Units

Maturity	Principal	Interest	Total
2016	$ 12,670,375	$ 1,263,862	$ 13,934,237
2017	12,102,542	1,039,070	13,141,612
2018	11,840,351	808,807	12,649,158
2019	9,471,176	565,622	10,036,798
2020	5,068,702	388,725	5,457,427
2021-2025	11,429,160	809,378	12,238,538
2026-2030	1,229,662	64,215	1,293,877
Total	$ 63,811,968	$ 4,939,679	$ 68,751,647

The foundations (component units) had no installment purchase obligations as of June 30, 2015.

Lottery Prizes Payable

Lottery prizes are paid in 20, 25, 26, or 30 installments. The first installment is paid on the day the prize is claimed. The subsequent annual payments are funded with U.S. Treasury STRIPS purchased by the Virginia Lottery. For Life prizes payable represent estimated prizes payable monthly, quarterly or annually for the life of the winner based on life expectancy tables from the Virginia Bureau of Insurance, and funded with a pool of U.S. Treasury STRIPS.

Lottery prizes payable represent the future annual prize payments valued at cost plus accrued interest (present value of securities held to maturity) of the investment securities funding the payments.

Lottery prizes payable for the fiscal year ended June 30, 2015, are shown in the following table:

	Jackpot	Win For Life	Total
Due within one year	$ 13,139,234	$ 4,924,950	$ 18,064,184
Due in subsequent years	56,898,262	61,259,570	118,157,832
Total (present value)	70,037,496	66,184,520	136,222,016
Add:			
Interest to Maturity	26,462,504	35,377,480	61,839,984
Lottery Prizes Payable at Maturity	$ 96,500,000	$ 101,562,000	$ 198,062,000

Tuition Benefits Payable

The Virginia College Savings Plan administers the Virginia529 prePAID program. Virginia529 prePAID offers contracts at actuarially determined amounts that provide for future tuition and mandatory fee payments at state higher education institutions. The contract provisions also allow the benefits to be used for private or out-of-state institutions at differing amounts.

At June 30, 2015, tuition benefits payable of $2.1 billion have been recorded for the Virginia529 prePAID program on the statement of net position for the actuarially determined present value of future obligations anticipated for payment of benefits and administrative expenses for the Virginia529 prePAID program. In addition, a receivable in the amount of $209.3 million has been recorded to reflect the actuarially determined present value of future payments anticipated from contract holders.

27. OTHER REVENUE

The following table (dollars in thousands) summarizes Other Revenue for the fiscal year ended June 30, 2015.

	Assessments and Receipts for Support of Special Services	Fines, Forfeitures, Court Fees, Penalties, and Escheats	Receipts from Cities Counties, and Towns	Private Gifts, Grants, and Contracts	Sales of Property
Primary Government:					
General	$ 1,614	$ 217,674	$ 16,534	$ 775	$ 28,956
Major Special Revenue Funds:					
Commonwealth Transportation	19,637	11,167	140,421	9,696	886
Federal Trust	-	5,984	-	-	74
Literary	-	64,239	-	-	-
Nonmajor Governmental Funds	115,731	52,997	67,945	7,507	8,075
Nonmajor Enterprise Funds	-	14,008	-	-	-
Private Purpose Trust Funds	-	-	-	-	-
Pension and Other Employee Benefit Trust Funds	-	-	-	-	-
Total Primary Government	$ 136,982	$ 366,069	$ 224,900	$ 17,978	$ 37,991

	Tobacco Master Settlement	Taxes	E-Z Pass	Other (1)	Total Other Revenue
Primary Government:					
General	$ 48,207	$ -	$ -	$ 149,455	$ 463,215
Major Special Revenue Funds:					
Commonwealth Transportation	-	-	17,131	7,430	206,368
Federal Trust	-	-	-	111,323	117,381
Literary	-	-	-	308,847	373,086
Nonmajor Governmental Funds	-	-	-	101,922	354,177
Nonmajor Enterprise Funds	-	4,281	-	995	19,284
Private Purpose Trust Funds	-	-	-	13	13
Pension and Other Employee Benefit Trust Funds	-	-	-	2,164	2,164
Total Primary Government	$ 48,207	$ 4,281	$ 17,131	$ 682,149	$ 1,535,688

Note (1): $103,008 (dollars in thousands) is related to prior year expenditures refunded in the current fiscal year for the General Fund. $95,587 (dollars in thousands) is related to prior year expenditures refunded in the current fiscal year in the Federal Trust Fund. $308,700 (dollars in thousands) of the total amount recorded for the Literary Fund is related to unclaimed property. $31,079 (dollars in thousands) is related to indirect costs and court collection fees in the Other Special Revenue Fund, and the remaining $70,843 (dollars in thousands) is related to other miscellaneous charges and fees in the nonmajor governmental funds.

28. PRIZES AND CLAIMS

The following table summarizes Prizes and Claims Expense for the fiscal year ended June 30, 2015.

(Dollars in Thousands)

	Insurance Claims	Lottery Prize Expense	Total Prizes and Claims
Proprietary Funds:			
Major Enterprise Funds:			
Virginia Lottery	$ -	$ 1,104,203	$ 1,104,203
Unemployment Compensation	431,420	-	431,420
Nonmajor Enterprise Funds	336,049	-	336,049
Total Enterprise Funds	$ 767,469	$ 1,104,203	$ 1,871,672
Internal Service Funds	$ 1,314,498	$ -	$ 1,314,498

29. OTHER EXPENSES

The following table summarizes Other Expenses for the fiscal year ended June 30, 2015.

(Dollars in Thousands)

	Grants and Distributions To Localities	Expendable Equipment/ Improvements	Other (1)	Total Other Expenses
Proprietary Funds:				
Major Enterprise Funds:				
Virginia College Savings Plan	$ -	$ 351	$ 933	$ 1,284
Nonmajor Enterprise Funds	94	2,500	4,351	6,945
Total Enterprise Funds	$ 94	$ 2,851	$ 5,284	$ 8,229
Internal Service Funds	$ 1,673	$ 1,531	$ 16,898	$ 20,102
Pension and Other Employee Benefit Trust Funds (2)	$ -	$ -	$ 3,913	$ 3,913

Note (1): $7,729 (dollars in thousands) can be attributed to expenses related to closing cases and cyber insurance in the Risk Management internal service fund. $933 (dollars in thousands) can be attributed to the Virginia529 prePAID Program for the SOAR scholarship.

Note (2): Fiduciary expenses of $3,913 (dollars in thousands) are not included in the Government-wide Statement of Activities.

30. OTHER NON-OPERATING REVENUE/EXPENSES

The following table summarizes Other Non-Operating Revenue/Expenses for the fiscal year ended June 30, 2015.

(Dollars in Thousands)

	Loss on Sale of Capital Assets	Expenses for Securities Lending Transactions	Interest Expense	Federal Unemployment Tax Act	Other (1)	Total Other Non-Operating Revenue/ (Expenses)
Proprietary Funds:						
Major Enterprise Funds:						
Virginia Lottery	$ -	$ (95)	$ -	$ -	$ 416	$ 321
Virginia College Savings Plan	-	-	(182)	-	-	(182)
Unemployment Compensation	-	-	-	(51)	-	(51)
Nonmajor Enterprise Funds	(184)	(9)	(12,081)	-	8,655	(3,619)
Total Enterprise Funds	$ (184)	$ (104)	$ (12,263)	$ (51)	$ 9,071	$ (3,531)
Internal Service Funds	$ 900	$ (15)	$ (2,837)	$ -	$ 70	$ (1,882)

Note (1): Other Non-Operating Revenue/Expenses of the nonmajor enterprise funds are comprised of $9,063 (dollars in thousands) reported by the Department of Alcoholic Beverage Control and $11 (dollars in thousands) reported by the Department for the Blind and Vision Impaired and offset by $419 (dollars in thousands) of expenses reported by the Route 460 Funding Corporation of Virginia.

31. SPECIAL ITEM

Governmental Activities

The Route 460 and Route 29 roadway projects became permanently impaired during fiscal year 2015 due to work stoppage (see Note 12). The two projects were disposed during fiscal year 2015, resulting in an impairment loss of $134.6 million.

Business-type Activities

The Virginia Department of Transportation (VDOT) (part of primary government) terminated the Comprehensive Agreement between the Route 460 Funding Corporation of Virginia (Corporation) (nonmajor enterprise) and the Route 460 Mobility Partners, LLC, in June 2015 for VDOT's convenience. Accordingly, the Corporation's continuing operations will cease during fiscal year 2016. As a result of the termination of the Comprehensive Agreement, the U.S. Route 460 Corridor Improvements Project became permanently impaired during fiscal year 2015. The project was disposed during fiscal year 2015, resulting in an impairment loss of $131.4 million (see Note 12). The impairment loss is partially offset by the recovery of funds in the amount of $45.7 million. Additionally, VDOT is responsible for a convenience termination payment to the Corporation in the amount of $120.1 million. As discussed in Note 41, the outstanding bonds were redeemed in September 2015.

32. TRANSFERS

The following table summarizes Transfers In and Transfers Out for the fiscal year ended June 30, 2015 (dollars in thousands).

Transfers Out (Reported In):	Transfers In (Reported In): **General**	**Commonwealth Transportation**	**Federal Trust**	**Literary**	**Nonmajor Governmental Funds**
Primary Government					
General	$ -	$ 59,348	$ 15	$ -	$ 405,388
Major Special Revenue Funds:					
Commonwealth Transportation	56,758	-	46	-	324,010
Federal Trust	2	17,154	-	-	8,380
Nonmajor Governmental Funds	82,267	-	231	-	12,907
Major Enterprise Funds:					
Virginia Lottery	533,760	-	-	12,421	-
Virginia College Savings Plan	337	-	-	-	-
Unemployment Compensation	-	-	2,042	-	-
Nonmajor Enterprise Funds	164,334	-	-	24	15,510
Internal Service Funds	6,933	-	-	-	4,257
Total Primary Government	$ 844,391	$ 76,502	$ 2,334	$ 12,445	$ 770,452

Transfers are used to (1) move revenues from the fund that the *Code of Virginia* or budget requires to collect them to the fund that the *Code of Virginia* or budget requires to expend them; (2) move receipts restricted for debt service from the funds holding the resources to the debt service fund as principal and interest payments become due; and (3) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

During the fiscal year, the following significant transfers were made that do not occur on a routine basis or are inconsistent with the activities of the fund making the transfer.

Various nongeneral funds transferred approximately $69.8 million to the General Fund as required by Chapter 665, 2015 Virginia Acts of Assembly.

Nonmajor Enterprise Funds	Internal Service Funds	Total Primary Government
$ -	$ 2,014	$ 466,765
-	388	381,202
57	-	25,593
-	2,891	98,296
-	-	546,181
-	-	337
-	-	2,042
-	-	179,868
-	-	11,190
$ 57	$ 5,293	$ 1,711,474

33. ON-BEHALF PAYMENTS

Higher education institutions (nonmajor component units) received various on-behalf payments from foundations primarily for salary supplements and stipends during fiscal year 2015. Since the foundations are included as part of the higher education entity, most on-behalf payments were considered intrafund and were eliminated from the financial statements. On-behalf payments not eliminated for fiscal year 2015 totaled $91,027 and were recorded as program revenue – charges for services with corresponding expenses.

34. ENDOWMENTS

Donor restricted endowments reside primarily within the higher education institutions. The net appreciation available for expenditure is $1.4 billion as of June 30, 2015. Of this amount, $1.3 million is reported as unrestricted net position and the remainder is reported as restricted net position. The *Code of Virginia* authorizes acceptance of donations. The governing boards of these entities and the donor agreements determine whether net appreciation can be spent and the accepted spending rate. These policies are entity specific and vary with each institution.

35. CASH FLOWS – ADDITIONAL DETAILED INFORMATION

The following table (dollars in thousands) summarizes specific cash flows for the fiscal year ended June 30, 2015.

	Virginia Lottery	Virginia College Savings Plan	Unemployment Compensation
Cash Flows Resulting from:			
Payments for Prizes, Claims, and Loss Control:			
Lottery Prizes	$ (1,137,625)	$ -	$ -
Claims and Loss Control	-	-	(447,855)
Total	$ (1,137,625)	$ -	$ (447,855)
Other Operating Revenue:			
Receipts from Interest, Dividends, and Rents	$ -	$ (593)	$ -
Other Operating Revenue	-	-	45
Total	$ -	$ (593)	$ 45
Other Operating Expense:			
Other Operating Expenses (1)	$ -	$ (134)	$ -
Total	$ -	$ (134)	$ -
Other Noncapital Financing Receipt Activities:			
Advances/Contributions from the Commonwealth	$ -	$ -	$ -
Receipts from Taxes	-	-	-
Other Noncapital Financing Receipt Activities	499	-	25
Total	$ 499	$ -	$ 25
Other Noncapital Financing Disbursement Activities:			
Repayments of Advances/Contributions from the Commonwealth	$ -	$ -	$ -
Other Noncapital Financing Disbursement Activities	-	-	-
Total	$ -	$ -	$ -
Other Capital and Related Financing Disbursement Activities:			
Other Capital and Related Financing Disbursement Activities	$ -	$ -	$ -
Total	$ -	$ -	$ -

Note (1): $134,320 can be attributed to disbursements related to the Virginia529 prePAID Program for the SOAR scholarship. Also, $7,729 (dollars in thousands) can be attributed to disbursements related to closing cases and cyber insurance in the Risk Management internal service fund.

Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
$ -	$ (1,137,625)	$ -
(339,087)	(786,942)	(1,294,554)
$ (339,087)	$ (1,924,567)	$ (1,294,554)
$ -	$ (593)	$ -
6,056	6,101	-
$ 6,056	$ 5,508	$ -
$ (5,421)	$ (5,555)	$ (21,137)
$ (5,421)	$ (5,555)	$ (21,137)
$ 37,065	$ 37,065	$ -
214,281	214,281	-
210	734	153
$ 251,556	$ 252,080	$ 153
$ (26,563)	$ (26,563)	$ (1,900)
(130)	(130)	-
$ (26,693)	$ (26,693)	$ (1,900)
$ -	$ -	$ (632)
$ -	$ -	$ (632)

36. TOBACCO SETTLEMENT AND SECURITIZATION

On November 23, 1998, 46 states' Attorneys General and the major tobacco companies signed a proposed settlement that reimburses states for smoking-related medical expenses paid through Medicaid and other health care programs. At the time of the settlement, it was estimated that the Commonwealth could receive approximately $4.1 billion over the duration of the settlement. The settlement was approved in a Consent Decree in December 1998. On March 29, 1999, the General Assembly enacted a law approving the establishment of the Virginia Tobacco Indemnification and Community Revitalization Commission (Commission) (nonmajor component unit), in compliance with the Consent Decree, to help communities in Virginia hurt by the decline of tobacco.

The Commission was established for the purposes of determining the appropriate recipients of monies in the Tobacco Indemnification and Community Revitalization Fund. The monies are to be used to provide payments to tobacco farmers as compensation for the tobacco equipment and barns and lost tobacco production opportunities associated with a decline in quota. The monies are also to be used to revitalize tobacco dependent communities.

The General Assembly also created the Virginia Foundation for Healthy Youth (Foundation) (nonmajor component unit). The purpose of the Foundation is to determine the appropriate recipients of monies in the Virginia Tobacco Settlement Fund. The Foundation will also be responsible for distributing monies for the purposes provided in the legislation. Disbursements can be made to assist in financing efforts to restrict the use of tobacco products by minors, through educational and awareness programs describing the health effects of tobacco use on minors, and laws restricting the distribution of tobacco products to minors.

Additionally, the General Assembly created two special non-reverting funds. The Tobacco Settlement monies were accounted for in these funds and in the General Fund. Of the Settlement monies, 50.0 percent was deposited into the Tobacco Indemnification and Community Revitalization Fund at the Commission and 10.0 percent continues to be deposited into the Virginia Tobacco Settlement Fund at the Foundation. The remaining 40.0 percent continues to be reported in the General Fund.

Pursuant to Purchase and Sale Agreements executed in 2005 and 2007, the Commonwealth, acting as an agent on behalf of the Commission, sold the Commission's future right, title and interest in the Tobacco Settlement Revenues (TSRs) to the Tobacco Settlement Financing Corporation (Corporation) (related organization).

Consideration paid by the Corporation to the Commission for TSRs consisted of a cash amount deposited into an endowment to fund the long-term spending plan approved by the Commission. Bonds issued by the Corporation to finance the purchase price are asset-backed instruments secured solely by the Corporation's right to receive TSRs. At the time of issuance these revenues were expected to produce sufficient funds to repay the bond obligations issued by the Corporation.

The Commission is a nonmajor component unit of the Commonwealth, and the Corporation is disclosed as a related organization.

37. SERVICE CONCESSION ARRANGEMENTS

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, describes the criteria for when an arrangement is classified as a Service Concession Arrangement (SCA). The basic criteria are: the operator of the capital asset owned by the transferor has the right to provide services in exchange for significant consideration; the operator's revenue must come from a third party; the transferor must retain some level of control over the asset; and the transferor must receive significant residual interest at the conclusion of the arrangement.

Primary Government

The Commonwealth of Virginia has four SCAs as of June 30, 2015: Pocahontas 895, the 495 Express Lanes, Elizabeth River – Midtown Tunnel, and the 95 Express Lanes. They are all related to highway construction and operation and were established per the Public-Private Transportation Act of 1995, as amended (PPTA). PPTA project goals are to provide highway projects to the public in a timely and cost effective manner with private funding and support.

Pocahontas 895

On June 21, 2006, the Pocahontas Parkway Association (Association – previously reported as a blended component unit of the Virginia Department of Transportation (VDOT), part of primary government) signed an agreement with Transurban (895) LLC (Transurban). Under the terms of the agreement, all assets and rights of the Association under the Comprehensive Agreement with VDOT were transferred to Transurban. In exchange for the existing toll road and other assets, Transurban transferred sufficient funds and securities to pay or defease all outstanding bonds of the Association and pay all other outstanding obligations owed to VDOT. Additionally, Transurban agreed to construct an enhancement to the original toll road, and this enhancement was completed and placed in service in 2011.

During the 99-year agreement term, VDOT will have fee title or good and valid interest in the asset. VDOT retains the right of inspection of the asset and has outlined maximum toll charges and increases in the terms of the agreement. Capital assets of $337.2 million and deferred inflow balances of $518.0 million are included in the government-wide financial statements. No contractual liabilities exist for this arrangement as of June 30.

During fiscal year 2014, the Transurban Board approved the transfer of Pocahontas 895 to the lenders of the asset due to lower revenues than anticipated. On May 15, 2014, DBi Services assumed control of Pocahontas 895.

495 Express Lanes

On December 19, 2007, VDOT signed an 80-year public-private partnership agreement with Capital Beltway Express, LLC. The purpose of this agreement is to build new express lanes to provide users with a faster and more reliable travel option. The construction of the express lanes was completed in November 2012.

During the 80-year agreement, VDOT maintains regulatory control and jurisdiction of the express lanes. VDOT will have fee title or good and valid interest in the express lanes. The lanes will remain open for the public as long as the applicable tolls are paid. Capital assets of $959.5 million and deferred inflows of $1.0 billion are included in the government-wide financial statements. Liabilities are contingent on specific events occurring pursuant to the agreement.

Elizabeth River – Midtown Tunnel

On December 5, 2011, VDOT signed a 58-year public private partnership agreement with Elizabeth River Crossings OPCO, LLC. The purposes of this agreement are to build and operate a new tunnel that will be adjacent to the existing Midtown Tunnel for crossing the Elizabeth River, provide improvements to the existing Midtown Tunnel and the Downtown Tunnel, and to provide various extensions and improvements of the MLK Freeway and I-264.

During the agreement, Elizabeth River Crossings OPCO, LLC will operate and maintain the road. The revenue source for the concessionaire will be toll collections, excluding the MLK Freeway, which will be used for maintenance, operating and return on investment for constructing the project. At the end of the 58-year term, control of and the rights to operate the facilities will revert back to VDOT. Since assets related to this project will not be operational until fiscal year 2017, no capital assets, liabilities, or deferred inflows of resources have been included in the financial statements.

95 Express Lanes

On July 31, 2012, VDOT signed a 73-year public private partnership agreement with 95 Express Lanes, LLC. This project will create approximately 29 miles of Express Lanes on I-95 in Northern Virginia. The project will also add capacity to the existing HOV Lanes. The construction of the express lanes was completed in December 2014.

During the agreement, 95 Express Lanes LLC will operate and maintain the road. The revenue source for the concessionaire will be toll collections which will be used for maintenance, operating and return on investment for constructing the project. At the end of the 73-year term, control of and the rights to operate the facilities will revert back to VDOT. The lanes will remain open for the public as long as the applicable tolls are paid. Capital assets of $612.2 million and deferred inflows of $628.5 million are included in the government-wide financial statements. Liabilities are contingent on specific events occurring pursuant to the agreement.

Component Units

Aramark – Dining Services

During the year ended June 30, 2015, the University of Virginia (nonmajor) entered into an agreement with Aramark Educational Services, LLC (Aramark) for Aramark to provide dining services to the University. In return for use of University facilities, Aramark is required to make certain payments to the University and the University is required to provide certain repair and maintenance services related to the facilities during the term of the agreement. As of June 30, 2015, the University has accrued a $19.9 million receivable, a $13.5 million liability and a $73.0 million deferred inflow of resources related to the service concession arrangement.

38. INFORMATION TECHNOLOGY INFRASTRUCTURE PARTNERSHIP – NORTHROP GRUMMAN

The Comprehensive Infrastructure Agreement (CIA) is a contract, executed on November 13, 2005, between the Commonwealth of Virginia (Commonwealth) acting through the Virginia Information Technologies Agency (VITA) and Northrop Grumman Systems Corporation (NG). The Commonwealth's primary goal is to significantly improve the Commonwealth's IT infrastructure and the manner in which such infrastructure is operated, supported, and maintained for the following service towers: Cross-Functional Services, Desktop Computing Services, Data Network Services, Voice and Video Telecom Services, Mainframe and Server Services, Help Desk Services, Messaging Services, Security Services, Internal Application Services, and Data Center facilities.

On March 31, 2010, contract revisions to the CIA were completed between the Commonwealth and Northrop Grumman. As a result of the contract changes, the Commonwealth renewed the contract for an additional three years, the parties established the products and services covered in the contractual cap including the baseline quantities to be billed and the prices at which those quantities will be billed, a shortened formula for contract year ten cost of living adjustment, and increased resolution and disentanglement fees. These contract changes are intended to provide improved performance to the VITA customer agencies, provide greater accountability and operational efficiencies for the services provided, and resolve outstanding financial issues. Additional contract revisions to the CIA have been completed between the Commonwealth and Northrop Grumman in the years since 2010. The contract term expires June 30, 2019.

Expenses associated with the CIA in fiscal year 2015 are $292.9 million, including payments to Northrop Grumman of $245.6 million. The Commonwealth expects to spend an additional $1.1 billion over the next four fiscal years.

The Commonwealth may terminate the CIA due to a variety of reasons including the Commonwealth's convenience; a significant change of control in the equity interests in NG; NG's failure to implement satisfactory improvements; or, NG's failure to prevent service interruption of 15 days or more. In these instances, the Commonwealth will be required to pay exit and resolution fees as outlined in the CIA. Additional causes for termination that do not require the payment of exit or resolution fees are NG's default on the CIA terms, the Commonwealth's lack of funds, or NG's incurrence of liabilities equal to or more than 75.0 percent of the direct damages cap. NG may terminate the CIA only if the Commonwealth owes an aggregate amount in excess of $100.0 million that is more than 30 days past due and not being disputed in good faith. The Commonwealth may be required to pay exit and resolution fees, as outlined in the CIA, if NG terminates the CIA. Fees resulting from the termination of the agreement are expected to be significant to the Commonwealth. However, exit fees are subject to the appropriation, allocation and availability of Commonwealth funds. Further, if the Commonwealth and NG terminate the business relationship at the conclusion of the CIA term, the Commonwealth could incur significant costs to obtain and transition the IT infrastructure necessary to continue the Commonwealth's operations.

39. CONTINGENCIES

A. Grants and Contracts

The Commonwealth has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the Commonwealth.

Institutions of higher education (component units) and other state agencies are required to comply with various federal regulations issued by the Office of Management and Budget, if such agencies are recipients of federal grants, contracts, or other sponsored agreements. Failure to comply with certain requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. It is believed that the ultimate disallowance pertaining to these regulations, if any, will be immaterial to the overall financial condition of the Commonwealth.

The U.S. Department of Health and Human Services (DHHS) Office of the Inspector General conducted a review and indicated that the Commonwealth's Statewide Indirect Cost Allocation Plan rates have allowed over-recoveries and transfers in the internal service funds. The U.S. DHHS has received the 2016 cost allocation plan which is based on fiscal year 2014 data. The Commonwealth has computed a liability of $3.1 million pertaining to internal service fund transfers and over-recoveries as of June 30, 2015. The Commonwealth has computed an additional $18.4 million representing the federal share of various rebates received. Both amounts have been reflected in the accompanying financial statements. The Commonwealth is currently appealing a DHHS determination letter indicating that an additional amount may be owed.

Virginia's combined overpayment and underpayment SNAP error rate for fiscal year 2014 was 4.7 percent. The national performance measure (national average payment error rate) for fiscal year 2014 was 3.7 percent. The SNAP error rate may have been inconsistently reported and there is a reasonable possibility that the Commonwealth may owe an additional amount not expected to exceed $2.2 million.

Under the Food and Nutrition Act of 2008 (the Act), a 2-year liability system for excessive payment error rates is in place. Under this system, a liability amount shall be established when, for the second or subsequent consecutive fiscal year, FNCS (Food, Nutrition, and Consumer Services) determines that there is a 95.0 percent statistical probability that a State's payment error rate exceeds 105.0 percent of the national performance measure for payment error rates. Virginia was notified that FY 2014 fell within the tolerance level and will not count as a first year for the Virginia Department of Social Services.

The Virginia Tourism Authority (nonmajor component unit) had unclaimed awards totaling $1.9 million payable to awardees upon submission of proper claims for reimbursement for the Marketing Leverage Program. Additionally, the Authority had unclaimed awards totaling $115,104 payable to awardees upon submission of proper claims for reimbursement for the Sesquicentennial Marketing Program. In addition, the program has $46,358 in funding that had not been awarded to specific grantees.

B. Litigation

The Commonwealth is named as a party in legal proceedings and investigations that occur in the normal course of governmental operations, some involving substantial amounts. It is not possible at the present time to estimate the ultimate outcome or liability, if any, of the Commonwealth in respect to the various proceedings; however, it is believed that any ultimate liability resulting from these suits or investigations will not have a material, adverse effect on the financial condition of the Commonwealth.

C. Subject to Appropriation

Both the primary government and the discretely presented component units enter into agreements and issue debt secured solely by future appropriations from the General Fund of the Commonwealth. The primary government has leases and other agreements of such debt of $2.7 billion. The discretely presented component units have such debt of $3.6 billion.

D. Bailment Inventory

The Department of Alcoholic Beverage Control (ABC) houses and controls bailment inventory in the warehouse and is therefore responsible for the exercise of reasonable care to preserve the inventory until it is purchased by ABC or returned to the supplier. ABC uses the bailment system for payment of merchandise for resale. ABC initiates payments to the vendors based on shipments from the ABC warehouse to the retail stores, rather than receipt of invoice from the vendor. At June 30, 2015, the bailment inventory was valued at $43.0 million.

E. Loan Guarantees

The Assistive Technology Loan Fund Authority (nonmajor component unit) has an alternative financing program which provides guarantees of loans made and serviced by its banking partner. As of June 30, 2015, there was approximately $89,492 of guaranteed loans held by the Authority's banking partner.

The Virginia Small Business Financing Authority (VSBFA) (nonmajor component unit) has a loan guaranty program which provides guarantees up to the lesser of $500,000, or 75.0 percent, of a bank loan for lines of credit and short-term working capital loans for small businesses authorized by Section 2.2-2285 of the *Code of Virginia*. The relationship of the Commonwealth to the issuer or issuers of the obligations are private banks that contact VSBFA to obtain guarantees if they deem it necessary to approve the loan. The VSBFA staff underwrites the request for guarantees, and the Board of Directors makes the credit decision to approve or decline the loan. The Board has given VSBFA staff delegated authority to approve requests up to, and including, $500,000. The Board reviews all loan packages and ratifies all decisions. The length of time for the guarantees is up to five years for lines of credit and seven years for term loans. Upon a default or event of default under the loan documents and payment by VSBFA under the Guaranty Agreement, the borrower and the guarantor(s), jointly and severally, acknowledge and agree that VSBFA may set off, collect and retain any payments or monies due or owing the borrower or any guarantor from the Commonwealth of Virginia, and/or any governmental authority or agency of the Commonwealth. VSBFA submits collections to the Office of the Attorney General, Division of Debt Collection for legal action and collection of debt. As of June 30, 2015, the loan guaranty program has guarantees outstanding of $7.4 million and cash pledged as collateral of $10.7 million.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees,* requires that certain information be disclosed regarding selected nonexchange financial guarantees. As of June 30, 2015, the VSBFA recognized a nonexchange financial guarantee liability of $147,892. This is a reduction of $1,986 from the beginning balance of $149,878. There were no required payments made during fiscal year 2015. Additionally, there have been no cumulative amounts paid on these outstanding loan guarantees nor are there any expected recoveries.

F. Regional Wet Weather Management Plan

Hampton Roads Sanitation District (HRSD) (nonmajor component unit) is party to a federal consent decree with the federal and state governments (the Consent Decree), which requires the HRSD to evaluate the wet weather capacity of the regional sewer system, including collection systems owned by 13 of the localities which the HRSD serves in the Hampton Roads area. Based upon that evaluation, the HRSD, in consultation with the localities, is required to develop a regional wet weather management plan (RWWMP) for submittal to the federal and state environmental agencies for their approval.

The HRSD and the localities believe that addressing wet weather capacity issues from a regional perspective will result in the most affordable and cost-effective approach for rate payers throughout the region. Toward that end, the HRSD and the localities entered into a legally binding Memorandum of Agreement in March of 2014 (the MOA). The MOA commits HRSD to (1) develop the RWWMP in consultation with the localities, (2) fund the approved plan through a regional rate imposed on all regional ratepayers, (3) design and construct the necessary improvements, and (4) assume responsibility for wet weather capacity throughout the region in each area once the RWWMP is implemented. In exchange, the localities have agreed to (1) cooperate with the HRSD, (2) facilitate the construction of and accept ownership of any improvements which the HRSD may need to construct in the localities' systems, and (3) maintain the integrity of their systems to industry standards. The Consent Decree and MOA also contemplate that the localities' obligation to maintain the integrity of their sewer systems to industry standards will be embodied in a State administrative order by the end of 2014. While the HRSD is preparing the RWWMP, the Consent Decree also requires the HRSD to implement approximately $200.0 million in priority capital system upgrade projects over a 9-year period, which are included in the capital improvement and expansion program. The HRSD is on schedule to complete these projects. The HRSD has a major capital improvement and expansion program funded through the issuance of debt and its own resources. As of June 30, 2015, the HRSD has outstanding commitments for contracts in progress of approximately $166.6 million.

40. PENDING GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT

The GASB has issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Both statements will significantly impact the Commonwealth's reporting disclosures and accrued other postemployment benefit liability amounts. The Virginia Retirement System and the Department of Human Resource Management will implement GASB Statement No. 74 in fiscal year 2017. The Commonwealth will implement GASB Statement No. 75 in fiscal year 2018.

41. SUBSEQUENT EVENTS

Primary Government

Debt

On September 17, 2015, the Route 460 Funding Corporation of Virginia (Corporation) (nonmajor enterprise) closed on the Extraordinary Mandatory Redemption of its Series 2012 Toll Road Senior Lien Revenue Bonds. Funds from the Corporation, together with certain amounts contributed from other entities, were used to provide the cash that was deposited in an irrevocable redemption account to redeem the Series 2012A and B Bonds. U.S. Bank National Association, the Trustee, paid the redemption cost of the Series 2012A Bonds and redeemed the Series 2012A bonds, at the Amortized Redemption Price on September 17, 2015. The Trustee paid the redemption cost of the

Series 2012B Bonds and redeemed the Series 2012B Bonds, at the Accreted Value on September 17, 2015. As part of that transaction, the Corporation transferred from its operating account $164.8 million to the Trustee. Those funds in conjunction with the September 17, 2015, balance of the Corporation's restricted cash, cash equivalents, and investments already held with the Trustee totaling $155.5 million, were placed into an irrevocable redemption account held with the Trustee to provide for all future debt service payments on the bonds.

Other

Subsequent to June 30, 2015, Property Management (internal service fund) signed a new operating lease beginning July 1, 2015 with future payments of $23.1 million.

On September 16, 2015, the Virginia Department of Transportation (VDOT) terminated for default a May 2013 contract entered into with Serco Inc., for $382.7 million over six years. This contract was for the operation of five transportation operations centers in addition to managing the Highway Safety Service Patrol. VDOT is currently evaluating its rights and remedies as a result of the contract default. The exit period for this contract will be by May 1, 2016. The value of this contract at June 30, 2015, was $308.4 million.

Component Units

Debt

Subsequent to June 30, 2015, the Virginia Resources Authority (VRA) (major) issued bonds in the amount of $70.1 million, dated July 29, 2015. The interest rates range from 0.2 percent to 5.0 percent with a final due date of November 1, 2035.

On July 30, 2015, the Virginia Public School Authority (VPSA) (major) issued $98.5 million of Special Obligation School Financing Bonds, Prince William County Series 2015. The Bonds will be used by the County to finance a portion of the costs of certain capital improvements to the County school system.

On July 16, 2015, George Mason University (nonmajor) signed a $54.8 million construction phase services contract with the Whiting-Turner Contracting Company for the construction of the Academic VII/Research III building (the Health and Human Services Building) on the Fairfax Campus.

On August 5, 2015, the Virginia Housing Development Authority (major) issued $22.6 million of Rental Housing Bonds. The interest rates range from 0.7 percent to 4.0 percent with a final due date of August 1, 2045.

On August 13, 2015, the Virginia College Building Authority (VCBA) (major) issued its $290.1 million Educational Facilities Revenue Bonds (21st Century College and Equipment Programs), Series 2015D. The Bonds will provide funding for authorized VCBA capital and equipment projects at public institutions of higher education around the Commonwealth.

On October 20, 2015, the Virginia Polytechnic Institute and State University (VPI&SU) (nonmajor) issued Series 2015 Revenue Bonds totaling $62.2 million. The bonds consisted of the following: $51.4 million Series 2015A Dormitory and Dining Hall Systems and General Revenue Pledge Bonds, $510,000 Series 2015B Athletic Facilities System and General Revenue Pledge Bonds, $3.3 million Series 2015C University Services System and General Revenue Pledge Bonds, $4.4 million Series 2015D Utility Systems and General Revenue Pledge Bonds, $2.6 million Series 2015E General Revenue Pledge Refunding Bonds. The bond proceeds will be used for the following: finance certain capital projects; repay temporary financing provided through the Commercial Paper Program; and the outstanding principal amount of the University's General Revenue Pledge Refunding Bonds, Series 2004A maturing, or subject to mandatory sinking fund redemption, in the years 2017 to 2020; and finance costs associated with the issuance of the Bonds.

On October 30, 2015, the Rector and Visitors of the University of Virginia (nonmajor) on behalf of the Medical Center and Novant Health, Inc. (Novant) entered into an agreement to form a joint operating company effective January, 2016 to operate Culpeper Regional Hospital, Novant Health Haymarket Medical Center, Novant Health Prince William Medical Center, Novant Health Cancer Center at Lake Manassas and other Novant assets as one entity. The joint operating company has two members, the Medical Center and Novant. The equity in the joint operating company will be owned 60.0 percent and 40.0 percent by Novant and the Medical Center, respectively.

On November 19, 2015, VPSA issued $49.4 million of School Financing Bonds (1997 Resolution) Series 2015C to purchase certain general obligation local school bonds to finance capital projects for public schools.

On December 3, 2015, VCBA (nonmajor) issued $53.6 million in Educational Facilities Revenue Bonds, Series 2015A and $153.9 million in Education Facilities Revenue Refunding Bonds, Series 2015B under the Public Higher Education Financing Program (the "Pool Program"). The VCBA used the proceeds of the Series 2015A Bonds to acquire Institutional Notes from participating public institutions of higher education. Each participating Institution will use the proceeds of its Institutional Note to finance capital projects approved by the General Assembly. The VCBA will use the proceeds of the Series 2015B Bonds to refund certain prior Authority Bonds issued under the Pool Program.

Other

Subsequent to June 30, 2015, the Virginia Commonwealth University announced the formation of the VCU Investment Management Company (VCIMCO), an independent 501(c)(3) foundation to advise the University and its affiliated foundations on the management of its assets. Investing activities by VCIMCO are to begin early 2016. Its primary objective in managing the assets is to maximize long-term real return commensurate with the risk tolerance of the VCU entities.

Subsequent to June 30, 2015, the City Council of Richmond, Virginia (the City) approved a proposal that will allow the Virginia Port Authority (VPA) (nonmajor) to extend its lease of the Port of Richmond for 40 additional years. The existing lease was scheduled to expire in October 2016. The lease, when consummated, will provide the VPA with, among other things, the ability to appoint a terminal operator, and have right of first refusal with respect to any sale or transfer by the City of all or any portion of the leased premises. The ultimate lease payments are expected to be on an annual basis, with the ultimate amount contingent upon certain economic development results to be determined between the VPA and the City.

On July 1, 2015, an Agreement for Shared Services entered between the VPA, the Virginia International Terminals, LLC (VIT) (a blended component unit of the Virginia Port Authority (VPA) – nonmajor) and Hampton Roads Chassis Pool II (HRCP II) in August 2014 included Information Technology support. Costs are billed to each entity based on a budgeted allocation with a true-up to actual cost on a quarterly but no less than annual frequency. On July 1, 2015, all Information Technology personnel were transferred from the VIT to the Authority, consistent with the goal of streamlining the administration of The Port of Virginia and reducing costs.

On October 30, 2015, the Hampton Roads Sanitation District Commission (nonmajor) closed on a $90.0 million credit agreement (the Agreement) that provides funding for the capital improvement program. The Agreement will be available through June 30, 2016, with the option for an extension upon mutual agreement. Interest is based on 70.0 percent of the 1-month London Interbank Offered Rate (LIBOR) rate plus 0.4 percent per annum.

Required Supplementary Information

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Major Special Revenue Funds

Fiscal Year Ended June 30, 2015
(Dollars in Thousands)

	General Fund			
	Original Budget	Final Budget	Actual	Final/Actual Variance Positive (Negative)
Revenues:				
Taxes:				
Individual and Fiduciary Income	$ 12,349,900	$ 11,816,300	$ 12,328,675	$ 512,375
Sales and Use	3,561,970	3,568,100	3,587,849	19,749
Corporation Income	816,600	840,900	831,907	(8,993)
Motor Fuel	-	-	-	-
Motor Vehicle Sales and Use	-	-	-	-
Communications Sales and Use	440,000	425,000	417,209	(7,791)
Deeds, Contracts, Wills, and Suits	381,056	328,300	354,461	26,161
Premiums of Insurance Companies	290,900	320,500	300,641	(19,859)
Alcoholic Beverage Sales	198,800	204,400	207,802	3,402
Tobacco Products	179,100	178,820	178,996	176
Estate	-	-	98	98
Public Service Corporations	97,700	96,800	98,537	1,737
Other Taxes	20,205	21,847	30,251	8,404
Rights and Privileges	89,626	87,192	78,654	(8,538)
Sales of Property and Commodities	1,337	3,445	28,930	25,485
Assessments and Receipts for Support of Special Services	850	900	1,582	682
Institutional Revenue	42,711	41,796	38,240	(3,556)
Interest, Dividends, and Rents	60,677	62,629	54,626	(8,003)
Fines, Forfeitures, Court Fees, Penalties, and Escheats	213,345	205,323	216,698	11,375
Federal Grants and Contracts	6,418	6,414	6,416	2
Receipts from Cities, Counties, and Towns	9,333	10,033	16,533	6,500
Private Donations, Gifts and Contracts	486	475	775	300
Tobacco Master Settlement	53,209	51,086	48,207	(2,879)
Other	264,956	184,546	158,807	(25,739)
Total Revenues	19,079,179	18,454,806	18,985,894	531,088
Expenditures:				
Current:				
General Government	2,895,523	2,334,088	2,273,965	60,123
Education	8,000,322	7,977,968	7,928,734	49,234
Transportation	204	2,367	836	1,531
Resources and Economic Development	408,423	465,224	413,053	52,171
Individual and Family Services	5,923,217	5,827,264	5,765,208	62,056
Administration of Justice	2,556,220	2,608,951	2,586,618	22,333
Capital Outlay	24,130	31,380	6,510	24,870
Total Expenditures	19,808,039	19,247,242	18,974,924	272,318
Revenues Over (Under) Expenditures	(728,860)	(792,436)	10,970	803,406
Other Financing Sources (Uses):				
Transfers:				
Transfers In	807,406	864,788	866,913	2,125
Transfers Out	(440,696)	(431,678)	(468,029)	(36,351)
Bonds Issued	-	-	-	-
Premium on Debt Issuance	-	-	-	-
Total Other Financing Sources (Uses)	366,710	433,110	398,884	(34,226)
Revenues and Other Sources Over (Under) Expenditures and Other Uses	(362,150)	(359,326)	409,854	769,180
Fund Balance, July 1	1,349,301	1,349,301	1,349,301	-
Fund Balance, June 30	$ 987,151	$ 989,975	$ 1,759,155	$ 769,180

See notes on page 181 in this section.

Special Revenue Funds			
Commonwealth Transportation Fund			
Original Budget	Final Budget	Actual	Final/Actual Variance Positive (Negative)
$ -	$ -	$ -	$ -
1,374,262	1,236,725	1,347,089	110,364
-	-	-	-
810,844	907,243	829,956	(77,287)
875,212	814,200	846,193	31,993
-	-	-	-
83,200	77,100	85,945	8,845
150,400	150,397	150,397	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
67,390	64,630	67,433	2,803
633,863	539,050	556,740	17,690
-	556	20,324	19,768
16,825	19,866	19,644	(222)
-	-	-	-
12,566	12,355	22,041	9,686
10,969	9,962	11,891	1,929
913,305	1,059,345	1,330,384	271,039
179,210	205,804	138,919	(66,885)
25	25	9,373	9,348
-	-	-	-
26,361	22,411	26,038	3,627
5,154,432	5,119,669	5,462,367	342,698
104,713	84,598	74,056	10,542
2,417	1,099	1,090	9
5,120,816	5,986,034	5,289,482	696,552
15,944	14,617	12,355	2,262
-	-	-	-
9,767	9,767	9,766	1
37,023	75,487	14,300	61,187
5,290,680	6,171,602	5,401,049	770,553
(136,248)	(1,051,933)	61,318	1,113,251
33,096	33,096	77,765	44,669
(420,836)	(395,874)	(381,202)	14,672
274,980	274,980	274,980	-
26,013	26,013	26,013	-
(86,747)	(61,785)	(2,444)	59,341
(222,995)	(1,113,718)	58,874	1,172,592
2,234,932	2,234,932	2,234,932	-
$ 2,011,937	$ 1,121,214	$ 2,293,806	$ 1,172,592

Continued on next page

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Major Special Revenue Funds *(Continued from previous page)*

Fiscal Year Ended June 30, 2015
(Dollars in Thousands)

	Special Revenue Funds			
	Federal Trust			
	Original Budget	Final Budget	Actual	Final/Actual Variance Positive (Negative)
Revenues:				
Taxes:				
Individual and Fiduciary Income	$ -	$ -	$ -	$ -
Sales and Use	-	-	-	-
Corporation Income	-	-	-	-
Motor Fuel	-	-	-	-
Motor Vehicle Sales and Use	-	-	-	-
Communications Sales and Use	-	-	-	-
Deeds, Contracts, Wills, and Suits	-	-	-	-
Premiums of Insurance Companies	-	-	-	-
Alcoholic Beverage Sales	-	-	-	-
Tobacco Products	-	-	-	-
Estate	-	-	-	-
Public Service Corporations	-	-	-	-
Other Taxes	-	-	-	-
Rights and Privileges	-	-	-	-
Sales of Property and Commodities	14	501	-	(501)
Assessments and Receipts for Support of Special Services	-	-	-	-
Institutional Revenue	-	-	-	-
Interest, Dividends, and Rents	376	527	716	189
Fines, Forfeitures, Court Fees, Penalties, and Escheats	3,663	3,397	7,273	3,876
Federal Grants and Contracts	7,510,001	7,436,222	8,374,296	938,074
Receipts from Cities, Counties, and Towns	-	-	-	-
Private Donations, Gifts and Contracts	-	-	-	-
Tobacco Master Settlement	-	-	-	-
Other	132,448	167,888	143,031	(24,857)
Total Revenues	7,646,502	7,608,535	8,525,316	916,781
Expenditures:				
Current:				
General Government	150,730	165,900	149,349	16,551
Education	932,434	935,253	943,378	(8,125)
Transportation	35,091	31,240	14,011	17,229
Resources and Economic Development	168,052	188,750	162,459	26,291
Individual and Family Services	6,277,050	6,183,330	7,177,937	(994,607)
Administration of Justice	55,453	73,701	42,301	31,400
Capital Outlay	18,498	21,843	12,318	9,525
Total Expenditures	7,637,308	7,600,017	8,501,753	(901,736)
Revenues Over (Under) Expenditures	9,194	8,518	23,563	15,045
Other Financing Sources (Uses):				
Transfers:				
Transfers In	-	-	2,030	2,030
Transfers Out	(9,194)	(8,518)	(25,593)	(17,075)
Bonds Issued	-	-	-	-
Premium on Debt Issuance	-	-	-	-
Total Other Financing Sources (Uses)	(9,194)	(8,518)	(23,563)	(15,045)
Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	-	-	-
Fund Balance, July 1	-	-	-	-
Fund Balance, June 30	$ -	$ -	$ -	$ -

See notes on page 181 in this section.

Notes for Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Major Special Revenue Funds

1. Basis of Budgeting vs. Modified Accrual Basis Fund Balance (1)

Since the presentation of financial data on the basis of budgeting differs from that presented under accounting principles generally accepted in the United States of America, a schedule reconciling the fund balance on a budgetary basis at June 30, 2015, to the fund balance on a modified accrual basis follows.

Fund Balance Comparison
Budgetary Basis to GAAP Basis

(Dollars in Thousands)

	General Fund	Commonwealth Transportation Fund	Federal Trust Fund
Fund Balance, Basis of Budgeting	$ 1,759,155	$ 2,293,806	$ -
Adjustments from Budget to Modified Accrual:			
Accrued Revenues:			
Taxes	618,727	142,083	-
Tax Refunds	(452,947)	-	-
Other Revenue/Other Sources	56,850	68,110	572,688
Unearned Taxes (2)	(64,497)	-	-
Medicaid Payable	(327,236)	-	(336,886)
Accrued Expenditures/Other Uses	(741,696)	(232,892)	(120,366)
Fund Balance, Modified Accrual Basis	$ 848,356	$ 2,271,107	$ 115,436

1. As discussed in Note 1.E., the Literary Fund has no approved budget.
2. See also Note 1.R.

2. Appropriations

The amounts presented in the Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Major Special Revenue Funds are principally on a cash basis and represent the original budget adopted by the General Assembly and all supplemental appropriations and transfers. The following schedule reconciles original appropriations to the final adjusted expenditure appropriations for the General Fund and Major Special Revenue Funds, at June 30, 2015, except the Literary Fund which has no approved budget.

(Dollars in Thousands)	General Fund (10)	Commonwealth Transportation Fund	Federal Trust Fund (11)
Appropriations (1)	$ 19,808,039	$ 5,290,680	$ 7,637,308
Supplemental Appropriations:			
Reappropriations (2)	234,266	46,310	20,640
Subsequent Executive (3)	124,396	846,680	295,133
Subsequent Legislative (4)	(617,008)	(413)	(324,950)
Capital Outlay and Operating Reversions (5)	(5,480)	-	(1,551)
Deficit (6)	273	-	-
Transfers (7)	(245,446)	(101)	(8,408)
Capital Outlay Adjustment (8)	(51,798)	(7,845)	(18,155)
Debt Service Adjustment (9)	-	(3,709)	-
Appropriations, as adjusted	$ 19,247,242	$ 6,171,602	$ 7,600,017

1. Represents the budget appropriated through Chapter 2, 2014 Acts of Assembly, as amended by Chapter 665, 2015 Acts of Assembly.
2. Actions taken to reappropriate any prior year unexpended balances per authority of the language in the Appropriation Act.
3. Actions taken by the Governor to carry forward any prior year unexpended balances, sum sufficient authority, and year 2 to year 1 reductions (General Fund) and actions taken to appropriate any additional revenues collected so that they can be legally spent (Special Revenue Funds).
4. Actions taken by the Governor and the General Assembly to adjust the budget.
5. Represents reversions of unexpended capital outlay and operating balances.
6. Represents additional appropriations authorized subsequent to the 2015 General Assembly Session for legal expenses.
7. Represents transfers required by the Appropriation Act. Transfers out are reduced by approximately $1.5 billion (General Fund) and $5.1 million (Commonwealth Transportation Fund) for transfers to component units and fiduciary funds that have been reclassified as expenditures in accordance with GASB Statement No. 34.
8. Capital outlay appropriations cover the projects' lives and usually extend beyond the current fiscal year. These amounts have been adjusted to report the amount authorized for expenditure during the current fiscal year.
9. The Commonwealth Transportation Fund appropriations have been adjusted for debt service.
10. Budgetary reductions totaling $18.5 million are excluded since they were not available for disbursement during the current fiscal year.
11. Appropriations do not include food stamp issuances of $1.2 billion since this is a noncash item; however, this amount is included in actual expenditures.

Schedule of Changes in Employers' Net Pension Liability (1) (2)

Fiscal Year Ended June 30, 2015
(Dollars in Thousands)

Change in the Net Pension Liability	VRS State 2016	VRS State 2015	VRS Teacher 2016	VRS Teacher 2015	VRS Political Subdivisions 2016	VRS Political Subdivisions 2015
Total pension liability:						
Service cost	$ 375,149	$ 369,120	$ 828,901	$ 831,501	$ 530,945	$ 524,758
Interest	1,482,951	1,436,064	2,834,138	2,722,788	1,309,484	1,243,386
Benefit changes	-	-	-	-	1,135	-
Difference between actual and expected experience	59,923	-	(212,089)	-	(185,419)	-
Assumption changes	-	-	-	-	-	-
Benefit payments	(1,136,102)	(1,081,866)	(1,980,353)	(1,874,636)	(819,201)	(754,706)
Refunds of contributions	(27,724)	(25,036)	(36,058)	(36,103)	(36,898)	(36,876)
Net change in total pension liability	754,197	698,282	1,434,539	1,643,550	800,046	976,562
Total pension liability - beginning	21,766,933	21,068,651	41,495,883	39,852,333	19,135,008	18,158,446
Total pension liability - ending (a)	$ 22,521,130	$ 21,766,933	$ 42,930,422	$ 41,495,883	$ 19,935,054	$ 19,135,008
Plan fiduciary net position:						
Contributions - employer	$ 480,657	$ 343,259	$ 1,267,250	$ 853,634	$ 533,877	$ 539,366
Contributions - member	195,582	198,035	373,525	371,241	227,060	225,555
Net investment income	728,083	2,243,999	1,327,047	4,042,441	761,164	2,272,284
Benefit payments	(1,136,102)	(1,081,866)	(1,980,353)	(1,874,636)	(819,201)	(754,706)
Refunds of contributions	(27,724)	(25,036)	(36,058)	(36,103)	(36,898)	(36,876)
Administrative expense	(10,302)	(12,341)	(18,238)	(22,036)	(10,358)	(12,153)
Other	(154)	123	(284)	217	(162)	120
Net change in plan fiduciary net position	230,040	1,666,173	932,889	3,334,758	655,482	2,233,590
Plan fiduciary net position - beginning	16,168,535	14,502,362	29,411,183	26,076,425	16,627,539	14,393,949
Plan fiduciary net position - ending (b)	$ 16,398,575	$ 16,168,535	$ 30,344,072	$ 29,411,183	$ 17,283,021	$ 16,627,539
Net pension liability - ending (a-b)	$ 6,122,555	$ 5,598,398	$ 12,586,350	$ 12,084,700	$ 2,652,033	$ 2,507,469
Plan fiduciary net position as a percentage of the total pension liability (b/a)	72.8%	74.3%	70.7%	70.9%	86.7%	86.9%
Covered employee payroll (c) (3)	$ 3,878,632	$ 3,861,712	$ 7,434,932	$ 7,313,025	$ 4,513,335	$ 4,434,764
Net pension liability as a percentage of covered employee payroll ((a-b)/c)	157.9%	145.0%	169.3%	165.2%	58.8%	56.5%

(1) The Commonwealth implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68,* effective for the fiscal year ended June 30, 2015, therefore, ten years of data is unavailable.

(2) The Commonwealth's fiscal year 2015 net pension measurement date is June 30, 2014, as reported in Note 15.

(3) Includes only pensionable payroll costs.

See notes on page 186 in this section.

SPORS				VaLORS				JRS			
2016		2015		2016		2015		2016		2015	
$	18,847	$	18,341	$	47,531	$	46,504	$	23,254	$	24,024
	70,350		67,977		124,579		119,040		41,759		40,014
	-		-		-		-		-		-
	(2,890)		-		(4,849)		-		(9,107)		-
	-		-		-		-		-		-
	(53,338)		(50,467)		(84,990)		(78,412)		(40,205)		(37,984)
	(375)		(685)		(4,797)		(4,665)		-		-
	32,594		35,166		77,474		82,467		15,701		26,054
	1,031,856		996,690		1,824,577		1,742,110		616,680		590,626
$	1,064,450	$	1,031,856	$	1,902,051	$	1,824,577	$	632,381	$	616,680
$	28,427	$	42,683	$	62,084	$	67,483	$	31,503	$	27,727
	5,680		5,646		17,081		17,908		3,015		3,051
	32,466		98,682		52,312		156,786		20,051		60,833
	(53,338)		(50,467)		(84,990)		(78,412)		(40,205)		(37,984)
	(375)		(685)		(4,797)		(4,665)		-		-
	(471)		(431)		(743)		(681)		(283)		(268)
	(27)		-		(44)		-		(17)		-
	12,362		95,428		40,903		158,419		14,064		53,359
	720,990		625,562		1,150,450		992,031		442,194		388,835
$	733,352	$	720,990	$	1,191,353	$	1,150,450	$	456,258	$	442,194
$	331,098	$	310,866	$	710,698	$	674,127	$	176,123	$	174,486
	68.9%		69.9%		62.6%		63.1%		72.1%		71.7%
$	110,059	$	112,010	$	338,562	$	352,492	$	61,092	$	61,020
	300.8%		277.5%		209.9%		191.2%		288.3%		285.9%

Schedule of Employer Contributions – Pension Plans (1)

(Dollars in Thousands)

Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contributions Deficiency (Excess)	Covered Employee Payroll (2)	Contributions as a Percentage of Covered Employee Payroll
VIRGINIA RETIREMENT SYSTEM (VRS) – STATE					
2015	$ 612,824	$ 478,235	$ 134,589	$ 3,878,632	12.33%
2014	504,726	338,286	166,440	3,861,712	8.76%
2013	485,577	325,452	160,125	3,715,205	8.76%
2012	309,930	117,696	192,234	3,663,475	3.21%
2011	294,363	74,113	220,250	3,479,484	2.13%
2010	285,209	176,751	108,458	3,556,222	4.97%
2009	290,653	225,782	64,871	3,624,109	6.23%
2008	260,965	218,954	42,011	3,560,228	6.15%
2007	246,458	192,997	53,461	3,362,317	5.74%
2006	124,556	125,197	(641)	3,201,969	3.91%
VIRGINIA RETIREMENT SYSTEM (VRS) – TEACHER					
2015	$ 1,353,158	$ 1,078,065	$ 275,093	$ 7,434,932	14.50%
2014	1,226,394	852,699	373,695	7,313,025	11.66%
2013	1,203,856	837,028	366,828	7,178,629	11.66%
2012	903,655	443,078	460,577	6,999,653	6.33%
2011	891,237	271,306	619,931	6,903,465	3.93%
2010	839,550	450,218	389,332	7,090,791	6.35%
2009	845,999	629,497	216,502	7,145,260	8.81%
2008	766,559	706,222	60,337	6,856,523	10.30%
2007	733,633	603,705	129,928	6,562,008	9.20%
2006	499,861	408,528	91,333	6,171,124	6.62%
VIRGINIA RETIREMENT SYSTEM (VRS) – POLITICAL SUBDIVISIONS					
2015	$ 540,859	$ 535,919	$ 4,940	$ 4,513,335	11.87%
2014	551,822	539,131	12,691	4,434,764	12.16%
2013	537,657	525,385	12,272	4,321,565	12.16%
2012	400,879	400,879	-	4,142,150	9.68%
2011	391,531	391,531	-	4,078,580	9.60%
2010	363,982	363,982	-	4,125,087	8.82%
2009	364,366	364,366	-	4,144,638	8.79%
2008	351,469	351,469	-	3,960,566	8.87%
2007	319,516	319,516	-	3,699,629	8.64%
2006	239,827	239,827	-	3,441,325	6.97%

(1) Contributions made by employers were not in all cases in accordance with the actuarially determined Annual Required Contribution (ARC), but they did meet statutory requirements.
(2) Includes only pensionable payroll costs.

See notes on page 186 in this section.

Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contributions Deficiency (Excess)	Covered Employee Payroll (2)	Contributions as a Percentage of Covered Employee Payroll
STATE POLICE OFFICERS' RETIREMENT SYSTEM (SPORS)					
2015	$ 33,876	$ 28,417	$ 5,459	$ 110,059	25.82%
2014	36,538	27,711	8,827	112,010	24.74%
2013	34,535	26,193	8,342	105,872	24.74%
2012	26,250	11,441	14,809	102,701	11.14%
2011	24,570	7,460	17,110	96,128	7.76%
2010	23,791	15,714	8,077	98,757	15.91%
2009	24,241	20,175	4,066	100,626	20.05%
2008	22,941	20,989	1,952	101,106	20.76%
2007	19,402	16,358	3,044	97,892	16.71%
2006	23,132	15,258	7,874	92,526	16.49%
VIRGINIA LAW OFFICERS' RETIREMENT SYSTEM (VaLORS)					
2015	$ 71,301	$ 59,824	$ 11,477	$ 338,562	17.67%
2014	68,806	52,169	16,637	352,492	14.80%
2013	66,463	50,392	16,071	340,489	14.80%
2012	55,306	24,481	30,825	347,181	7.05%
2011	53,686	17,255	36,431	337,010	5.12%
2010	57,894	39,027	18,867	345,020	11.31%
2009	60,059	50,932	9,127	357,922	14.23%
2008	61,325	55,929	5,396	352,643	15.86%
2007	56,190	48,338	7,852	323,115	14.96%
2006	77,414	52,611	24,803	309,656	16.99%
JUDICIAL RETIREMENT SYSTEM (JRS)					
2015	$ 35,336	$ 31,560	$ 3,776	$ 61,092	51.66%
2014	33,018	27,728	5,290	61,020	45.44%
2013	32,185	27,028	5,157	59,481	45.44%
2012	27,631	18,907	8,724	59,053	32.02%
2011	28,101	17,303	10,798	60,058	28.81%
2010	23,638	17,065	6,573	62,139	27.46%
2009	23,148	21,000	2,148	60,853	34.51%
2008	23,600	22,386	1,214	58,896	38.01%
2007	22,557	20,530	2,027	56,293	36.47%
2006	23,871	16,206	7,665	53,047	30.55%

Notes for Pension Schedules

	VRS					
	State	**Teacher**	**Political Subdivisions**	**SPORS**	**VaLORS**	**JRS**
Valuation Date	June 30, 2014	June 30, 2014	June 30, 2014	June 30, 2014	June 30, 2014	June 30, 2014
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Actuarial Assumptions:						
Investment Rate of Return*	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Projected Salary Increases:*						
State Employees/Teachers	3.50% to 5.35%	3.50% to 5.95%	3.50% to 5.35%	3.50% to 4.75%	3.50% to 4.75%	4.50%
Political Subdivision – Non-Hazardous Duty Employees	N/A	N/A	3.50% to 5.35%	N/A	N/A	N/A
Political Subdivision – Hazardous Duty Employees	N/A	N/A	3.50% to 4.75%	N/A	N/A	N/A
Post-Retirement Benefits Increases**						
Plan 1	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Plan 2	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%

* *Includes inflation at 2.50%.*
** *Compounded annually.*

As discussed in Note 15, contact the Virginia Retirement System to obtain a copy of the individually published financial statements.

Funding Progress for Other Postemployment Benefit Plans

(Dollars in Millions)

Actuarial Valuation Date June 30		Actuarial Value of Assets [a]		Actuarial Accrued Liability (AAL) [b]		Unfunded AAL (UAAL) [b-a]	Funded Ratio [a/b]		Covered Payroll [c]	UAAL as a Percentage of Covered Payroll [b-a]/[c]
				Group Life Insurance Fund						
2014	$	992	$	2,701	$	1,709	36.7%	$	17,559	9.7%
2013		837		2,572		1,735	32.5%		17,132	10.1%
2012		756		2,458		1,702	30.7%		16,697	10.2%
2011		852		2,359		1,507	36.1%		16,543	9.1%
2010		929		2,245		1,316	41.4%		16,526	8.0%
2009		967		1,995		1,028	48.5%		16,728	6.1%
2008		975		1,772		797	55.0%		16,267	4.9%
2007		880		1,552		672	56.7%		14,822	4.5%
2006 (1)		751		1,436		685	52.3%		13,923	4.9%
				Retiree Health Insurance Credit Fund (2)						
2014	$	162	$	2,334	$	2,172	7.0%	$	14,956	14.5%
2013		139		2,273		2,134	6.1%		14,688	14.5%
2012		130		2,258		2,128	5.8%		14,211	15.0%
2011		213		2,195		1,982	9.7%		14,111	14.0%
2010 (2)		281		2,162		1,881	13.0%		14,220	13.2%
2009 (2)		296		2,007		1,711	14.8%		14,339	11.9%
2008 (2)		264		1,943		1,679	13.6%		13,686	12.3%
2007 (2)		207		1,883		1,676	11.0%		11,935	14.0%
				Disability Insurance Trust Fund						
2014	$	380	$	239	$	(141)	159.0%	$	3,585	(3.9%)
2013		359		228		(131)	157.4%		3,473	(3.8%)
2012		344		303		(41)	113.7%		3,433	(1.2%)
2011		369		296		(73)	124.6%		3,372	(2.2%)
2010 (3)		336		311		(25)	108.0%		3,168	(0.8%)
2009 (3)		290		291		1	99.7%		4,080	-
2008 (3)		313		392		79	79.9%		4,111	1.9%
2007		264		451		187	58.5%		3,909	4.8%
2006 (1)		192		423		231	45.4%		3,716	6.2%
				Virginia Local Disability Program (6)						
2014	$	-	$	-	$	-	-	$	34	-
				Line of Duty Death and Disability (Line of Duty Trust Fund) (7)						
2014	$	7	$	226	$	219	3.1%		N/A	-
2013		10		204		194	4.9%		N/A	-
2012		6		226		220	2.7%		N/A	-
2011		-		399		399	-		N/A	-
2010 (4)		-		576		576	-		N/A	-
2009		-		373		373	-		N/A	-
2008		3		185		182	1.6%		N/A	-
2007		-		146		146	-		N/A	-
2006 (1)		-		99		99	-		N/A	-
				Pre-Medicare Retiree Healthcare						
2014	$	-	$	1,342	$	1,342	-	$	4,011	33.5%
2013		-		1,262		1,262	-		3,857	32.7%
2012		-		1,351		1,351	-		3,709	36.4%
2011		-		1,269		1,269	-		3,566	35.6%
2010 (3)		-		1,298		1,298	-		3,297	39.4%
2009		-		1,218		1,218	-		3,170	38.4%
2007 (5)		-		982		982	-		2,931	33.5%

(1) 2006 was the first actuarial valuation prepared using the required parameters of GASB Statement No. 43.

(2) Data for 2007-2010 has been restated to include the state-funded Retiree Health Insurance Credit benefit for local employees. Similar information for 2006 was not available so that year has been excluded.

(3) Data for 2008-2010 has been restated to include state-funded Long-term Care program. Prior years were funded by premiums paid to insurance carrier and the insurance carrier was responsible for the liability.

(4) Contributions into the Other Postemployment Line of Duty Death and Disability Fund are based on the number of participants in the program using a per capita based contribution versus a payroll based contribution.

(5) 2007 was the first actuarial valuation prepared for Pre-Medicare Retiree Healthcare.

(6) The Virginia Local Disability Program was new effective January 1, 2013, as part of the Hybrid Retirement for non-state employers.

(7) The Line of Duty Act Program was established and set up as a trust fund effective July 1, 2010. Contributions into the trust fund will be based on the number of participants in the program using a per capita-based contribution versus a payroll-based contribution.

See Notes on following page.

Notes for Funding Progress for Other Postemployment Benefit Plans

	Group Life Insurance Fund	Retiree Health Insurance Credit Fund	Disability Insurance Trust Fund	Virginia Local Disability Program	Line of Duty Death and Disability	Pre-Medicare Retiree Healthcare
Valuation Date	June 30, 2014	June 30, 2014	June 30, 2014	June 30, 2014	June 30, 2014	July 1, 2013
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Projected Unit Credit
Amortization Method	Level Percent of Pay, Closed	Level Percent of Pay, Closed	Level Percent of Pay, Closed	Level Percent of Pay, Closed	Level Percent of Pay, Closed	Level dollar, Open
Payroll Growth Rate:						
State Employees	3.0%	3.0%	3.0%	N/A	3.0%	3.0%
Teachers	3.0%	3.0%	N/A	3.0%	N/A	N/A
Political Subdivision Employees	3.0%	3.0%	N/A	3.0%	3.0%	N/A
State Police / Virginia Law Officers	3.0%	3.0%	3.0%	N/A	3.0%	3.0%
Judges	3.0%	3.0%	N/A	N/A	N/A	N/A
Effective Amortization Period (1)						
State Employees	29.4 years	29.0 years	28.5 years	N/A	2.0 and 30.0 years	30.0 years
Teachers	29.4 years	28.8 years	N/A	20.0 years	N/A	N/A
Political Subdivision Employees	29.4 years	20.0 years	N/A	20.0 years	2.0 and 30.0 years	N/A
Asset Valuation Method						
State Employees and Teachers	5-Year, Smoothed Market	5-Year, Smoothed Market	5-Year, Smoothed Market	5-Year, Smoothed Market	Market Value	Market Value
Political Subdivision Employees and State-Funded Local Employees	5-Year, Smoothed Market	Market Value	N/A	5-Year, Smoothed Market	Market Value	Market Value
Actuarial Assumptions:						
Investment Rate of Return (2)	7.0%	7.0%	7.0%	7.0%	4.8% and 7.0%	4.0%
Projected Salary Increases (3)						
State Employees	3.5% to 5.4%	3.5% to 5.4%	3.5% to 5.4%	N/A	N/A	4.0%
Teachers	3.5% to 6.0%	3.5% to 6.0%	N/A	3.5% to 6.0%	N/A	N/A
Political Subdivision Employees (Non-Hazardous Duty Employees)	3.5% to 5.4%	3.5% to 5.4%	N/A	3.5% to 5.4%	N/A	N/A
Political Subdivision Employees (Hazardous Duty Employees)	3.5% to 4.8%	3.5% to 4.8%	N/A	N/A	N/A	N/A
State Police / Virginia Law Officers	3.5% to 4.8%	3.5% to 4.8%	3.5% to 4.8%	N/A	N/A	4.0%
Judges	4.5%	4.5%	N/A	N/A	N/A	N/A
Medical Trend Assumptions (Under Age 65)	N/A	N/A	N/A	N/A	7.8% to 5.0%	
Medical Trend Assumptions (Ages 65 and Older)	N/A	N/A	N/A	N/A	5.8% to 5.0%	
Year of Ultimate Trend Rate	N/A	N/A	N/A	N/A	2020	

(1) The amortization period of the Unfunded Actuarial Accrued Liability (UAAL) was a closed 30-year period for the June 30, 2013, balance and closed 20-year period for each subsequent year. The Line of Duty Act Program amortization period is 30 years for the UAAL and two years for the loan.

(2) Includes inflation rate of 2.5 percent. The Line of Duty Act Program uses 4.3 percent for the investment rate of return and 7.0 percent for the loan interest.

(3) Projected salary increases for the Retiree Health Insurance Credit Fund are used in the application of the actuarial cost method. Projected salary increase factors are not applicable to the Line of Duty Act Program since neither the benefit nor the cost is salary-based.

Schedule of Employer Contributions – Other Postemployment Benefit Plans (1)

(Dollars in Thousands)

Year Ended June 30	Annual Required Contribution	Percentage Contributed	Statutory Required Contribution	Percentage Contributed
		Group Life Insurance Fund		
2015	$ 231,283	90.2%	$ 208,505	100.0%
2014	228,086	90.2%	205,623	100.0%
2013	221,622	90.2%	199,796	100.0%
2012	181,527	26.1%	47,293	100.0%
2011	177,378	25.2%	44,744	100.0%
2010	145,228	65.5%	95,185	100.0%
2009	146,545	92.1%	135,019	100.0%
2008	158,740	100.0%	158,740	100.0%
		Retiree Health Insurance Credit Fund		
2015	$ 161,120	89.9%	$ 144,862	100.0%
2014	150,831	95.1%	143,425	100.0%
2013	145,416	95.1%	138,282	100.0%
2012	138,195	37.5%	51,882	100.0%
2011	133,655	36.5%	48,736	100.0%
2010	148,956	66.7%	99,356	100.0%
2009	150,048	96.6%	144,989	100.0%
2008	147,524	100.0%	147,524	100.0%
		Disability Insurance Trust Fund		
2015	$ 26,244	90.4%	$ 23,728	100.0%
2014	20,610	81.0%	16,701	100.0%
2013	21,032	81.0%	17,043	100.0%
2012	30,285	3.6%	1,096	100.0%
2011	28,646	-	-	-
2010	76,530	40.3%	30,861	100.0%
2009	78,120	91.3%	71,344	100.0%
2008	97,975	80.0%	78,380	100.0%
		Line of Duty Death and Disability (Line of Duty Trust Fund) (2)		
2015	$ 22,103	47.0%	$ 10,381	100.0%
2014	22,103	47.0%	10,381	100.0%
2013	21,895	42.7%	9,341	100.0%
2012	25,033	33.3%	8,323	100.0%
2011	-	-	-	-
2010	16,901	53.8%	9,084	100.0%
2009	16,523	51.5%	8,511	100.0%
2008	9,786	102.5%	10,026	100.0%
		Pre-Medicare Retiree Healthcare		
2015	$ 207,046	17.0%	$ -	-
2014	198,873	17.3%	-	-
2013	182,970	8.5%	-	-
2012	172,910	21.2%	-	-
2011	166,984	17.8%	-	-
2010	136,710	17.4%	-	-
2009	131,925	23.3%	-	-
2008	127,426	25.2%	-	-

(1) Contributions made by employers were not in all cases in accordance with the actuarially determined Annual Required Contribution (ARC), but they did meet statutory requirements.

(2) Line of Duty Death and Disability became a cost sharing plan effective July 1, 2010. Accordingly, the net OPEB obligation at the beginning of the transition period has been reduced to zero.

Claims Development Information – Risk Management

(Dollars in Thousands)

Comparison of Earned Revenues and Investment Income to Related Costs of Loss and Other Expenses

Fiscal and Policy Year Ended	2006	2007	2008	2009
1. Required contribution and investment revenue:				
Earned	$ 6,166	$ 6,560	$ 6,759	$ 6,197
Ceded (a)	-	-	-	-
Net earned	6,166	6,560	6,759	6,197
2. Unallocated expenses	1,008	1,047	1,307	1,272
3. Estimated incurred claims and expenses, end of policy year:				
Incurred	1,539	2,060	3,330	3,681
Ceded (a)	-	-	-	-
Net incurred	1,539	2,060	3,330	3,681
4. Net paid (cumulative) as of:				
End of policy year	177	106	493	300
One year later	745	1,051	1,697	1,858
Two years later	1,421	2,436	3,476	2,690
Three years later	2,087	2,631	3,753	3,679
Four years later	2,176	2,662	3,834	3,867
Five years later	2,554	2,671	5,065	3,928
Six years later	2,591	2,671	5,084	3,928
Seven years later	2,630	2,671	5,140	
Eight years later	2,639	2,671		
Nine years later	2,688			
5. Reestimated ceded claims and expenses (a)	-	-	-	-
6. Reestimated incurred claims and expenses:				
End of policy year	1,539	2,060	3,330	3,681
One year later	2,168	3,316	3,928	3,742
Two years later	2,494	3,224	5,420	3,943
Three years later	2,872	2,887	5,309	4,721
Four years later	2,820	2,730	5,094	4,555
Five years later	2,591	2,731	6,065	4,000
Six years later	2,676	2,731	5,768	3,936
Seven years later	2,698	2,731	5,968	
Eight years later	2,698	2,716		
Nine years later	2,832			
7. Increase (decrease) in estimated net incurred claims and expense from end of policy year	1,293	656	2,638	255

The Commonwealth, through the Department of the Treasury, Division of Risk Management, provides errors and omissions liability insurance and law enforcement professional liability insurance for local governmental units, which went into effect in fiscal year 1987.

See Notes on page 196 in this section.

2010		2011		2012		2013		2014		2015	
$	5,485	$	4,131	$	5,019	$	5,043	$	8,500	$	8,487
	-		-		-		-		-		-
	5,485		4,131		5,019		5,043		8,500		8,487
	1,269		1,310		1,382		1,273		1,435		1,331
	3,404		3,213		5,390		3,394		4,025		4,664
	-		-		-		-		-		-
	3,404		3,213		5,390		3,394		4,025		4,664
	412		396		1,677		335		367		922
	2,236		1,940		4,468		3,401		3210		
	5,237		3,943		7,554		8,118				
	6,744		4,317		8,137						
	7,013		4,380								
	7,653										
	-		-		-		-		-		-
	3,404		3,213		5,390		3,394		4,025		4,664
	6,096		3,919		8,704		9,397		6,454		
	8,428		4,523		9,107		9,939				
	8,640		4,570		9,727						
	8,692		4,474								
	7,894										
	4,490		1,261		4,337		6,545		2,429		-

Claims Development Information – Health Care

(Dollars in Thousands)

Comparison of Earned Revenues and Investment Income to Related Costs of Loss and Other Expenses

Fiscal and Policy Year Ended	**2006**	**2007**	**2008**	**2009**
1. Required contribution and investment revenue:				
Earned	$ 184,360	$ 202,366	$ 211,034	$ 222,498
Ceded (a)	-	-	-	-
Net earned	184,360	202,366	211,034	222,498
2. Unallocated expenses	11,899	13,782	16,215	16,400
3. Estimated incurred claims and expenses, end of policy year:				
Incurred	152,289	163,787	185,117	214,411
Ceded (a)	-	-	-	-
Net incurred	152,289	163,787	185,117	214,411
4. Net paid (cumulative) as of:				
End of policy year	147,534	159,769	181,566	204,655
One year later	N/A	N/A	N/A	N/A
Two years later	N/A	N/A	N/A	N/A
Three years later	N/A	N/A	N/A	N/A
Four years later	N/A	N/A	N/A	N/A
Five years later	N/A	N/A	N/A	N/A
Six years later	N/A	N/A	N/A	N/A
Seven years later	N/A	N/A	N/A	
Eight years later	N/A	N/A		
Nine years later	N/A			
5. Reestimated ceded claims and expenses (a)	-	-	-	-
6. Reestimated incurred claims and expenses:				
End of policy year	152,289	163,787	185,117	214,411
One year later	152,289	163,787	185,117	214,411
Two years later	N/A	N/A	N/A	N/A
Three years later	N/A	N/A	N/A	N/A
Four years later	N/A	N/A	N/A	N/A
Five years later	N/A	N/A	N/A	N/A
Six years later	N/A	N/A	N/A	N/A
Seven years later	N/A	N/A	N/A	
Eight years later	N/A	N/A		
Nine years later	N/A			
7. Increase (decrease) in estimated net incurred claims and expense from end of policy year	-	-	-	-

The Commonwealth, through its Department of Human Resource Management, provides health care insurance for local governmental units, which went into effect in fiscal year 1987.

See Notes on page 196 in this section.

2010	2011	2012	2013	2014	2015
$ 240,305	$ 246,730	$ 259,135	$ 284,526	$ 320,678	$ 343,470
-	-	-	-	-	-
240,305	246,730	259,135	284,526	320,678	343,470
15,936	15,849	16,701	18,781	17,738	22,748
215,376	213,694	250,019	277,455	290,557	327,154
-	-	-	-	-	-
215,376	213,694	250,019	277,455	290,557	327,154
214,371	209,365	235,058	267,256	291,711	329,099
N/A	N/A	N/A	N/A	N/A	
N/A	N/A	N/A	N/A		
N/A	N/A	N/A			
N/A	N/A				
N/A					
-	-	-	-	-	-
215,376	213,694	250,019	277,455	290,557	327,154
215,376	213,694	250,019	277,455	290,557	
N/A	N/A	N/A	N/A		
N/A	N/A	N/A			
N/A	N/A				
N/A					
-	-	-	-	-	-

Notes for Claims Development Information Tables

The tables on the previous four pages illustrate how the Risk Management and Health Care Claims Funds earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the funds as of the end of each of the past several years. The rows of the tables are defined as follows:

1. This line shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.

2. This line shows each fiscal year's other operating costs of the funds, including overhead and claims expense not allocable to individual claims.

3. This line shows the funds' gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).

4. This section of rows shows the cumulative net amounts paid as of the end of successive years for each policy year.

5. This line shows the latest reestimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.

6. This section of rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.)

7. This line compares the latest reestimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years.

The columns of the tables show data for successive policy years.

Notes:

(a) During fiscal year 1997, the Commonwealth implemented GASB Statement No. 30, *Risk Financing Omnibus*. The Commonwealth has no reinsurers; therefore, the ceded amounts on lines 1, 3, and 5 are zero.

APPENDIX E

LITERARY FUND

APPENDIX E

LITERARY FUND

General

The Literary Fund is a permanent and perpetual school fund created in 1810 and established by the Constitution of Virginia as a depository for moneys derived by the Commonwealth from criminal fines and forfeitures, escheated property and income from the investment of moneys on deposit in the Literary Fund. The moneys therein are held by the State Treasurer and administered by the State Board of Education "for public school purposes, including the teachers retirement fund."

Article VIII, Section 8 of the Constitution of Virginia, as amended, provides:

> The General Assembly shall set apart as a permanent and perpetual school fund the present Literary Fund; the proceeds of all public lands donated by Congress for free public school purposes, of all escheated property, of all waste and unappropriated lands, of all property accruing to the Commonwealth by forfeiture except as hereinafter provided, of all fines collected for offenses committed against the Commonwealth, and of the annual interest on the Literary Fund; and such other sums as the General Assembly may appropriate. But so long as the principal of the Fund totals as much as eighty million dollars, the General Assembly may set aside all or any part of additional moneys received into its principal for public school purposes, including the teachers retirement fund.
>
> The General Assembly may provide by general law an exception from this section for the proceeds from the sale of all property seized and forfeited to the Commonwealth for a violation of the criminal laws of this Commonwealth proscribing the manufacture, sale or distribution of a controlled substance or marijuana. Such proceeds shall be paid into the state treasury and shall be distributed by law for the purpose of promoting law enforcement.
>
> The Literary Fund shall be held and administered by the Board of Education in such manner as may be provided by law. The General Assembly may authorize the Board of Education to borrow other funds against assets of the Literary Fund as collateral, such borrowing not to involve the full faith and credit of the Commonwealth.
>
> The principal of the Fund shall include assets of the Fund in other funds or authorities which are repayable to the Fund.

Literary Fund Loans

Pursuant to Chapter 10, Title 22.1, Code of Virginia, 1950, as amended, the Board of Education is empowered to make Literary Fund loans to local school jurisdictions for the construction, renovation and expansion of school buildings. When construction or renovation is completed or the amount of the loan commitment is reached, the local school jurisdictions issue "Literary Fund Obligations". The annual income on the Literary Fund Obligations is available for all purposes of the Literary Fund.

Income

In fiscal year 2015, the Literary Fund had gross receipts of approximately $429 million and disbursements of approximately $470 million. In fiscal year 2014, the Literary Fund had gross receipts of approximately $197 million and disbursements of approximately $237 million. In fiscal year 2013, the Literary Fund had gross receipts of approximately $210 million and disbursements of approximately $243 million. In fiscal year 2012, the Literary Fund had gross receipts of approximately $194 million and disbursements of $221 million. In fiscal year 2011, the Literary Fund had gross receipts of approximately $201 million and disbursements of $238 million.

Appropriations from the Literary Fund

By the terms of the constitutional provision creating the Literary Fund, the General Assembly may appropriate Literary Fund moneys for "public school purposes, including the teacher retirement fund". Although, prior to 1990, Literary Fund moneys had been used primarily to make Literary Fund loans, the General Assembly has since appropriated a substantial portion of moneys from the Literary Fund to supplement appropriations from the Commonwealth's General Fund for teacher retirement benefits and for other educational related purposes. The 2011 Appropriation Act provided appropriations from the Literary Fund of approximately $139.6 million and $130.1 million respectively in fiscal years 2011 and 2012 for teacher retirement benefits. The 2013 Appropriation Act, as amended, provided appropriations of $140.1 and $144.4 million for fiscal years 2013 and 2014, respectively. In addition, the 2015 Appropriation Act provides appropriations of $182.88 million and $165.2 million for fiscal years 2015 and 2016, respectively for teacher retirement and the Commonwealth's share local school boards' Social Security costs.

In May 2011, the Authority issued $51.9 million School Educational Technology Notes, Series XI. In May 2012, the Authority issued $52.0 million School Educational Technology Notes, Series XII. In May 2013, the Authority issued $58.4 million School Technology and Security Notes, Series I. In May 2014, the Authority issued $63.0 million School Technology and Security Notes, Series II. In May 2015, the Authority issued $65.5 million School Technology and Security Notes, Series III. All five series of notes are payable from appropriations from the Literary Fund.

The 2015 Appropriation Act also directs the Authority to issue approximately $71.2 million of School Educational Technology Notes as well as $6.0 million of School Security Equipment Notes in the 2016 fiscal year. The 2015 Appropriation Act includes sufficient appropriations from the Literary Fund to pay debt service coming due during the biennium on the Authority's School Educational Technology Notes Series XI, XII as well as School Technology and Security Notes Series I, II and III. See "THE AUTHORITY – Other Authority Financings – *School Technology and Security Notes*" in the front portion of this Official Statement.

The following table reflects the financial activity of the Literary Fund for the year ended June 30, 2015.

Literary Fund
Report of Receipts, Disbursements and Changes in Fund Balance (Cash Basis Unaudited)
Years Ended June 30

	2015	2014	2013	2012	2011
Beginning Fund Balance:					
Cash and Investments	$17,920,942	$23,320,546	$14,101,675	$15,659,644	$17,681,539
Temporary Loans Receivable	-	-	-	-	-
Permanent Loans Receivable	158,891,596	194,202,985	236,239,206	262,348,010	297,013,703
Total Beginning Balance	176,812,538	217,523,531	250,340,881	278,007,654	314,695,242
Receipts:					
Revenues:					
Interest on Temporary Loans	-	-	-	-	-
Interest on Permanent Loans	4,275,160	5,283,681	6,475,362	7,041,475	8,337,160
Interest on Investments	1,049,166	571,568	1,073,279	962,950	1,060,865
Miscellaneous Revenue	10	20	10	7,710	-
Principal Payments on Perm Loans	31,091,714	35,311,389	42,036,221	26,108,805	34,665,693
Total Revenues	36,416,050	41,166,658	49,584,872	34,120,940	44,063,718
Transfers from VPSA 1987 Reserve	-	-	-	-	-
Transfer Perm. Loans From VPSA	-	-	-	-	-
Transfer from VPSA	-	-	-	-	-
Increase in Temporary Loans Receivable	-	-	-	-	-
Other Transfers In:					
Unclaimed Property Act	308,700,000	75,000,000	75,000,000	75,000,000	75,000,000
VPSA	193,134	316,251	1,020,368	2,288,800	1,997,638
Escheats	(400)	(600)	17,359	(1,152)	(407)
Unclaimed Lottery Prizes	12,421,426	9,834,364	11,991,777	11,297,790	10,853,086
Fines, Fees and Forfeitures (1)	71,644,278	70,574,034	72,558,369	70,837,692	69,318,001
Total Transfers In	392,958,438	155,724,049	160,587,873	159,423,130	157,168,318
Total Receipts	429,374,488	196,890,707	210,172,745	193,544,070	201,232,036
Disbursements:					
Interest Rate Subsidy Program	131,678	709,151	44,457	2,140,574	77,389
Investment Fees	(151,019)	(87,732)	(124,506)	(77,062)	(91,305)
Temporary Loan Disbursements	-	-	-	-	-
Decrease in Temporary Loans Receivable	-	-	-	-	-
Decrease in Permanent Loans Receivable	31,091,713	35,311,389	42,036,221	26,108,804	34,665,693
Subtotal	31,072,372	35,932,808	41,956,172	28,172,316	34,651,777
Other Transfers Out:					
Appropriations to Dept. of Education (2)	375,739,378	144,438,573	140,086,428	130,086,428	139,575,000
Transfers to the General Fund	-	-	-	-	-
To VPSA; Equipment Issues (3)	62,891,727	56,945,722	60,698,480	62,694,848	63,510,236
To VPSA; Cost of Issuance	-	109,132	-	103,126	-
Total Transfers Out	438,631,105	201,493,427	200,784,908	192,884,402	203,085,236
Total Disbursements	469,703,477	237,426,235	242,741,080	221,056,718	237,737,013
Ending Fund Balance:					
Cash and Investments	8,381,628	17,920,942	23,320,546	14,101,676	15,659,644
Temporary Loans Receivable	-	-	-	-	-
Permanent Loans Receivable	127,799,883	158,891,596	194,202,985	236,239,206	262,348,010
Ending Fund Balance	136,181,511	176,812,538	217,523,531	250,340,882	278,007,654
Less Encumbered Funds (4)	(1,338,055)	(1,363,117)	(2,072,268)	(2,116,725)	(4,257,299)
Available Fund Balance	$ 134,843,456	$ 175,449,421	$ 215,451,263	$ 248,224,157	$ 273,750,355

(1) Includes interest on Unclaimed Property balances and interest on fines, fees and forfeitures.
(2) Represents appropriations for teacher retirement benefits and other educational related purposes.
(3) Represents funds transferred to the Authority to pay debt service and cost of issuance on the Authority's School Educational Technology Notes.
(4) Represents funds restricted for payment to localities for approved Literary Fund Loans and Interest Rate Subsidy Program amounts.

APPENDIX F

CONTINUING DISCLOSURE UNDERTAKINGS

APPENDIX F
TABLE OF CONTENTS

CONTINUING DISCLOSURE UNDERTAKING OF THE VIRGINIA PUBLIC SCHOOL AUTHORITY PURSUANT TO THE SERIES RESOLUTION ADOPTED MARCH 16, 2016

The following continuing disclosure undertaking was adopted by the Virginia Public School Authority in its Series Resolution adopted March 16, 2016. Defined terms used in such undertaking as contained in such Series Resolution have been changed to reflect the defined terms used in this Official Statement.

Continuing Disclosure Undertaking

(a) **Purpose**. This continuing disclosure undertaking is being made by the Authority with respect to the School Financing and Refunding Bonds (1997 Resolution), Series 2016A (the "Bonds") for the benefit of the holders and in order to assist the Participating Underwriters (defined below) in complying with the Rule (defined below). The Authority acknowledges that it is undertaking primary responsibility for any reports, notices or disclosures that may be required under this undertaking.

(b) **Definitions**. In addition to the definitions elsewhere set forth in this Official Statement, the following capitalized terms shall have the following meanings:

"**Annual Report**" shall mean any Annual Report provided by the Authority pursuant to, and as described in, subsections (c) and (d) below.

"**Dissemination Agent**" shall mean the Authority, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by such Authority and which has filed with such Authority a written acceptance of such designation.

"**Fiscal Year**" shall mean the twelve-month period, at the end of which the Authority's financial position and the results of its operations for the preceding twelve months are determined. Currently the Authority's Fiscal Year begins July 1 and continues through June 30 of the next calendar year.

"**[H]older**" shall mean, for purposes of this undertaking, any person who is a record owner or beneficial owner of a Bond.

"**Listed Events**" shall mean any of the events listed in subsection (b)(5)(i)(C) of the Rule which are as follows:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults, if material;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

(vii) modifications to rights of security holders, if material;

(viii) bond calls, if material, and tender offers;

(ix) defeasances;

(x) release, substitution, or sale of property securing repayment of the Bonds, if material;

(xi) rating changes;

(xii) bankruptcy, insolvency, receivership or similar event of the Authority;

For the purposes of the event identified in this subsection (xii), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Authority in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Authority, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Authority;

(xiii) the consummation of a merger, consolidation, or acquisition involving the Authority or the sale of all or substantially all of the assets of the Authority, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) appointment of a successor or additional paying agent or the change of name of a paying agent, if material.

"**MOP**" shall mean (i) a Local Issuer that has outstanding Local School Bonds held to the credit of the General Pledge Fund and the principal, interest and redemption premium components on which are credited to the 1997 Resolution Pledge Account in an aggregate principal amount that exceeds 10% of the aggregate principal amount of the Authority's outstanding Bonds and (ii) the Commonwealth.

"**MSRB**" shall mean the Municipal Securities Rulemaking Board, or any successor thereto or to the functions of the MSRB contemplated by this Undertaking.

"**Participating Underwriter**" shall mean any of the original underwriters of the Authority's Series 2016A Bonds required to comply with the Rule in connection with the offering of such Bonds.

"**Rule**" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"**Undertaking**" shall mean the continuing disclosure undertaking assumed by the Authority in this undertaking.

(c) **Provision of Annual Reports; Audited Financial Statements.**

1. Not later than 10 months after the end of each Fiscal Year, commencing with the Fiscal Year ending June 30, 2015, the Authority shall, or shall cause the Dissemination Agent (if different from the Authority) to, provide to the MSRB, in the electronic format prescribed by the MSRB, an Annual Report which is consistent with the requirements of (d) of this undertaking. Not later than 10 days prior to said date, the Authority shall provide the Annual Report to the Dissemination Agent (if applicable). In each case, the Annual Report (A) may be submitted as a single document or as separate documents comprising a package, (B) may cross-reference other

information as provided in (d) of this undertaking, and (C) shall include such financial statements as may be required by the Rule.

2. The annual financial statements of the Authority shall be prepared on the basis of generally accepted accounting principles and will be audited by either the Auditor of Public Accounts or a firm of independent certified public accountants. Copies of the audited annual financial statements, which may be filed separately from the Annual Report, will be filed with the MSRB when they become publicly available.

3. If the Authority fails to provide an Annual Report to the MSRB by the date required in clause (i), or to file its audited annual financial statements when available as described in clause (ii), the Authority shall send an appropriate notice to the MSRB in substantially the form attached hereto as Schedule 1.

(d) **Content of Annual Reports.** Each Annual Report required to be filed hereunder shall contain or incorporate by reference, at a minimum, the following information, all with a view toward assisting Participating Underwriters in complying with the Rule.

1. Updated information showing the expected "Income Available to Pay Debt Service" as of the date of issuance of the most recent Series of Bonds issued during the period beginning July 1 and ending on the date of the Annual Report. In the event no Bonds were issued during the aforementioned time period, the updated information shall be as of the end of the preceding Fiscal Year.

2. Updated information showing the names of the Local Issuers and the principal amount of their Local School Bonds held in the General Pledge Fund and the principal, interest and redemption premium of which are credited to the 1997 Resolution Pledge Account and an updated list showing the names of the Local Issuers who are MOPs as of the end of the preceding Fiscal Year, who have ceased to be MOPs during the preceding Fiscal Year and who were MOPs as of the date of issuance of the most recent Series of Bonds issued during the period beginning July 1 and ending on the date of the Annual Report. In the event no Bonds were issued during the aforementioned time period, the updated information shall be as of the end of the preceding Fiscal Year.

3. A summary of receipts and disbursements for the Literary Fund for the preceding Fiscal Year.

4. A summary of information respecting appropriations made by the Virginia General Assembly from the Literary Fund for the current biennium.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Authority, which have been filed with the MSRB or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Authority shall clearly identify each such other document so incorporated by reference.

(e) **Reporting of Listed Events.** The Authority will provide in a timely manner, not in excess of ten business days after the occurrence of the event, to the MSRB notice of any of the Listed Events with respect to the Series 2016A Bonds. The Authority does not undertake to provide the above-described notice in the event of a mandatory, scheduled redemption, not otherwise contingent upon the occurrence of an event, if (i) the terms, dates and amounts of redemption are set forth in detail in the Official Statement, (ii) the only open issue is which Series 2016A Bonds will be redeemed in the case of a partial redemption, (iii) notice of redemption is given to the Bondholders as required under the terms of the Bond Resolution, and (iv) public notice of the redemption is given pursuant to 1934 Act Release No. 23856 of the SEC, even if the originally scheduled amounts may be reduced by prior optional redemptions or Bond purchases.

(f) **Dissemination Agent.** The Authority may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its undertaking and may discharge any such Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Authority shall be the Dissemination Agent.

(g) **Amendment.** Notwithstanding any other provision of the Bond Resolution, the Authority may amend its undertaking as set forth in this undertaking if such amendment is supported by an opinion of independent counsel with expertise in federal securities laws to the effect that such amendment is permitted or required by the Rule.

(h) **Additional Information.** Nothing in this undertaking shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this undertaking or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this undertaking. If the Authority chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this undertaking, the Authority shall have no obligation under this undertaking to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

(i) **Default.** Any person referred to in section (j) may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority to file its Annual Report or to give notice of a Listed Event. In addition, holders of not less than a majority in aggregate principal amount of the Series 2016A Bonds outstanding may take such actions as may be permitted by law to challenge the adequacy of any information provided pursuant to this Continuing Disclosure undertaking, or to enforce any other obligation of the Authority hereunder. A default under this undertaking shall not be deemed an event of default under the Bond Resolution or the Series 2016A Bonds, and the sole remedy under this undertaking in the event of any failure of the Authority to comply with its undertaking shall be an action to compel performance. Nothing in this provision shall be deemed to restrict the rights or remedies of any holder pursuant to the Securities Exchange Act of 1934, the rules and regulations promulgated thereunder, or other applicable laws.

(j) **Beneficiaries.** This undertaking shall inure solely to the benefit of the Authority, the Participating Underwriters, and holders from time to time of the Authority's Series 2016A Bonds, and shall create no rights in any other person or entity.

(k) **Format of Filings.** Unless otherwise required by the MSRB, all notice, documents and information provided to the MSRB pursuant to this Undertaking shall be provided to the MSRB's Electronic Municipal Market Access (EMMA) system, the current Internet address of which is www.emma.msrb.org. All notices, documents and information provided to the MSRB shall be provided in an electronic format prescribed by the MSRB (currently, portable document format (pdf) which must be word-searchable except for non-textual elements) and shall be accompanied by identifying information as prescribed by the MSRB.

(l) **Obligated Persons.** The Authority has determined that the Commonwealth is an "obligated person", within the meaning of the Rule, that is or may be material to the Series 2016A Bonds, as evidenced by its inclusion in the definition of MOP. In addition, the Authority has established in the definition of a MOP the objective criteria that it will apply consistently, on a continuing basis, in determining whether a particular Local Issuer is an "obligated person", within the meaning of the Rule, that is or may be material to the Series 2016A Bonds. The Authority covenants that it will require each Local Issuer that is or may become a MOP to execute and deliver to the Authority an undertaking by which the Local Issuer will agree that if it becomes a MOP, it will, so long as it remains a MOP, file annually the financial information, operating data, and financial statements, and provide notices of Listed Events with respect to its bonds held in the General Pledge Fund and credited to the 1997 Resolution Pledge Account if material, as required by the Rule.

(m) **Termination.** The obligations of the Authority pursuant to its undertaking with respect to the Series 2016A Bonds shall terminate upon the earlier to occur of the legal defeasance or final retirement of the Series 2016A Bonds.

SCHEDULE 1

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT
[AUDITED ANNUAL FINANCIAL STATEMENTS]

$101,770,000
VIRGINIA PUBLIC SCHOOL AUTHORITY
School Financing and Refunding Bonds (1997 Resolution)
Series 2016A

CUSIP Numbers: 92818H DU2 - 92818H EP2

Dated: May 17, 2016

NOTICE IS HEREBY GIVEN that the Virginia Public School Authority (the "Authority") has not provided an Annual Report [Audited Annual Financial Statements] as required by Section 12 of the Series Resolution which was adopted on March 16, 2016, by the Board of Commissioners of the Authority and which authorized the bonds described above. [The Authority anticipates that the Annual Report [Audited Annual Financial Statements] will be filed by ____________________.]

Dated: ____________________

VIRGINIA PUBLIC SCHOOL AUTHORITY

By ____

Commonwealth of Virginia
[Virginia Public School Authority]

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the Commonwealth of Virginia (the "Commonwealth") in connection with the issuance by the Virginia Public School Authority (the "Authority") of $101,770,000 aggregate principal amount of its School Financing and Refunding Bonds (1997 Resolution) Series 2016A (the "Series 2016A Bonds") pursuant to the provisions of a resolution adopted on March 16, 2016 (the "Series Resolution") by the Board of Commissioners of the Authority. Proceeds of the Series 2016A Bonds are being used by the Authority to purchase general obligation bonds issued by local governments for capital school projects. The Authority has advised the Commonwealth that it has determined that the Commonwealth constitutes an "obligated person" within the meaning of the Rule in respect of the Series 2016A Bonds and the Commonwealth concurs in such determination. The Commonwealth represents that it is in compliance with its undertakings regarding the Rule. The Commonwealth hereby covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Commonwealth for the benefit of the Holders of the Bonds and in order to assist the Participating Underwriters in complying with the Rule. The Commonwealth acknowledges that it is undertaking primary responsibility for any reports, notices or disclosures that may be required under this Agreement.

SECTION 2. Definitions. In addition to the definitions set forth in the 1997 Resolution, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Commonwealth pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Dissemination Agent" shall mean the Commonwealth, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Commonwealth and which has filed with the Commonwealth a written acceptance of such designation.

"EMMA" shall mean the MSRB's Electronic Municipal Market Access system, the current Internet address of which is http://emma.msrb.org, and any successor thereto.

"Fiscal Year" shall mean the twelve-month period, at the end of which the financial position of the Commonwealth and results of its operations for such period are determined. Currently, the Commonwealth's Fiscal Year begins July 1 and continues through June 30 of the next year.

"Holder" shall mean, for purposes of this Disclosure Agreement, any person who is a record owner or beneficial owner of a Series 2016A Bond.

"MSRB" shall mean the Municipal Securities Rulemaking Board, or any successor thereto or to the functions of the MSRB contemplated by this Disclosure Agreement.

"Participating Underwriter" shall mean any of the original underwriters of the Series 2016A Bonds required to comply with the Rule in connection with the offering of such Series 2016A Bonds.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports; Audited Financial Statements.

(a) Not later than seven months following the end of each Fiscal Year of the Commonwealth, commencing with the Fiscal Year ending June 30, 2015, the Commonwealth shall, or shall cause the Dissemination Agent (if different from the Commonwealth) to submit to EMMA an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than 10 days prior to said date, the Commonwealth shall provide the Annual Report to the Dissemination Agent (if applicable). In each case, the Annual Report (i) may be submitted as a single document or as separate documents comprising a package, (ii) may cross-reference other information as provided in Section 4 of this Disclosure Agreement and (iii) shall include such financial statements as may be required by the Rule.

(b) The annual financial statements of the Commonwealth shall be prepared on the basis of generally accepted accounting principles and will be audited. Copies of the audited annual financial statements, which may be filed separately from the Annual Report, will be submitted to EMMA when they become publicly available.

(c) If the Commonwealth fails to submit an Annual Report to EMMA by the date required in subsection (a) hereof, or to submit its audited annual financial statements to EMMA when they become publicly available, the Commonwealth shall send an appropriate notice to the MSRB in substantially the form attached hereto as Schedule 1.

SECTION 4. Content of Annual Reports. Each Annual Report required to be filed hereunder shall include, at a minimum, the information referred to in Schedule 2 as it relates to the Commonwealth, all with a view toward assisting Participating Underwriters in complying with the Rule. Any and all of such information may be incorporated by reference from other documents, including official statements containing information with respect to the Commonwealth, which have been filed with the MSRB or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Commonwealth shall clearly identify each such other document so incorporated by reference.

SECTION 5. Notice of Rating Changes. The Commonwealth will provide in a timely manner, not in excess of ten business days after the occurrence of the event, to the Authority and to EMMA notice of any changes in the ratings of the Commonwealth's general obligation bonds by the rating agencies requested by the Commonwealth to rate such bonds.

SECTION 6. Notice of Bankruptcy, Insolvency, Receivership or Similar Event. The Commonwealth will provide to the Authority and to EMMA in a timely manner, not in excess of ten business days after the occurrence of the event, notice of any bankruptcy, insolvency, receivership or similar event of the Commonwealth. For purposes of this Section, a bankruptcy, insolvency, receivership or similar event of the Commonwealth is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Commonwealth in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Commonwealth, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan or reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Commonwealth.

SECTION 7. Notice of Merger, Consolidation, Acquisition or Similar Event. The Commonwealth will provide to the Authority and to EMMA in a timely manner, not in excess of ten business days after the occurrence of the event, notice of any consummation of a merger, consolidation, or acquisition involving the Commonwealth or the sale of all or substantially all of the assets of the Commonwealth, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

SECTION 8. Termination of Reporting Obligation. The obligations of the Commonwealth under this Disclosure Agreement shall terminate upon the earlier to occur of the legal defeasance or final retirement of the Series 2016A Bonds, and the Authority shall notify the Commonwealth promptly of the occurrence of either such event.

SECTION 9. Dissemination Agent. The Commonwealth may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement and may discharge any such Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Commonwealth shall be the Dissemination Agent.

SECTION 10. Amendment. Notwithstanding any other provision of this Disclosure Agreement, the Commonwealth may amend this Disclosure Agreement, if such amendment is supported by an opinion of independent counsel with expertise in federal securities laws to the effect that such amendment is permitted or required by the Rule.

SECTION 11. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Commonwealth from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice described in Section 5 above or the notices described in Sections 6 and 7 above, in addition to that which is required by this Disclosure Agreement. If the Commonwealth chooses to include any information in any Annual Report or notice described in Section 5 above or the notices described in Sections 6 and 7 above, in addition to that which is specifically required by this Disclosure Agreement, the Commonwealth shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice.

SECTION 12. Default. Any person referred to in Section 13 (other than the Commonwealth) may take such action as may be permitted by law against the appropriate public official to secure compliance with the obligation of the Commonwealth to file its Annual Report or to give notice as described in Section 5 above or to give the notices described in Sections 6 and 7 above. In addition, Holders of not less than a majority in aggregate principal amount of the Series 2016A Bonds outstanding may take such actions as may be permitted by law to challenge the adequacy of any information provided pursuant to this Disclosure Agreement, or to enforce any other obligation of the Commonwealth hereunder. A default under this Disclosure Agreement shall not be deemed an event of default under any applicable resolution or other debt authorization of the Commonwealth, and the sole remedy under this Disclosure Agreement in the event of any failure of the Commonwealth to comply herewith shall be an action to compel performance. Nothing in this provision shall be deemed to restrict the rights or remedies of any Holder pursuant to the Securities Exchange Act of 1934, the rules and regulations promulgated thereunder, or other applicable laws.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Commonwealth, the Authority, the Participating Underwriters, and Holders from time to time of the Series 2016A Bonds, and shall create no rights in any other person or entity.

SECTION 14. EMMA. All filings under this Disclosure Agreement shall be made solely by transmitting such filings to the MSRB via EMMA, as described in 1934 Act Release No. 59062. Should the Securities and Exchange Commission approve any additional or subsequent internet-based electronic filing system for satisfying the continuing disclosure filing requirements of the Rule, any filings required under this Disclosure Agreement may be made by transmitting such filing to such system, as described in the applicable Securities and Exchange Commission regulation or release approving such filing system.

SECTION 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Date: _______________, 2016

COMMONWEALTH OF VIRGINIA

By: ____________________________________

AGREED TO AND ACKNOWLEDGED:

VIRGINIA PUBLIC SCHOOL AUTHORITY

By: ____________________________________
Authorized Representative

SCHEDULE 1

NOTICE OF FAILURE TO FILE ANNUAL REPORT
[AUDITED ANNUAL FINANCIAL STATEMENTS]

COMMONWEALTH OF VIRGINIA

in connection with
$101,770,000
Virginia Public School Authority's
School Financing and Refunding Bonds (1997 Resolution)
Series 2016A

CUSIP Numbers: 92818H DU2 - 92818H EP2

Dated: May 17, 2016

NOTICE IS HEREBY GIVEN that the Commonwealth of Virginia (the "Commonwealth") has not provided an Annual Report [Audited Annual Financial Statements] as required by Section 3 of the Continuing Disclosure Agreement, which was entered into in connection with the above-named bonds issued pursuant to that certain Series Resolution adopted on March 16, 2016, by the Board of Commissioners of the Virginia Public School Authority. The Commonwealth anticipates that the Annual Report [Audited Annual Financial Statements] will be filed by ____________________.

Date: _______________, 2016

COMMONWEALTH OF VIRGINIA

By: ___________________________________
State Treasurer

SCHEDULE 2

CONTENT OF ANNUAL REPORT

General Fund. Information concerning revenues, sources of revenues, expenditures, categories of expenditures and balances of the General Fund of the Commonwealth for the preceding fiscal year.

Appropriation Act. A summary of the material budgetary aspects of the Appropriation Act for the current biennium.

Debt. Updated information **respecting** tax-supported and other outstanding debt of the Commonwealth including a historical summary of outstanding tax-supported debt; a summary of authorized but unissued tax-supported debt and a summary of annual debt service on outstanding tax-supported debt.

Retirement Plans. Updated **information** (to the extent not shown in the latest audited annual financial statements) respecting pension and retirement plans administered by the Commonwealth including a summary of membership, revenues, expenses and actuarial valuation(s) of such plans.

Litigation. A summary of **material** litigation pending against the Commonwealth.

Demographic Information. **Updated** demographic information respecting the Commonwealth such as its population and tax base.

Economic Information. Updated **economic** information respecting the Commonwealth such as income, employment, industry and infrastructure data.

In general, the foregoing will include information as of the end of the most recent fiscal year or as of the most recent practicable date. Where information for the fiscal year just ended is provided, it may be preliminary and unaudited. Where information has historically been provided for more than a single period, comparable information will in general be provided for the same number of periods where valid and available. Where comparative demographic or economic information for the Commonwealth and the United States as a whole is contemporaneously available and, in the judgment of the Commonwealth, informative, such information may be included. Where, in the judgment of the Commonwealth, an accompanying narrative is required to make data presented not misleading, such narrative will be provided.

Local Issuer Standard Form[2]

CONTINUING DISCLOSURE AGREEMENT

[This Continuing Disclosure Agreement will impose obligations on the Local Issuer if and only if the Local Issuer is or has become and remains a "Material Obligated Person," as defined below]

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the [County/City/Town of ____________], Virginia (the "Local Issuer") in connection with the issuance by the Virginia Public School Authority (the "Authority") of $[principal amount] aggregate principal amount of its School Financing and Refunding Bonds (1997 Resolution) Series [year][letter] (the "Series [year][letter] Bonds") pursuant to the provisions of a bond resolution [(the "1997 Resolution") adopted on October 23, 1997][3], as amended and restated. The Series [year][letter] Bonds and all other parity bonds heretofore and hereafter issued under the 1997 Resolution are collectively called the "Bonds." A portion of the proceeds of the Series [year][letter] Bonds is being used by the Authority to purchase the general obligation school bond (the "Local School Bond") of the Local Issuer pursuant to a bond sale agreement between the Authority and the Local Issuer (the "Bond Sale Agreement"). Pursuant to paragraph 3 of the Bond Sale Agreement, the Local Issuer hereby covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Local Issuer for the benefit of the holders of the Series [year][letter] Bonds and in order to assist the Participating Underwriters (defined below) in complying with the Rule (defined below). The Local Issuer acknowledges that it is undertaking primary responsibility for any reports, notices or disclosures that may be required under this Agreement.

SECTION 2. Definitions. In addition to the definitions set forth in the 1997 Resolution, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Local Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"bond sale agreement" shall mean the Bond Sale Agreement and any other comparable written commitment of the Local Issuer to sell its local school bond to the Authority.

"Dissemination Agent" shall mean the Local Issuer, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by such Local Issuer and which has filed with such Local Issuer a written acceptance of such designation.

"Filing Date" shall have the meaning given to such term in Section 3(a) hereof.

"Fiscal Year" shall mean the twelve-month period at the end of which financial position and results of operations are determined. Currently, the Local Issuer's Fiscal Year begins July 1 and continues through June 30 of the next calendar year.

"holder" shall mean, for purposes of this Disclosure Agreement, any person who is a record owner or beneficial owner of a Series [year][letter] Bond.

"Listed Events" shall mean any of the events listed in subsection 5(b)(5)(i)(C) of the Rule.

---

[2] This agreement, in substantially this form, has been executed by substantially every Local Issuer with Local School Bonds outstanding and pledged to Bonds issued under the 1997 Resolution.

[3] Alternatively, the agreement may refer to the Authority's 1991 Resolution if the Local School Bonds were acquired with the proceeds of 1991 Resolution bonds and transferred and pledged under the 1997 Resolution in connection with a refunding transaction under the 1997 Resolution.

"local school bonds" shall mean any of the Local School Bonds and any other bonds of the Local Issuer pledged as security for Bonds issued under the Authority's 1997 Resolution.

"Material Obligated Person" (or "MOP") shall mean the Local Issuer if it has local school bonds outstanding in an aggregate principal amount that exceeds 10% of the aggregate principal amount of all outstanding Bonds of the Authority.

"MSRB" shall mean the Municipal Securities Rulemaking Board, or any successor thereto or to the functions of the MSRB contemplated by this Disclosure Agreement.

"Participating Underwriter" shall mean any of the original underwriters of the Authority's Series [year][letter] Bonds required to comply with the Rule in connection with the offering of such Bonds.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The Local Issuer shall, or shall cause the Dissemination Agent to, provide the MSRB, in the format prescribed by the MSRB, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Such Annual Report shall be filed on a date (the "Filing Date") that is not later than 12 months after the end of any Fiscal Year (commencing with its Fiscal Year ending June 30, [year]) as of the end of which such Local Issuer was a MOP, unless as of the Filing Date the Local Issuer is no longer a MOP.[4] Not later than ten (10) days prior to the Filing Date, the Local Issuer shall provide the Annual Report to the Dissemination Agent (if applicable) and shall provide copies to the Authority. In each case, the Annual Report (i) may be submitted as a single document or as separate documents comprising a package, (ii) may cross-reference other information as provided in Section 4 of this Disclosure Agreement and (iii) shall include the Local Issuer's audited financial statements prepared in accordance with applicable state law or, if audited financial statements are not available, such unaudited financial statements as may be required by the Rule. In any event, audited financial statements of such Local Issuer must be submitted, if and when available, together with or separately from the Annual Report.

(b) If the Local Issuer is unable to provide an Annual Report to the MSRB by the date required in subsection (a), the Local Issuer shall send a notice to the MSRB in substantially the form attached hereto as Exhibit A.

SECTION 4. Content of Annual Reports. Except as otherwise agreed, any Annual Report required to be filed hereunder shall contain or incorporate by reference, at a minimum, annual financial information relating to the Local Issuer, including operating data,

(i) updating such information relating to the Local Issuer as shall have been included or cross-referenced in the final Official Statement of the Authority describing the Authority's Series [year][letter] Bonds or

(ii) if there is no such information described in clause (i), updating such information relating to the Local Issuer as shall have been included or cross-referenced in any comparable disclosure document of the Local Issuer relating to its tax-supported obligations or

(iii) if there is no such information described in clauses (i) or (ii) above, initially setting forth and then updating the information referred to in Exhibit B as it relates to the Local Issuer, all with a view toward assisting Participating Underwriters in complying with the Rule.

---

[4] The Authority will covenant in the Bond Sale Agreement to advise the Local Issuer within 60 days of the end of each Fiscal Year if such Local Issuer was a Material Obligated Person as of the end of such Fiscal Year. Upon written request, the Authority will also advise the Local Issuer as to its status as a MOP as of any other date.

Any or all of such information may be incorporated by reference from other documents, including official statements of securities issues with respect to which the Local Issuer is an "obligated person" (within the meaning of the Rule), which have been filed with the MSRB or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Local Issuer shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Listed Events. Whenever the Local Issuer is a Material Obligated Person required to file Annual Reports pursuant to Section 3(a) hereof and obtains knowledge of the occurrence of a Listed Event, such Local Issuer shall file in a timely manner, not in excess of ten business days after the occurrence of the event, a notice of such occurrence with the MSRB with a copy to the Authority.

SECTION 6. Termination of Reporting Obligation. The Local Issuer's obligations under this Disclosure Agreement shall terminate upon the earlier to occur of the legal defeasance or final retirement of all the Local School Bonds.

SECTION 7. Dissemination Agent. The Local Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Local Issuer shall advise the Authority of any such appointment or discharge. If at any time there is not any other designated Dissemination Agent, the Local Issuer shall be the Dissemination Agent. [The initial Dissemination Agent shall be ______________.]

SECTION 8. Amendment. Notwithstanding any other provision of this Disclosure Agreement, the Local Issuer may amend this Disclosure Agreement, if such amendment has been approved in writing by the Authority and is supported by an opinion of independent counsel, acceptable to the Authority, with expertise in federal securities laws, to the effect that such amendment is permitted or required by the Rule.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Local Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Local Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, such Local Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. Any person referred to in Section 11 (other than the Local Issuer) may take such action as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Local Issuer to file its Annual Report or to give notice of a Listed Event. The Authority may, and the holders of not less than a majority in aggregate principal amount of Bonds outstanding may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to challenge the adequacy of any information provided pursuant to this Disclosure Agreement, or to enforce any other obligation of the Local Issuer hereunder. A default under this Disclosure Agreement shall not be deemed an event of default under the applicable resolution or bonds of the Local Issuer, and the sole remedy under this Disclosure Agreement in the event of any failure of the Local Issuer to comply herewith shall be an action to compel performance. Nothing in this provision shall be deemed to restrict the rights or remedies of any holder pursuant to the Securities Exchange Act of 1934, the rules and regulations promulgated thereunder, or other applicable laws.

SECTION 11. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Authority, the Local Issuer, the Participating Underwriters, and holders from time to time of the Authority's Bonds, and shall create no rights in any other person or entity.

SECTION 12. Form of Filings. Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB pursuant to this Disclosure Agreement shall be provided to the MSRB's Electronic Municipal Market Access (EMMA) system, the current Internet address of which is www.emma.msrb.org. All notices, documents and information provided to the MSRB shall be provided in an electronic format prescribed by the MSRB (currently, portable document format (pdf) which must be word-searchable except for non-textual elements) and shall be accompanied by identifying information as prescribed by the MSRB. The Local Issuer shall include with each filing made under this Disclosure Agreement the CUSIP identifier related to each of the Series [year][letter] Bonds and all other Bonds that are outstanding at the time of such filing. The Local Issuer may obtain the relevant CUSIP identifiers from the Authority in connection with any filing required under this Disclosure Agreement.

SECTION 13. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Date: ________________________

[COUNTY/CITY/TOWN OF _________], VIRGINIA

By: ______________________________________
Name: ______________________________________
Title: ______________________________________

[Signature Page to Continuing Disclosure Agreement]

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT
[AUDITED FINANCIAL STATEMENTS]

Re: VIRGINIA PUBLIC SCHOOL AUTHORITY
SCHOOL FINANCING AND REFUNDING BONDS (1997 Resolution)
SERIES 2016A

CUSIP Numbers:
(Base CUSIP: 92818H)
(DU2, DV0, DW8, DX6, DY4, DZ1, EA5, EB3, EC1,
ED9, EE7, EF4, EG2, EH0, EJ6, EK3, EL1, EM9, EN7, EP2)

Dated: May 17, 2016

Name of Local Issuer: [COUNTY/CITY/TOWN OF ______________], VIRGINIA

NOTICE IS HEREBY GIVEN that the [County/City/Town of ________,] Virginia (the "Local Issuer") has not provided an Annual Report as required by Section 3(a) of the Continuing Disclosure Agreement, which was entered into in connection with the above-named bonds issued pursuant to that certain Series Resolution adopted on ________, ____, by the Board of Commissioners of the Virginia Public School Authority, the proceeds of which were used to purchase $____________ [General Obligation School Bond], Series 2016__ of the Local Issuer. [The Local Issuer anticipates that the Annual Report will be filed by _____________.] The Local Issuer is a material "obligated person" within the meaning of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended, with respect to the above-named bonds of the Authority.

Dated:_______________

[COUNTY/CITY/TOWN OF _________], VIRGINIA

By: ______________________________________
Name: ______________________________________
Title: ______________________________________

EXHIBIT B

CONTENT OF ANNUAL REPORT

Description of the Local Issuer. A description of the Local Issuer including a summary of its form of government, budgetary processes and its management and officers.

Debt. A description of the terms of the Local Issuer's outstanding tax-supported and other debt including a historical summary of outstanding tax-supported debt; a summary of authorized but unissued tax-supported debt; a summary of legal debt margin; a summary of overlapping debt; and a summary of annual debt service on outstanding tax-supported debt as of the end of the preceding fiscal year. The Annual Report should also include (to the extent not shown in the latest audited financial statements) a description of contingent obligations as well as pension plans administered by the Local Issuer and any unfunded pension liabilities.

Financial Data. Financial information respecting the Local Issuer including a description of revenues and expenditures for its major funds and a summary of its tax policy, structure and collections as of the end of the preceding fiscal year.

Capital Improvement Plan. A summary of the Local Issuer's capital improvement plan.

Demographic, Economic and Supplemental Information. A summary of the Local Issuer's demographic and economic characteristics such as population, income, employment, and public school enrollment and infrastructure data as of the end of the preceding fiscal year. The Annual Report should also include a description of material litigation pending against the Local Issuer.

APPENDIX G

PROPOSED FORM OF OPINION OF BOND COUNSEL

Set forth below is the proposed form of the opinion of McGuireWoods LLP, Bond Counsel. It is preliminary and subject to change prior to the delivery of the 2016A Bonds.

[Letterhead of McGuireWoods LLP]

May 17, 2016

Virginia Public School Authority
Richmond, Virginia 23219

VIRGINIA PUBLIC SCHOOL AUTHORITY

$101,770,000
School Financing and Refunding Bonds
(1997 Resolution)
Series 2016A

Ladies and Gentlemen:

We have served as Bond Counsel to the Virginia Public School Authority ("VPSA") in connection with the issuance of VPSA's $101,770,000 School Financing and Refunding Bonds (1997 Resolution), Series 2016A (the "2016A Bonds"). The 2016A Bonds have been issued under (i) Chapter 11, Title 22.1, Code of Virginia of 1950, as amended (the "Enabling Act"), (ii) a bond resolution adopted by VPSA's Board of Commissioners on October 23, 1997, as last amended and restated on September 20, 2012, and as previously supplemented (the "Bond Resolution"), and (iii) a series resolution adopted by VPSA's Board of Commissioners on March 16, 2016 (the "Series Resolution" and together with the Bond Resolution, the "Resolution"). We refer you to the 2016A Bonds and the Series Resolution for a description of the purposes for which the 2016A Bonds are issued, the terms of the 2016A Bonds and the security for the 2016A Bonds. Unless otherwise defined, each capitalized term used in this opinion has the meaning given it in the Resolution.

In connection with our opinion, we have examined the Constitution of Virginia and the applicable laws of both the United States and the Commonwealth of Virginia (the "Commonwealth"), including without limitation the Internal Revenue Code of 1986, as amended (the "Code") and the Enabling Act, and such certified proceedings and other documents of VPSA as we deem necessary to render this opinion.

VPSA is issuing the 2016A Bonds for the purpose of purchasing certain general obligation school bonds to be issued by certain Virginia localities, as further described in the Resolution (the "2016A Local Issuers") and for refunding in advance of their stated maturity certain bonds of VPSA issued under the Bond Resolution, which were issued for the purpose of purchasing certain general obligation school bonds issued by certain Virginia localities (the "Related Local Issuers").

As to questions of fact material to this opinion we have relied upon, among other things (i) representations of VPSA contained in the Resolution and related documents and the certified proceedings and (ii) other certifications and representations of public officials furnished to us, without undertaking to verify any of them by independent investigation. In addition, without undertaking to verify the same by independent investigation, we have relied on computations provided to us by Davenport & Company LLC, financial advisor to VPSA, the mathematical accuracy of which was verified by The Arbitrage Group, Inc., relating to the yield on investments in the escrow funds established with a portion of the proceeds of the 2016A Bonds and the yield on the 2016A Bonds.

We have assumed that all signatures on documents, certificates and instruments examined by us are genuine, all documents, certificates and instruments submitted to us as originals are authentic, and all documents, certificates and instruments submitted to us as copies conform to the originals. In addition, we have assumed that all documents, certificates and instruments relating to this transaction have been duly authorized, executed, and delivered by all parties to them other than VPSA, and we have further assumed the due organization, existence, and powers of all parties other than VPSA.

Based on the foregoing, we are of the opinion that, under current law:

1. VPSA is a public body corporate and an agency and instrumentality of the Commonwealth duly created by and existing pursuant to the Enabling Act.

2. The Resolution has been duly adopted by VPSA.

3. VPSA has the requisite authority and power under the Enabling Act and the Resolution to issue and sell the 2016A Bonds and to apply the proceeds from the issuance and sale of the 2016A Bonds as set forth in the Series Resolution. All conditions precedent to the issuance of the 2016A Bonds as set forth in the Enabling Act and the Resolution have been fulfilled.

4. The 2016A Bonds have been duly authorized, executed, and delivered in accordance with the Enabling Act and the Resolution and constitute valid and binding limited obligations of VPSA.

5. The 2016A Bonds, the outstanding bonds heretofore issued under the Resolution and any additional series of bonds that may be hereafter issued from time to time under the Resolution, under the conditions, limitations and restrictions set forth in the Resolution, for the purpose of providing funds for the purchase of local school bonds and for the purpose of refunding bonds issued under the provisions of the Resolution or other indebtedness of VPSA, are payable from certain funds of VPSA pledged to their payment, including (i) payments derived from local school bond principal, interest and redemption premium, if any, components ("Components") credited to the Virginia Public School Authority General Pledge Fund 1997 Resolution Account (the "1997 Resolution Pledge Account"), a special account established within the Virginia Public School Authority General Pledge Fund, a special fund established under the Resolution within which certain local school bonds are held (the "General Pledge Fund"), (ii) the proceeds of the sale of any such Components credited to the 1997 Resolution Pledge Account, (iii) payments of monies derived from operation of the "State Aid Intercept Provision" contained in Section 15.2-2659, Code of Virginia 1950, as amended, in the event of default in payment of debt service on local school bonds having Components credited to the 1997 Resolution Pledge Account, and (iv) appropriations by the General Assembly of the Commonwealth to VPSA to make up deficiencies in debt service. The Resolution requires that if a payment default occurs on a local school bond and if VPSA has not received the defaulted payment from the implementation of the State Aid Intercept Provision, VPSA shall file a warrant with the State Treasurer requesting that an amount equal to the deficiency be made available to VPSA from moneys appropriated by the General Assembly. The Resolution requires the Chairman to notify the Governor on or before November 1 of each year of his estimate of total debt service during each fiscal year of the biennium on bonds of VPSA issued and projected to be issued under the Resolution. The Enabling Act requires the Governor to include such appropriations for the payment of debt service in his budget submission to the General Assembly each year. The General Assembly has the power, but is not legally obligated, to make appropriations in respect of the payment of such debt service. The 2016A Bonds do not constitute a debt of the Commonwealth or pledge of the faith and credit of the Commonwealth, and neither the faith and credit nor the taxing power of the Commonwealth or of any political subdivision thereof is pledged to the payment of the principal of or the interest on the 2016A Bonds.

6. Interest on the 2016A Bonds, including any accrued "original issue discount" properly allocable to the owners of the 2016A Bonds, (i) is excludable from gross income for federal income tax purposes under Section 103 of the Code and (ii) is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations (a "Specific Tax Preference Item"). However, for purposes of the alternative minimum tax imposed on corporations (as defined for federal income tax purposes) under Section 56 of the Code, interest on the 2016A Bonds must be included in computing adjusted current earnings. The "original issue discount" on any 2016A Bond is the excess of its stated redemption price at maturity over the initial offering price to the public at which price a substantial amount of the 2016A Bonds of the same maturity was sold. The "public" does not include bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. We express no opinion regarding other federal tax consequences arising with respect to the 2016A Bonds.

In delivering this opinion, we are (i) relying on an opinion from other firms of municipal bond attorneys serving as bond counsel to the following 2016A Local Issuers: County of Augusta, Virginia, City of Chesapeake, Virginia, and County of Northumberland, Virginia, regarding the application of the proceeds of the 2016A Bonds and the ownership, use and operation of the property financed thereby by such 2016A Local Issuers, and (ii) assuming continuing compliance with the Covenants (as defined below) by VPSA, each of the 2016A Local Issuers, each of the Related Local Issuers and each of the local school boards associated with the 2016A Local Issuers or the Related Local Issuers (collectively, the "2016A Local School Boards") so that interest on the 2016A Bonds will (A) remain excludable from gross income for federal income tax purposes under Section 103 of the Code and (B) not become a Specific Tax Preference Item. It should be noted that this firm has served as bond counsel to the Counties of Frederick, Russell, Stafford and York, Virginia, each of which is a 2016A Local Issuer or Related Local Issuer (or in the case of Stafford, both). VPSA, the 2016A Local Issuers, the Related Local Issuers and the 2016A Local School Boards, as applicable, have covenanted in their respective tax agreements to comply with the provisions of the Code applicable to the 2016A Bonds including, among other things, requirements as to the use, expenditure and investment of the proceeds thereof, the use of the property financed or refinanced thereby, the source of the payment thereof and the security therefor, the arbitrage yield restrictions and rebate payment obligations imposed by the Code and certain other actions that could cause interest thereon to be includable in gross income of their owners (the "Covenants"). Failure by VPSA, any of the 2016A Local Issuers, the Related Local Issuers or any of the 2016A Local School Boards, as applicable, to comply with the Covenants could cause interest on the 2016A Bonds to become includable in gross income for federal income tax purposes retroactive to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the 2016A Bonds from becoming includable in gross income for federal income tax purposes.

We have no responsibility to monitor compliance with the Covenants after the date of issue of the 2016A Bonds.

7. In accordance with Section 22.1-172 of the Enabling Act, the 2016A Bonds, their transfer and the income from them, including any profit made on their sale, are exempt from taxation by the Commonwealth and any municipality, county or other political subdivision thereof. We express no opinion regarding (i) other Virginia tax consequences arising with respect to the 2016A Bonds or (ii) any consequences arising with respect to the 2016A Bonds under the tax laws of any state or local jurisdiction other than the Commonwealth and its political subdivisions.

The rights of the registered owners of the 2016A Bonds and the enforceability of VPSA's obligations under the 2016A Bonds and the Resolution may be limited or otherwise affected by bankruptcy, insolvency, reorganization, moratorium, and similar laws now or hereafter in effect affecting creditors' rights. The enforceability of those rights and obligations is also subject to the exercise of judicial discretion in accordance with general principles of equity.

Our services as Bond Counsel have been limited to rendering the foregoing opinion based on our review of such legal proceedings as we deem necessary to approve the validity of the 2016A Bonds and the tax-exempt status of the interest on them and the enforceability of the Resolution. The foregoing opinion is in no respect an opinion as to VPSA's business or financial resources or its ability to provide for the payment of the 2016A Bonds or the accuracy or completeness of any information, including VPSA's Preliminary Official Statement dated April 15, 2016, and Official Statement dated April 26, 2016, that anyone may have relied upon in making the decision to purchase the 2016A Bonds.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Very truly yours,

APPENDIX H

BOOK-ENTRY ONLY SYSTEM

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company ("DTC") will act as securities depository for the Series 2016A Bonds. The Series 2016A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Series 2016A Bonds and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2016A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2016A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2016A Bond (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2016A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2016A Bonds, except in the event that use of the book-entry system for the Series 2016A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2016A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2016A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2016A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2016A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Series 2016A Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series

2016A Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2016A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the Series 2016A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2016A Bonds at any time by giving reasonable notice to the Authority. Under such circumstances, in the event that a successor depository is not obtained, certificates for the Series 2016A Bonds are required to be printed and delivered to DTC.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates for the Series 2016A Bonds will be printed and delivered.

NEITHER THE AUTHORITY, ANY LOCAL ISSUERS, NOR THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF OR PREMIUM, IF ANY, OR INTEREST ON, THE SERIES 2016A BONDS; (III) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BONDHOLDERS; (IV) ANY CONSENT GIVEN BY DTC OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER; OR (V) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2016A BONDS.

So long as Cede & Co. is the registered owner of the Series 2016A Bonds, as nominee of DTC, references in this Official Statement to the Owner or Owners of the Series 2016A Bonds or Owners shall mean Cede & Co. and shall not mean the Beneficial Owners.

The Authority may enter into amendments to its agreement with DTC or any successor depository without the consent of the Beneficial Owners.