VIRGINIA PUBLIC BUILDING AUTHORITY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

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This section of the Virginia Public Building Authority's (the Authority) annual financial report presents an analysis of the Authority's financial performance during the fiscal year that ended on June 30, 2014. This information should be considered in conjunction with the information contained in the financial statements.

Authority Activities and Highlights

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

Overview of the Financial Statements

This discussion and analysis is an introduction to the Authority's basic financial statements, which are comprised of two components: 1) combined government-wide and fund financial statements, and 2) notes to the financial statements.

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities are two basic financial statements that report information about the Authority as a whole. The data is reported using the accrual basis of accounting, and provides insight as to whether or not the Authority's total financial position has improved as a result of the current year's activities.

The Statement of Net Position presents all of the Authority's assets and liabilities, with the difference between the two reported as "net position." Over time, increases and decreases in net position measure whether the Authority's financial position is improving or deteriorating.

The Statement of Activities presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. receipt or payments on long-term debt obligations).

Both statements report Governmental Activities backed by appropriations from the Commonwealth, as authorized by the General Assembly.

Fund Financial Statements

The fund financial statements provide detailed information about the Authority's major fund. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Authority uses to keep track of specific sources of funding and spending for a particular purpose.

All of the Authority's activity is reported in Governmental Funds Financial Statements. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental funds financial statements focus on near-term inflows and outflows of spendable resources. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the Authority's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Authority.

Because the focus of governmental funds financial statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental funds and the governmental activities. These reconciliations are presented in the adjustment column in each of the financial statements.

Notes to the Financial Statements

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

Government-wide Financial Analysis of the Authority

The primary purpose of the Authority is to provide a vehicle for financing public facilities for the use of the Commonwealth and its agencies and instrumentalities, and to finance reimbursements of the Commonwealth's share of local or regional jails and juvenile detention facilities costs. The Department of the Treasury provides staff support for the Authority. Consequently, the only operating costs are those attributable to its financing programs, which are paid primarily from bond proceeds.

Statement of Net Position
(in millions)

	2014	2013
Current assets	$ 60	$ 220
Deferred Outflows of Resources	23	28
Current liabilities	264	255
Noncurrent liabilities	2,174	2,376
Total liabilities	2,438	2,631
Net position (deficit)	$ (2,355)	$ (2,383)

The Authority's net position increased by 1.2%, or $28 million, in 2014. The increase is due to several factors. Outstanding bonds payable decreased by $170 million (as the result of bonds redeemed), outstanding bond premiums decreased by $18 million (due to premium amortization), amounts due to agencies and localities decreased by $2 million (as a result of normal fluctuations in project activity) and bond interest payable decreased by $3 million (as a result of the underlying structure of the outstanding bonds). This activity is offset by a decrease in available cash of $160 million (as the result of project disbursements) and a decrease of deferred outflows of resources by $5 million (as a result of the current year amortization of the charge on refunding).

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

Changes in Net Position
(in millions)

Revenues:	2014	2013
Appropriation from the Commonwealth	$ 269	$ 286
Other revenue	10	8
Total revenues	279	294
Expenses:		
Interest on long-term debt	92	98
Disbursements for state and local projects	159	166
Total expenses	251	264
Changes in net assets	28	30
Net position (deficit), July 1	(2,383)	(2,413)
Net position (deficit), June 30	$ (2,355)	$ (2,383)

The Authority's revenues decreased by 5.1% or $15 million compared to last year while expenses decreased by 4.9% or $13 million. The decrease in revenue is largely due to the decrease in the appropriation receipt from the Commonwealth of $17 million, which resulted from the smaller debt service requirement for the year. This decrease was offset by a $2 million receipt from the sale of an asset. The decrease in expenses was attributable to a net decrease in distributions for construction projects and reimbursements made to localities for various regional jail projects of $6 million and a net decrease in interest on long term debt of $6 million. The remaining variance is reflected in several smaller categories. The fluctuations in revenues and expenses are expected due to the nature of the Authority's operations.

Debt Administration

As a financing entity, the sole business of the Authority is debt administration. The Authority issues bonds to finance capital projects approved by the General Assembly of the Commonwealth of Virginia. All bonds are secured by amounts to be appropriated by the General Assembly.

The following is a summary of changes in long-term debt of the Authority at June 30, 2014:

Payable at July 1, 2013*	$ 2,562,667,178
Bonds issued	-
Bonds redeemed	(169,775,000)
Net amortized premium on bonds sold	(18,056,556)
Payable at June 30, 2014	$ 2,374,835,622

* The July 1, 2013 amount has been revised to reflect the removal of the prior year deferral on debt defeased which had previously been included in this schedule.

The Authority's outstanding bonds are rated as follows:

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

Since the Authority's bonds are backed by state appropriations, the bond ratings are a direct reflection of the Commonwealth's triple-A rating from each of the three rating agencies.

Future Impact to Financial Position

In September 2014, the Authority issued $163 million of combined tax-exempt (Series 2014A) and taxable (Series 2014B) Public Facilities Revenue Bonds. The Authority also issued $298 million in tax-exempt (Series 2014C) Public Facilities Revenue Refunding Bonds. The proceeds of the Series 2014 Bonds will be used to: (i) finance the acquisition, construction, improvement, rehabilitation, furnishing, and equipping of various public facilities for use by or on behalf of the Commonwealth and its agencies, (ii) finance the Commonwealth's payment of the cost of certain grants and of regional and local jail and juvenile detention facility projects, (iii) refund certain maturities of outstanding Public Facilities Revenue Bonds, and (iv) pay costs of issuing the 2014 Bonds.

VIRGINIA PUBLIC BUILDING AUTHORITY
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
As of June 30, 2014

	Special Revenue Fund	Adjustments	Statement of Net Position
ASSETS			
Current assets:			
Cash and cash equivalents	$ 57,138,708	$ -	$ 57,138,708
Due from the Federal Government	-	3,091,428	3,091,428
Interest receivable	7,678	-	7,678
Total assets	$ 57,146,386	3,091,428	60,237,814
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding		23,319,302	23,319,302
Total deferred outflows of resources		23,319,302	23,319,302
LIABILITIES			
Current liabilities:			
Bond interest payable	$ -	43,564,466	43,564,466
Due to state institutions	20,462,058	-	20,462,058
Bonds payable	-	182,730,000	182,730,000
Premium on bonds sold	-	18,056,557	18,056,557
Accounts payable	34,570	-	34,570
Total current liabilities	20,496,628	244,351,023	264,847,651
Noncurrent liabilities:			
Bonds payable	-	2,044,825,000	2,044,825,000
Premium on bonds sold	-	129,224,065	129,224,065
Total noncurrent liabilities	-	2,174,049,065	2,174,049,065
Total liabilities	20,496,628	2,418,400,088	2,438,896,716
FUND BALANCE/NET POSITION:			
Fund balance:			
Restricted for construction projects	36,649,758	(36,649,758)	-
Total fund balance	36,649,758	(36,649,758)	-
Total liabilities and fund balance	$ 57,146,386		
Net position (deficit):			
Unrestricted		(2,355,339,600)	(2,355,339,600)
Total net position (deficit)		$ (2,355,339,600)	$ (2,355,339,600)

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

VIRGINIA PUBLIC BUILDING AUTHORITY
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Fiscal Year Ended June 30, 2014

	Special Revenue Fund	Adjustments	Statement of Activities
REVENUES:			
Interest on investments	$ 187,435	$ -	$ 187,435
Sale of Asset	1,972,442	-	1,972,442
Interest on Build America Bonds	7,360,414	49,577	7,409,991
Appropriations from the Commonwealth	269,020,382	-	269,020,382
Total revenues	278,540,673	49,577	278,590,250
EXPENDITURES/EXPENSES:			
Current:			
Legal and financial services	99,543	-	99,543
Disbursements to institutions	117,897,388	-	117,897,388
Disbursements to localities	40,048,595	-	40,048,595
Miscellaneous expenditures	728	299,467	300,195
Debt service:			
Principal retirement	168,170,000	(168,170,000)	-
Interest and fiscal charges	108,229,337	(15,976,112)	92,253,225
Total expenditures/expenses	434,445,591	(183,846,645)	250,598,946
Excess (deficiency) of revenues over (under) expenditures	(155,904,918)	-	-
Other financing sources (uses):			
Payments to refunded bond escrow agent	(1,904,467)	1,904,467	-
Total other financing sources (uses)	(1,904,467)	1,904,467	-
Deficiency of revenues and other financing sources under expenditures and other financing uses	(157,809,385)	157,809,385	-
Change in net position	-	27,991,304	27,991,304
Fund balance/Net position (deficit), July 1, 2013	194,459,143	(2,577,790,047)	(2,383,330,904)
Fund balance/Net position (deficit), June 30, 2014	$ 36,649,758	$ (2,391,989,358)	$ (2,355,339,600)

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

The accounting and reporting policies of the Authority conform to generally accepted accounting principles (GAAP) applicable to governmental units as prescribed by the Governmental Accounting Standards Board (GASB), the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the Authority's more significant policies.

B. Measurement Focus and Basis of Accounting

The accompanying financial statements are presented using the accounting principles generally accepted in the United States of America as prescribed by the GASB. The accompanying government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when they are earned and expenditures are recognized when the related liability is incurred, regardless of the timing of related cash flows.

The accompanying governmental funds financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available to fund current operations. Expenditures are recognized when the related fund liability is incurred, except for principal and interest on long-term debt which is recognized when due.

The Authority uses the cash basis of accounting during the year and reports on the accrual and modified accrual basis for financial statement purposes at the end of the fiscal year.

C. Fund Accounting

The Special Revenue Fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Special Revenue Fund consists of bond proceeds, bond funds, and issuance expense funds. The fund was established in accordance with the provisions of the Trust Agreement entered into with the trustee for each bond indenture.

D. Change in Accounting Principles

The Authority implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in the fiscal year ending June 30, 2014. In accordance with GASB Statement No. 65, the deferred charge on debt refunding is now included in the Deferred Outflows of Resources section of the Statement of Net Position. Previously, the deferral had been included as a reduction to bonds payable. Prior year comparative data in these financial statements has been revised to reflect the current year presentation. The change had no effect on the Authority's net position.

E. Adjustments

The adjustments column represents the recording of bonds payable liabilities on the Statement of Net Position and the related effect of these transactions on the Statement of Activities. Governmental fund statements do not reflect bonds payable. The non-current portion of bonds payable includes those payments that are not due and payable in the current period.

F. Bond Issuance Costs, Premiums, and Discounts

Costs associated with issuing debt are expensed in the year incurred. The original issue premium or discount, for each bond issuance, is also recorded in the year incurred unless it exceeds 1% of the amount of the bonds issued. In that case, the original issue premium or discount is deferred and amortized, on a straight-line basis, over the life of the outstanding debt.

G. Budget to Actual Statement

Due to the nature of activity accounted for by the Authority, a budget is not prepared. Therefore, a Statement of Revenues, Expenditures, and Changes in Balances – Budget to Actual is not included in the financial statements.

2. DETAILED NOTES ON ALL FUNDS

A. Cash and Cash Equivalents

Cash of $34,570 is held by the Treasurer of Virginia. Cash equivalents of $57,104,138 are held by The Bank of New York Mellon, as trustee (successor to Signet Bank), under the 1997 Indenture. Cash is defined as demand deposits, time deposits and certificates of deposit in accordance with §2.2-4401 of the *Code of Virginia*. Cash equivalents represent deposits and short-term investments with original maturities of less than three months.

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

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

The 1997 Indenture authorizes the trustee, on behalf of the Authority, to invest in legal investments for public sinking funds and other public funds as outlined in

§2.2-4500 and §2.2-4501 of the *Code of Virginia* which include repurchase agreements, certificates of deposit, commercial paper, bankers' acceptances, United States Government and agency securities, and money market funds.

Custodial credit risk for cash and cash equivalents is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of the cash and cash equivalents or collateral securities that are in the possession of an outside party. The Trustee complies with the Trust Subsidiary Act, §6.2-1057 of the *Code of Virginia* with regard to the Authority's assets. The Authority's investments at June 30, 2014 were held in the Authority's name by the Authority's custodial banks; therefore, the Authority has no custodial credit risk.

The Authority's cash and cash equivalents at June 30, 2014 are presented below.

As of June 30, 2014

	Fair Value
Cash and cash equivalents:	
Cash	$ 34,570
State Non-Arbitrage Program [1]	50,144,625
Local Government Investment Pool [2]	6,959,513
	$ 57,138,708

[1] The Virginia State Non-Arbitrage Program® ("SNAP®") offers a professionally-managed money market mutual fund, which provides issuers with a temporary pooled investment vehicle for proceeds pending expenditure, and with record keeping, depository and arbitrage rebate calculation services. SNAP® is an external investment pool registered under the Investment Company Act of 1940. The SNAP® fund is rated AAAm by Standard and Poor's.

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

B. Long-Term Debt

Changes in Long-Term Debt - The following is a summary of changes in long-term debt of the Authority for the year ended June 30, 2014.

Payable at July 1, 2013*	$ 2,562,667,178
Bonds issued	-
Bonds redeemed	(169,775,000)
Net amortized premium on bonds sold	(18,056,556)
Payable at June 30, 2014	$ 2,374,835,622

* The July 1, 2013 amount has been revised to reflect the removal of the prior year deferral on debt defeased which had previously been reflected in this schedule.

Annual Requirements to Amortize Long-Term Debt:

Year Ending June 30	Principal	Interest	Total
2015	$ 182,730,000	$ 100,110,036	$ 282,840,036
2016	180,165,000	91,466,439	271,631,439
2017	164,445,000	83,387,743	247,832,743
2018	147,490,000	75,913,375	223,403,375
2019	131,375,000	69,219,586	200,594,586
2020-2024	633,720,000	256,466,508	890,186,508
2025-2029	580,265,000	113,894,083	694,159,083
2030-2034	207,365,000	13,196,876	220,561,876
Add: unamortized premium	147,280,622		147,280,622
Total	$ 2,374,835,622	$ 803,654,646	$ 3,178,490,268

C. Defeasance of Debt

In prior years, the Authority defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included on the Authority's financial statements. At June 30, 2014, $188,575,000 of bonds outstanding is considered defeased for financial reporting purposes. The detail for those balances and the refinancing activities that resulted in the defeasance of the bonds is shown on the following page:

Refunded State Building Revenue Bonds:	Refunded Amount:	Refunding Series:
Series 2004B (partial)	$ 36,375,000	2010B-3
Series 2004B (partial)	$ 48,285,000	2012A
Series 2005C (partial)	$ 31,390,000	2012A
Series 2006A (partial)	$ 18,410,000	2013B
Series 2006B (partial)	$ 54,115,000	2013B

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

D. <u>Sale of Property</u>

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

E. <u>Arbitrage Rebate</u>

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

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

Rebate and penalty payments are calculated and paid by the Authority as required by law on bond issues that fall under the regulations and do not qualify for exceptions. As of their 5-year installment computation date, the 2008B, 2009B and 2009D bonds had no arbitrage rebate liabilities due. In addition, as of their 10-year installment computation date, the 2004A bonds had no arbitrage rebate liability due. In fiscal year 2014, no bonds were subject to a 15-year installment computation. Therefore, no payments were made to the Internal Revenue Service.

F. Fund Balance

Generally accepted accounting principles direct that governmental funds recognize expenditures when the related liability is incurred while revenues are recognized when they become available. Due to the timing of the Authority's bond issuance, available resources at the close of the current year recognized by the Authority exceeded the expenditures recognized by the Authority at the close of the current period resulting in a surplus balance of $36,649,758.

G. Deficit Net Position

Generally accepted accounting principles direct that governmental funds recognize revenues in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Authority bonds are secured by General Assembly appropriations. Because future appropriations are not considered available and do not constitute a legally binding commitment, the Authority ended the year with a net position deficit of $2,355,339,600. The General Assembly has never failed to appropriate funds to the Authority for payment of debt service on the Authority's bonds.

H. Due from the Federal Government

The American Recovery and Reinvestment Act of 2009 permits the Authority to issue federally taxable bonds known as "Build America Bonds" to finance capital expenditures. Under the Build America Bonds program, instead of issuing federally tax-exempt bonds, the Authority can issue federally taxable Build America Bonds and elect to receive a subsidy payment from the federal government equal to 35% of each interest payment due semiannually on such taxable bonds. The Authority has issued two such series of bonds, beginning in fiscal year 2010 (Series 2010A-2 Bonds and Series 2010B-2 Bonds). Therefore, the Authority is accruing a receivable from the federal government for the subsidy payments which will be due on August 1, 2014. As a result of the Federal Sequestration, the actual August 1, 2014 payment was reduced by 7.2% and the corresponding accrual was adjusted to reflect this reduction. It should be noted that the subsidy payments have not been pledged to the payment of the Build America Bonds, and the subsidy payments are not full faith and credit obligations of the United States. As such, future debt service payments have been reflected in these financial statements at their gross amounts, without consideration of possible future subsidy payments.

I. Subsequent Events

In September 2014, the Authority issued $163 million of combined tax-exempt (Series 2014A) and taxable (Series 2014B) Public Facilities Revenue Bonds. The Authority also issued $298 million in tax-exempt (Series 2014C) Public Facilities Revenue Refunding Bonds. The proceeds of the Series 2014 Bonds will be used to: (i) finance the acquisition, construction, improvement, rehabilitation, furnishing, and equipping of various public facilities for use by or on behalf of the Commonwealth and its agencies, (ii) finance the Commonwealth's payment of the cost of certain grants and of regional and local jail and juvenile detention facility projects, (iii) refund certain maturities of outstanding Public Facilities Revenue Bonds, and (iv) pay costs of issuing the 2014 Bonds.

J. Risk Management

The Authority is exposed to various risks of loss related to torts; theft or, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Department of the Treasury participates in insurance plans maintained by the Commonwealth of Virginia on behalf of the Authority. The risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The Department of Treasury pays premiums to this Department for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

VIRGINIA PUBLIC BUILDING AUTHORITY
DETAIL OF LONG-TERM INDEBTEDNESS
AS OF JUNE 30, 2014
(Dollars in Thousands)

Detail of Long-Term Indebtedness by Series

	Dated Date	True Interest Cost ("TIC")	Amount Issued	Outstanding July 1, 2013	Issued (Retired) During Year	Outstanding June 30, 2014	Original Maturity
Series 2003A Refunding	02/20/03	3.22%	38,810	5,865	(4,885)	980	08/01/14
Series 2004A Refunding	03/01/04	3.07%	187,105	76,885	(20,470)	56,415	08/01/16
Series 2004B	07/15/04	4.20%	207,065	35,370	(13,570)	21,800	08/01/24
Series 2004C Refunding	08/01/04	3.37%	39,260	12,720	(4,020)	8,700	08/01/15
Series 2004D Refunding	12/01/04	4.07%	106,460	86,140	(8,550)	77,590	08/01/20
Series 2005A Refunding	03/01/05	3.73%	47,305	23,025	(4,055)	18,970	08/01/18
Series 2005B Refunding	04/15/05	3.64%	135,675	67,195	(12,295)	54,900	08/01/19
Series 2005C	11/01/05	4.02%	165,810	50,410	(14,585)	35,825	08/01/22
Series 2005D	12/01/05	Variable	50,000	50,000	-	50,000	08/01/25
Series 2006A	08/24/06	4.15%	135,000	63,925	(3,365)	60,560	08/01/26
Series 2006B	11/30/06	4.07%	215,065	104,870	(10,985)	93,885	08/01/26
Series 2007A	10/10/07	4.25%	242,480	189,220	(13,190)	176,030	08/01/27
Series 2008B	12/11/08	4.90%	150,000	130,860	(5,540)	125,320	08/01/28
Series 2009A (Taxable)	04/22/09	5.61%	40,995	32,830	(2,910)	29,920	08/01/21
Series 2009B	06/03/09	3.66%	265,000	231,595	(13,565)	218,030	08/01/29
Series 2009C (Taxable)	06/03/09	4.70%	10,000	7,915	(735)	7,180	08/01/21
Series 2009D Refunding	06/03/09	2.81%	42,745	40,820	(4,495)	36,325	08/01/21
Series 2010A-1	02/24/10	1.21%	60,520	37,660	(12,065)	25,595	08/01/15
Series 2010A-2 (Taxable)	02/24/10	3.36%	256,710	256,710	-	256,710	08/01/30
Series 2010B-1	11/23/10	1.62%	87,510	70,120	(10,335)	59,785	08/01/18
Series 2010B-2 (Taxable)	11/23/10	3.40%	195,310	195,310	(50)	195,260	08/01/30
Series 2010B-3 Refunding	11/23/10	2.82%	50,780	50,445	(345)	50,100	08/01/22
Series 2011A	10/19/11	3.49%	280,000	271,455	(9,050)	262,405	08/01/31
Series 2011B (Taxable)	10/19/11	3.59%	18,500	17,800	(715)	17,085	08/01/31
Series 2012A Refunding	02/23/12	1.74%	72,415	72,415	-	72,415	08/01/24
Series 2013A	02/21/13	2.70%	143,400	143,400	-	143,400	08/01/33
Series 2013B Refunding	02/21/13	1.74%	72,370	72,370	-	72,370	08/01/23
Total			$ 3,316,290	$ 2,397,330	$ (169,775)	$ 2,227,555	

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

December 15, 2014

The Honorable Terence R. McAuliffe
Governor of Virginia

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

Board of Directors
Virginia Public Building Authority

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and major special revenue fund of the Virginia Public Building Authority, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major special revenue fund of the Virginia Public Building Authority as of June 30, 2014, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, for the fiscal year ended June 30, 2014, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. 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 on pages 1 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of 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 Building Authority's basic financial statements. The Detail of Long-Term Indebtedness by Series 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 by Series 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 by Series 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, 2014, on our consideration of the Virginia Public Building 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.

MARTHA S. MAVREDES
AUDITOR OF PUBLIC ACCOUNTS

SAH/clj

VIRGINIA PUBLIC BUILDING AUTHORITY
Richmond, Virginia