VIRGINIA PUBLIC BUILDING AUTHORITY

RICHMOND, VIRGINIA

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 1999

AUDITOR OF PUBLIC ACCOUNTS

COMMONWEALTH OF VIRGINIA

-T A B L E O F C O N T E N T S-

Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

November 18, 1999

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Richard J. Holland
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial statements of the **Virginia Public Building Authority** as of and for the year ended June 30, 1999, as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Public Building Authority at June 30, 1999, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

AUDITOR OF PUBLIC ACCOUNTS

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FINANCIAL STATEMENTS

VIRGINIA PUBLIC BUILDING AUTHORITY
BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
As of June 30, 1999

	Governmental Fund Types			Account Groups		
Assets and other debits	General	Debt Service	Capital Projects	General Fixed Assets	General Long-Term Debt	Total (Memorandum Only)
Assets:						
Cash and investments with trustee (Note 2):						
Cash and cash equivalents	$ 32,690,747	$ 262,300	$ 34,781,649	$ -	$ -	$ 67,734,696
Accrued interest receivable	258,533	956	129,789	-	-	389,278
Lease receivable (Note 3)	-	346,385,506	-	-	-	346,385,506
Fixed assets (Note 4)	-	-	-	697,240,318	-	697,240,318
Total assets	32,949,280	346,648,762	34,911,438	697,240,318	-	1,111,749,798
Other debits:						
Amount provided for rebatable arbitrage	-	-	-	-	485,662	485,662
Amount provided for retirement of general long-term debt	-	-	-	-	6,633	6,633
Amount to be provided for retirement of general long-term debt	-	-	-	-	965,878,975	965,878,975
Total other debits	-	-	-	-	966,371,270	966,371,270
Total assets and other debits	$ 32,949,280	$ 346,648,762	$ 34,911,438	$ 697,240,318	$ 966,371,270	$ 2,078,121,068
Liabilities, equity, and other credits						
Liabilities:						
Accounts payable	$ -	$ -	$ 1,295,326	$ -	$ -	$ 1,295,326
Retainage payable	-	-	305,898	-	-	305,898
Due to agencies	2,173,829	-	-	-	-	2,173,829
Rebatable arbitrage	-	-	-	-	485,662	485,662
Accrued interest sold	-	169,159	-	-	-	169,159
Deferred revenue - lease principal payments	-	346,385,506	-	-	-	346,385,506
Bonds payable (Note 5)	-	-	-	-	965,885,608	965,885,608
Total liabilities	2,173,829	346,554,665	1,601,224	-	966,371,270	1,316,700,988
Equity and other credits:						
Investments in general fixed assets	-	-	-	697,240,318	-	697,240,318
Fund balances:						
Unreserved - designated	-	6,633	485,662	-	-	492,295
Unreserved - undesignated	30,775,451	87,464	32,824,552	-	-	63,687,467
Total equity and other credits	30,775,451	94,097	33,310,214	697,240,318	-	761,420,080
Total liabilities and fund equity	$ 32,949,280	$ 346,648,762	$ 34,911,438	$ 697,240,318	$ 966,371,270	$ 2,078,121,068

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

VIRGINIA PUBLIC BUILDING AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - ALL GOVERNMENTAL FUNDS
For the Year Ended June 30, 1999

	Governmental Fund Types			Total
	General	Debt Service	Capital Projects	(Memorandum Only)
Revenues:				
Rental of land and buildings	$ -	$ 33,138,825	$ -	$ 33,138,825
Interest on investments	1,801,106	11,035	2,067,047	3,879,188
Interest on capital leases	-	15,806,425	-	15,806,425
Appropriations from the Commonwealth	-	22,468,941	-	22,468,941
Total revenues	1,801,106	71,425,226	2,067,047	75,293,379
Expenditures:				
Current:				
Financial services	-	148,165	-	148,165
Underwriters' discount	266,720	-	-	266,720
Legal fees	-	54,242	-	54,242
Advertising	-	1,200	-	1,200
Printing	-	9,252	-	9,252
Capital outlay	-	-	12,687,026	12,687,026
Distributions to fund State capital projects	30,749,836	-	-	30,749,836
Local and Regional jail projects	44,612,950	-	-	44,612,950
Miscellaneous	-	(5,782)	-	(5,782)
Debt service:				
Principal retirement	-	49,400,000	-	49,400,000
Interest and fiscal charges	-	43,521,978	-	43,521,978
Total expenditures	75,629,506	93,129,055	12,687,026	181,445,587
Excess (deficiency) of revenues over expenditures	(73,828,400)	(21,703,829)	(10,619,979)	(106,152,208)
Other financing sources (uses):				
Proceeds from the sale of bonds	69,439,406	-	-	69,439,406
Transfer among funds	(59,711)	59,711	-	-
Lease principal payments	-	21,495,749	-	21,495,749
Total other financing sources (uses)	69,379,695	21,555,460	-	90,935,155
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	(4,448,705)	(148,369)	(10,619,979)	(15,217,053)
Fund balance at July 1, 1998, as restated (Note 8)	35,224,156	242,466	43,930,193	79,396,815
Fund balance at June 30, 1999	$ 30,775,451	$ 94,097	$ 33,310,214	$ 64,179,762

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

NOTES TO FINANCIAL STATEMENTS

VIRGINIA PUBLIC BUILDING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Public Building Authority (the Authority) was created in 1981 by §2.1-234.10 et seq., of the Code of Virginia for the purpose of acquiring, constructing, and operating public buildings for the use of the Commonwealth of Virginia (the Commonwealth) and its political subdivisions. The Authority is authorized to issue bonds or notes to construct, improve, furnish, maintain, acquire, finance, or refinance certain public facilities for the use of the Commonwealth, its agencies and instrumentalities and to finance or refinance reimbursements to localities or regional jail authorities for the Commonwealth's share of the costs of certain jail projects. The Authority is authorized to undertake a project only upon approval of the General Assembly of the Commonwealth.

Prior to 1997, the Authority issued bonds to finance capital projects under its 1988 Master Indenture of Trust (the 1988 Indenture). Under the 1988 Indenture the Authority built and retained title to the projects and then leased the projects to the Commonwealth (or an agency or instrumentality thereof). The lease agreements provide for lease payments at amounts equal to debt service on bonds issued to finance these projects and amounts necessary to fund the Authority's administrative expenses, subject to General Assembly appropriation. The Authority no longer issues bonds under the 1988 Indenture.

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 services payments thereby replacing the individual lease agreement structure used under the 1988 Indenture. Debt service payments are subject to General Assembly appropriation. In addition, the 1997 Indenture provides for the issuance of commercial paper bond anticipation notes. Title to projects fully financed under the 1997 Indenture remains with the Commonwealth. For projects financed partially under the 1997 Indenture and partially financed under the 1988 Indenture, title remains with the Authority.

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 general-purpose 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. Basis of Accounting

The accompanying financial statements are presented on 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 modified accrual basis for financial statement purposes at the end of the fiscal year.

C. Fund Accounting

The accounts of the Authority are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Authority resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent. The individual funds are grouped, in the financial statements in this report, into three fund types as discussed below.

Governmental Funds:

General Fund

The General Fund accounts for projects financed and the receipt and disbursement of bond proceeds issued under the 1997 Indenture and financial resources unaccounted for elsewhere.

Debt Service Fund

The Debt Service Fund accounts for the accumulation of resources for, and the payment of, bond principal, interest, and related costs. Debt Service funds consist of bond funds, issuance expense funds, and rebate funds. The funds were established in accordance with the provisions of Trust Agreement entered into with the trustee for each bond series of the Authority.

Capital Project Fund

The Capital Project Fund accounts for projects financed under the provisions of the 1988 Indenture.

D. Account Groups

Account groups are used to establish accounting control and accountability for general fixed assets and the unmatured principal of general long-term debt. Fixed assets reported in the General Fixed Asset Account Group do not represent financial resources available for appropriation and expenditure. The cost for the acquisition of general fixed assets is recorded as an expenditure at the time of purchase in the Governmental Funds and capitalized in the Authority's General Fixed Asset Account Group for those fixed assets fully or partially funded under the Authority's 1988

Master Indenture of Trust. Assets fully funded under the Authority's 1997 Master Indenture of Trust are owned by the Commonwealth and are not capitalized in the Authority's General Fixed Asset Account Group. For financial reporting purposes, depreciation is not recorded. Bonds payable reported in the General Long-Term Debt Account Group consists of unmatured principal on bonds issued by the Authority.

E. Total Columns

Total columns on the financial statements are captioned "Total Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

F. Budget to Actual Statement

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

2. CASH AND INVESTMENTS

Cash and investments of the Authority are held by The Bank of New York, as trustee (formerly Signet Bank), under the 1997 and 1988 indentures. Cash is defined as demand deposits, time deposits, and certificates of deposit in accordance with §2.1-329 of the Code of Virginia. Cash equivalents represent deposits and short-term investments with original maturities of less than three months.

In accordance with the Trust Subsidiary Act, §6.1-32.8 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 1988 and 1997 Indentures authorize the Trustee, on behalf of the Authority, to invest in legal investments for public sinking funds and other public funds as outlined in §2.1-327 and §2.1-328 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. All the investments of the Authority are held in the Authority's name. Due to the nature of the cash and investments at June 30, 1999, categorization of the level of credit risk under the provisions of GASB 3 is not required.

The Authority's cash and cash equivalents at June 30, 1999 are presented below.

	Carrying Amount	Market Value
Cash and cash equivalents:		
Money Market Funds [(1)]	$20,211,083	$20,211,083
State Non-Arbitrage Program [(2)]	47,523,613	47,523,613
Total cash and cash equivalents	$67,734,696	$67,734,696

[(1)] The Authority invests certain short-term cash balances held within its accounts in Nations Treasury Class Investor and Federated Auto Government Money Trust. These are open-ended mutual funds registered under the Investment Company Act of 1940. These funds maintain a policy of investing all their assets in U.S. Treasury obligations and repurchase agreements backed by those 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.

3. LEASES RECEIVABLE

The Authority entered into lease agreements as lessor with public institutions for the lease of certain fixed assets owned by the Authority and financed pursuant to the 1988 Indenture. In accordance with NCGA Statement 5, “Accounting and Financial Reporting Principles for Lease Agreements of State and Local Governments,” those leases that qualify as capital leases are presented as leases receivable on the balance sheet. Leases receivable have been recorded at the net present value of the future minimum lease payments. A summary of the future minimum lease payments follows:

Year Ending June 30	Principal	Interest	Total
2000	$ 22,442,700	$ 14,842,066	$ 37,284,766
2001	23,933,993	13,393,682	37,327,675
2002	25,182,985	12,098,186	37,281,171
2003	24,622,189	10,760,844	35,383,033
2004	25,974,524	9,397,191	35,371,715
2005-2018	224,229,115	48,993,048	273,222,163
Total	$346,385,506	$109,485,017	$455,870,523

4. GENERAL FIXED ASSETS

The following schedule presents the changes in the General Fixed Asset Account Group during the fiscal year ended June 30, 1999.

	Balance 7/1/98	Additions	Deletions	Balance 6/30/99
Land	$ 42,905,921	$ 6,353,772	$ -	$ 49,259,693
Buildings	283,275,615	31,063,448	207,721	314,131,342
Equipment	39,294,320	484,575	-	39,778,895
Improvements other than buildings	4,848,288	2,243,566	-	7,091,854
Construction in progress	268,138,691	20,381,682	1,541,839	286,978,534
Total	$638,462,835	$60,527,043	$1,749,560	$ 697,240,318

Additions to the General Fixed Asset Account Group represent increases during the fiscal year to projects fully or partially funded under the Authority's 1988 Indenture. Assets that have been converted to capital leases during the year are reflected as deletions.

5. 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, 1999.

Bonds payable at July 1, 1998	$942,655,689
Bonds issued	68,920,000
Bonds retired	(49,400,000)
Amortized discount for fiscal year 1999	3,709,919
Bonds payable at June 30, 1999	$965,885,608

Annual Requirements to Amortize Long-Term Debt

Year Ending June 30	Principal	Interest	Total
2000	$ 52,575,000	$ 44,880,631	$ 97,455,631
2001	58,085,000	42,576,952	100,661,952
2002	61,080,000	39,488,933	100,568,933
2003	62,070,000	36,258,758	98,328,758
2004	65,375,000	32,887,397	98,262,397
2005-2020	705,150,000	210,174,763	915,324,763
Less: Unamortized Discounts	(38,449,392)	-	(38,449,392)
Total	$965,885,608	$406,267,434	$1,372,153,042

6. DEFEASANCE OF DEBT

The Authority has occasionally issued refunding bonds to defease bonds that had been previously issued. The proceeds of these refunding bonds were placed in irrevocable trusts with escrow agents to provide for all future debt service on the defeased (old) 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, 1999, $242,675,000 of bonds outstanding are 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 below:

		Refunded by:
State Building Revenue Refunding Bonds, Series 1987A	$49,380,000	Series 1992A
State Building Revenue Bonds, Series 1991A(partial)	$43,990,000	Series 1996A
State Building Revenue Bonds, Series 1992C(partial)	$98,395,000	Series 1998A
State Building Revenue Bonds, Series 1994A(partial)	$50,910,000	Series 1996A/98A

7. ARBITRAGE REBATE

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

Income earned on excess earnings is also subject to rebate. Rebate payments, if required, are due at least every five years over the life of the bonds. Some bonds of the Authority may be exempt from the rebate regulations if they meet statutory exceptions per the rebate requirements. The Authority may also elect, on or before the date of the bond issue to pay a penalty in lieu of rebate if it does not meet certain expenditure tests. The Authority would retain any arbitrage earnings. The Authority, to date, has not elected penalty in lieu of rebate. Rebate and penalty payments are calculated and paid by the Authority as required by law on bond issues that fall under the regulations and do not qualify for exceptions. During the fiscal year, no rebate payments were made to the federal government.

The Authority has preliminarily determined that it may be subject to a rebatable arbitrage liability in fiscal year 2001 for the VPBA State Building Revenue Bond, Series 1995. The Authority has set aside funds to meet this liability.

8. RESTATEMENT OF BEGINNING FUND BALANCES

Virginia Public Building Authority corrected a posting error made during fiscal year 1998.

	Capital Projects
Balance as of June 30, 1997	$ 43,925,323
Correction of Prior Year Error	4,870
Balance, June 30, 1998, As Restated	$ 43,930,193

9. SUBSEQUENT EVENT

In November 1999, the Authority will issue $27,730,000 in Public Facilities Revenue Bonds, Series 1999 B to prepay the Commonwealth's obligation under a local jail reimbursement agreement and costs of issuing the bonds.

10. SURETY BOND

Mary G. Morris, the Treasurer of Virginia, who also serves as the Treasurer of the Authority, was covered under a Faithful Performance of Duty Bond in the amount of $500,000 with the Fidelity and Deposit Company of Maryland as surety.

Certain employees of the State Treasury are responsible for maintaining the accounting records of the Authority. Such employees, as well as parties acting on behalf of the Authority, such as Authority board members, were covered by a Faithful Performance Duty Bond administered by the Commonwealth of Virginia's Department of General Services, Division of Risk Management with liability limits of $500,000 for each occurrence.

REQUIRED SUPPLEMENTARY INFORMATION
YEAR 2000 READINESS

Many existing computer and embedded technology systems use only two digits to identify a year in the date field. These systems were designed and developed without considering the impact of the upcoming change in the century. If not corrected, these systems could fail or create erroneous results by or at the Year 2000. In addition, the Year 2000 is a leap year, which may generate additional problems. The Authority recognizes the need to ensure its operations will not be adversely impacted by Year 2000 failures.

The Authority is a public corporation and instrumentality of the Commonwealth of Virginia (the Commonwealth) and is staffed by the Department of the Treasury (Treasury). Treasury has modified its systems to address this issue, with particular emphasis on its “mission critical” systems, which include, but are not limited to, various financial systems. However, due to the interdependent nature of business processes, Treasury may be adversely impacted in the Year 2000 depending on whether it or other entities not affiliated with the Commonwealth address this issue successfully. For example, while the Commonwealth anticipates having sufficient funds to pay debt service, problems may disrupt external systems necessary to send payments to bondholders. Therefore, Treasury cannot provide assurance against problems that may disrupt external systems not affiliated with the Commonwealth.

As of June 30, 1999, Treasury had completed the Awareness, Assessment, and Remediation Stages of its Year 2000 compliance efforts and is nearing the completion of the Validation/Testing Stage. As of June 30, 1999, Treasury had incurred approximately $236,121 in Year 2000 related costs and it was estimated that approximately $108,000 of additional costs would be required to complete the testing, validation and implementation of systems to ensure Year 2000 compliance.

VIRGINIA PUBLIC BUILDING AUTHORITY

BOARD MEMBERS

As of June 30, 1999