

Index to the Notes to the Financial Statements

<ul style="list-style-type: none"> 1. Summary of Significant Accounting Policies <ul style="list-style-type: none"> A. Basis of Presentation 74 B. Reporting Entity 74 C. Government-wide and Fund Financial Statements 80 D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation 81 E. Budgetary Process 83 F. Cash, Cash Equivalents, Investments, and Derivatives 83 G. Assets Held Pending Distribution 84 H. Receivables 84 I. Contributions Receivable, Net 84 J. Internal Balances 84 K. Inventory 84 L. Prepaid Items 85 M. Loans Receivable/Payable 85 N. Other Assets 85 O. Capital Assets 85 P. Deferred Outflows of Resources 85 Q. Accounts Payable 86 R. Unearned Revenue 86 S. Unearned Taxes 86 T. Obligations Under Securities Lending Program 86 U. Due to Claimants, Participants, Escrows, and Providers 86 V. Other Liabilities 86 W. Claims Payable 86 X. Long-term Liabilities 87 Y. Deferred Inflows of Resources 87 Z. Nonspendable Fund Balances 87 AA. Restricted Fund Balances 87 BB. Committed Fund Balances 87 CC. Assigned Fund Balances 87 DD. Unassigned Fund Balances 87 EE. Cash Management Improvement Act 87 FF. Investment Income 88 GG. Intrafund Eliminations 88 HH. Interfund Activity 88 2. Restatement of Beginning Balances 88 3. Net Position/Fund Balance Classifications 90 4. Deficit Fund Balances/Net Position 92 5. Revenue Stabilization Fund 92 6. Cash, Cash Equivalents, and Investments 93 7. Receivables 108 8. Contributions Receivable, Net 110 9. Interfund and Inter-Entity Assets/Liabilities 110 10. Other Assets 114 11. Restricted Assets 115 12. Capital Assets 116 13. Deferred Outflows and Deferred Inflows of Resources 118 14. Derivatives 120 15. Retirement and Pension Systems <ul style="list-style-type: none"> A. Administration 127 B. Summary of Significant Accounting Policies (Virginia Retirement System) 127 C. Plan Description 128 D. Funding Policy 129 E. Changes in Net Pension Liability 129 F. Changes to and Sensitivity of Discount Rate 132 G. Pension Related Deferred Outflows and Deferred Inflows 133 	<ul style="list-style-type: none"> H. Defined Contribution Plan for Political Appointees 136 I. Defined Contribution Plan for Public School Superintendents 136 J. Virginia Supplemental Retirement Plan 136 K. Higher Education (Nonmajor Component Units) 136 L. Other Component Units 137 16. Other Employment Benefits 138 17. Other Postemployment Benefits (OPEB) <ul style="list-style-type: none"> A. Virginia Retirement System (The System) Administered Plans 139 B. Pre-Medicare Retiree Healthcare 140 C. Annual OPEB Cost and Net OPEB Obligation 140 D. Funded Status and Funding Progress 142 E. Higher Education (Nonmajor Component Unit) 143 F. Other Component Units 143 18. Deferred Compensation Plans 143 19. State Non-Arbitrage Pool 144 20. Commitments <ul style="list-style-type: none"> A. Construction Projects 144 B. Operating Leases 145 C. Investment Commitments – Virginia Retirement System 145 D. Virginia Transportation Infrastructure Bank 145 E. Tobacco Grants 146 F. Other Commitments 146 21. Accrued Liability for Compensated Absences 146 22. Pollution Remediation Obligations 147 23. Insurance <ul style="list-style-type: none"> A. Self-Insurance 147 B. Public Entity Risk Pools 148 24. Accounts Payable 150 25. Other Liabilities 151 26. Long-term Liabilities 152 27. Other Revenue 168 28. Tax Abatements 169 29. Prizes and Claims 170 30. Other Expenses 171 31. Other Non-Operating Revenue/Expenses 171 32. Special Item 172 33. Transfers 172 34. On-Behalf Payments 173 35. Endowments 173 36. Cash Flows – Additional Detailed Information 174 37. Tobacco Settlement and Securitization 175 38. Service Concession Arrangements 176 39. Information Technology Infrastructure Partnership – Northrop Grumman 178 40. Contingencies <ul style="list-style-type: none"> A. Grants and Contracts 179 B. Litigation 179 C. Subject to Appropriation 179 D. Bailment Inventory 179 E. Loan Guarantees 179 F. Regional Wet Weather Management Plan 180 41. Pending Governmental Accounting Standards Board Statement 180 42. Subsequent Events 180
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Notes to the Financial Statements

June 30, 2017

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 only blended component unit is:

Virginia Public Building Authority (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.

(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 (major) – The Authority was created as a political subdivision and instrumentality of the Commonwealth and is granted both political 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 (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 (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 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 (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 accompanying financial statements. The state-supported colleges and universities reported revenue from the Authority of \$292.3 million as Program Revenue Capital Grants and Contributions for the 21st Century Program and \$82.0 million as Program Revenue Operating Grants and Contributions for equipment. The Authority reported Operating Appropriations from Primary Government of approximately \$370.1 million. In addition, the Authority reported approximately \$30.0 million in payments from the state-supported colleges and universities for 21st Century and Equipment Program debt service costs and approximately \$11.9 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 \$716.3 million, is not included in the accompanying 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 \$1.9 billion and Program Revenue Capital Grants and Contributions of approximately \$27.7 million from the primary government. 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' separately issued 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 (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 17-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) and subsidiaries 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 (nonmajor) – The Partnership was created as a body corporate and operates to encourage, stimulate, and support the development and expansion of both domestic and international 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 Cary Street, Suite 900, Richmond, Virginia 23219. 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 900 S Main Street, Blacksburg, VA 24060. Hicok, Fern & Company CPAs audits the Foundation, and a separate report is issued.

Virginia Port Authority (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 701 Town Center Drive, Suite 900, Newport News, Virginia 23606. 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 Cary Street, Suite 900, Richmond, Virginia 23219. 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 Region 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 and the 2013 Series of revenue bonds for specific customers. The 2002 Series revenue bonds were for a facility built specifically for the United Network for Organ Sharing. The 2013 Series 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. None 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 (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 101 North 14th Street, 11th Floor, Richmond, Virginia 23218-0446. 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 to the primary government, and the economic resources of the Foundation are entirely for the direct benefit of the Commonwealth and its citizens. The administrative offices of the Foundation are located at 2500 West Broad Street, Richmond, Virginia, 23220. Keiter, CPAs, audits the Foundation, and a separate report is issued.

Virginia Commercial Space Flight Authority (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 Authority 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 Authority, the Commonwealth, and Orbital Sciences Corporation to the Authority 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 Commonwealth plans to transfer \$15.8 million to the Authority annually through fiscal year 2024. 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, and the economic resources of the Center are entirely for the direct benefit of the Commonwealth and its citizens. The administrative offices of the Center are located at 677 Craghead Street, 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, and the economic resources of the Foundation are entirely for the direct benefit of the Commonwealth and its citizens. 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 South, Suite 200B, Martinsville, VA 24112-6216. The Auditor of Public Accounts audits the Partnership, and a separate report is issued.

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. Dixon Hughes Goodman, 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, Richmond, 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 Pocahontas Building, 10th floor, 900 E. Main Street, Richmond, VA 23219. Brown, Edwards & Company, LLP, audits the Foundation, and a separate report is issued. The Foundation ceased operations during fiscal year 2017.

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 600 E. Main Street, Suite 330, 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. Frank Barcalow, CPA, P.L.L.C., 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 3831 Westerre Parkway, Suite 2, Henrico, VA 23233. 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 Region 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 North 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. Robinson, Farmer, Cox Associates audits the Authority and a separate report is issued.

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 Post Office Box 3605, Williamsburg, Virginia 23187. Dixon Hughes Goodman, LLP, 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 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 component units 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, the Grant Anticipation Revenue Notes reported in the Debt Service 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, 2016, or March 31, 2017. 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 \$260,891
 - institution revenue of \$8.5 million
 - foundation assets of \$859,679
 - foundation liabilities of \$402,020
 - foundation expenses of \$8.2 million
- Old Dominion University (nonmajor component unit):
 - institution liabilities of \$56.8 million
 - foundation assets of \$47.1 million
- Longwood University (nonmajor component unit):
 - foundation assets of \$365,456
 - foundation liabilities of \$919,267
 - foundation revenue of \$5.8 million
 - foundation expenses of \$1.0 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 Prepaid529 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 the Commonwealth-sponsored educational savings plan and other purposes.

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 (major special revenue) and Unclaimed Property (nonmajor special revenue) Funds. Formal budgetary integration is not employed for the Capital Projects (nonmajor governmental), Debt Service (nonmajor governmental), Permanent (nonmajor governmental), Literary (major special revenue) and Unclaimed Property (nonmajor 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, 2017, the General Fund had a negative cash balance of \$4.4 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.

Effective for fiscal year 2017, the Commonwealth has elected to report separate deposit and investment risk disclosures for the Pension and Other Employee Benefit Trust Funds since the risk exposures for these funds are significantly greater than the deposit and investment risks for the remainder of the primary government. The primary government's policy for managing interest rate risk, with the exception of the Pension and Other Employee Benefit Trust Funds, uses the segmented time distribution method.

The Virginia Retirement System (the System) manages the interest rate risk for its investment portfolio reported as Pension and Other Employee Benefit Trust Funds using the effective duration methodology. To be consistent with management practices for each portfolio, the Commonwealth has elected to disclose the interest rate risk exposures, using the segmented time distribution for the primary government (excluding pension and other employee benefit trust funds) and the effective duration method for the Pension and Other Employee Benefit Trust Funds. The Commonwealth continues to disclose component unit's interest rate risk using the segmented time distribution method (see Note 6).

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. Additionally, the Virginia College Savings Plan Fund (major enterprise) reports certain investments at net asset 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*, as amended by GASB Statement No. 72, *Fair Value*

Measurement and Application. GASB Statement No. 72 provides guidance for determining fair value measurements using the level of fair value hierarchy and valuation techniques (see Note 6).

Investments administered by the System are reported at fair value, except for certain investments reported at net asset 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. Assets Held Pending Distribution

Assets held pending distribution include various assets that have been placed in safekeeping until final disposition has been determined.

H. 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, loans receivable, local school bonds receivable, patient receivables, and student receivables. Receivables are recorded net of allowances for doubtful accounts (see Note 7).

I. 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).

J. 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).

K. 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 Health (VDH)
- Department of State Police (VSP)
- Virginia Department of Transportation (VDOT)

VDH inventories are recorded in the General (major), Federal Trust (major special revenue), and Health and Social Services (nonmajor special revenue) Funds using the FIFO methodology and are maintained at either cost or current market cost. VSP inventories are recorded in the General (major) and Other (nonmajor special revenue) 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, 2017:

- Department of Behavioral Health and Developmental Services (DBHDS)
- Department of Corrections (VADOC)
- Department of Health (VDH)
- Department of Juvenile Justice (DJJ)

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 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 the weighted average method.

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 the average cost methodology.

L. Prepaid Items

Prepaid assets for rent, insurance, and similar items are recognized when purchased and expensed when used.

M. Loans Receivable/Payable

Loans Receivable/Payable represents working capital advances between the primary government and component units (see Note 9).

N. Other Assets

Other Assets include those balances of a miscellaneous nature that are not specifically classified elsewhere (see Note 10).

O. 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 acquisition 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 \$2.7 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:

	<u>Years</u>
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.

P. 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).

Q. 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).

R. Unearned Revenue

Unearned revenue represents monies received or revenues accrued but not earned as of June 30, 2017. 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, contributions from localities and private sectors for highway construction projects, multi-year vehicle registrations recorded in the Commonwealth Transportation Special Revenue Fund (major governmental), and multi-year motor vehicle safety inspections, emission inspections, mining permits, and hunting, fishing, and trapping licenses recorded in the Other and Health and Social Services Funds (nonmajor special revenue).

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 and test kits and certifications from Consolidated Labs (nonmajor enterprise) which are paid for prior to shipping and certification being performed.

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.

S. Unearned Taxes

Unearned taxes represent income taxes related to the period January through June 2017. 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 \$885.4 million and estimated underpayments total \$899.6 million. When underpayments exceed overpayments, revenue on the fund statements is only recognized to the extent

of estimated overpayments. Since underpayments exceed overpayments for the individual income taxes, the unearned tax amount is zero for the fiscal year.

Corporate income tax estimated overpayments total \$44.7 million and estimated underpayments total \$58.4 million. When underpayments exceed overpayments, revenue on the fund statements is only recognized to the extent of estimated overpayments. Since underpayments exceed overpayments for the corporate income taxes, the unearned tax amount is zero for the fiscal year.

T. 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.

U. Due to Claimants, Participants, Escrows and Providers

Due to claimants, participants, escrows and providers represent monies that the Commonwealth is holding on behalf of third parties as of June 30, 2017. In governmental funds, the majority of the amount represents estimated unclaimed and escheat property that the Commonwealth is holding until claimed by the rightful owner.

In the enterprise funds, the amounts represent payments due to benefit claimants and employers for tax overpayments in the Unemployment Compensation Fund (major enterprise) and to participants of the Prepaid529 Program in the Virginia College Savings Plan (major enterprise).

In the private purpose trust funds, the amounts represent payments due to participants in the Invest529 Program offered by the Virginia College Savings Plan.

In the agency funds, these amounts represent funds used for employee benefits and child support enforcement, as well as accounts of inmates, residents, and patients of the Commonwealth's correctional, juvenile, veterans, and behavioral health facilities.

V. 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).

W. Claims Payable

Claims payable, reported in the proprietary funds of the primary government, represent both health and liability insurance claims payable at June 30, 2017. 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.

X. 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 the 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).

Y. 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 38).

Z. 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.

AA. 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.

BB. Committed Fund Balances

Committed fund balance includes amounts that must be spent for specific purposes that have been legislatively mandated by the Governor and General Assembly.

CC. 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.

DD. 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 within the General Fund. Additionally, accrued liabilities exceed accrued assets on the modified accrual basis for the Commonwealth Transportation Fund (major special revenue) and the Unclaimed Property Fund (nonmajor special revenue) by \$6.2 million and \$60.6 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.

EE. 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.

FF. 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.

GG. 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.

HH. 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 General Fund (major) has been restated by \$40.6 million as a result of accounts payable and amounts due to other governments being previously overstated.
- The Commonwealth Transportation Fund (major special revenue) has been restated by \$20.1 million as a result of accounts receivable being overstated by \$5.8 million and accounts payable being understated by \$14.3 million.

- The Unclaimed Property Fund (nonmajor special revenue) has been restated by \$123.3 million due to a voluntary change in accounting principle. Previously, this activity had been recorded as fiduciary funds as allowed by accounting standards. During fiscal year 2017, the Commonwealth elected to reclassify this fund to a special revenue fund and recognize the estimated liability owed to claimants to more appropriately reflect all activity associated with this fund. The estimation process to determine the amount owed to claimants was refined during fiscal year 2017. This increased the beginning liability amount by \$494.0 million so the special revenue fund beginning net position was lower than the previously reported private purpose trust fund ending balance. Additionally, long-term liabilities and capital assets with beginning balances of \$4.0 million and \$914,330, respectively, contribute to the remaining restatement.
- Capital Asset balances were restated by \$31.6 million predominantly due to errors resulting in the understatement of prior year balances by the Virginia Department of Transportation.

Fund Statements

The fund statement beginning balance restatements resulted from the following:

- The General Fund (major governmental) has been restated by \$40.6 million as previously discussed.
- The Commonwealth Transportation Fund (major special revenue) has been restated by \$20.1 million as discussed previously.
- The Unclaimed Property Fund (nonmajor special revenue) has been restated by \$120.2 million as discussed previously.
- As discussed previously, the Commonwealth has elected to reclassify the Unclaimed Property Fund as a special revenue fund. Accordingly, the private purpose trust funds and agency funds have been restated by \$370.7 million and \$9.5 million, respectively.

Beginning Balance Restatement

(Dollars in Thousands)

	<u>Balance as of June 30, 2016</u>	<u>Change in Accounting Principle</u>	<u>Correction of Prior Year Errors</u>	<u>Balance June 30, 2016 as restated</u>
Government-wide Activities:				
Primary Government:				
Governmental Activities	\$ 20,114,236	\$ (123,301)	\$ 52,114	\$ 20,043,049
Business-type Activities	1,586,254	-	-	1,586,254
Total Primary Government	<u>\$ 21,700,490</u>	<u>\$ (123,301)</u>	<u>\$ 52,114</u>	<u>\$ 21,629,303</u>
Component Units	<u>\$ 24,219,225</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,219,225</u>
Fund Statements:				
Governmental Funds				
Major Governmental Funds:				
General	\$ 710,289	\$ -	\$ 40,566	\$ 750,855
Special Revenue Funds:				
Commonwealth Transportation	1,928,416	-	(20,089)	1,908,327
Federal Trust	128,988	-	-	128,988
Literary	50,815	-	-	50,815
Total Major Governmental Funds	<u>\$ 2,818,508</u>	<u>\$ -</u>	<u>\$ 20,477</u>	<u>\$ 2,838,985</u>
Nonmajor Governmental Funds	853,428	(120,201)	-	733,227
Total Governmental Funds	<u>\$ 3,671,936</u>	<u>\$ (120,201)</u>	<u>\$ 20,477</u>	<u>\$ 3,572,212</u>
Fiduciary Funds				
Private Purpose Trust Funds	<u>\$ 3,726,844</u>	<u>\$ (370,710)</u>	<u>\$ -</u>	<u>\$ 3,356,134</u>
Pension and Other Employee Benefit Trust Funds	<u>\$ 68,264,172</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,264,172</u>
Investment Trust Funds	<u>\$ 3,342,773</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,342,773</u>

**Beginning Balance Restatement
Agency Funds**

(Dollars in Thousands)

	<u>Balance as of July 1, 2016</u>	<u>Change in Accounting Principle</u>	<u>Balance as of July 1, 2016, as restated</u>
Agency Funds			
Funds for the Collection of Taxes and Fees	\$ 251,858	\$ -	\$ 251,858
Employee Benefits	4,149	-	4,149
Contractor Deposits	34,893	-	34,893
Deposits of Insurance Carriers	454,210	-	454,210
Inmate and Ward	18,739	-	18,739
Child Support Collection	13,438	-	13,438
Behavioral Health Patient Trust	1,703	-	1,703
Behavioral Health Non-patient Trust	33	-	33
Comptroller's Debt Setoff	841	-	841
Unclaimed Property of Other States	9,514	(9,514)	-
Legal Settlement	16,619	-	16,619
Consumer Services	1,348	-	1,348
State Asset Forfeiture	9,963	-	9,963
Virginia School for the Deaf and Blind	20	-	20
Woodrow Wilson Rehabilitation Center	4	-	4
Third Party Administrator	11,986	-	11,986
Department of Environmental Quality	128	-	128
Virginia Veterans Care Center Resident	214	-	214
E-Payables	16,378	-	16,378
Total Agency Funds	<u>\$ 846,038</u>	<u>\$ (9,514)</u>	<u>\$ 836,524</u>

3. NET POSITION/FUND BALANCE CLASSIFICATIONS

Fund Balance

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, improved 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 balance includes amounts that have constraints placed on the use of resources by the Constitution of Virginia or a party external to the Commonwealth.

Committed fund balance includes amounts that must be spent for specific purposes that have been legislatively mandated by the Governor and General Assembly.

Assigned fund balance represents amounts that the Commonwealth has identified for planned purposes but for which the intended 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 the Unclaimed Property Fund (nonmajor special revenue) indicates that the amount 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, 2017, are shown in the following table.

Governmental Fund Balance Classifications

(Dollars in Thousands)

	<u>General Fund</u>	<u>Commonwealth Transportation</u>	<u>Federal Trust</u>	<u>Literary</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Nonspendable						
Inventory	\$ 31,138	\$ 87,912	\$ 30,570	\$ -	\$ 3,666	\$ 153,286
Prepaid Items	96,186	8,529	2,224	-	14,003	120,942
Permanent Funds	-	-	-	-	36,597	36,597
Total Nonspendable	<u>127,324</u>	<u>96,441</u>	<u>32,794</u>	<u>-</u>	<u>54,266</u>	<u>310,825</u>
Restricted						
Agriculture and Forestry	-	-	-	-	1,751	1,751
Capital Projects/Construction/Capital Acquisition	-	-	-	-	194,528	194,528
Contract and Debt Administration	-	-	-	-	1,068	1,068
Debt Service	-	-	-	-	31,634	31,634
Economic and Technological Development	-	-	-	-	14	14
Educational and Training Programs	-	-	-	-	6,607	6,607
Environmental Quality and Natural Resource Preservation	-	-	-	-	16,497	16,497
Gifts and Grants	-	-	111,991	-	-	111,991
Government Operations:						
Administrative Services	-	-	-	-	3,071	3,071
Legislative Services	-	-	-	-	1	1
Health and Public Safety	-	-	-	-	76,851	76,851
Literary Fund	-	-	-	3,763	-	3,763
Lottery Proceeds Fund	15,811	-	-	-	-	15,811
Revenue Stabilization Fund	548,820	-	-	-	-	548,820
Transportation Activities	-	350,253	-	-	-	350,253
Virginia Water Supply Assistance Grant Fund	3,472	-	-	-	-	3,472
Total Restricted	<u>568,103</u>	<u>350,253</u>	<u>111,991</u>	<u>3,763</u>	<u>332,022</u>	<u>1,366,132</u>
Committed						
Agriculture and Forestry	22	-	-	-	24,208	24,230
Amount Required for Mandatory Reappropriation	66,152	-	-	-	-	66,152
Amount Required for Reappropriation of 2017 Unexpended Balances for Capital Outlay and Restoration Projects	103,250	-	-	-	-	103,250
Capital Projects/Construction/Capital Acquisition	1,504	-	-	-	676	2,180
Capital Projects Reserve	60,351	-	-	-	-	60,351
Central Capital Planning Fund	2,394	-	-	-	-	2,394
Commonwealth's Development Opportunity Fund	15,039	-	-	-	-	15,039
Communications Sales and Use Tax	2,925	-	-	-	-	2,925
Contract and Debt Administration	-	13,066	-	-	505	13,571
Economic and Technological Development	46,059	-	-	-	50,037	96,096
Educational and Training Programs	2,230	1,129	-	-	8,124	11,483
Environmental Quality and Natural Resource Preservation	8,965	-	-	-	104,186	113,151
Government Operations:						
Administrative Services	18	-	-	-	80,995	81,013
Legislative Services	-	-	-	-	164	164
Health and Public Safety	10,662	3,849	-	-	201,983	216,494
Local Government Fiscal Distress	500	-	-	-	-	500
Natural Disaster Sum Sufficient	11,232	-	-	-	-	11,232
Nonrecurring Expenditures	694	-	-	-	-	694
Regulatory Oversight	-	-	-	-	131,151	131,151
Revenue Cash Reserve	60,351	-	-	-	-	60,351
Transportation Activities	-	1,528,584	-	-	-	1,528,584
Transportation Trust Fund	1,409	-	-	-	-	1,409
Virginia Health Care Fund	28,378	-	-	-	-	28,378
Virginia Water Quality Improvement Fund	37,632	-	-	-	-	37,632
Virginia Water Quality Improvement Fund - Part A	13,411	-	-	-	-	13,411
Virginia Water Quality Improvement Fund - Part B	9,121	-	-	-	-	9,121
Total Committed	<u>482,299</u>	<u>1,546,628</u>	<u>-</u>	<u>-</u>	<u>602,029</u>	<u>2,630,956</u>
Assigned						
Agriculture and Forestry	-	-	-	-	2	2
Economic and Technological Development	-	-	-	-	1,732	1,732
Educational and Training Programs	-	-	-	-	6,502	6,502
Environmental Quality and Natural Resource Preservation	-	-	-	-	6,470	6,470
Government Operations:						
Administrative Services	-	-	-	-	372	372
Health and Public Safety	-	-	-	-	13,637	13,637
Total Assigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,715</u>	<u>28,715</u>
Unassigned						
	<u>(679,295)</u>	<u>(6,242)</u>	<u>-</u>	<u>-</u>	<u>(60,643)</u>	<u>(746,180)</u>
Total Fund Balance	<u>\$ 498,431</u>	<u>\$ 1,987,080</u>	<u>\$ 144,785</u>	<u>\$ 3,763</u>	<u>\$ 956,389</u>	<u>\$ 3,590,448</u>

4. DEFICIT FUND BALANCES/NET POSITION

The Unclaimed Property (nonmajor special revenue fund) ended the year with a deficit net position balance of \$60.2 million. This deficit was a result of the accrued liabilities estimated to be paid to claimants exceeding the assets remaining in the fund as of June 30.

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), and the Payroll Service Bureau (internal service fund) ended the year with deficit net positions of \$31.4 million, \$86.1 million, \$4.0 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 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 \$15.8 million. The deficit was a result of previous increases in claims liability for constitutional officers' programs exceeding premiums collected.

The Department of Environmental Quality's Title V Air Pollution Permit Fund (nonmajor enterprise fund) ended the year with a deficit net position balance of \$10.0 million. The deficit was a result of decreasing revenues for Title V permits, the net pension liability resulting from GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, 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 Virginia Information Technologies Agency (internal service fund) ended the year with a deficit net position balance of \$42.5 million. The deficit was a result of a decline in revenue associated with service usage and fixed operating expenses to Northrop Grumman, 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 \$3.6 million. This deficit was the result of a working capital advance liability for the implementation of the Cardinal project, 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 \$19.9 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 \$644.2 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 (VPSA) (major component unit) ended the year with a deficit net position balance of \$14.9 million. This deficit is the result of VPSA immediately passing along savings to localities from debt refunding that will be realized from future debt service payments subsequent to June 30.

The Virginia College Building Authority (major component unit) ended the year with a deficit net position balance of \$3.9 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 \$494,495. This was solely attributable to 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 Virginia Economic Development Partnership (nonmajor component unit) ended the year with a deficit net position balance of \$6.6 million. This deficit occurs because the partnership's Statement of Net Position reflects \$15.5 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 \$1.6 million. This deficit occurs because the Authority's Statement of Net Position reflects \$8.9 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

\$605.6 million was made during fiscal year 2017 as required by Section 2.2-1829 of the *Code of Virginia*, which includes the advance reservation of \$129.5 million provided in Chapter 665, 2015 Acts of Assembly. Additionally, during fiscal year 2017, 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 \$294.7 million was made from the fund. Further, Chapter 836, 2017 Acts of Assembly, authorizes an additional withdrawal estimated at \$272.5 million from the fund during fiscal year 2018.

Under the provisions of Article X, Section 8 of the *Constitution of Virginia*, no deposit is required during fiscal year 2018 based on fiscal year 2016 revenue collections. Also, no deposit is required based on fiscal year 2017 revenue collections.

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 2017.

The Revenue Stabilization Fund has principal and interest on deposit of \$548.8 million restricted as a part of the General Fund balance. Pursuant to the constitutional amendment of Article X, Section 8, effective January 1, 2011, the amount on deposit cannot exceed 15.0 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, 2017, the Constitutional maximum is \$2.6 billion.

6. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2017, the carrying amount of cash for the primary government (including pension and other employee benefit trust funds) was \$3.6 billion and the bank balance was \$245.8 million. The carrying amount of cash for component units was \$2.0 billion and the bank balance was \$1.0 billion. Cash equivalents are investments with an original maturity of 90 days or less. Cash and cash equivalents for foundations (component units) totaled \$437.3 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. Note 6 includes investment derivatives for the primary government and excludes derivatives for the component units. For additional information concerning derivative instruments, see Note 14.

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.FF, 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, 2017, the State Treasurer held no security that was in default as to principal or interest and 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 interests of members, retirees, and beneficiaries. It also requires the Board 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's 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 from the Department of the Treasury website at www.trsvirginia.gov. 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, 2017, the primary government (excluding pension and other employee benefit trust funds) had \$416,571 in cash balances that were uninsured and uncollateralized, and \$11.5 million in cash balances that were uninsured and collateralized with securities held by the pledging financial institution. The primary government (excluding pension and other employee benefit trust funds) had no cash equivalents and investments that were exposed to custodial risk as uninsured and uncollateralized.

As of June 30, 2017, investment securities (excluding cash equivalents and repurchase agreements held as securities lending collateral) were registered and held in the name of the System for the benefit of the System's trust funds and were not exposed to custodial credit risk. It is the standard practice and policy of the System, through the relevant provisions in its contracts and

agreements with third parties, to minimize all known custodial credit risks.

As of June 30, 2017, component units had \$17.1 million in cash balances that were uninsured and uncollateralized, and \$11.9 million in cash balances that were uninsured and collateralized with securities held by the pledging financial institution. In addition, the component units held \$1.0 million in cash equivalents and investments that were exposed to custodial risk as uninsured and uncollateralized.

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. As discussed in Note 1, the Commonwealth has elected to disclose the risk for its debt investments using the segmented time distribution method for the primary government (excluding pension and other employee benefit trust funds) and component units, and the effective duration method for the System (pension and other employee benefit trust funds).

The State Treasurer's guidelines limit the following maximum durations for any single security of the following investment types:

<u>Security Type</u>	<u>Maximum Duration</u>
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 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.

As of June 30, 2017, the System's investments included \$2.5 billion, primarily in Corporate Bonds and Notes, U.S. Treasury and Agency Securities, Supranational and Non-U.S. Government Bonds and Notes, Municipal Securities, and Collateralized Mortgage Obligations, which are highly sensitive to interest rate fluctuations in that they are subject to early payment in a period of declining interest rates and/or because they have an option adjusted duration of greater than ten years. The resulting reduction in expected total cash flows affects the fair

value of these securities. As of June 30, 2017, the Virginia Community College System (nonmajor component unit) had \$10.8 million in agency mortgage backed securities and corporate bonds and notes that have fair values that are highly sensitive to changes in

interest rates due to issuers and the long term maturity of these securities, respectively.

At June 30, 2017, the Commonwealth had the following investments and maturities:

Primary Government Investments
(Excluding Pension and Other Employee Benefit Trust Funds)
(Dollars in Thousands)

<u>Investment Type</u>	<u>June 30, 2017</u>	<u>Investment Maturities (in years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
<u>Debt Securities</u>					
U. S. Treasury and Agency Securities	\$ 735,771	\$ 188,728	\$ 376,238	\$ 111,866	\$ 58,939
Corporate Bonds and Notes	1,002,328	43,834	504,470	395,091	58,933
Commercial Paper	2,529,206	2,529,206	-	-	-
Negotiable Certificates of Deposit	2,796,065	2,796,065	-	-	-
Repurchase Agreements	750,002	750,002	-	-	-
Municipal Securities	22,560	101	11,966	218	10,275
Asset-Backed Securities	230,662	430	87,531	33,846	108,855
Agency Mortgage-Backed Securities	201,879	2,261	14,238	28,871	156,509
Agency Unsecured Bonds and Notes	2,454,367	1,664,488	784,419	3,048	2,412
Mutual and Money Market Funds (Includes SNAP)	940,628	940,628	-	-	-
Guaranteed Investment Contracts	996,155	-	869,551	126,604	-
Fixed Income and Commingled Funds	964,641	26,483	89,862	662,192	186,104
Investments held by broker-dealers under securities loans					
U. S. Government and Agency Securities	208	-	208	-	-
Corporate Bonds and Notes	1,421	302	867	252	-
Other	312,343	1,647	89,980	210,484	10,232
Total	\$ 13,938,236	\$ 8,944,175	\$ 2,829,330	\$ 1,572,472	\$ 592,259

Primary Government - Virginia Retirement System Investments
(Pension and Other Employee Benefit Trust Funds)
(Dollars in Thousands)

<u>Investment Type</u>	<u>June 30, 2017</u>	<u>Weighted Avg. Effective Duration (in years)</u>
<u>Debt Securities</u>		
U. S. Treasury and Agency Securities	\$ 3,497,512	6.79
Corporate Bonds and Notes	10,815,287	3.97
Collateralized Mortgage Obligations	208,342	1.21
Commercial Mortgages	216,871	4.81
Supranational and Non-U.S. Government Bonds and Notes	2,581,562	6.56
Cash Equivalents	3,655,634	0.26
Municipal Securities	151,679	8.43
Asset-Backed Securities	687,880	1.26
Agencies	3,849,029	3.86
Fixed Income and Commingled Funds	1,154,121	5.71
Other*	1,696	-
Total	\$ 26,819,613	3.60

*Effective duration for Other Debt Securities is not available.

Note: The above Cash Equivalents consist primarily of commercial paper and institutional negotiable certificates of deposit.

Component Unit Investments

(Dollars in Thousands)

<u>Investment Type</u>	<u>June 30, 2017</u>	<u>Investment Maturities (in years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
<u>Debt Securities</u>					
U. S. Treasury and Agency Securities	\$ 723,308	\$ 94,313	\$ 298,710	\$ 150,292	\$ 179,993
Supranational and Non-U.S. Government Bonds and Notes	9,578	1,126	8,452	-	-
Corporate Bonds and Notes	467,791	165,396	275,410	23,319	3,666
Commercial Paper	243,875	243,875	-	-	-
Negotiable Certificates of Deposit	66,756	46,266	20,490	-	-
Repurchase Agreements	493,339	493,339	-	-	-
Municipal Securities	205,146	8,605	79,543	79,453	37,545
Asset-Backed Securities	229,426	21,899	183,366	10,747	13,414
Agency Unsecured Bonds and Notes	298,780	193,438	105,342	-	-
Agency Mortgage-Backed Securities	704,587	4,775	90,827	12,293	596,692
Mutual and Money Market Funds (Includes SNAP)	719,575	715,062	1,890	2,623	-
Guaranteed Investment Contracts	43,057	2,287	9,860	19,751	11,159
Fixed Income and Commingled Funds	104,114	5,769	20,962	-	77,383
Other	121,492	121,425	67	-	-
Total	\$ 4,430,824	\$ 2,117,575	\$ 1,094,919	\$ 298,478	\$ 919,852

Foundation Investments

(Dollars in Thousands)

<u>Investment Type</u>	<u>Fair Value</u>
U.S. Treasury and Agency Securities	\$ 1,024,260
Common & Preferred Stocks	814,974
Corporate Bonds and Notes	238,318
Negotiable Certificates of Deposit	10,119
Municipal Securities	2,142
Repurchase Agreements	100,222
Asset Backed Securities	8,208
Agency Mortgage Backed	2,223
Agency Unsecured Bonds and Notes	542,915
Bankers' Acceptance	522,676
Real Estate	218,257
Index Funds	2,204,812
Hedge Funds	1,861,808
Partnerships	972,494
Other	4,708,825
Total	\$ 13,232,253

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 System's policy for credit risk is based on the concept of a risk budget rather than specific limitations related to the rating of an individual security. The System's risk budget is allocated among the different investment strategies.

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.

The following tables (dollars in thousands) present the credit ratings for the investments of the primary government (excluding pension and other employee benefit trust funds), the System (pension and other employee benefit trust funds), and component units as of June 30, 2017. The ratings presented are using Moody's, S&P, and Fitch rating scales. They are displayed from short-term to long-term.

Primary Government (Excluding Pension and Other Employee Benefit Trust Funds)

Investment Type (1)	Percent of Portfolio		Percent of Portfolio		Percent of Portfolio		Aa / AA
	P-1 / A-1 / F1		P-2 / A-2		Aaa / AAA		
Agency Mortgage Backed Securities	\$ -	0.0%	\$ -	0.0%	\$ 2,355	0.0%	\$ 192,987
Agency Unsecured Bonds and Notes	-	0.0%	-	0.0%	119,992	0.8%	2,334,369
Asset Backed Securities	-	0.0%	-	0.0%	172,170	1.3%	15,894
Commercial Paper	2,482,481	18.8%	46,725	0.4%	-	0.0%	-
Corporate Bonds and Notes	-	0.0%	-	0.0%	8,835	0.1%	38,405
Fixed Income and Commingled Funds	-	0.0%	-	0.0%	-	0.0%	-
Guaranteed Investment Contracts	-	0.0%	-	0.0%	-	0.0%	-
Investments held by broker-dealers under securities loans (Corporate Bonds and Notes)	-	0.0%	-	0.0%	-	0.0%	353
Investments held by broker-dealers under securities loans (U.S. Government and Agency Securities)	-	0.0%	-	0.0%	208	0.0%	-
Municipal Securities	-	0.0%	-	0.0%	690	0.0%	12,585
Mutual and Money Market Funds (Include SNAP)	-	0.0%	-	0.0%	913,577	6.9%	-
Negotiable Certificates of Deposit	2,796,065	21.2%	-	0.0%	-	0.0%	-
Other Debt Securities	-	0.0%	-	0.0%	-	0.0%	-
Repurchase Agreements	-	0.0%	-	0.0%	200,000	1.5%	550,002
Grand Total	\$ 5,278,546	40.0%	\$ 46,725	0.4%	\$ 1,417,827	10.6%	\$ 3,144,595

Primary Government – Virginia Retirement System (Pension and Other Employee Benefit Trust Funds)

Investment Type (1)	Percent of Portfolio		Percent of Portfolio		Percent of Portfolio		Aa / AA
	P-1 / A-1 / F1		P-2 / A-2 / F2		Aaa / AAA		
Corporate Bonds and Notes	\$ 242,328	1.0%	\$ -	0.0%	\$ 30,730	0.1%	\$ 1,187,347
Collateralized Mortgage Obligations	-	0.0%	-	0.0%	216	0.0%	126,365
Commercial Mortgages	-	0.0%	-	0.0%	210,398	0.9%	-
Supranational and Non-U.S. Government Bonds and Notes	-	0.0%	-	0.0%	127,360	0.5%	125,500
Cash Equivalents (2)	1,842,541	7.9%	864,092	3.7%	-	0.0%	117,136
Municipal Securities	-	0.0%	-	0.0%	10,754	0.1%	140,925
Asset Backed Securities	-	0.0%	-	0.0%	339,014	1.5%	50,353
Agencies	-	0.0%	-	0.0%	19,688	0.1%	1,744,215
Fixed Income and Commingled Funds	-	0.0%	-	0.0%	-	0.0%	2,586
Other Debt Securities	-	0.0%	-	0.0%	-	0.0%	-
Total	\$ 2,084,869	8.9%	\$ 864,092	3.7%	\$ 738,160	3.2%	\$ 3,494,427

Component Units

Investment Type (1)	Percent of Portfolio		Percent of Portfolio		Percent of Portfolio		A
	P-1 / A-1 / F1		Aaa / AAA		Aa / AA		
Agency Mortgage Backed Securities	\$ -	0.0%	\$ 622,238	16.8%	\$ 55,334	1.5%	\$ -
Agency Unsecured Bonds and Notes	-	0.0%	249,689	6.7%	33,687	0.9%	-
Asset Backed Securities	-	0.0%	201,325	5.4%	3,531	0.1%	1,380
Commercial Paper	209,402	5.7%	29,082	0.8%	-	0.0%	-
Corporate Bonds and Notes	-	0.0%	37,713	1.0%	122,108	3.3%	284,055
Fixed Income and Commingled Funds	-	0.0%	-	0.0%	6,560	0.2%	-
Guaranteed Investment Contracts	-	0.0%	-	0.0%	43,057	1.2%	-
Municipal Securities	-	0.0%	41,573	1.1%	105,203	2.8%	58,289
Mutual and Money Market Funds (Include SNAP)	60,860	1.6%	380,861	10.3%	1,871	0.1%	2,111
Negotiable Certificates of Deposit	5,154	0.1%	-	0.0%	23,273	0.6%	-
Other Debt Securities	-	0.0%	19,463	0.5%	24	0.0%	43
Repurchase Agreements	-	0.0%	-	0.0%	-	0.0%	-
Supranational and Non-U.S. Government Bonds and Notes	-	0.0%	9,578	0.3%	-	0.0%	-
Total	\$ 275,416	7.4%	\$ 1,591,522	42.9%	\$ 394,648	10.7%	\$ 345,878

(1) Excludes U.S. Treasury and Agency Securities of \$735.8 million for primary government (excluding pension and other employee benefit trust funds), \$3.5 billion for the System (pension and other employee benefit trust funds), and \$723.3 million for component units because obligations of the U. S. Government or obligations explicitly guaranteed by the U. S. Government are not considered to have credit risk.

(2) Consists primarily of commercial paper and institutional negotiable certificates of deposit.

Amount by Credit Rating - Moody's / S&P / Fitch

Percent of Portfolio	A	Percent of Portfolio	Baa / BBB	Percent of Portfolio	Less Than Investment Grade	Percent of Portfolio	Unrated	Percent of Portfolio	Grand Total
1.5%	\$ 5,256	0.0%	\$ 1,085	0.0%	\$ -	0.0%	\$ 196	0.0%	\$ 201,879
17.7%	-	0.0%	-	0.0%	-	0.0%	6	0.0%	2,454,367
0.1%	19,414	0.2%	10,227	0.1%	5,325	0.0%	7,632	0.1%	230,662
0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	2,529,206
0.3%	245,828	1.9%	156,578	1.2%	490,738	3.7%	61,944	0.5%	1,002,328
0.0%	-	0.0%	-	0.0%	79	0.0%	964,562	7.3%	964,641
0.0%	-	0.0%	-	0.0%	-	0.0%	996,155	7.5%	996,155
0.0%	1,068	0.0%	-	0.0%	-	0.0%	-	0.0%	1,421
0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	208
0.1%	3,306	0.0%	-	0.0%	-	0.0%	5,979	0.0%	22,560
0.0%	2	0.0%	-	0.0%	-	0.0%	27,049	0.2%	940,628
0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	2,796,065
0.0%	23,842	0.2%	17,952	0.1%	6,387	0.1%	264,162	2.0%	312,343
4.2%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	750,002
23.9%	\$ 298,716	2.3%	\$ 185,842	1.4%	\$ 502,529	3.8%	\$ 2,327,685	17.6%	\$ 13,202,465

Amount by Credit Rating - Moody's / S&P / Fitch

Percent of Portfolio	A	Percent of Portfolio	Baa / BBB	Percent of Portfolio	Less Than Investment Grade	Percent of Portfolio	Unrated	Percent of Portfolio	Grand Total
5.1%	\$ 3,247,425	13.9%	\$ 2,592,023	11.1%	\$ 2,053,272	8.8%	\$ 1,462,162	6.3%	\$ 10,815,287
0.6%	-	0.0%	-	0.0%	64,367	0.3%	17,394	0.1%	208,342
0.0%	3,328	0.0%	-	0.0%	3,145	0.0%	-	0.0%	216,871
0.5%	218,253	0.9%	738,531	3.2%	1,322,635	5.7%	49,283	0.2%	2,581,562
0.5%	209,765	0.9%	-	0.0%	-	0.0%	622,100	2.7%	3,655,634
0.6%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	151,679
0.2%	40,978	0.2%	9,994	0.1%	197,269	0.8%	50,272	0.2%	687,880
7.5%	-	0.0%	-	0.0%	-	0.0%	2,085,126	8.9%	3,849,029
0.0%	24,578	0.1%	1,125,895	4.8%	724	0.0%	338	0.0%	1,154,121
0.0%	-	0.0%	-	0.0%	-	0.0%	1,696	0.0%	1,696
15.0%	\$ 3,744,327	16.0%	\$ 4,466,443	19.2%	\$ 3,641,412	15.6%	\$ 4,288,371	18.4%	\$ 23,322,101

Amount by Credit Rating - Moody's / S&P / Fitch

Percent of Portfolio	Baa / BBB	Percent of Portfolio	Less Than Investment Grade	Percent of Portfolio	Unrated	Percent of Portfolio	Grand Total
0.0%	\$ -	0.0%	\$ -	0.0%	27,015	0.7%	\$ 704,587
0.0%	-	0.0%	-	0.0%	15,404	0.4%	298,780
0.0%	1,237	0.0%	3,137	0.1%	18,816	0.5%	229,426
0.0%	-	0.0%	-	0.0%	5,391	0.2%	243,875
7.7%	21,853	0.6%	126	0.0%	1,936	0.1%	467,791
0.0%	-	0.0%	-	0.0%	97,554	2.6%	104,114
0.0%	-	0.0%	-	0.0%	-	0.0%	43,057
1.6%	-	0.0%	-	0.0%	81	0.0%	205,146
0.1%	-	0.0%	-	0.0%	273,872	7.4%	719,575
0.0%	-	0.0%	-	0.0%	38,329	1.0%	66,756
0.0%	-	0.0%	-	0.0%	101,962	2.7%	121,492
0.0%	475,000	12.8%	-	0.0%	18,339	0.5%	493,339
0.0%	-	0.0%	-	0.0%	-	0.0%	9,578
9.4%	\$ 498,090	13.4%	\$ 3,263	0.1%	\$ 598,699	16.1%	\$ 3,707,516

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's 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.

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 (Virginia529), and the Unclaimed Property portfolios at June 30, 2017. There is no investment policy related to foreign currency for the Unclaimed Property portfolio, but Virginia529 has direct exposure to currency risk through investments managed by Advent Capital Management, LLC, which uses currency forward contracts to hedge risks associated with currency fluctuations pursuant to a formal exception to Virginia529's investment policy.

The System's foreign currency risk exposures, or exchange rate risk, primarily exist in the international and global equity investment holdings. Exposure to foreign currency risk is highlighted in the following tables.

Component Units

All nonmajor component unit investments exposed to foreign currency risk were part of the College of William and Mary, James Madison University, and the Virginia Economic Development Partnership at June 30, 2017, and none of these entities had investment policies related to foreign currency risk.

Foreign Currency Exposures by Asset Class - Primary Government
(Excluding Pension and Other Employee Benefit Trust Funds)
(Dollars in Thousands)

<u>Currency</u>	<u>Cash & Cash Equivalents</u>	<u>Equity</u>	<u>Private Equity</u>	<u>Corporate Bonds</u>	<u>Total</u>
Euro Currency Unit	\$ 17	\$ 70	\$ -	\$ 21,731	\$ 21,818
Japanese Yen	4	-	-	13,066	13,070
U. S. Dollar	-	1,640	2,997	-	4,637
British Pound Sterling	550	26	-	3,167	3,743
Canadian Dollar	308	1,145	-	2,008	3,461
Hong Kong Dollar	-	4	-	1,295	1,299
Swiss Franc	-	9	-	-	9
Singapore Dollar	5	-	-	-	5
Mexican New Peso	-	1	-	-	1
Total	\$ 884	\$ 2,895	\$ 2,997	\$ 41,267	\$ 48,043

Foreign Currency Exposures by Asset Class
Primary Government - Virginia Retirement System
(Pension and Other Employee Benefit Trust Funds)
(Dollars in Thousands)

Currency	Cash & Cash Equivalents	Equity	Fixed Income	Private Equity	Real Assets	International Funds	Forward Contracts	Total
Euro Currency Unit	\$ 27,477	\$ 2,295,596	\$ 22,544	\$ 720,087	\$ 232,868	\$ -	\$ (1,588,781)	\$ 1,709,791
U.S. Dollar	-	-	-	-	-	1,561,157	-	1,561,157
Japanese Yen	14,410	2,036,996	(7)	-	1,186	-	(805,597)	1,246,988
Hong Kong Dollar	5,825	998,128	-	-	1,376	-	(176,555)	828,774
Pound Sterling	9,196	1,289,865	980	-	107,499	-	(665,167)	742,373
Canadian Dollar	7,813	816,910	-	-	47,429	-	(407,942)	464,210
South Korean Won	1,770	507,589	23	-	-	-	(59,726)	449,656
Indian Rupee	5,422	255,787	5,683	-	-	-	114,256	381,148
Swiss Franc	10,968	638,432	-	-	1,450	-	(383,256)	267,594
Brazil Real	3,360	140,341	91,824	-	4	-	21,746	257,275
South African Rand	425	178,411	76,188	-	-	-	(16,381)	238,643
Turkish Lira	95	89,837	48,527	-	-	-	97,448	235,907
Mexican Peso	240	30,941	58,008	-	3,852	-	118,591	211,632
New Taiwan Dollar	914	231,863	-	-	-	-	(25,373)	207,404
Indonesian Rupiah	1,669	47,040	84,306	-	-	-	66,146	199,161
Polish Zloty	22	29,019	60,577	-	-	-	75,693	165,311
Malaysian Ringgit	5,757	62,980	59,572	-	-	-	4,761	133,070
Thailand Baht	513	93,757	15,771	-	-	-	10,599	120,640
Swedish Krona	668	216,522	-	-	-	-	(134,039)	83,151
Czech Koruna	282	698	2,810	-	-	-	73,218	77,008
Danish Krone	740	144,807	-	-	1,614	-	(75,801)	71,360
Singapore Dollar	2,376	168,156	-	-	-	-	(108,040)	62,492
Russian Ruble (New)	315	18,829	39,826	-	-	-	3,463	62,433
Colombian Peso	1,959	4,358	35,487	-	-	-	16,850	58,654
Australian Dollar	1,245	484,639	-	-	2,235	-	(430,248)	57,871
Chilean Peso	604	27,366	3,550	-	-	-	10,231	41,751
Argentine Peso	457	-	18,898	-	-	-	17,266	36,621
Egyptian Pound	10,628	6,077	-	-	-	-	(550)	16,155
Romanian Leu	236	-	17,202	-	-	-	(2,477)	14,961
Sri Lanka Rupee	-	-	5,619	-	-	-	-	5,619
Ghanaian Cedi	-	-	5,287	-	-	-	-	5,287
Qatari Riyal	157	5,128	-	-	-	-	-	5,285
Uruguayan Peso	-	-	4,802	-	-	-	-	4,802
UAE Dirham	52	4,246	-	-	-	-	-	4,298
Israeli Shekel	158	31,717	3,481	-	-	-	(32,378)	2,978
Moroccan Dirham	1	-	-	-	-	-	-	1
Philippines Peso	138	8,833	849	-	-	-	(13,496)	(3,676)
Peruvian Nuevo Sol	18	52	23,381	-	-	-	(29,411)	(5,960)
Hungarian Forint	657	11,545	27,985	-	-	-	(57,483)	(17,296)
Chinese Yuan Renminbi	-	2	(56)	-	-	-	(27,929)	(27,983)
Norwegian Krone	527	111,985	-	-	-	-	(148,092)	(35,580)
New Zealand Dollar	(92)	25,628	-	-	1,473	-	(81,318)	(54,309)
Total	\$ 117,002	\$ 11,014,080	\$ 713,117	\$ 720,087	\$ 400,986	\$ 1,561,157	\$ (4,639,772)	\$ 9,886,657

Foreign Currency Exposures by Asset Class - Component Units
(Dollars in Thousands)

Currency	Cash & Cash Equivalents	Total
British Pound Sterling	\$ 1,118	\$ 1,118
Euro Currency Unit	2,914	2,914
Other	5	5
Total	\$ 4,037	\$ 4,037

Fair Value Measurements

Primary Government

GASB Statement No. 72, *Fair Value Measurement and Application*, requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The fair value hierarchy is based on the valuation inputs used to measure the fair value of assets.

- Level 1 inputs are quoted prices in active markets for identical assets;
- Level 2 inputs are significant other observable inputs and may include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, or model-driven valuations;
- Level 3 inputs are derived using valuation techniques that have significant unobservable inputs.

Investments that do not have a readily determinable fair value are excluded from the fair value hierarchy and instead are valued by using the net asset value (NAV) per share (or its equivalent). In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant in the valuation.

The following tables summarize recurring fair value measurements for the cash equivalents and investments reported by the primary government (excluding pension and other employee benefit trust funds) and the System (pension and other employee benefit trust funds) as of June 30, 2017.

Fair Value Measurements - Primary Government
(Excluding Pension and Other Employee Benefit Trust Funds)
(Dollars in Thousands)

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fair value measured using fair value hierarchy				
<u>Debt Securities (1)</u>				
U. S. Treasury and Agency Securities	\$ 560,782	\$ 511,706	\$ 49,076	\$ -
Corporate Bonds and Notes	1,002,327	793	1,001,534	-
Commercial Paper	1,128,598	-	1,128,598	-
Negotiable Certificates of Deposit	1,405,244	-	1,405,244	-
Municipal Securities	22,560	6,113	16,447	-
Asset Backed Securities	230,663	272	230,391	-
Agency Mortgage Backed Securities	201,879	608	201,271	-
Agency Unsecured Bonds and Notes	1,678,857	8,598	1,670,259	-
Mutual and Money Market Funds	6,510	4,594	1,916	-
Fixed Income and Commingled Funds	497,248	495,607	1,641	-
Investments held by broker-dealers under securities loans				
U. S. Government and Agency Securities	208	208	-	-
Corporate Bonds and Notes	1,421	1,421	-	-
Other Debt Securities	312,343	205,734	106,609	-
Total Debt Securities	<u>7,048,640</u>	<u>1,235,654</u>	<u>5,812,986</u>	<u>-</u>
<u>Equity Securities (2)</u>				
Common and Preferred Stocks	539,498	535,494	4,004	-
Foreign Currencies	2,140	2,137	3	-
Equity Index and Pooled Funds	82,265	77,104	5,161	-
Index Funds	1,538,105	1,538,105	-	-
Real Estate	8,007	607	-	7,400
Other Equity Securities	1,246,764	1,246,749	15	-
Total Equity Securities	<u>3,416,779</u>	<u>3,400,196</u>	<u>9,183</u>	<u>7,400</u>
Total by Fair Value Level	<u>\$ 10,465,419</u>	<u>\$ 4,635,850</u>	<u>\$ 5,822,169</u>	<u>\$ 7,400</u>
Fair value established using the net asset value (NAV) (3)				
Fixed Income and Commingled Funds	467,394			
Real Estate	88,376			
Other Equity Securities	294,915			
Total Fair Value established using NAV	<u>850,685</u>			
Total Fair Value	<u>\$ 11,316,104</u>			

(1) Debt securities are classified as follows:

- Level 1 - valued using unadjusted quoted prices in active markets for those securities.
- Level 2 - valued using a matrix pricing model and observable prices using dealer quotes for similar securities traded in active markets.

(2) Equity securities are classified as follows:

- Level 1 - valued using unadjusted quoted prices in active markets for those securities.
- Level 2 - valued using dealer quotes for similar securities traded in active markets.
- Level 3 - valued using independent appraisals.

(3) Investments reported at fair value established using the NAV were all part of the Virginia College Savings Plan Fund (major enterprise). As of June 30, 2017, these investments had \$165.5 million in unfunded commitments. The redemption frequencies for the investments currently eligible to be redeemed were daily, monthly, quarterly, and semi-annually; and the redemption notice period ranged from 2 to 95 days. As of June 30, 2017, a portion of these investments cannot be redeemed. Additional information is available in the Virginia529 individually published financial statements, which may be obtained from www.virginia529.com.

Fair Value Measurements
Primary Government - Virginia Retirement System
(Pension and Other Employee Benefit Trust Funds)
(Dollars in Thousands)

	<u>Fair Value</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Fair value measured using fair value hierarchy				
Debt Securities (1)				
U. S. Treasury and Agency Securities	\$ 3,497,512	\$ 3,103,632	\$ 393,880	\$ -
Corporate Bonds and Notes	7,606,701	-	7,606,701	-
Collateralized Mortgage Obligations	208,342	-	208,342	-
Commercial Mortgages	216,871	-	216,871	-
Supranational and Non-U.S. Government Bonds and Notes	2,581,562	72,543	2,509,019	-
Municipal Securities	151,679	-	151,679	-
Asset Backed Securities	687,880	-	684,728	3,152
Agencies	3,849,029	-	3,849,029	-
Fixed Income and Commingled Funds	36,687	14,377	-	22,310
Other Debt Securities	1,696	85	1,611	-
Total Debt Securities	<u>18,837,959</u>	<u>3,190,637</u>	<u>15,621,860</u>	<u>25,462</u>
Equity Securities (2)				
Common and Preferred Stocks	24,329,444	24,221,968	102,915	4,561
Foreign Currencies	326	-	326	-
Equity Index and Pooled Funds	1,154,854	-	-	1,154,854
Real Assets	2,085,695	-	-	2,085,695
Other Equity Securities	877,052	(2,292)	1,913	877,431
Total Equity Securities	<u>28,447,371</u>	<u>24,219,676</u>	<u>105,154</u>	<u>4,122,541</u>
Total by Fair Value Level	<u>\$ 47,285,330</u>	<u>\$ 27,410,313</u>	<u>\$ 15,727,014</u>	<u>\$ 4,148,003</u>
Fair value established using the net asset value (NAV) (3)				
Fixed Income and Commingled Funds	1,117,434			
Equity Index and Pooled Funds	8,490,525			
Real Assets	6,194,445			
Other Equity Securities	10,416,403			
Total Fair Value established using NAV	<u>26,218,807</u>			
Total Fair Value	<u>\$ 73,504,137</u>			

(1) Debt securities are classified as follows:

- Level 1 - valued using unadjusted quoted prices in active markets for those securities.
- Level 2 - valued using a proprietary matrix pricing technique. This pricing technique defines the primary source and secondary sources to be used if the primary pricing source does not provide a value. Typically, these securities are valued using bid evaluations. The valuation techniques may include market participants' assumptions, quoted prices for similar assets, benchmark yield curves, market corroborated inputs, and other data inputs.
- Level 3 - valued using proprietary information.

(2) Equity securities are classified as follows:

- Level 1 - valued using unadjusted quoted prices in active markets for those securities.
- Level 2 - valued using quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; or model-driven valuations in which all significant inputs are observable.
- Level 3 - valued using proprietary information. When observable inputs are not available, this results in using one or more valuation techniques, such as the market approach and or the income approach, for which sufficient and reliable data is available. Within this level, the use of the market approach generally consists of using comparable market transactions or other data, while the use of the income approach generally consists of the net present value of estimated future cash flows.

(3) As of June 30, 2017, investments reported at fair value established using the NAV had \$7.3 billion in unfunded commitments. The redemption frequencies for the investments currently eligible to be redeemed were monthly, quarterly, semi-annually, and annually; and the redemption notice period ranged from 30 to 90 days. As of June 30, 2017, a portion of these investments cannot be redeemed. Additional information is available in the System's separately issued financial statements, which may be obtained from www.varetire.org

Component Units

The following table summarizes fair value measurements for the cash equivalents and investments reported by the component units as of June 30, 2017. The table excludes cash equivalents and investments measured at fair value by the foundations that follow FASB standards.

Fair Value Measurements - Component Units (Dollars in Thousands)

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fair value measured using fair value hierarchy				
<u>Debt Securities (1)</u>				
U. S. Treasury and Agency Securities	\$ 710,739	\$ 565,683	\$ 145,056	\$ -
Corporate Bonds and Notes	467,791	14,881	452,910	-
Supranational and Non-U.S. Government Bonds and Notes	9,578	-	9,578	-
Commercial Paper	19,583	-	19,583	-
Negotiable Certificates of Deposit	66,608	3,983	62,625	-
Repurchase Agreements	18,339	-	18,339	-
Municipal Securities	205,146	-	205,146	-
Asset-Backed Securities	229,426	-	229,426	-
Agency Mortgage-Backed Securities	704,587	389	704,198	-
Agency Unsecured Bonds and Notes	213,937	-	213,937	-
Mutual and Money Market Funds	316,568	311,713	4,855	-
Fixed Income and Commingled Funds	5,440	5,440	-	-
Other	83,292	83,291	1	-
Total Debt Securities	<u>3,051,034</u>	<u>985,380</u>	<u>2,065,654</u>	<u>-</u>
<u>Equity Securities (2)</u>				
Common and Preferred Stocks	59,860	59,860	-	-
Equity Index and Pooled Funds	144,135	144,135	-	-
Index Funds	5,355	5,355	-	-
Real Estate	893	859	-	34
Other	14,865	10,208	948	3,709
Total Equity Securities	<u>225,108</u>	<u>220,417</u>	<u>948</u>	<u>3,743</u>
Total by Fair Value Level	<u>\$ 3,276,142</u>	<u>\$ 1,205,797</u>	<u>\$ 2,066,602</u>	<u>\$ 3,743</u>
Fair value established using the net asset value (NAV) (3)				
Fixed Income and Commingled Funds	98,674			
Other Debt Securities	18,736			
Equity Index and Pooled Funds	118,843			
Index Funds	4,174			
Real Estate	22,947			
Other Equity Securities	898,103			
Total Fair Value established using NAV	<u>1,161,477</u>			
Total Fair Value	<u>\$ 4,437,619</u>			

(1) Debt securities are classified as follows:

- Level 1 - valued using unadjusted quoted prices in active markets for those securities using the market approach.
- Level 2 - valued based on quoted prices for similar securities in active markets or quoted prices for identical or similar securities in markets that are not active.

(2) Equity securities are classified as follows:

- Level 1 - valued using unadjusted quoted prices in active markets for those securities using the market approach.
- Level 2 - valued using significant other observable inputs.
- Level 3 - valued using unobservable inputs and may include assumptions of management.

(3) The following nonmajor component units reported investments at fair value established using the NAV: Old Dominion University, Virginia Commonwealth University (VCU), Virginia Commonwealth University Health System Authority (blended component unit of VCU), College of William and Mary, Virginia Military Institute, Virginia State University, and Virginia Biotechnology Research Partnership Authority. Additional information is available in the separately issued financial statements.

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.

In October, 2016, the Department of the Treasury suspended participation in the securities lending program for both the Commonwealth's General Account and for the Lottery account. Current market conditions have limited the demand for Treasury's lendable assets and the narrowing margins on reinvesting cash collateral have resulted in minimal earnings for the program. The Department of the Treasury still maintains an active contract with the current lending provider, and should the situation become more favorable for this type of activity, the program could be reestablished in the future.

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 first part of the past fiscal year when the program was still active, approximately 0.8 percent of the general account securities were on loan.

During the first part of the past fiscal year, a combination of U.S. Treasury, agency, agency mortgage and corporate securities were loaned, with the majority of the loaned securities being U.S. Treasury and agency securities.

Under authorization of the Board, 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 fair value equal to at least 102.0 percent of the fair 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 23 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 fair value. The fair value of securities on loan at June 30, 2017, was \$8.1 billion. The June 30, 2017, balance was composed of U.S. Government and agency securities of \$2.5 billion, corporate and other bonds of \$1.6 billion, and common and preferred stocks of \$3.8 billion. At June 30, 2017, the balance also included \$145.1 million of supranational and non-U.S. government bonds. The value of collateral (cash and non-cash) at June 30, 2017, was \$8.5 billion.

At June 30, 2017, the invested cash collateral had a cost of \$4.8 billion and was composed of time deposits of \$270.4 million, floating rate notes of \$3.2 billion, and repurchase agreements of \$1.3 billion.



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7. RECEIVABLES

The following schedule (dollars in thousands) details the accounts, loans, local school bonds, 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, 2017.

	Accounts Receivable	Loans / Mortgage Receivable	Local School Bonds Receivable	Interest Receivable	Taxes Receivable
Primary Government:					
General	\$ 1,112,169	\$ 230	\$ -	\$ 388,512	\$ 1,862,577
Major Special Revenue Funds:					
Commonwealth Transportation (1)	148,245	195,128	-	-	182,687
Federal Trust	933,753	1,548	-	-	-
Literary	302,360	115,991	-	40,050	-
Nonmajor Governmental Funds	125,900	22	-	16,178	6,483
Major Enterprise Funds:					
Virginia Lottery	69,396	-	-	-	-
Virginia College Savings Plan	10,818	-	-	4,367	-
Unemployment Compensation	114,695	-	-	-	-
Nonmajor Enterprise Funds	51,316	-	-	-	-
Internal Service Funds	23,576	-	-	-	-
Private Purpose Trust Funds	103	-	-	2,613	-
Pension and Other Employee Benefit Trust Funds (2)	218,600	-	-	233,179	-
Investment Trust Fund	-	-	-	2,165	-
Agency Funds	644	-	-	-	108,611
Total Primary Government (3)	<u>\$ 3,111,575</u>	<u>\$ 312,919</u>	<u>\$ -</u>	<u>\$ 687,064</u>	<u>\$ 2,160,358</u>
Discrete Component Units:					
Virginia Housing Development Authority (4)	\$ -	\$ 6,172,394	\$ -	\$ 27,372	\$ -
Virginia Public School Authority (5)	-	-	3,327,926	63,680	-
Virginia Resources Authority	-	4,434,762	-	29,901	-
Virginia College Building Authority	-	-	-	21,900	-
Nonmajor Component Units (6)	1,699,313	146,098	-	6,154	7,357
Total Component Units	<u>\$ 1,699,313</u>	<u>\$ 10,753,254</u>	<u>\$ 3,327,926</u>	<u>\$ 149,007</u>	<u>\$ 7,357</u>

Note (1): This amount includes \$152.2 million from the Virginia Infrastructure Bank as discussed in Note 20.D.

Note (2): In the Pension and Other Employee Benefit Trust Funds, Interest Receivable of \$233,179 (dollars in thousands) also includes dividends receivable. Additionally, Other Receivables of \$22,399 (dollars in thousands) are made up of \$12,985 (dollars in thousands) in pending investment transactions, which includes \$6,603 (dollars in thousands) in futures margins receivable, \$3,598 (dollars in thousands) in futures contracts receivable, and \$2,784 (dollars in thousands) in securities lending; and \$9,414 (dollars in thousands) in other receivables related to benefit plans.

Note (3): Fiduciary net receivables in the amount of \$1,861,948 (dollars in thousands) are not included in the Government-wide Statement of Net Position.

Note (4): The Virginia Housing Development Authority (major component unit) reports \$5,914,630 (dollars in thousands) as Restricted Loans Receivable, \$25,330 (dollars in thousands) as Restricted Interest Receivable, and \$9,682 as Restricted Other Receivables.

Note (5): The Virginia Public School Authority (major component unit) reports \$3,327,926 (dollars in thousands) as Local School Bonds Receivable. This amount will be used to repay the Authority's bonds.

Note (6): Other Receivables of the nonmajor component units are primarily comprised of pledges receivable of \$17,082 (dollars in thousands) reported by the University of Virginia; sponsors accounts receivable of \$34,859 (dollars in thousands) reported by Virginia Commonwealth University; premium receivables of \$84,021 (dollars in thousands) and third-party settlements and non-patient receivables of \$51,395 (dollars in thousands) reported by Virginia Commonwealth University Health System Authority (blended component unit of Virginia Commonwealth University), and \$53,478 (dollars in thousands) reported by foundations of the higher education institutions representing FASB reporting entities defined in Note 1.B.; and \$21,060 (dollars in thousands) reported by the Virginia Biotechnology Research Partnership Authority.

Prepaid Tuition Contributions Receivable	Security Transactions	Other Receivables	Allowance for Doubtful Accounts	Net Accounts Receivable	Amounts to be Collected Greater than One Year
\$ -	\$ -	\$ -	\$ (1,475,689)	\$ 1,887,799	\$ 395,282
-	-	-	(32,159)	493,901	181,198
-	-	-	(5,123)	930,178	10,757
-	-	-	(305,761)	152,640	97,884
-	-	394	(84,463)	64,514	284
-	-	-	-	69,396	-
194,568	-	-	-	209,753	146,794
-	-	-	(22,890)	91,805	-
-	-	14	(1,537)	49,793	-
-	-	-	(646)	22,930	-
-	-	-	-	2,716	-
-	1,322,398	22,399	-	1,796,576	-
-	-	-	-	2,165	-
-	-	-	(48,764)	60,491	7,715
<u>\$ 194,568</u>	<u>\$ 1,322,398</u>	<u>\$ 22,807</u>	<u>\$ (1,977,032)</u>	<u>\$ 5,834,657</u>	<u>\$ 839,914</u>
\$ -	\$ -	\$ 19,328	\$ (154,336)	\$ 6,064,758	\$ 5,666,161
-	-	-	-	3,391,606	3,055,250
-	-	2,021	(578)	4,466,106	4,147,165
-	-	-	-	21,900	-
-	-	357,995	(823,740)	1,393,177	204,812
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 379,344</u>	<u>\$ (978,654)</u>	<u>\$ 15,337,547</u>	<u>\$ 13,073,388</u>

8. CONTRIBUTIONS RECEIVABLE, NET

The following schedule details the contributions receivable for foundations⁽¹⁾ included with the nonmajor component units, as of June 30, 2017. The major component units reported no contributions receivable for fiscal year 2017.

(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	\$ 175,058	\$ 237,772	\$ 91,282	\$ 504,112	\$ (27,526)	\$ (26,336)	\$ 450,250
Total Component Units	<u>\$ 175,058</u>	<u>\$ 237,772</u>	<u>\$ 91,282</u>	<u>\$ 504,112</u>	<u>\$ (27,526)</u>	<u>\$ (26,336)</u>	<u>\$ 450,250</u>

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 6.0 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, 2017.

Schedule of Due from/to Other Funds

June 30, 2017

(Dollars in Thousands)

Due From	Amount	Due To	Amount
Primary Government		Primary Government	
General Fund	\$ 28,413	Major Special Revenue Funds:	
		Federal Trust	\$ 267
		Major Enterprise Funds:	
		Virginia Lottery	11,819
		Virginia College Savings Plan	30
		Nonmajor Enterprise Funds	15,112
		Internal Service Funds	1,185
Major Special Revenue Funds:		General Fund	1,660
Federal Trust	2,786	Major Enterprise Funds:	
		Unemployment Compensation	1,126
Literary	3,417	Major Enterprise Funds:	
		Virginia Lottery	3,417
Nonmajor Governmental Funds	5,200	Major Special Revenue Funds:	
		Commonwealth Transportation	1,410
		Federal Trust	2,629
		Nonmajor Governmental Funds	400
		Major Enterprise Funds:	
		Unemployment Compensation	103
		Nonmajor Enterprise Funds	658
Major Enterprise Funds:		General Fund	879
Unemployment Compensation	1,020	Major Special Revenue Funds:	
		Commonwealth Transportation	35
		Federal Trust	47
		Nonmajor Governmental Funds	40
		Major Enterprise Funds:	
		Virginia Lottery	3
		Nonmajor Enterprise Funds	14
		Internal Service Funds	2
Nonmajor Enterprise Funds	627	General Fund	144
		Major Special Revenue Funds:	
		Commonwealth Transportation	256
		Federal Trust	182
		Nonmajor Governmental Funds	27
		Nonmajor Enterprise Funds	18
Internal Service Funds	52,205	General Fund	27,633
		Major Special Revenue Funds:	
		Commonwealth Transportation	9,901
		Federal Trust	7,472
		Nonmajor Governmental Funds	4,250
		Major Enterprise Funds:	
		Virginia Lottery	190
		Virginia College Savings Plan	74
		Nonmajor Enterprise Funds	1,980
		Internal Service Funds	705
Pension and Other Employee Benefit Trust Funds	3,502	Private Purpose Trust Funds	1
		Pension and Other Employee Benefit Trust	3,501
Total Primary Government	<u>\$ 97,170</u>	Total Primary Government	<u>\$ 97,170</u>

Schedule of Due from/to Internal/External Parties
June 30, 2017

(Dollars in Thousands)

Due From	Amount	Due To	Amount
Primary Government		Primary Government	
General Fund	\$ 1	Investment Trust Fund	\$ 1
Major Special Revenue Funds: Federal Trust	20,342	Pension and Other Employee Benefit Trust	20,342
Nonmajor Governmental Funds	38,293	Agency Funds	162
		Pension and Other Employee Benefit Trust Funds	38,131
Internal Service Funds	210	Pension and Other Employee Benefit Trust Funds	210
Pension and Other Employee Benefit Trust Funds	33,697	General Fund	21,431
		Major Special Revenue Funds:	
		Commonwealth Transportation	5,412
		Federal Trust	2,654
		Nonmajor Governmental Funds	2,768
		Major Enterprise Funds:	
		Virginia Lottery	189
		Virginia College Savings Plan	77
		Nonmajor Enterprise Funds	730
		Internal Service Funds	436
Total Primary Government	<u>\$ 92,543</u>	Total Primary Government	<u>\$ 92,543</u>

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, 2017. There were no Interfund Receivables/Payables for the component units as of June 30, 2017.

Interfund Receivables/Payables
June 30, 2017

(Dollars in Thousands)

Receivable From:	Amount	Payable To:	Amount
Primary Government		Primary Government	
Nonmajor Governmental Funds	\$ 160,964	General Fund	\$ 1,147
		Major Special Revenue Funds:	
		Federal Trust	26,510
		Nonmajor Enterprise Funds	34,724
		Internal Service Funds	98,583
Total Primary Government	<u>\$ 160,964</u>	Total Primary Government	<u>\$ 160,964</u>

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 \$3.8 million is for interest on Build America Bonds (BABs).

A \$68.9 million due from primary government amount that is due from the General Fund (major governmental) to the higher education institutions (nonmajor component units) is for the following: appropriations available for capital projects and other programs of \$67.7 million and payments awaiting disbursements of \$1.2 million. The General Fund reports \$7.9 million in the fund financial statements and an additional \$61.0 million in the government-wide financial statements.

A \$2.5 million 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 George Mason University and the Virginia Community College System (nonmajor component units).

A due from primary government amount that is due from the Virginia Public Building Authority (capital projects fund) to the Virginia Port Authority (nonmajor component unit) of \$1.5 million represents bond revenue to be used for capital projects.

A \$23.1 million due from component units in the Health Care Fund (internal service fund) represents amounts due from the nonmajor component units.

A \$844,703 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 \$92.2 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 \$3.2 million from a foundation of 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 \$36.1 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 Virginia College Building Authority (major component unit) loan of \$39.2 million was used to reimburse institutions under the 21st Century College and Equipment Program until bonds were sold. The College of William and Mary (nonmajor component unit) loan of \$4.2 million was used to fund a capital project until bonds were issued. George Mason University (nonmajor component unit) and the Virginia Community College System (nonmajor component unit) loans of \$12.7 million and \$4.4 million, respectively, were used to primarily advance fund federally-funded programs. These amounts are due to a nonmajor governmental fund.

The \$199.9 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 and security 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, 2017.

(Dollars in Thousands)

	Cash and Travel Advances	Other Assets	Total Other Assets
Primary Government:			
General	\$ 1,224	\$ 204	\$ 1,428
Major Special Revenue Funds:			
Commonwealth Transportation	358	-	358
Federal Trust	1,845	-	1,845
Nonmajor Governmental Funds	689	1,049	1,738
Major Enterprise Funds:			
Virginia Lottery (1)	1	122,009	122,010
Nonmajor Enterprise Funds	209	-	209
Internal Service Funds (2)	-	13,372	13,372
Agency Funds (3)	-	29	29
Total Primary Government	<u>\$ 4,326</u>	<u>\$ 136,663</u>	<u>\$ 140,989</u>
Discrete Component Units:			
Virginia Housing Development Authority (4)	\$ -	\$ 35,577	\$ 35,577
Virginia Resources Authority	-	197	197
Nonmajor Component Units (5)	4,648	77,454	82,102
Total Component Units	<u>\$ 4,648</u>	<u>\$ 113,228</u>	<u>\$ 117,876</u>

Note (1): Other Assets held by the Virginia Lottery represent amounts for future prize payments.

Note (2): Of the \$13,372 (dollars in thousands) shown above, \$12,202 (dollars in thousands) and \$1,170 (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 \$28,712 shown above is not included in the Government-wide Statement of Net Position.

Note (4): Other Assets of the Virginia Housing Development Authority are predominately comprised of mortgage servicing rights of \$25.4 million and a net OPEB asset of \$5.0 million.

Note (5): Other Assets of the nonmajor component units are primarily comprised of goodwill and other miscellaneous items spread among the higher education institutions and related foundations.

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 \$522.7 million in restricted assets related to bond agreements.

The Virginia Housing Development Authority, the Virginia Public School Authority, and the Virginia College Building Authority (all major component units) reported restricted assets totaling \$1.5 billion, \$195.9 million, and \$96.1 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 \$717.1 million. Of this amount, \$709.3 million is restricted for loans to local governments, bond indentures, or federal and state regulations for various revolving funds, and \$7.8 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 \$111.3 million primarily for debt service under bond agreements, construction and other project funds.

The Tobacco Region Revitalization Commission (nonmajor component unit) reported restricted assets of \$200.8 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 \$22.7 million to be used for debt service.

The Virginia Small Business Financing Authority (nonmajor component unit) reported restricted assets of \$41.9 million for gifts and grants.

The higher education institutions (nonmajor component units) reported restricted assets totaling approximately \$4.8 billion primarily for endowment and other contractual obligations. Included in this amount is approximately \$4.2 billion of foundations' restricted assets. The Virginia Commonwealth University Health System Authority (Authority) (a blended component unit of Virginia Commonwealth University—nonmajor component unit) includes \$17.6 million for a beneficial trust and \$3.9 million for an equity interest in a foundation as Other Restricted Assets. These Authority assets are classified as Level 3 of the fair value hierarchy. For additional information, see the Authority's separately issued financial statements.

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 \$256.1 million and \$20.7 million, respectively, primarily for donor-imposed restricted endowments.

The remaining \$6.1 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, and the Library of Virginia Foundation.

12. CAPITAL ASSETS

The following schedule presents the changes in the Capital Assets as of June 30, 2017 (dollars in thousands).

Schedule of Changes in Capital Assets				
Governmental Activities				
<i>(Dollars in Thousands)</i>				
	Balance July 1, as restated (1)	Increases	Decreases	Balance June 30
Nondepreciable Capital Assets:				
Land	\$ 3,102,062	\$ 175,568	\$ (47,661)	\$ 3,229,969
Water Rights and/or Easements	75,327	9,753	-	85,080
Infrastructure	322,741	985,479	-	1,308,220
Construction-in-Progress	4,816,344	1,973,591	(2,573,660)	4,216,275
Total Nondepreciable Capital Assets	<u>8,316,474</u>	<u>3,144,391</u>	<u>(2,621,321)</u>	<u>8,839,544</u>
Depreciable Capital Assets:				
Buildings (2)	4,026,347	123,676	(10,129)	4,139,894
Equipment	1,211,954	97,649	(31,882)	1,277,721
Infrastructure	33,713,001	2,599,157	(5,854,179)	30,457,979
Software	530,402	175,890	(449)	705,843
Total Capital Assets being Depreciated	<u>39,481,704</u>	<u>2,996,372</u>	<u>(5,896,639)</u>	<u>36,581,437</u>
Less Accumulated Depreciation for:				
Buildings	1,472,155	97,207	(7,043)	1,562,319
Equipment	714,573	63,479	(28,429)	749,623
Infrastructure	14,877,874	973,823	(5,668,307)	10,183,390
Software	285,640	48,778	(449)	333,969
Total Accumulated Depreciation	<u>17,350,242</u>	<u>1,183,287</u>	<u>(5,704,228)</u>	<u>12,829,301</u>
Total Depreciable Capital Assets, Net	<u>22,131,462</u>	<u>1,813,085</u>	<u>(192,411)</u>	<u>23,752,136</u>
Total Capital Assets, Net	<u>\$ 30,447,936</u>	<u>\$ 4,957,476</u>	<u>\$ (2,813,732)</u>	<u>\$ 32,591,680</u>

Note (1): Beginning balances have been restated by \$32.5 million as discussed in Note 2.

Note (2): Includes temporarily impaired assets with a carrying value of \$4.2 million.

Depreciation Expense Charged to Functions of the Primary Government June 30, 2017

(Dollars in Thousands)

Governmental Activities:	
General Government	\$ 30,386
Education	12,538
Transportation	1,019,017
Resources and Economic Development	21,231
Individual and Family Services	28,015
Administration of Justice	48,014
Capital Assets held by the Internal Service	
Funds are charged to various functions	<u>24,086</u>
Total	<u>\$ 1,183,287</u>

**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	\$ -	\$ (103)	\$ 1,874
Construction-in-Progress	1,540	1,415	(2,073)	882
Total Nondepreciable Capital Assets	<u>3,517</u>	<u>1,415</u>	<u>(2,176)</u>	<u>2,756</u>
Depreciable Capital Assets:				
Buildings	30,750	1,127	(351)	31,526
Equipment	67,452	10,269	(7,937)	69,784
Software	11,162	1,632	(18)	12,776
Total Capital Assets being Depreciated	<u>109,364</u>	<u>13,028</u>	<u>(8,306)</u>	<u>114,086</u>
Less Accumulated Depreciation for:				
Buildings	13,718	569	(351)	13,936
Equipment	56,145	3,407	(6,202)	53,350
Software	4,699	2,073	(4)	6,768
Total Accumulated Depreciation	<u>74,562</u>	<u>6,049</u>	<u>(6,557)</u>	<u>74,054</u>
Total Depreciable Capital Assets, Net	<u>34,802</u>	<u>6,979</u>	<u>(1,749)</u>	<u>40,032</u>
Total Capital Assets, Net	<u>\$ 38,319</u>	<u>\$ 8,394</u>	<u>\$ (3,925)</u>	<u>\$ 42,788</u>

**Schedule of Changes in Capital Assets
Component Units**

(Dollars in Thousands)

	Balance July 1	Increases	Decreases	Subtotal June 30 (1)	Foundations (2)	Total June 30
Nondepreciable Capital Assets:						
Land	\$ 611,355	\$ 25,458	\$ (764)	\$ 636,049	\$ 321,779	\$ 957,828
Construction-in-Progress	1,471,792	1,215,999	(1,125,716)	1,562,075	32,349	1,594,424
Inexhaustible Works of Art/Historical Treasures	80,998	485	(67)	81,416	21,036	102,452
Livestock	597	46	-	643	2,212	2,855
Total Nondepreciable Capital Assets	<u>2,164,742</u>	<u>1,241,988</u>	<u>(1,126,547)</u>	<u>2,280,183</u>	<u>377,376</u>	<u>2,657,559</u>
Depreciable Capital Assets:						
Buildings	15,897,522	926,442	(20,689)	16,803,275	1,302,137	18,105,412
Infrastructure	3,561,791	146,815	(650)	3,707,956	6,422	3,714,378
Equipment	3,490,971	316,489	(132,853)	3,674,607	167,916	3,842,523
Improvements Other Than Buildings	535,997	16,977	(2,006)	550,968	80,361	631,329
Library Books	846,855	23,996	(30,884)	839,967	2	839,969
Software	475,636	2,141,493	(1,660)	2,615,469	-	2,615,469
Other Intangible Assets	2,000	-	-	2,000	-	2,000
Total Capital Assets being Depreciated	<u>24,810,772</u>	<u>3,572,212</u>	<u>(188,742)</u>	<u>28,194,242</u>	<u>1,556,838</u>	<u>29,751,080</u>
Less Accumulated Depreciation for:						
Buildings	5,116,753	466,408	(20,407)	5,562,754	357,254	5,920,008
Infrastructure	1,591,757	100,829	(492)	1,692,094	3,461	1,695,555
Equipment	2,385,102	260,812	(109,240)	2,536,674	114,593	2,651,267
Improvements Other Than Buildings	322,731	21,402	(1,736)	342,397	55,430	397,827
Library Books	729,379	30,385	(30,756)	729,008	2	729,010
Software	369,822	55,753	(2,156)	423,419	-	423,419
Other Intangible Assets	1,600	133	-	1,733	-	1,733
Total Accumulated Depreciation	<u>10,517,144</u>	<u>935,722</u>	<u>(164,787)</u>	<u>11,288,079</u>	<u>530,740</u>	<u>11,818,819</u>
Total Depreciable Capital Assets, Net	<u>14,293,628</u>	<u>2,636,490</u>	<u>(23,955)</u>	<u>16,906,163</u>	<u>1,026,098</u>	<u>17,932,261</u>
Total Capital Assets, Net	<u>\$ 16,458,370</u>	<u>\$ 3,878,478</u>	<u>\$ (1,150,502)</u>	<u>\$ 19,186,346</u>	<u>\$ 1,403,474</u>	<u>\$ 20,589,820</u>

Note (1): Includes an impairment loss of \$6.1 million for the Virginia Commonwealth University Health System Authority (blended component unit of Virginia Commonwealth University (nonmajor)).

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 38 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 of resources as of June 30, 2017.

Government-wide Statements

(Dollars in Thousands)

	Primary Government			Total Component Units
	Governmental Activities	Business-type Activities	Total	
Deferred Outflows of Resources				
Effective Hedges in a Loss Position	\$ -	\$ -	\$ -	\$ 3,835
Loss on Refunding of Debt	80,861	-	80,861	442,502
Pension Related	814,595	25,958	840,553	540,381
Total Deferred Outflows of Resources	<u>\$ 895,456</u>	<u>\$ 25,958</u>	<u>\$ 921,414</u>	<u>\$ 986,718</u>
Deferred Inflows of Resources				
Effective Hedges in a Gain Position	\$ -	\$ -	\$ -	\$ 6,399
Service Concession Arrangements	3,030,381	-	3,030,381	68,474
Gain on Refunding of Debt	39	-	39	47,828
Pension Related	265,621	5,417	271,038	124,688
Total Deferred Inflows of Resources	<u>\$ 3,296,041</u>	<u>\$ 5,417</u>	<u>\$ 3,301,458</u>	<u>\$ 247,389</u>

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	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Deferred Inflows of Resources						
Revenues Considered Unavailable	\$ 1,081,843	\$ 68,447	\$ 103,369	\$ 23,841	\$ 26,896	\$ 1,304,396
Total Deferred Inflows of Resources	<u>\$ 1,081,843</u>	<u>\$ 68,447</u>	<u>\$ 103,369</u>	<u>\$ 23,841</u>	<u>\$ 26,896</u>	<u>\$ 1,304,396</u>

(Continued on next page)

Fund Statements (continued from previous page)

	Business-type Activities					
	Enterprise Funds					
<i>(Dollars in Thousands)</i>	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	5,785	2,488	17,685	25,958	10,907	14
Total Deferred Outflow s of Resources	<u>\$ 5,785</u>	<u>\$ 2,488</u>	<u>\$ 17,685</u>	<u>\$ 25,958</u>	<u>\$ 10,907</u>	<u>\$ 14</u>
Deferred Inflows of Resources						
Effective Hedges in a Gain Position	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Service Concession Arrangements	-	-	-	-	-	-
Gain on Refunding of Debt	-	-	-	-	-	-
Pension Related	834	318	4,265	5,417	6,657	4
Total Deferred Inflow s of Resources	<u>\$ 834</u>	<u>\$ 318</u>	<u>\$ 4,265</u>	<u>\$ 5,417</u>	<u>\$ 6,657</u>	<u>\$ 4</u>

	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	\$ -	\$ -	\$ -	\$ 3,835	\$ 3,835
Loss on Refunding of Debt	123,988	81,896	25,607	211,011	442,502
Pension Related	-	158	-	540,223	540,381
Total Deferred Outflow s of Resources	<u>\$ 123,988</u>	<u>\$ 82,054</u>	<u>\$ 25,607</u>	<u>\$ 755,069</u>	<u>\$ 986,718</u>
Deferred Inflows of Resources					
Effective Hedges in a Gain Position	\$ -	\$ -	\$ -	\$ 6,399	\$ 6,399
Service Concession Arrangements	-	-	-	68,474	68,474
Gain on Refunding of Debt	-	36,417	-	11,411	47,828
Pension Related	-	-	-	124,688	124,688
Total Deferred Inflow s of Resources	<u>\$ -</u>	<u>\$ 36,417</u>	<u>\$ -</u>	<u>\$ 210,972</u>	<u>\$ 247,389</u>

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 Prepaid529 Program (major enterprise fund) and Invest529 Program (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, 2017, 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, 2017 Fair Value	June 30, 2016 Fair Value
Enterprise	American General Life	\$ 25,248	2/21/2014	Open ended	1.8%	\$ 128,276	\$ 118,683
	Bank of Tokyo	25,048	6/1/2017	Open ended	2.4%		
	RGA	25,298	6/22/2016	Open ended	2.4%		
	Voya Retirement & Annuity	25,671	12/3/2002	Open ended	2.7%		
	State Street Bank	25,339	5/1/2002	Open ended	2.7%		
Private Purpose	American General Life	\$ 152,139	1/16/2014	Open ended	1.5%	\$ 874,622	\$ 690,820
	Bank of Tokyo	100,963	1/5/2017	Open ended	2.1%		
	Voya Retirement & Annuity	31,788	12/3/2002	Open ended	2.9%		
	Voya Retirement & Annuity	122,686	10/5/2012	Open ended	1.5%		
	Prudential Retirement Insurance & Annuity	154,721	1/30/2014	Open ended	2.2%		
	RGA	152,867	8/28/2015	Open ended	2.0%		
	State Street Bank	154,387	5/1/2002	Open ended	2.2%		

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.

Fund	Changes in Fair Value		Fair Value at June 30, 2017		Notional Amount
	Classification	Amount	Classification	Amount	
Enterprise	Revenue	\$ (287)	Investment	\$ (80)	\$ 36,587

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.

Currency	Cost	Foreign Exchange		Market Value
		Purchases	Sales	
British Pound Sterling	\$ 3,841	\$ 651	\$ (4,470)	\$ (3,819)
Canadian Dollar	2,274	-	(2,361)	(2,361)
Euro	21,618	2,201	(24,092)	(21,891)
Hong Kong Dollar	1,303	936	(2,233)	(1,297)
Japanese Yen	13,184	-	(13,039)	(13,039)
U.S. Dollar	(42,220)	45,963	(3,743)	42,220
Total	\$ -	\$ 49,751	\$ (49,938)	\$ (187)

Additional information is available in the Virginia529 separately issued financial statements, which may be obtained at <https://www.virginia529.com>.

Virginia Retirement System

All derivatives held by the Virginia Retirement System (the System) are considered investments. The fair value of all derivative financial instruments is reported on a net basis on the Statement of Fiduciary Net Position. The derivative instruments are either subject to an enforceable master netting arrangement or similar agreement. The master netting arrangements allow the System to net applicable liabilities or payment obligations to counterparties to the derivative contracts against amounts owed to the System by the counterparties.

The System holds investments in swaps, options and futures and enters into forward foreign currency exchange contracts. 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. Derivatives that are exchange-traded are not subject to credit risk, but all over-the-counter derivatives, such as swaps and currency forwards, do expose the System to counterparty credit risk. Counterparty credit risk for the System's investments in derivatives instruments is summarized in the table on page 125. Market risks arise from adverse changes in market prices, interest rates and foreign exchange rates. The System's investments in derivative instruments at June 30, 2017, are summarized in the tables below (dollars in thousands).

Investment	Net Appreciation/ (Depreciation) in Fair Value for the Fiscal Year Ended June 30, 2017		Fair Value June 30, 2017	
	Amount	Classification	Amount	Notional (Dollars)
Credit Default Swaps Bought	\$ (544)	Debt Securities	\$ 109	\$ 13,886
Credit Default Swaps Written	284	Debt Securities	(866)	99,084
Fixed Income Futures Long	(29,643)	Debt Securities	728	804,112
Fixed Income Futures Short	27,006	Debt Securities	(693)	(464,286)
Foreign Currency Futures Short	51	Equity Securities	51	(10,838)
Foreign Currency Options Bought	(1,864)	Equity Securities	326	203,300
Foreign Currency Options Written	211	Equity Securities	(54)	(6,600)
FX Forwards	(69,888)	Investment Sales/Purchases	(18,792)	4,587,464
Index Futures Long	(9,481)	Equity Securities	(2,292)	778,652
Index Futures Short	(53)	Equity Securities	-	-
Pay Fixed Interest Rate Swaps	22,824	Debt Securities	(24)	244,357
Receive Fixed Interest Rate Swaps	179	Debt Securities	1,160	360,603
Total Return Bond Index Swaps	-	Debt Securities	-	125,000
Total Return Equity Index Swaps	2,549	Equity Securities	2,449	700,002
Total	\$ (58,369)		\$ (17,898)	

Investment Type	Fair Value June 30, 2017	Investment Maturities (in years)			
		Under 1	1-5	6-10	Greater than 10
Credit Default Swaps Bought	\$ 109	\$ -	\$ 109	\$ -	\$ -
Credit Default Swaps Written	(866)	67	(933)	-	-
Pay Fixed Interest Rate Swaps	(24)	(311)	(622)	671	238
Receive Fixed Interest Rate Swaps	1,160	(19)	1,150	(407)	436
Total Return Equity Index Swaps	536	536	-	-	-
Total	\$ 915	\$ 273	\$ (296)	\$ 264	\$ 674

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 Statement of Changes in Fiduciary Net Position. 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. Information on the System's investments in fixed income, foreign currency, and equity index futures at June 30, 2017, is shown in the Summary table above (dollars in thousands).

Currency Forwards

Currency forwards represent foreign exchange contracts and are used by the System to effect settlements and to protect the base currency (\$U.S.) 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 lie 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. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in the net realized gains or losses on foreign currency-related transactions in the Statement of Changes in Fiduciary Net Position. Information on the System's currency forward contracts at June 30, 2017, is shown below and in the Summary table on the previous page.

Currency Forwards as of June 30

(Dollars in Thousands)

Currency	Cost	Pending Foreign Exchange Purchases	Pending Foreign Exchange Sales	Fair Value 2017	Fair Value 2016
Argentine Peso	\$ 17,289	\$ 19,510	\$ (2,244)	\$ 17,266	\$ 2,302
Australian Dollar	(429,746)	205,034	(635,226)	(430,192)	(290,945)
Brazil Real	12,368	76,085	(65,010)	11,075	(42,227)
British Pound Sterling	(671,643)	434,138	(1,102,244)	(668,106)	(805,547)
Canadian Dollar	(405,405)	410,142	(816,515)	(406,373)	(473,045)
Chilean Peso	10,219	16,391	(6,160)	10,231	(3,358)
Chinese Yuan Renminbi	(27,088)	34,522	(62,452)	(27,930)	(46,331)
Colombian Peso	17,618	20,750	(3,900)	16,850	8,724
Czech Koruna	75,316	77,799	(300)	77,499	(23,679)
Danish Krone	(75,829)	38,063	(114,225)	(76,162)	(68,873)
Euro Currency Unit	(1,589,708)	614,462	(2,224,882)	(1,610,420)	(1,397,874)
Hong Kong Dollar	(176,314)	19,324	(195,649)	(176,325)	(126,135)
Hungarian Forint	(56,482)	11,145	(68,952)	(57,807)	(14,311)
Indian Rupee	114,365	121,871	(7,615)	114,256	12,431
Indonesian Rupiah	66,376	82,995	(16,849)	66,146	(1,327)
Israeli Shekel	(32,260)	8,063	(40,441)	(32,378)	(69,070)
Japanese Yen	(806,713)	622,388	(1,426,510)	(804,122)	(693,343)
Malaysian Ringgit	4,457	16,165	(11,828)	4,337	25,536
Mexican Peso	118,656	145,622	(26,137)	119,485	33,285
Moroccan Dirham	-	-	-	-	12,478
New Taiw an Dollar	(25,026)	2,374	(27,387)	(25,013)	(10,961)
New Zealand Dollar	(78,576)	338,569	(419,887)	(81,318)	(60,171)
Norw egian Krone	(146,992)	197,943	(346,019)	(148,076)	(68,755)
Peruvian Nuevo Sol	(27,849)	4,731	(32,781)	(28,050)	3,345
Philippine Peso	(13,636)	5,307	(18,803)	(13,496)	7,621
Polish Zloty	73,095	86,047	(11,003)	75,044	7,431
Romanian Leu	(2,581)	6,414	(9,154)	(2,740)	(1,639)
Russian Ruble (New)	3,410	23,011	(19,748)	3,263	17,751
Saudi Arabian Riyal	15	6,314	(6,314)	-	(5,572)
Singapore Dollar	(106,296)	241,690	(348,385)	(106,695)	(190,456)
South African Rand	(16,811)	15,832	(32,736)	(16,904)	(5,778)
South Korean Won	(63,124)	2,626	(65,323)	(62,697)	431
Sw edish Krona	(134,248)	131,866	(266,136)	(134,270)	(101,214)
Sw iss Franc	(382,946)	89,529	(472,629)	(383,100)	(369,354)
Thailand Baht	10,314	38,017	(27,626)	10,391	17,755
Turkish Lira	91,156	128,626	(36,584)	92,042	1,674
U.S. Dollar	4,655,497	8,691,478	(4,035,981)	4,655,497	4,770,298
Total Forw ards Subject to Foreign Currency Risk				<u>\$ (18,792)</u>	<u>\$ 51,097</u>

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 investments in foreign currency options at

June 30, 2017, is shown in the Summary table on page 121.

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 2017, the System had activity in credit default, interest rate, and total return swaps. Gains and losses on swaps are determined based on fair values and are recorded in the Statement of Changes in Fiduciary Net Position. Information on the System's swap balances at June 30, 2017, is shown in the Summary table on page 121, and the terms, fair values and notional values of the System's investments in swap agreements that are highly sensitive to interest rate changes are disclosed in the following tables (dollars in thousands).

Derivatives Instruments Highly Sensitive to Interest Rate Changes

Investment Type	Reference Rate	Fair Value	
		June 30, 2017	Notional Amount
Interest Rate Sw aps	Receive Fixed 12.20%, Pay Variable Brazil 1-day CDI	\$ 107	\$ 2,294
Interest Rate Sw aps	Receive Variable Brazil 1-day CDI, Pay Fixed 12.23%	(90)	2,052
Interest Rate Sw aps	Receive Fixed 5.00%, Pay Variable 28-day MTIE	(8)	563
Interest Rate Sw aps	Receive Fixed 3.98%, Pay Variable China Yuan 7-day fixing repo rate	21	2,360
Interest Rate Sw aps	Receive Fixed 6.65%, Pay Variable India Rupee MIBOR	6	330
Interest Rate Sw aps	Receive Variable South Korea 3-month CD rate, Pay Fixed 1.66%	21	5,616
Interest Rate Sw aps	Receive Variable South Korea 3-month CD rate, Pay Fixed 1.74%	3	4,368
Interest Rate Sw aps	Receive Fixed 6.18%, Pay Variable India Rupee MIBOR	30	10,129
Interest Rate Sw aps	Receive Variable Brazil 1-day CDI, Pay Fixed 12.36%	1	112
Interest Rate Sw aps	Receive Fixed 1.00%, Pay Variable Czech Krona 6-month PRIBOR	(218)	8,875
Interest Rate Sw aps	Receive Variable Czech Krona 6-month PRIBOR, Pay Fixed 1.09%	179	11,194
Interest Rate Sw aps	Receive Fixed 1.50%, Pay Variable Czech Krona 6-month PRIBOR	202	11,246
Interest Rate Sw aps	Receive Variable Czech Krona 6-month PRIBOR, Pay Fixed 1.36%	(79)	8,875
Interest Rate Sw aps	Receive Variable 6-month EURIBOR, Pay Fixed 1.50%	48	2,053
Interest Rate Sw aps	Receive Fixed 5.84%, Pay Variable 28-day MTIE	(65)	1,901
Interest Rate Sw aps	Receive Variable 28-day MTIE, Pay Fixed 6.71%	51	978
Interest Rate Sw aps	Receive Fixed 5.62%, Pay Variable 28-day MTIE	(93)	3,044
Interest Rate Sw aps	Receive Variable 28-day MTIE, Pay Fixed 5.94%	39	785
Interest Rate Sw aps	Receive Fixed 8.28%, Pay Variable 28-day MTIE	101	1,370
Interest Rate Sw aps	Receive Fixed 7.15%, Pay Variable 28-day MTIE	(53)	26,973
Interest Rate Sw aps	Receive Fixed 8.31%, Pay Variable 28-day MTIE	283	3,663
Interest Rate Sw aps	Receive Fixed 7.79%, Pay Variable 28-day MTIE	81	1,972
Interest Rate Sw aps	Receive Fixed 8.32%, Pay Variable 28-day MTIE	290	3,492
Interest Rate Sw aps	Receive Fixed 7.51%, Pay Variable 28-day MTIE	13	436
Interest Rate Sw aps	Receive Fixed 7.37%, Pay Variable 28-day MTIE	45	3,193
Interest Rate Sw aps	Receive Fixed 7.47%, Pay Variable 28-day MTIE	77	2,724
Interest Rate Sw aps	Receive Fixed 3.125%, Pay Variable Poland Zloty 6-month rate	5	189
Interest Rate Sw aps	Receive Variable 3-month JIBAR, Pay Fixed 9.50%	(91)	908
Interest Rate Sw aps	Receive Variable 3-month JIBAR, Pay Fixed 8.50%	(16)	473
Interest Rate Sw aps	Receive Fixed 8.00%, Pay Variable 3-month JIBAR	23	1,023
Interest Rate Sw aps	Receive Fixed 8.25%, Pay Variable 3-month JIBAR	4	267
Interest Rate Sw aps	Receive Variable 3-month JIBAR, Pay Fixed 7.50%	(17)	2,839
Interest Rate Sw aps	Receive Fixed 8.30%, Pay Variable 3-month JIBAR	66	3,419
Interest Rate Sw aps	Receive Variable 3-month JIBAR, Pay Fixed 8.25%	(1)	31
Interest Rate Sw aps	Receive Fixed 8.00%, Pay Variable 3-month JIBAR	(9)	1,587
Interest Rate Sw aps	Receive Variable 3-month LIBOR, Pay Fixed 2.50%	956	57,655
Interest Rate Sw aps	Receive Fixed 1.75%, Pay Variable 3-month LIBOR	207	149,922
Interest Rate Sw aps	Receive Variable 3-month LIBOR, Pay Fixed 2.50%	(792)	50,733
Interest Rate Sw aps	Receive Variable 3-month LIBOR, Pay Fixed 1.25%	141	4,200
Interest Rate Sw aps	Receive Fixed 1.50%, Pay Variable 3-month LIBOR	(597)	8,300
Interest Rate Sw aps	Receive Fixed 1.75%, Pay Variable 3-month LIBOR	(446)	2,500
Interest Rate Sw aps	Receive Variable 3-month LIBOR, Pay Fixed 1.10%	26	19,100
Interest Rate Sw aps	Receive Fixed 10.14%, Pay Variable 3-month LIBOR	(11)	28,500
Interest Rate Sw aps	Receive Variable 3-month LIBOR+100bps, Pay Fixed 1.75%	27	600
Interest Rate Sw aps	Receive Variable Brazil 1-day CDI, Pay Fixed 13.315%	(184)	2,505
Interest Rate Sw aps	Receive Variable Brazil 1-day CDI, Pay Fixed 15.96%	(3)	30
Interest Rate Sw aps	Receive Variable Brazil 1-day CDI, Pay Fixed 12.06%	83	2,535
Interest Rate Sw aps	Receive Variable Brazil 1-day CDI, Pay Fixed 14.14%	(30)	936
Interest Rate Sw aps	Receive Fixed 12.80%, Pay Variable Brazil 1-day CDI	30	543
Interest Rate Sw aps	Receive Variable Brazil 1-day CDI, Pay Fixed 12.15%	(538)	16,177
Interest Rate Sw aps	Receive Fixed 12.29%, Pay Variable Brazil 1-day CDI	125	2,354
Interest Rate Sw aps	Receive Fixed 10.85%, Pay Variable Brazil 1-day CDI	53	4,346
Interest Rate Sw aps	Receive Fixed 10.13%, Pay Variable Brazil 1-day CDI	(44)	3,018
Interest Rate Sw aps	Receive Fixed 9.76%, Pay Variable Brazil 1-day CDI	(5)	181
Interest Rate Sw aps	Receive Variable Brazil 1-day CDI, Pay Fixed 9.64%	2	755
Interest Rate Sw aps	Receive Variable Brazil 1-day CDI, Pay Fixed 9.36%	41	7,274
Interest Rate Sw aps	Receive Variable Brazil 1-day CDI, Pay Fixed 10.29%	(32)	10,051
Interest Rate Sw aps	Receive Fixed 10.30%, Pay Variable Brazil 1-day CDI	(16)	1,932
Interest Rate Sw aps	Receive Fixed 7.41%, Pay Variable 28-day MTIE	59	2,767
Interest Rate Sw aps	Receive Fixed 7.40%, Pay Variable 28-day MTIE	247	8,845

Continued on next page

Derivatives Instruments Highly Sensitive to Interest Rate Changes

(Continued from previous page)

Investment Type	Reference Rate	Fair Value	
		June 30, 2017	Notional Amount
Interest Rate Sw aps	Receive Fixed 7.37%, Pay Variable 28-day MTIE	64	2,399
Interest Rate Sw aps	Receive Variable Brazil 1-day CDI, Pay Fixed 11.75%	613	13,401
Interest Rate Sw aps	Receive Fixed 12.23%, Pay Variable Brazil 1-day CDI	(167)	4,105
Interest Rate Sw aps	Receive Variable Brazil 1-day CDI, Pay Fixed 14.72%	(69)	1,606
Interest Rate Sw aps	Receive Fixed 2.78%, Pay Variable 6-month Thai Baht fixing rate	26	740
Interest Rate Sw aps	Receive Fixed 2.10%, Pay Variable 6-month Thai Baht fixing rate	9	1,707
Interest Rate Sw aps	Receive Variable Brazil 1-day CDI, Pay Fixed 12.36%	10	2,387
Interest Rate Sw aps	Receive Variable Brazil 1-day CDI, Pay Fixed 16.59%	(216)	3,048
Interest Rate Sw aps	Receive Fixed 12.85%, Pay Variable Brazil 1-day CDI	20	284
Interest Rate Sw aps	Receive Fixed 6.12%, Pay Variable 1-day Colombia IBR	21	778
Interest Rate Sw aps	Receive Fixed 5.29%, Pay Variable 1-day Colombia IBR	13	1,319
Interest Rate Sw aps	Receive Fixed 5.32%, Pay Variable 1-day Colombia IBR	2	196
Interest Rate Sw aps	Receive Fixed 5.00%, Pay Variable 28-day MTIE	(41)	1,055
Interest Rate Sw aps	Receive Variable 28-day MTIE, Pay Fixed 5.25%	(20)	608
Interest Rate Sw aps	Receive Fixed 2.58%, Pay Variable 6-month Thai Baht fixing rate	7	336
Interest Rate Sw aps	Receive Fixed 2.175%, Pay Variable 6-month Thai Baht fixing rate	-	18
Interest Rate Sw aps	Receive Fixed 2.02%, Pay Variable 6-month Thai Baht fixing rate	4	559
Interest Rate Sw aps	Receive Fixed 2.58%, Pay Variable 6-month Thai Baht fixing rate	8	447
Interest Rate Sw aps	Receive Fixed 2.20%, Pay Variable 6-month Thai Baht fixing rate	5	344
Interest Rate Sw aps	Receive Fixed 1.93%, Pay Variable 6-month Thai Baht fixing rate	4	1,147
Interest Rate Sw aps	Receive Fixed 3.37%, Pay Variable 6-month Thai Baht fixing rate	1	29
Interest Rate Sw aps	Receive Fixed 3.39%, Pay Variable 6-month Thai Baht fixing rate	2	59
Interest Rate Sw aps	Receive Fixed 3.41%, Pay Variable 6-month Thai Baht fixing rate	8	147
Interest Rate Sw aps	Receive Fixed 3.41%, Pay Variable 6-month Thai Baht fixing rate	8	147
Interest Rate Sw aps	Receive Fixed 7.16%, Pay Variable 28-day MTIE	12	3,744
Interest Rate Sw aps	Receive Fixed 7.16%, Pay Variable 28-day MTIE	23	6,695
Interest Rate Sw aps	Receive Fixed 10.85%, Pay Variable Brazil 1-day CDI	51	4,286
Interest Rate Sw aps	Receive Fixed 3.54%, Pay Variable Chilean Peso 6-month CLICP	6	4,618
Interest Rate Sw aps	Receive Fixed 3.94%, Pay Variable Chilean Peso 6-month CLICP	(11)	2,783
Interest Rate Sw aps	Receive Fixed 1.07%, Pay Variable Brazil 1-day CDI	177	2,415
Interest Rate Sw aps	Receive Fixed 2.58%, Pay Variable China Yuan 7-day fixing repo rate	(77)	1,758
Interest Rate Sw aps	Receive Fixed 6.20%, Pay Variable 1-day Colombia IBR	8	232
Interest Rate Sw aps	Receive Fixed 2.1225%, Pay Variable 6-month Thai Baht fixing rate	1	109
Interest Rate Sw aps	Receive Fixed 2.505%, Pay Variable 6-month Thai Baht fixing rate	7	474
Interest Rate Sw aps	Receive Fixed 2.04%, Pay Variable 6-month Thai Baht fixing rate	19	2,208
Interest Rate Sw aps	Receive Fixed 2.20%, Pay Variable 6-month Thai Baht fixing rate	1	53
Interest Rate Sw aps	Receive Fixed 2.55%, Pay Variable 6-month Thai Baht fixing rate	11	913
Interest Rate Sw aps	Receive Fixed 6.70%, Pay Variable India Rupee MIBOR	91	4,354
Interest Rate Sw aps	Receive Variable 6-month EURIBOR, Pay Fixed 1.00%	(19)	3,992
Interest Rate Sw aps	Receive Variable Japan Yen 6-month LIBOR, Pay Fixed 0.30%	(6)	3,026
Interest Rate Sw aps	Receive Fixed 12.56%, Pay Variable Brazil 1-day CDI	335	5,885
Interest Rate Sw aps	Receive Variable Brazil 1-day CDI, Pay Fixed 11.68%	(55)	3,290
Interest Rate Sw aps	Receive Variable 28-day MTIE, Pay Fixed 5.25%	(5)	166
Subtotal Interest Rate Swaps		1,136	604,960
Total Return Bond Index Sw aps	Receive Variable Barclays Capital US Aggregate Index/ Pay Variable 1-month LIBOR	-	25,000
Total Return Bond Index Sw aps	Receive Variable Barclays Capital US Aggregate Index/ Pay Variable 1-month LIBOR - 5 bps	-	50,000
Total Return Bond Index Sw aps	Receive Variable Barclays Capital US Aggregate Index/ Pay Variable 1-month LIBOR	-	50,000
Total Return Equity Index Sw aps	Receive Variable MSCI ACWI IMV/ Pay Variable 3-month LIBOR + 34 bps	-	2
Total Return Equity Index Sw aps	Receive Variable S&P 500 Total Return Index/ Pay Variable 3-month LIBOR + 26 bps	536	350,000
Total Return Equity Index Sw aps	Receive Variable MSCI Emerging Markets Index/ Pay Variable 3-month LIBOR + 51 bps	1,913	350,000
Subtotal Total Return Swaps		2,449	825,002
TOTAL SWAPS		\$ 3,585	\$ 1,429,962

Derivative Instruments Subject to Counterparty Credit Risk

Counterparty	Percentage of Net	Moody's Ratings	S & P Ratings	Fitch Ratings
Barclays Bank, PLC	76.0%	A1	A-	A
Bank of New York Mellon Corp./London	18.9%	Aa1	AA-	-
HSBC Securities, Inc.	1.9%	-	AA-	-
BNP Paribas, SA/London	1.5%	-	A	-
Citibank, NA	1.1%	A1	A+	A+
Goldman Sachs Bank, USA/New York, NY	0.6%	A1	A+	A+
Total	100.0%			

Derivative instruments are classified in Level 1 and Level 2 in the fair value hierarchy. Derivative instruments classified as Level 1 of the Fair Value Hierarchy are valued using price quoted in active markets for those securities. The derivative instruments in Level 1 consist of futures contracts on U.S. Treasury bond and notes and futures contracts on U.S. equity indexes. Derivative instruments classified as Level 2 of the fair value hierarchy are valued using a number of modeling approaches that take into account observable market levels, benchmark rates, and foreign exchange rates.

Additional information is available in the System's separately issued financial statements, which may be obtained from www.varetire.org.

Component Units

Investment Derivative Instruments

The Virginia Housing Development Authority (major component unit) enters into forward sales contracts for the delivery of GNMA and FNMA securities in order to lock in the sales price for the securitization of certain single-family mortgage loans. The contracts offset changes in interest rates between the time of the loan reservations and the securitization of such loans into GNMA and FNMA securities. These contracts are considered investment derivative instruments, such that their change in fair value is reported as investment derivative gains or losses in the accompanying financial statements. Fair values of the forwards are based on observable market prices for similar instruments traded on the secondary mortgage loan markets. The Authority's portfolio of investment derivatives is classified as Level 2 in the fair value hierarchy. The outstanding forward contracts, summarized by counterparty rating as of June 30, 2017, were as follows:

Counterparty Rating	Par	Concentration	Notional Amount	Market Value	Fair Value Asset (Liability)
A-1+/AA+	\$ 166,000,000	40.7%	\$ 168,982,266	\$ 168,544,766	\$ 437,500
A-1/A+	124,500,000	30.6%	127,382,109	126,988,281	393,828
A-1+/AA-	102,000,000	25.0%	104,631,758	104,182,500	449,258
Baa2/BBB	15,000,000	3.7%	15,096,680	15,102,344	(5,664)
	<u>\$ 407,500,000</u>	<u>100.0%</u>	<u>\$ 416,092,813</u>	<u>\$ 414,817,891</u>	<u>\$ 1,274,922</u>

Investment Derivative Instruments – Ineffective Hedges

During fiscal year 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 were no longer effective hedges. At June 30, 2017, the negative fair value of the swaps of \$31.1 million is included in other liabilities and the change in fair value of positive \$12.0 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. These swaps were reevaluated as of June 30, 2016, and determined to no longer be effective

hedges. At June 30, 2017, the negative fair value of the fixed-receiver interest rate swaps of \$557,000 is included in other liabilities and the change in fair value of negative \$4.2 million is included in investment earnings in the accompanying financial statements. The derivative instruments are classified as Level 2 of the fair value hierarchy. Additional information regarding the institution's derivative instruments is available at www.virginia.edu.

Hedging Derivative Instruments

At June 30, 2017, the Virginia Commonwealth University (VCU) (nonmajor) had two fixed-payer interest rate swaps with a notional amount of \$54.7 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, 2017, the negative fair value of VCU's swaps of \$7.7 million is included in other liabilities and the cumulative change in fair value of VCU's swaps since reestablishing hedge accounting of \$6.4 million is included in deferred inflows of resources in the accompanying financial statements. The derivative instruments are classified as Level 2 of the fair value hierarchy.

At June 30, 2017, 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 \$118.0 million and another interest rate swap agreement with a notional amount of \$65.1 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, 2017, the negative fair value of MCVH's swaps of \$45.9 million is included in other liabilities and the cumulative change in fair value of MCVH's swaps of \$3.8 million is included in deferred outflows of resources in the accompanying financial statements. The derivative instruments are classified as Level 2 of the fair value hierarchy.

The following schedule shows debt service requirements of VCU and MCVH bonds payable hedged debt of \$237.8 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 separately issued financial statements of the higher education institution.

Maturity	Principal	Interest	Derivative Instruments, Net	Total
2018	\$ 5,920,000	\$ 3,167,415	\$ 5,997,818	\$ 15,085,233
2019	6,085,000	3,081,057	5,849,406	15,015,463
2020	6,385,000	2,990,536	5,696,849	15,072,385
2021	6,615,000	2,896,630	5,536,702	15,048,332
2022	6,915,000	2,798,666	5,370,798	15,084,464
2023-2027	51,550,000	12,031,160	23,831,695	87,412,855
2028-2032	68,470,000	7,375,996	16,322,942	92,168,938
2033-2037	70,155,000	2,733,904	7,699,405	80,588,309
2038-2042	15,700,000	-	-	15,700,000
Total	\$ 237,795,000	\$ 37,075,364	\$ 76,305,615	\$ 351,175,979

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 separately issued 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 from the Virginia Retirement System website at www.varetire.org.

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

The Virginia Retirement System (VRS) 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 2017 were \$3.1 billion with a reserve balance available for benefits of \$70.3 billion. At June 30, 2017, the VRS had 832 contributing employers.

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. 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 2017 were \$37.6 million, \$32.5 million, and \$91.4 million, and reserved balances available for benefits were \$796.1 million, \$515.4 million, and \$1.3 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	55,427	1,300	4,355	507
Terminated Employees Entitled to Benefits but not Receiving Them	11,184	123	704	3
Total	66,611	1,423	5,059	510
Active Members:				
Vested	54,527	1,519	5,257	322
Non-Vested	23,090	358	3,416	97
Total	77,617	1,877	8,673	419

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 2017 were based on the actuary's valuation as of June 30, 2015. Employer contributions by the Commonwealth to VRS, SPORS, VaLORS, and JRS were 13.5 percent, 28.5 percent, 21.1 percent, and 42.0 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 total pension liability was determined based on the actuarial valuation as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016. The following tables (dollars in thousands) show the Commonwealth's total pension liability, plan fiduciary net position, and net pension liability in total and individually for the VRS, SPORS, JRS, and VaLORS for the current and prior year.

Primary Government

	Totals		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2016	\$ 15,958,571	\$ 11,395,118	\$ 4,563,453
Changes for the year			
Service cost	287,467	-	287,467
Interest	1,084,212	-	1,084,212
Benefit changes	(15,552)	-	(15,552)
Differences between actual and expected experience	(164,749)	-	(164,749)
Contributions - employer	-	548,443	(548,443)
Contributions - member	-	136,027	(136,027)
Net investment income	-	193,459	(193,459)
Benefit payments, including refunds	(900,009)	(888,911)	(11,098)
Administrative expense	-	(7,434)	7,434
Other changes	-	(141)	141
Net changes	291,369	(18,557)	309,926
Balances at June 30, 2017	\$ 16,249,940	\$ 11,376,561	\$ 4,873,379

	VRS			SPORS		
	Increase (Decrease)			Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2016	\$ 12,502,629	\$ 9,103,686	\$ 3,398,943	\$ 1,064,450	\$ 733,352	\$ 331,098
Changes for the year						
Service cost	204,683	-	204,683	18,700	-	18,700
Interest	848,981	-	848,981	72,618	-	72,618
Benefit changes	-	-	-	-	-	-
Differences between actual and expected experience	(135,970)	-	(135,970)	(14,711)	-	(14,711)
Contributions - employer	-	399,990	(399,990)	-	33,655	(33,655)
Contributions - member	-	110,807	(110,807)	-	5,759	(5,759)
Net investment income	-	153,419	(153,419)	-	12,634	(12,634)
Benefit payments, including refunds	(712,100)	(702,163)	(9,937)	(54,099)	(54,099)	-
Administrative expense	-	(5,613)	5,613	-	(590)	590
Other changes	-	(68)	68	-	(23)	23
Net changes	205,594	(43,628)	249,222	22,508	(2,664)	25,172
Balances at June 30, 2017	\$ 12,708,223	\$ 9,060,058	\$ 3,648,165	\$ 1,086,958	\$ 730,688	\$ 356,270

	JRS			VaLORS		
	Increase (Decrease)			Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2016	\$ 632,381	\$ 456,258	\$ 176,123	\$ 1,759,111	\$ 1,101,822	\$ 657,289
Changes for the year						
Service cost	21,978	-	21,978	42,106	-	42,106
Interest	42,820	-	42,820	119,793	-	119,793
Benefit changes	(15,552)	-	(15,552)	-	-	-
Differences between actual and expected experience	(18,681)	-	(18,681)	4,613	-	4,613
Contributions - employer	-	41,502	(41,502)	-	73,296	(73,296)
Contributions - member	-	3,236	(3,236)	-	16,225	(16,225)
Net investment income	-	8,112	(8,112)	-	19,294	(19,294)
Benefit payments, including refunds	(41,341)	(41,341)	-	(92,469)	(91,308)	(1,161)
Administrative expense	-	(363)	363	-	(868)	868
Other changes	-	(15)	15	-	(35)	35
Net changes	(10,776)	11,131	(21,907)	74,043	16,604	57,439
Balances at June 30, 2017	\$ 621,605	\$ 467,389	\$ 154,216	\$ 1,833,154	\$ 1,118,426	\$ 714,728

Component Units

	Totals		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2016	\$ 10,161,441	\$ 7,384,420	\$ 2,777,021
Changes for the year			
Service cost	168,598	-	168,598
Interest	694,746	-	694,746
Benefit changes	-	-	-
Differences between actual and expected experience	(109,288)	-	(109,288)
Contributions - employer	-	328,723	(328,723)
Contributions - member	-	90,726	(90,726)
Net investment income	-	125,352	(125,352)
Benefit payments, including refunds	(512,663)	(523,761)	11,098
Administrative expense	-	(4,599)	4,599
Other changes	-	(57)	57
Net changes	241,393	16,384	225,009
Balances at June 30, 2017	<u>\$ 10,402,834</u>	<u>\$ 7,400,804</u>	<u>\$ 3,002,030</u>

	VRS			VaLORS		
	Increase (Decrease)			Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2016	\$ 10,018,501	\$ 7,294,889	\$ 2,723,612	\$ 142,940	\$ 89,531	\$ 53,409
Changes for the year						
Service cost	165,096	-	165,096	3,502	-	3,502
Interest	684,783	-	684,783	9,963	-	9,963
Benefit changes	-	-	-	-	-	-
Differences between actual and expected experience	(109,672)	-	(109,672)	384	-	384
Contributions - employer	-	322,627	(322,627)	-	6,096	(6,096)
Contributions - member	-	89,377	(89,377)	-	1,349	(1,349)
Net investment income	-	123,747	(123,747)	-	1,605	(1,605)
Benefit payments, including refunds	(508,338)	(518,275)	9,937	(4,325)	(5,486)	1,161
Administrative expense	-	(4,527)	4,527	-	(72)	72
Other changes	-	(54)	54	-	(3)	3
Net changes	231,869	12,895	218,974	9,524	3,489	6,035
Balances at June 30, 2017	<u>\$ 10,250,370</u>	<u>\$ 7,307,784</u>	<u>\$ 2,942,586</u>	<u>\$ 152,464</u>	<u>\$ 93,020</u>	<u>\$ 59,444</u>

The amounts in the previous tables include governmental, business-type, and component unit activity for the Commonwealth's VRS State Plan. The table excludes the non-VRS State Plan net pension liability of \$57.8 million for all other component units and includes the fiduciary net pension liability of \$76,834.

The 2015 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. From July 1, 2018 on, all agencies are assumed to contribute 100.0 percent of the actuarially determined contribution rates. Based on 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%)
\$ 5,134,150	\$ 3,648,165	\$ 2,400,589	\$ 484,962	\$ 356,270	\$ 248,328

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%)
\$ 210,584	\$ 154,216	\$ 105,200	\$ 956,524	\$ 714,728	\$ 515,483

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%)
\$ 4,141,172	\$ 2,942,586	\$ 1,936,300	\$ 79,554	\$ 59,444	\$ 42,873

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	<u>100.0%</u>		<u>5.8%</u>
	Inflation		<u>2.5%</u>
	Expected arithmetic nominal return		<u>8.3%</u>

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*, requires certain pension related items to be reported as either deferred outflows or deferred inflows of resources. The following tables (dollars in thousands) summarize these amounts as of June 30, 2017, in total and by individual plan.

Primary Government (2)

	Totals	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 18,816	\$ 130,839
Changes of assumptions	-	-
Net difference between projected and actual earnings on plan investments	292,772	-
Changes in proportion and difference between employer contributions and proportionate share of contributions	110,049	140,203
Employer contributions subsequent to the Measurement Date	418,930	-
Total	<u>\$ 840,567</u>	<u>\$ 271,042</u>

	VRS		SPORS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 15,623	\$ 99,319	\$ -	\$ 14,099
Changes of assumptions	-	-	-	-
Net difference between projected and actual earnings on plan investments	232,544	-	18,908	-
Changes in proportion and difference between employer contributions and proportionate share of contributions	81,350	109,843	-	-
Employer contributions subsequent to the Measurement Date	292,477	-	31,792	-
Total	<u>\$ 621,994</u>	<u>\$ 209,162</u>	<u>\$ 50,700</u>	<u>\$ 14,099</u>

	JRS		VaLORS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 15,517	\$ 3,193	\$ 1,904
Changes of assumptions	-	-	-	-
Net difference between projected and actual earnings on plan investments	12,009	-	29,311	-
Changes in proportion and difference between employer contributions and proportionate share of contributions	-	-	28,699	30,360
Employer contributions subsequent to the Measurement Date	28,047	-	66,614	-
Total	<u>\$ 40,056</u>	<u>\$ 15,517</u>	<u>\$ 127,817</u>	<u>\$ 32,264</u>

Component Units (1) (2)

	<u>Totals</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 12,860	\$ 80,271
Changes of assumptions	-	-
Net difference between projected and actual earnings on plan investments	190,010	-
Changes in proportion and difference between employer contributions and proportionate share of contributions	66,085	35,931
Employer contributions subsequent to the Measurement Date	<u>243,897</u>	<u>-</u>
Total	<u>\$ 512,852</u>	<u>\$ 116,202</u>

	<u>VRS</u>		<u>VaLORS</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 12,594	\$ 80,112	\$ 266	\$ 159
Changes of assumptions	-	-	-	-
Net difference between projected and actual earnings on plan investments	187,570	-	2,440	-
Changes in proportion and difference between employer contributions and proportionate share of contributions	62,812	34,319	3,273	1,612
Employer contributions subsequent to the Measurement Date	<u>238,001</u>	<u>-</u>	<u>5,896</u>	<u>-</u>
Total	<u>\$ 500,977</u>	<u>\$ 114,431</u>	<u>\$ 11,875</u>	<u>\$ 1,771</u>

- (1) The component unit amounts include deferred outflows of resources and deferred inflows of resources of \$27,529 (dollars in thousands) and \$8,486 (dollars in thousands), respectively, not related to the VRS State Plan.
- (2) Additionally, during fiscal year 2017, the Commonwealth recognized pension expense for the primary government and component units of \$380,547 (dollars in thousands) and \$259,133 (dollars in thousands), respectively.

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. These amounts exclude employer contributions made subsequent to the measurement date as those contributions will reduce the fiscal year 2018 pension liability.

Primary Government

	VRS	SPORS	JRS	VaLORS
2018	\$ (22,792)	\$ (2,925)	\$ (8,076)	\$ 651
2019	(24,353)	(2,927)	(5,547)	1,281
2020	90,520	8,075	5,327	16,101
2021	76,980	4,637	4,788	10,906
2022	-	(2,051)	-	-

Component Units

	VRS	VaLORS
2018	\$ (28,130)	\$ 95
2019	(30,056)	186
2020	111,721	2,341
2021	95,010	1,586
2022	-	-

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 ICMA-RC. 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, 2017, 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, 2017, there were two participants in this plan. Total contributions to the plan for fiscal year 2017 were \$17,888.

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, 2017, there were two participants in this plan. There were no contributions to the plan for fiscal year 2017.

K. Higher Education (Nonmajor Component Units)

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 TIAA, Fidelity Investments, and DCP. 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 contribution, not to exceed 8.9 percent, and the employee's 5.0 percent contribution, plus net investment gains. For Plan 2, the employer contributions for fiscal year 2017 were 8.5 percent except for the University of Virginia (nonmajor) which were 8.9 percent. Vesting is full and immediate for both employer and employee contributions, except UVA employees hired after July 1, 2014 are fully vested in the UVA contributions after two years of continuous employment. For fiscal year 2017, total pension expense recognized was \$146.9 million and contributions were calculated using the base salary amount of \$1.5 billion. As of June 30, 2017, the Commonwealth's colleges and universities had accrued \$10.0 million in employer liabilities related to these plans.

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 separately issued financial statements.

Certain employees of Virginia Commonwealth University (nonmajor) are participating in The Select Plan, which is a 401(a) defined contribution plan. Participation is limited to executives by invitation. For information regarding this plan, see the University's website at www.vcu.edu.

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 defined benefit pension plan. Effective July 1, 1997, the Authority established the Virginia Commonwealth University Health System Authority Defined Contribution Plan (VCUHS 401(a) Plan) and the Virginia Commonwealth University Health System Authority Health Care Providers Defined Contribution Plan (HCP Plan). The Authority and component units, MCV Associated Physicians (MCVAP), VCU Community Memorial Hospital (CMH), and the Children's Hospital (Children's), participate in the VCUHS 401(a) as well as sponsor the VCUHS Savings Plan (VCUHS 457(b) Plan). Health care providers hired between July 1, 1993 and July 1, 1997, are eligible to participate in the HCP Plan. MCVAP also sponsors the MCVAP 401(a) Retirement Plan. VA Premier (a component of the Authority) adopted a 401(k) Plan. For information regarding these plans, see the Authority's separately issued 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 website at www.jmu.edu.

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 separately issued 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), 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 Region 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 website at www.vhda.com.

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 website at www.virginiaoutdoorsfoundation.org.

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 separately issued 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 these plans, see the Authority's website at www.portofvirginia.com.

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 separately issued 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 separately issued 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 from the Virginia Retirement System website at www.varetire.org.

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 359,386 members participate in the program at June 30, 2017.

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 68,377 members were covered under this program at June 30, 2017.

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 74,944 members were covered under the program at June 30, 2017.

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 2017, there was \$32,585 appropriated for administration of the program. At June 30, 2017, there were 1,776 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. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, 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, 2008. The assets and actuarial accrued liabilities for the following other postemployment benefits were determined through an actuarial valuation performed as of June 30, 2016, 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 176,107 retirees in the Basic Group Life Insurance Program and 2,980 retirees were covered under the Optional Group Life Insurance Program in fiscal year 2017.

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 120,304 retired members were covered under this program at June 30, 2017. 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 2,785 former members receiving benefits from the program during fiscal year 2017. 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 1,056 retirees and 969 other participants in the program in fiscal year 2017. 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 provided certain administrative support in claims administration, but transitioned this support to the System as of fiscal year end.

Virginia Local Disability Program

The Virginia Local Disability Program (VLDP) 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. At June 30, 2017, there were 13,370 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 5,963 retirees in the program in fiscal year 2017.

C. Annual OPEB Cost and Net OPEB Obligation

The Commonwealth calculated an OPEB liability as of June 30, 2017 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 \$216.8 million, \$221.6 million, and \$1.4 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 for the current and prior years.

	Group Life Insurance Fund			Retiree Health Insurance Credit Fund		
	2017	2016	2015	2017	2016	2015
Annual required contribution	\$ 73,440	\$ 65,735	\$ 63,778	\$ 89,103	\$ 84,832	\$ 81,253
Interest on net OPEB obligation	-	-	-	14,190	12,784	11,437
Adjustment to annual required contribution	-	-	-	(12,715)	(11,051)	(9,911)
Annual OPEB cost	73,440	65,735	63,778	90,578	86,565	82,779
Contributions made	(73,440)	(65,735)	(63,778)	(76,388)	(66,215)	(64,025)
Increase in net OPEB obligation	-	-	-	14,190	20,350	18,754
Net OPEB obligation, beginning of year	-	-	-	202,656	182,306	163,552
Net OPEB obligation, end of year	\$ -	\$ -	\$ -	\$ 216,846	\$ 202,656	\$ 182,306
Percentage of annual OPEB cost contributed	100.0%	100.0%	100.0%	84.3%	76.5%	77.3%

	Disability Insurance Trust Fund			Line of Duty Death and Disability		
	2017	2016	2015	2017 (3)	2016 (2)	2015 (1)
Annual required contribution	\$ 37,983	\$ 38,675	\$ 36,831	\$ 6,550	\$ 5,840	\$ 6,122
Interest on net OPEB obligation	14,490	13,406	12,315	-	-	-
Adjustment to annual required contribution	(12,993)	(11,586)	(10,681)	-	-	-
Annual OPEB cost	39,480	40,495	38,465	6,550	5,840	6,122
Contributions made	(24,990)	(24,495)	(23,642)	(6,550)	(5,840)	(6,122)
Increase in net OPEB obligation	14,490	16,000	14,823	-	-	-
Net OPEB obligation, beginning of year	207,096	191,096	176,273	-	-	-
Net OPEB obligation, end of year	\$ 221,586	\$ 207,096	\$ 191,096	\$ -	\$ -	\$ -
Percentage of annual OPEB cost contributed	63.3%	60.5%	61.5%	100.0%	100.0%	100.0%

	Pre-Medicare Retiree Healthcare		
	2017	2016	2015
Annual required contribution	\$ 228,249	\$ 213,660	\$ 206,590
Interest on net OPEB obligation	50,041	43,377	36,398
Adjustment to annual required contribution	(51,825)	(44,829)	(37,762)
Annual OPEB cost	226,465	212,208	205,226
Contributions made	(43,244)	(42,996)	(35,028)
Increase in net OPEB obligation	183,221	169,212	170,198
Net OPEB obligation, beginning of year	1,251,105	1,081,893	911,695
Net OPEB obligation, end of year	\$ 1,434,326	\$ 1,251,105	\$ 1,081,893
Percentage of annual OPEB cost contributed	19.1%	20.3%	17.1%

- (1) During fiscal year 2015, the required annual contributions of \$6.1 million were paid by the Commonwealth.
(2) During fiscal year 2016, the required annual contributions of \$5.8 million were paid by the Commonwealth.
(3) During fiscal year 2017, the required annual contributions of \$6.6 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 \$2.5 million, \$1.4 million, \$397,534, and \$57,338, respectively. The table also excludes non-Commonwealth sponsored OPEB liabilities of \$65.4 million for all other component units and includes the fiduciary OPEB liability of \$16,312.

The annual required contributions for the current year were determined during the actuarial valuations conducted as of June 30, 2015, 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 1.3 percent, 1.2 percent, and 0.7 percent, respectively, of covered payrolls for fiscal year 2017. The valuations were prepared using the entry age normal cost method for all plans. 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, 2016, per the most recent actuarial valuation, was as follows:

(Dollars in Millions)

Actuarial Valuation Date <u>June 30</u>	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						
2016	\$ 1,248	\$ 2,974	\$ 1,726	42.0%	\$ 18,322	9.4%
Retiree Health Insurance Credit Fund						
2016	\$ 179	\$ 2,419	\$ 2,240	7.4%	\$ 15,786	14.2%
Disability Insurance Trust Fund						
2016	\$ 416	\$ 241	\$ (175)	172.6%	\$ 3,816	(4.6%)
Line of Duty Death and Disability						
2016	\$ 2	\$ 225	\$ 223	0.9%	N/A	-
Pre-Medicare Retiree Healthcare						
2016	\$ -	\$ 1,417	\$ 1,417	-	\$ 4,137	34.3%

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 (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 at the University's website at www.virginia.edu.

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, 2017, the Authority's Annual OPEB cost was \$375,132; the percentage of Annual OPEB Cost Contributed was 399.2 percent; and the ending Net OPEB asset was \$5.1 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 Commission's health care provider. Contribution requirements are actuarially determined and funding is subject to approval by the Commission. The current rate is 5.0 percent of annual covered payroll.

For 2017, the Commission's annual OPEB cost was \$2.6 million; the percentage of annual OPEB cost contributed was 100.0 percent.

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, 2017, of \$2.4 billion are not included in the accompanying 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, 2017, was \$418.7 million, which is also excluded from the accompanying 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 2017 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 \$13.1 million for fiscal year 2017.

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 \$3.9 million for fiscal year 2017.

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 wages 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 accompanying 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. For additional information, please see the Authority's website at www.portofvirginia.com.

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 Treasury Board is responsible for the oversight of SNAP, procuring the following services: investment management, program administration, arbitrage rebate and calculation, and custodial and depository services. The Commonwealth does not have fiduciary responsibility for SNAP.

The SNAP fund is a Local Government Investment Pool. 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 \$2.7 billion are not included in the financial statements.

20. COMMITMENTS

A. Construction Projects

Primary Government

Highway Projects

At June 30, 2017, the Department of Transportation had contractual commitments of approximately \$3.1 billion for construction of various highway projects. Funding for these expenditures is expected to be provided as follows: (1) Federal funds – approximately 23.6 percent or \$728.0 million, (2) State funds – approximately 61.8 percent or \$1.9 billion, and (3) Proceeds from Bonds – approximately 14.6 percent or \$449.0 million.

Mass Transit Projects

At June 30, 2017, the Department of Rail and Public Transportation had contractual commitments of approximately \$276.3 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 88.1 percent or \$243.6 million, and 2) Federal funds – approximately 11.9 percent or \$32.7 million.

Wastewater Treatment Projects

At June 30, 2017, 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 \$28.1 million provided by bond proceeds and the Water Quality Improvement Fund.

Other Construction Projects

At June 30, 2017, the Department of General Services had construction commitments of approximately \$13.5 million.

At June 30, 2017, the Department of Forensic Science had contractual commitments of approximately \$6.9 million and non-contractual commitments of \$5.7 million for construction projects.

At June 30, 2017, the Department of Military Affairs had construction commitments of approximately \$16.0 million.

At June 30, 2017, the Department of Conservation and Recreation had construction commitments of approximately \$9.3 million.

At June 30, 2017, the Department of Veterans Services had construction commitments of approximately \$19.0 million.

Component Units

Port Projects

At June 30, 2017, the Virginia Port Authority (nonmajor) was committed to construction contracts totaling \$542.6 million.

Wallops Island Project

At June 30, 2017, the Virginia Commercial Space Flight Authority (nonmajor) was committed to construction programs totaling \$10.5 million, approximately \$5.5 million of which will be reimbursable under separate private and federal contract agreements.

Treatment Plant

At June 30, 2017, the Hampton Roads Sanitation District Commission (nonmajor) was committed to construction contracts totaling \$114.0 million.

Higher Education Institutions

Colleges and universities (nonmajor) had contractual commitments as of June 30, 2017, of approximately \$705.6 million. Higher education foundations' commitments total approximately \$15.2 million. These 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, 2017, was \$71.6 million for governmental activities (including internal service funds) and \$27.2 million for business-type activities. Rental expense for the discrete component units (excluding foundations) for the year ended June 30, 2017, was \$110.0 million. The Commonwealth has, as of June 30, 2017, the following minimum rental payments due under the above leases (dollars in thousands):

	Primary Government		Component Units (1)
	Governmental Activities	Business-type Activities	
2018	\$ 65,482	\$ 25,302	\$ 65,992
2019	54,021	21,979	51,312
2020	46,320	18,169	38,959
2021	41,030	14,546	28,699
2022	34,317	9,937	18,620
2023-2027	91,636	17,906	42,585
2028-2032	7,036	-	6,993
2033-2037	1,534	-	2,957
2038-2042	24	-	1,723
2043-2047	24	-	1,723
2048-2052	15	-	1,257
2053-2057	-	-	630
Total	<u>\$ 341,439</u>	<u>\$ 107,839</u>	<u>\$ 261,450</u>

Note (1): The above amounts exclude operating lease obligations of foundations.

Foundations (2)

2018	\$ 5,440
2019	4,329
2020	3,223
2021	2,449
2022	1,864
Thereafter	11,503
Total	<u>\$ 28,808</u>

Note (2): Foundations represent FASB reporting entities defined in Note 1.B. Rental expense for the year ended June 30, 2017, was approximately \$6.2 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, 2017, amounted to \$11.6 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. \$152.2 million represents loans to the City of Chesapeake for the Dominion Boulevard Project and Loudoun County for the Pacific Boulevard Project that is included in Loans Receivable in the accompanying statements. The Chesapeake Bay

Bridge and Tunnel District for the Parallel Thimble Shoal Tunnel and the City of Alexandria for the Potomac Yard Metrorail Station loans have been approved, but no disbursements were made as of June 30, 2017. All loans are coordinated through the Virginia Resources Authority (major component unit).

E. Tobacco Grants

The Tobacco Region Revitalization Commission (nonmajor component unit) had \$113.2 million in grant award commitments not reflected in the accompanying financial statements since eligibility requirements were not met as of June 30, 2017, in accordance with GASB Statement No. 33.

F. Other Commitments

Primary Government

At June 30, 2017, the Department of Behavioral Health and Developmental Services had contractual commitments of approximately \$30.0 million.

At June 30, 2017, the Department of Corrections had contractual commitments of approximately \$151.0 million and non-contractual commitments of approximately \$436.7 million for detention services and medical care.

At June 30, 2017, the Virginia Department of Health had commitments of approximately \$28.9 million to localities, regional councils, grants to rescue squads, and water supply assistance grants.

At June 30, 2017, the Department of Motor Vehicles had contractual commitments of approximately \$36.9 million for security technology services.

At June 30, 2017, the Virginia Department of Transportation had additional contractual commitments of approximately \$1.8 million for technology services and \$64.8 million for non-highway construction type project contracts including facilities and tolling support.

At June 30, 2017, the Virginia Workers' Compensation Commission had approximately \$21.0 million in commitments related to a purchase agreement for a new headquarters.

At June 30, 2017, the Virginia Employment Commission had contractual commitments of approximately \$8.5 million for information systems modernization projects. The agency also had \$5.5 million in other contractual commitments.

At June 30, 2017, the Department of Environmental Quality had commitments of approximately \$8.9 million for reimbursement claims for cleanup of leaking underground storage tanks.

At June 30, 2017, the Enterprise Applications (internal service fund) had \$23.5 million in

contractually obligated commitments for the payroll replacement project.

The Virginia College Savings Plan (major enterprise fund) administers the Prepaid529 Program. At June 30, 2017, the Program had \$165.5 million in private equity commitments.

The Virginia Wireless E-911 (nonmajor enterprise fund) had \$5.9 million in outstanding grants awarded but not yet disbursed to localities as of June 30, 2017, 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 \$595.2 million in commitments to fund new loans not reflected in the accompanying financial statements since eligibility requirements were not met as of June 30, 2017, in accordance with GASB Statement No. 33.

The Virginia Resources Authority (major) was obligated to disburse \$175.9 million in loan commitments to various localities and other governmental entities in the Commonwealth of Virginia not reflected in the accompanying financial statements since eligibility requirements were not met as of June 30, 2017, in accordance with GASB Statement No. 33.

The Virginia Small Business Financing Authority (nonmajor) had \$3.9 million in loan commitments to banks and borrowers not reflected in the accompanying financial statements since eligibility requirements were not met as of June 30, 2017, 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, 2017, 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 \$9.4 million, of which \$1.8 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, 2017:

- VDEM relating to cleanup of an emergency fuel storage facility
- DEQ relating to groundwater treatment and landfill clean-up
- DJJ relating to petroleum storage tank removal
- VDOT relating to groundwater contamination

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, 2017, \$112.0 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.W. 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)
2016-2017	\$ 123,385	\$ 1,290,205	\$ (1,301,561)	\$ 112,029
2015-2016	\$ 118,005	\$ 1,314,073	\$ (1,308,693)	\$ 123,385

(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, 2017, \$797.6 million is reported as the estimated claims payable for the risk management plan. This amount is discounted to present value at a rate of 1.9 percent. Undiscounted claims payable at June 30, 2017, is \$1.1 billion. 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)
2016-2017	\$ 835,283	\$ 42,447	\$ (80,093)	\$ 797,637
2015-2016	\$ 651,421	\$ 260,020	\$ (76,158)	\$ 835,283

- (1) Of the balance shown above, \$76.6 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, 2017, 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 \$15.5 million and estimated losses on malpractice claims of \$3.5 million. MCV Associated Physicians (component unit of the Authority) reports claims

payable of \$20.8 million for estimated losses on malpractice claims. Virginia Premier Health Plan (component unit of the Authority) reports claims payable of \$81.4 million for estimated medical claims payable. Additional information on claims payable can be found in the Authority's separately issued 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 bears some self-insurance risk for claims cost in excess of employee premiums/contributions received. Pursuant to a joint arrangement with the Virginia Port Authority, (VPA) (nonmajor) the entity carries stop loss insurance to mitigate exposure to significant claims. The stop loss policy is on a calendar year basis, with renewals effective each January 1. During the calendar years of 2016 and 2017, the individual claim cost limit (deductible) under the policy for the Authority was \$125,000. The aggregate deductible for VIT and VPA combined claims in excess of the \$125,000 individual limit was \$7.9 million for calendar year 2017 and \$7.0 million for calendar year 2016.

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 445 local government units participating in the pool. This includes 70 school districts, 41 counties, 134 cities/towns, and 200 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, 2017, \$38.0 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 the VARisk and VARisk2 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, 2017, there were 459 units of local government in the pool, including 1 city, 20 towns, and 25 counties. The remaining 413 units include a large variety of boards, commissions, authorities, and special districts.

The VARisk program is comprised of constitutional officers and regional jails, and participation is not mandated by the *Code of Virginia*. However, the Compensation Board (part of the primary government) requires participation by all constitutional officers.

The VARisk2 program is comprised of local governments and 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.

No excess insurance or reinsurance is provided. The risk assumed by the VARisk and VARisk2 pool for liability is \$1.0 million per occurrence, with the exception of sheriffs and their deputies, which is \$1.5 million per occurrence.

At June 30, 2017, \$32.9 million and \$4.7 million is reported as estimated claims payable for the VARisk and the VARisk2 programs, respectively. These figures are actuarially determined for the funds in total and are reported at gross. They do 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, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Unpaid Claims and Claim Adjustment Expenses at Beginning of Fiscal Year	\$ 36,313	\$ 31,839	\$ 36,063	\$ 29,272
Incurred Claims and Claim Adjustment Expenses:				
Provision for Insured Events of the Current Fiscal Year	419,602	383,850	9,771	11,799
Changes in Provision for Insured Events of Prior Fiscal Years	-	-	(1,399)	(94)
Total Incurred Claims and Adjustment Expenses	419,602	383,850	8,372	11,705
Payments:				
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Fiscal Year	417,869	379,376	836	1,206
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Prior Fiscal Year	-	-	6,541	4,786
Total Payments	417,869	379,376	7,377	5,992
Change in Provision for Discounts	-	-	510	1,078
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Discounted) (1) (2) (3)	\$ 38,046	\$ 36,313	\$ 37,568	\$ 36,063
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Undiscounted)	\$ 38,046	\$ 36,313	\$ 39,348	\$ 37,261

Note (1): The entire balance for Local Choice Health Care, \$38,046 (dollars in thousands) is due within one year.

Note (2): Of the balance shown above for Risk Management, \$10,485 (dollars in thousands) is due within one year.

Note (3): The interest rate used for discounting is 1.9 percent.

24. ACCOUNTS PAYABLE

The following table (dollars in thousands) summarizes Accounts Payable as of June 30, 2017.

	<u>Vendor</u>	<u>Salary/ Wage</u>	<u>Retainage</u>	<u>Other</u>	<u>Foundations (1)</u>	<u>Total</u>
Primary Government:						
General	\$ 175,539	\$ 108,650	\$ 103	\$ -	\$ -	\$ 284,292
Major Special Revenue Funds:						
Commonwealth Transportation	392,351	36,148	4,557	-	-	433,056
Federal Trust	55,788	17,930	1,490	-	-	75,208
Literary	2	-	-	-	-	2
Nonmajor Governmental Funds	36,328	18,063	2,933	328	-	57,652
Major Enterprise Funds:						
Virginia Lottery (2)	16,402	1,456	-	4,416	-	22,274
Virginia College Savings Plan	2,738	626	-	-	-	3,364
Unemployment Compensation	88	-	-	-	-	88
Nonmajor Enterprise Funds	70,036	6,783	-	-	-	76,819
Internal Service Funds	93,865	3,022	1,023	-	-	97,910
Private Purpose Trust Funds	-	5	-	306	-	311
Pension and Other Employee Benefit Trust Funds (3)	2,239	2,427	-	42,061	-	46,727
Agency Funds	3,071	-	-	4,784	-	7,855
Total Primary Government (4)	\$ 848,447	\$ 195,110	\$ 10,106	\$ 51,895	\$ -	\$ 1,105,558
Discrete Component Units:						
Virginia Housing Development Authority	\$ 2,187	\$ 3,658	\$ -	\$ 19,029	\$ -	\$ 24,874
Virginia Public School Authority	140	-	-	-	-	140
Virginia Resources Authority	88	9	-	-	-	97
Nonmajor Component Units	540,689	449,967	28,034	17,191	100,893	1,136,774
Total Component Units	\$ 543,104	\$ 453,634	\$ 28,034	\$ 36,220	\$ 100,893	\$ 1,161,885

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.

Note (2): Other Accounts Payable for the Virginia Lottery represents surety bonds.

Note (3): Other Accounts Payable for the Pension and Other Employee Benefit Trust Fund consists of \$25,910 (dollars in thousands) in investment management fees and \$16,151 (dollars in thousands) in program benefit liabilities.

Note (4): Fiduciary liabilities of \$54,893 (dollars in thousands) are not included in the Government-wide Statement of Net Position. In addition, governmental fund liabilities of \$144,043 (dollars in thousands) are included in the Government-wide Statement of Net Position, but excluded from the above amounts.

25. OTHER LIABILITIES

The following tables (dollars in thousands) summarize Other Liabilities as of June 30, 2017.

	Primary Government					Virginia College Savings Plan (1)
	General	Commonwealth Transportation	Federal Trust	Nonmajor Governmental Funds	Virginia Lottery	
Lottery Prizes Payable	\$ -	\$ -	\$ -	\$ -	\$ 74,482	\$ -
Medicaid Payable	449,468	-	438,876	-	-	-
Family Access to Medical Insurance						
Security Payable	1,405	-	10,309	-	-	-
Tax Refunds Payable	419,506	-	-	-	-	-
Insurance Carrier Surety Deposit	-	-	-	-	-	-
Deposits Pending Distribution	7,479	3,712	-	4,937	-	-
Car Tax Payable	263,025	-	-	-	-	-
Other Liabilities	173	137	-	642	-	16,532
Total Other Liabilities	\$ 1,141,056	\$ 3,849	\$ 449,185	\$ 5,579	\$ 74,482	\$ 16,532

	Primary Government				
	Nonmajor Enterprise Funds	Internal Service Funds	Pension and Other Employee Benefit Trust Funds (2)	Agency Funds	Total Primary Government (3)
Lottery Prizes Payable	\$ -	\$ -	\$ -	\$ -	\$ 74,482
Medicaid Payable	-	-	-	-	888,344
Family Access to Medical Insurance					
Security Payable	-	-	-	-	11,714
Tax Refunds Payable	-	-	-	-	419,506
Insurance Carrier Surety Deposit	-	-	-	441,568	441,568
Deposits Pending Distribution	168	321	-	71,108	87,725
Car Tax Refund Payable	-	-	-	-	263,025
Other Liabilities	102	-	101,906	1,851	121,343
Total Other Liabilities	\$ 270	\$ 321	\$ 101,906	\$ 514,527	\$ 2,307,707

Note (1): Other Liabilities of \$16,532 (dollars in thousands) reported by the Virginia College Savings Plan represent amounts associated with pending investment trades.

Note (2): Other Liabilities of \$101,906 (dollars in thousands) reported in Pension and Other Employee Benefit Trust Funds are made up of \$33,840 (dollars in thousands) in other funds managed by the System; \$60,880 (dollars in thousands) in pending investment transactions, including \$56,867 (dollars in thousands) in net foreign exchange contracts payable, and \$4,013 (dollars in thousands) in other investment payables; \$3,988 (dollars in thousands) in other payables related to the System benefit plans; \$2,242 (dollars in thousands) in foreign taxes payables related to the System benefit plans, and \$956,000 in dividends payable related to the System benefit plans.

Note (3): Fiduciary liabilities of \$616,433 (dollars in thousands) are not included in the Government-wide Statement of Net Position. Governmental fund liabilities of \$74,502 (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	\$ 36,596	\$ -	\$ 27,558	\$ 82,582	\$ 79,821	\$ 226,557
Other Liabilities	-	58,475	6,999	-	251,713	317,187
Deposits Pending Distribution	-	-	-	-	443,080	443,080
Short-term Debt	461,300	-	-	-	269,731	731,031
Grants Payable	-	-	-	-	1,470	1,470
Total Other Liabilities	\$ 497,896	\$ 58,475	\$ 34,557	\$ 82,582	\$ 1,045,815	\$ 1,719,325

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, 2017, the estimated liability related to Medicaid claims totaled \$888.3 million. Of this amount, \$449.4 million is reflected in the General Fund (major governmental) and \$438.9 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, 2017, the estimated liability related to claims totaled \$11.7 million. Of this amount, \$1.4 million is reflected in the General Fund (major governmental) and \$10.3 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, 2016, and on business tax returns filed for corporate fiscal years ending on or before June 30, 2017. 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 2017, the Commonwealth laid off 161 employees. The affected employees had the option of volunteering for enhanced retirement benefits or severance benefits. The enhanced retirement benefits option was elected by 52 employees, and the remaining 109 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 2017 and will end no later than June 30, 2018. The benefit cost expended and the outstanding liability as of June 30, 2017 for governmental funds, are \$2.0 million and \$667,729, 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 2017, 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 \$265.0 million primarily to provide bridge financing for capital projects, property acquisition, and operations. The Virginia Housing Development Authority (major component unit) has borrowing from lines of credit in the amount of \$461.3 million. The Library of Virginia Foundation (nonmajor component unit) has a \$24,000 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).

Certain 9(d) bonds are considered, along 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, 2017		
	Balance At June 30	Amount Due Within One Year
<i>(Dollars in Thousands)</i>		
Primary Government:		
Governmental Activities: (1)		
General Obligation Bonds: (2)		
9(b) Public Facilities (3)	\$ 515,468	\$ 48,995
9(c) Parking Facilities (3)	11,101	940
9(c) Transportation Facilities (3)	11,642	2,435
Total General Obligation Bonds	<u>538,211</u>	<u>52,370</u>
Nongeneral Obligation Bonds - 9(d):		
Transportation Debt (3) (4)	3,570,446	188,415
Virginia Public Building Authority (3)	2,674,563	172,245
Total Nongeneral Obligation Bonds	<u>6,245,009</u>	<u>360,660</u>
Other Long-term Obligations:		
Net Pension Liability (5)	4,721,816	-
OPEB Liability (6)	814,560	-
Compensated Absences	300,501	164,343
Capital Lease Obligations	41,024	6,767
Pollution Remediation Obligations	9,437	1,820
Installment Purchase Obligations	109,721	13,306
Economic Development Authority Obligations (3)	37,895	6,165
Other Liabilities	33,680	4,839
Total Other Long-term Obligations	<u>6,068,634</u>	<u>197,240</u>
Total Governmental Activities (3)	<u>12,851,854</u>	<u>610,270</u>
Business-type Activities: (1) (7)		
Other Long-term Obligations:		
Net Pension Liability	151,486	-
OPEB Liability	28,058	-
Compensated Absences	10,096	6,232
Capital Lease Obligations	5,025	321
Tuition Benefits Payable	2,048,168	263,064
Lottery Prizes Payable	122,009	10,847
Total Other Long-term Obligations	<u>2,364,842</u>	<u>280,464</u>
Total Business-type Activities	<u>2,364,842</u>	<u>280,464</u>
Total Primary Government	<u>15,216,696</u>	<u>890,734</u>

Total Long-term Liabilities

June 30, 2017

<i>(Dollars in Thousands)</i>	Balance At June 30	Amount Due Within One Year
Component Units:		
General Obligation Bonds: (2)		
Higher Education Fund - 9(c) Bonds (3)	897,018	51,685
Nongeneral Obligation Bonds:		
Higher Education Institutions - 9(d) (3) (7)	2,224,501	23,257
Virginia College Building Authority (3)	3,858,925	240,965
Virginia Port Authority (3) (8)	547,965	11,485
Virginia Housing Development Authority (3) (7)	3,737,479	307,264
Virginia Resources Authority (3) (9)	3,650,922	190,297
Virginia Public School Authority (3) (7)	3,580,954	248,235
Hampton Roads Sanitation District Commission (3) (7)	846,783	75,962
Virginia Biotechnology Research Partnership Authority (3) Foundations (7) (10)	22,727	3,815
	934,666	45,313
Total Nongeneral Obligation Bonds	<u>19,404,922</u>	<u>1,146,593</u>
Other Long-term Obligations:		
Net Pension Liability (11)	3,059,817	-
OPEB Liability (12)	1,099,803	-
Compensated Absences	300,591	228,012
Capital Lease Obligations (8)	2,271,382	4,013
Notes Payable (7)	1,938,288	178,847
Installment Purchase Obligations	29,959	5,647
Trust and Annuity Obligations (7) (13)	41,966	-
Other Liabilities (7)	293,919	42,318
Total Other Long-term Obligations (Excluding Foundations)	<u>9,035,725</u>	<u>458,837</u>
Other Long-term Obligations (Foundations): (7) (10)		
Compensated Absences	17,608	12,687
Capital Lease Obligations	475	134
Notes Payable	269,242	25,151
Trust and Annuity Obligations (13)	80,868	1,829
Other Liabilities	259,721	21,908
Total Other Long-term Obligations - Foundations	<u>627,914</u>	<u>61,709</u>
Total Other Long-term Obligations	<u>9,663,639</u>	<u>520,546</u>
Total Component Units	<u>29,965,579</u>	<u>1,718,824</u>
Total Long-term Liabilities	<u>\$ 45,182,275</u>	<u>\$ 2,609,558</u>

- Pursuant to GASB Statement No. 34, governmental activities include internal service funds. Business-type activities are considered enterprise funds.
- Total general obligation debt of the Commonwealth is \$1.4 billion.
- Amounts are net of any unamortized discounts and premiums.
- This debt includes \$992.2 million that is not supported by taxes.
- This does not include net pension liabilities from fiduciary funds of \$76,834.
- This does not include OPEB obligations from fiduciary funds of \$16,312.
- This debt is not supported by taxes.
- This debt includes \$294.8 million for bonds and \$2.2 billion for capital leases that is not supported by taxes.
- This debt is not supported by taxes; however, \$928.1 million is considered moral obligation debt.
- Foundations represent FASB reporting entities defined in Note 1.B.
- 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 \$37.7 million and \$20.1 million, respectively. This debt is not supported by taxes.
- This includes OPEB obligations that do not relate to the Virginia Retirement System from University of Virginia of \$64.1 million and Virginia Port Authority of \$1.3 million.
- 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 \$11.6 million of Section 9(c) general obligation bonds and \$3.6 billion of Transportation Facilities Section 9(d) debt. The Section 9(d) debt includes \$2.6 billion of Section 9(d) revenue bonds and \$992.2 million of Grant Anticipation Revenue Notes (GARVEES) in addition to the outstanding Section 9(d) revenue bonds. Section 9(c) principal and interest requirements for the current year totaled \$3.1 million. Section 9(d) principal and interest requirements for the current year totaled \$318.7 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, the Oak Grove Connector (Chesapeake), and costs of certain transportation projects in the Commonwealth. 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 6.0 percent and the issuance dates range from November 4, 2009 to May 31, 2017.

On November 9, 2016, the Commonwealth Transportation Board issued \$316.9 million of Series 2016 GARVEES. Series 2016 will be maturing in semiannual installments on March 15 and September 15 in the years 2017 to 2031 and interest is payable on the same dates at rates varying from 2.0 to 5.0 percent.

On November 10, 2016, the Commonwealth issued \$13.2 million of 9(c) General Obligation Refunding Bonds, Series 2016B. Series 2016B Bonds will be maturing in annual installments on June 1 in the years 2017 to 2021 and interest is payable on June 1 and December 1 at the rate of 5.0 percent. The 2016B Series were issued to advance refund outstanding Series 2006A general obligation bonds.

On May 31, 2017, the Commonwealth Transportation Board issued \$38.6 million of Series 2017A and 2017B Refunding Revenue Bonds. Series 2017A and 2017B will be maturing in annual installments on May 15 in the years 2018 to 2020 and interest is payable on May 15 and November 15 at the rate of 5.0 percent. The 2017A and 2017B Series bonds were issued to advance refund certain maturities of 2007A and 2007B revenue bonds, respectively.

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 \$85.5 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
2018	\$ 2,435,000	\$ 524,750	\$ 2,959,750
2019	2,560,000	403,000	2,963,000
2020	2,685,000	275,000	2,960,000
2021	2,815,000	140,750	2,955,750
Add:			
Unamortized Premium	1,146,943	-	1,146,943
Total	<u>\$ 11,641,943</u>	<u>\$ 1,343,500</u>	<u>\$ 12,985,443</u>

9(d) TRANSPORTATION FACILITIES DEBT Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2018	\$ 188,415,000	\$ 148,162,027	\$ 336,577,027
2019	187,795,483	139,740,476	327,535,959
2020	171,958,337	130,715,846	302,674,183
2021	174,250,956	122,429,746	296,680,702
2022	168,910,226	114,021,064	282,931,290
2023-2027	908,210,268	444,051,826	1,352,262,094
2028-2032	745,980,000	239,762,165	985,742,165
2033-2037	564,185,000	82,113,910	646,298,910
2038-2042	96,815,000	6,828,300	103,643,300
Less:			
Unamortized Discount	(85,995)	-	(85,995)
Add:			
Accretion on Capital Appreciation Bonds	28,252,893	-	28,252,893
Unamortized Premium	335,759,078	-	335,759,078
Total	<u>\$ 3,570,446,246</u>	<u>\$ 1,427,825,360</u>	<u>\$ 4,998,271,606</u>

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 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 date was 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
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	7,135,000	692,500	7,827,500
2022	6,715,000	335,750	7,050,750
Add:			
Unamortized Premium	4,615,358	-	4,615,358
Total	<u>\$ 37,895,358</u>	<u>\$ 5,080,250</u>	<u>\$ 42,975,608</u>

Public Facilities Bonds

Section 9(b) general obligation bonds consist of Public Facilities Bonds, Series 2007A, Series 2008A, Series 2008B, Series 2009A, Series 2009D Refunding, Series 2009E, Series 2012A Refunding, Series 2013B Refunding, Series 2014B Refunding, Series 2015B Refunding, and Series 2016B 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. The Series 2016B bonds were issued to advance refund certain maturities of outstanding Series 2009A. Principal and interest requirements for the current year totaled \$72.5 million. The interest rates for all bonds range from 2.0 percent to 5.0 percent and the issuance dates range from June 20, 2007, to November 10, 2016. 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 \$3.0 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
2018	\$ 48,995,000	\$ 21,098,203	\$ 70,093,203
2019	48,090,000	18,848,098	66,938,098
2020	48,140,000	16,562,795	64,702,795
2021	48,140,000	14,270,895	62,410,895
2022	48,260,000	11,885,225	60,145,225
2023-2027	189,205,000	28,000,175	217,205,175
2028-2032	22,025,000	1,195,925	23,220,925
Add:			
Unamortized Premium	62,612,550	-	62,612,550
Total	<u>\$ 515,467,550</u>	<u>\$ 111,861,316</u>	<u>\$ 627,328,866</u>

Parking Facilities Bonds

Section 9(c) general obligation bonds consist of Parking Facilities Bonds, Series 2009B and 2009D Refunding, 2012A Refunding, and Series 2016B 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 Series 2016B Refunding bonds were issued to advance refund certain maturities of outstanding Series 2009B bonds. The interest rate for these bonds range from 2.0 percent to 5.0 percent, and the issuance dates range from October 21, 2009, to November 10, 2016. Current year principal and interest requirements totaled \$1.3 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
2018	\$ 940,000	\$ 439,560	\$ 1,379,560
2019	985,000	392,560	1,377,560
2020	785,000	343,310	1,128,310
2021	825,000	304,060	1,129,060
2022	865,000	262,810	1,127,810
2023-2027	3,669,045	706,342	4,375,387
2028-2032	1,335,000	67,200	1,402,200
Add:			
Unamortized Premium	1,697,289	-	1,697,289
Total	<u>\$ 11,101,334</u>	<u>\$ 2,515,842</u>	<u>\$ 13,617,176</u>

Virginia Public Building Authority

Virginia Public Building Authority Section 9(d) bonds consist of 2005D, 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, 2015B Refunding, 2016A, 2016B Refunding, 2016C (AMT), and 2016D (Taxable). 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 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 Series 2016B bonds were issued to advance refund certain maturities of the 2009B and 2011A bonds. The interest rates range from 0.8 percent to 5.9 percent and the

issuance dates range from December 7, 2005, to October 5, 2016. The Series 2005D bonds are demand bonds with variable rates which are reset weekly by the remarketing agent. The 2005D bonds are subject to optional redemption. The principal balance outstanding on June 30, 2017 of \$50.0 million is scheduled to be paid based on mandatory sinking fund requirements and included in the following schedule. Additional information on these demand bonds may be obtained from the Department of the Treasury website at www.trs.virginia.gov.

Current year principal and interest requirements for all VPBA bonds totaled \$279.7 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 \$65.2 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
2018	\$ 172,245,000	\$ 106,241,593	\$ 278,486,593
2019	157,355,000	98,329,285	255,684,285
2020	159,185,000	90,839,538	250,024,538
2021	153,035,000	83,447,959	236,482,959
2022	151,300,000	76,180,132	227,480,132
2023-2027	803,930,000	270,666,923	1,074,596,923
2028-2032	595,425,000	104,888,195	700,313,195
2033-2037	240,190,000	20,070,030	260,260,030
Add:			
Unamortized Premium	241,897,542	-	241,897,542
Total	\$ 2,674,562,542	\$ 850,663,655	\$ 3,525,226,197

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	\$ 1,728,052
College and university debt backed exclusively by pledged revenues of an institution	496,449
Total Higher Education Institution 9(d) debt	\$ 2,224,501

The interest rates for these bonds range from 1.2 percent to 6.2 percent and the issuance dates range from June 20, 2007, to June 21, 2017. 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 \$282.7 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
2018	\$ 51,685,000	\$ 34,709,771	\$ 86,394,771
2019	52,010,000	32,384,621	84,394,621
2020	51,785,000	30,051,451	81,836,451
2021	53,880,000	27,775,433	81,655,433
2022	52,180,000	25,377,988	77,557,988
2023-2027	273,100,955	90,925,240	364,026,195
2028-2032	198,190,000	36,807,359	234,997,359
2033-2037	79,155,000	7,738,755	86,893,755
2038-2042	5,190,000	493,030	5,683,030
Add:			
Unamortized Premium	79,841,970	-	79,841,970
Total	\$ 897,017,925	\$ 286,263,648	\$ 1,183,281,573

**9(d) HIGHER EDUCATION INSTITUTION BONDS
Debt Service Requirements to Maturity**

Maturity	Principal	Interest (1)	Total
2018	\$ 23,257,056	\$ 92,917,982	\$ 116,175,038
2019	23,748,580	92,271,989	116,020,569
2020	24,736,209	91,511,843	116,248,052
2021	24,909,971	90,737,933	115,647,904
2022	130,979,898	87,368,775	218,348,673
2023-2027	173,155,303	406,810,098	579,965,401
2028-2032	163,235,506	381,974,662	545,210,168
2033-2037	236,847,144	354,450,308	591,297,452
2038-2042	714,410,000	241,966,632	956,376,632
2043-2047	579,660,000	65,317,150	644,977,150
Add:			
Unamortized Premium	129,560,903	-	129,560,903
Total	\$ 2,224,500,570	\$ 1,905,327,372	\$ 4,129,827,942

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
2018	\$ 240,965,000	\$ 149,416,948	\$ 390,381,948
2019	243,440,000	143,061,354	386,501,354
2020	236,150,000	131,634,200	367,784,200
2021	245,500,000	120,623,753	366,123,753
2022	235,620,000	109,434,338	345,054,338
2023-2027	1,078,795,000	394,635,302	1,473,430,302
2028-2032	939,475,000	170,318,924	1,109,793,924
2033-2037	320,490,000	23,040,475	343,530,475
Add:			
Unamortized Premium	318,490,313	-	318,490,313
Total	\$ 3,858,925,313	\$ 1,242,165,294	\$ 5,101,090,607

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
2018	\$ 44,612,444 (2)
2019	115,941,885
2020	31,079,530
2021	42,922,162
2022	31,786,346
Thereafter	<u>668,323,234</u>
Total	<u>\$ 934,665,601</u>

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.

Note (2): This amount excludes \$701,000 for demand bonds subject to remarketing agreements and classified as "due within one year" in the accompanying financial statements by a higher education institution foundation.

Virginia Port Authority

The Virginia Port Authority (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 1.2 percent to 5.0 percent, and the issuance dates range from July 27, 2011, to November 17, 2016. The following schedule details the annual funding requirements necessary to amortize these bonds.

9(d) VIRGINIA PORT AUTHORITY DEBT
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2018	\$ 11,485,000	\$ 21,532,317	\$ 33,017,317
2019	15,070,000	21,237,828	36,307,828
2020	15,435,000	20,846,144	36,281,144
2021	15,845,000	20,409,739	36,254,739
2022	16,310,000	19,931,344	36,241,344
2023-2027	89,775,000	91,111,249	180,886,249
2028-2032	108,900,000	72,128,041	181,028,041
2033-2037	93,050,000	48,985,833	142,035,833
2038-2042	95,780,000	25,680,578	121,460,578
2043-2047	62,650,000	6,029,517	68,679,517
Add:			
Unamortized Premium	<u>23,664,577</u>	-	<u>23,664,577</u>
Total	<u>\$ 547,964,577</u>	<u>\$ 347,892,590</u>	<u>\$ 895,857,167</u>

Virginia Housing Development Authority

The Virginia Housing Development Authority (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 December 17, 2002, to June 13, 2017. 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
2018	\$ 307,264,253	\$ 138,999,073	\$ 446,263,326
2019	133,925,000	133,264,585	267,189,585
2020	159,290,000	128,530,914	287,820,914
2021	138,305,000	123,129,303	261,434,303
2022	91,355,000	118,770,456	210,125,456
2023-2027	437,575,000	549,704,277	987,279,277
2028-2032	469,355,000	466,647,157	936,002,157
2033-2037	545,610,265	360,171,167	905,781,432
2038-2042	951,658,903	214,942,484	1,166,601,387
2043-2047	498,545,332	26,817,895	525,363,227
2048-2052	4,775,000	289,260	5,064,260
Less:			
Unamortized Discount	(1,460,277)	-	(1,460,277)
Add:			
Unamortized Premium	<u>1,280,706</u>	-	<u>1,280,706</u>
Total	<u>\$ 3,737,479,182</u>	<u>\$ 2,261,266,571</u>	<u>\$ 5,998,745,753</u>

Virginia Resources Authority

The Virginia Resources Authority (major) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 0.2 percent to 6.3 percent and the origination dates range from March 1, 2000, to May 18, 2017. 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
2018	\$ 190,296,910	\$ 142,183,035	\$ 332,479,945
2019	174,915,107	134,406,489	309,321,596
2020	179,683,867	126,548,112	306,231,979
2021	184,739,363	118,315,419	303,054,782
2022	183,635,615	109,996,591	293,632,206
2023-2027	897,872,092	425,708,434	1,323,580,526
2028-2032	775,904,870	237,117,506	1,013,022,376
2033-2037	450,825,176	111,581,340	562,406,516
2038-2042	268,180,000	41,034,942	309,214,942
2043-2047	71,310,000	5,563,075	76,873,075
Less:			
Unaccreted Capital Appreciation Bonds	(30,031,838)	-	(30,031,838)
Add:			
Unamortized Premium	<u>303,590,898</u>	-	<u>303,590,898</u>
Total	<u>\$ 3,650,922,060</u>	<u>\$ 1,452,454,943</u>	<u>\$ 5,103,377,003</u>

Virginia Public School Authority

The Virginia Public School Authority (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 11, 2003, to May 16, 2017. 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 \$158.5 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

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2018	\$ 248,235,000	\$ 141,401,888	\$ 389,636,888
2019	240,620,000	129,201,120	369,821,120
2020	237,370,000	117,983,726	355,353,726
2021	227,660,000	107,065,454	334,725,454
2022	221,235,000	96,421,502	317,656,502
2023-2027	1,152,746,000	337,068,336	1,489,814,336
2028-2032	727,465,000	123,405,602	850,870,602
2033-2037	287,530,000	26,132,421	313,662,421
2038-2042	25,720,000	2,078,578	27,798,578
2043-2047	1,815,000	134,309	1,949,309
Add:			
Unamortized Premium	210,557,647	-	210,557,647
Total	<u>\$ 3,580,953,647</u>	<u>\$ 1,080,892,936</u>	<u>\$ 4,661,846,583</u>

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 0.8 percent to 5.8 percent. The following schedule details the annual funding requirements necessary to amortize these bonds. The fiscal year 2018 principal amount includes \$50.0 million for demand bonds, which are also classified as "due within one year" in the accompanying financial statements.

HAMPTON ROADS SANITATION DISTRICT COMMISSION Debt Service Requirements to Maturity

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2018	\$ 75,962,000	\$ 31,949,000	\$ 107,911,000
2019	26,627,000	30,893,000	57,520,000
2020	27,605,000	29,856,000	57,461,000
2021	27,917,000	28,774,000	56,691,000
2022	28,664,000	27,577,000	56,241,000
2023-2027	159,497,000	119,152,000	278,649,000
2028-2032	170,920,000	84,218,000	255,138,000
2033-2037	157,351,000	45,564,000	202,915,000
2038-2042	80,145,000	14,702,000	94,847,000
2043-2047	24,823,000	1,965,000	26,788,000
Add:			
Unamortized Premium	67,272,000	-	67,272,000
Total	<u>\$ 846,783,000</u>	<u>\$ 414,650,000</u>	<u>\$ 1,261,433,000</u>

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 BIOTECHNOLOGY RESEARCH PARTNERSHIP AUTHORITY Debt Service Requirements to Maturity

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
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	4,415,000	342,375	4,757,375
2022	4,640,000	116,000	4,756,000
Add:			
Unamortized Premium	1,666,851	-	1,666,851
Total	<u>\$ 22,726,851</u>	<u>\$ 2,717,175</u>	<u>\$ 25,444,026</u>

Total principal outstanding at June 30, 2017, on all component unit bonds amounted to \$20.3 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	\$ 506,525	\$ 39,695	\$ (93,365)	\$ 452,855
Parking Facilities Bonds	13,434	5,625	(9,655)	9,404
Transportation Facilities Bonds	14,205	13,185	(16,895)	10,495
Add: Unamortized Premium	67,468	10,409	(12,420)	65,457
Total General Obligation Bonds	<u>601,632</u>	<u>68,914</u>	<u>(132,335)</u>	<u>538,211</u>
Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Transportation Facilities Bonds	3,064,090	355,530	(213,100)	3,206,520
Virginia Public Building Authority Bonds	2,256,990	546,625	(370,950)	2,432,665
Economic Development Authority Obligations	39,150	-	(5,870)	33,280
Add: Unamortized Premium	485,737	163,966	(67,431)	582,272
Accretion on Capital Appreciation Bonds	25,634	2,619	-	28,253
Less: Unamortized Discount	(91)	5	-	(86)
Installment Purchase Obligations	108,877	21,226	(20,382)	109,721
Notes Payable - Aviation	114	-	(114)	-
Compensated Absences	317,053	184,699	(201,251)	300,501
Capital Lease Obligations	46,524	1,477	(6,977)	41,024
Net Pension Liability	4,422,614	299,202	-	4,721,816
OPEB Liability	734,720	79,840	-	814,560
Pollution Remediation Obligations	11,308	112	(1,983)	9,437
Other	47,657	-	(13,977)	33,680
Total Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth	<u>11,560,377</u>	<u>1,655,301</u>	<u>(902,035)</u>	<u>12,313,643</u>
Total Governmental Activities	<u>12,162,009</u>	<u>1,724,215</u>	<u>(1,034,370)</u>	<u>12,851,854</u>
Business-type Activities:				
Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Debt:				
Capital Lease Obligations	5,359	-	(334)	5,025
Compensated Absences	10,003	2,963	(2,870)	10,096
Net Pension Liability	140,522	10,964	-	151,486
OPEB Liability	25,113	3,078	(133)	28,058
Lottery Prizes Payable	129,895	183	(8,069)	122,009
Tuition Benefits Payable	2,035,608	180,812	(168,252)	2,048,168
Total Business-type Activities	<u>2,346,500</u>	<u>198,000</u>	<u>(179,658)</u>	<u>2,364,842</u>
Total Primary Government	<u>\$ 14,508,509</u>	<u>\$ 1,922,215</u>	<u>\$ (1,214,028)</u>	<u>\$ 15,216,696</u>

<u>Foundations (4)</u>	<u>Balance June 30</u>	<u>Due Within One Year</u>
\$ -	\$ 452,855	\$ 48,995
-	9,404	940
-	10,495	2,435
-	65,457	-
-	<u>538,211</u>	<u>52,370</u>
-	3,206,520	188,415
-	2,432,665	172,245
-	33,280	6,165
-	582,272	-
-	28,253	-
-	(86)	-
-	109,721	13,306
-	-	-
-	300,501	164,343
-	41,024	6,767
-	4,721,816	-
-	814,560	-
-	9,437	1,820
-	33,680	4,839
-	<u>12,313,643</u>	<u>557,900</u>
-	<u>12,851,854</u>	<u>610,270</u>
-	5,025	321
-	10,096	6,232
-	151,486	-
-	28,058	-
-	122,009	10,847
-	2,048,168	263,064
-	<u>2,364,842</u>	<u>280,464</u>
<u>\$ -</u>	<u>\$ 15,216,696</u>	<u>\$ 890,734</u>

Continued on next page

Schedule of Changes in Long-term Debt and Obligations (1) (2)
(continued)

(Dollars in Thousands)

	<u>Balance July 1 as restated (3)</u>	<u>Issuances and Other Increases</u>	<u>Retirements and Other Decreases</u>	<u>Subtotal June 30</u>
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)	\$ 877,118	\$ 148,188	\$ (128,288)	\$ 897,018
Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Bonds (5)	19,153,186	1,850,321	(2,533,251)	18,470,256
Installment Purchase Obligations	50,825	2,683	(23,549)	29,959
Capital Lease Obligations	71,403	2,204,947	(4,968)	2,271,382
Notes Payable	2,041,726	339,771	(443,209)	1,938,288
Compensated Absences	293,026	312,780	(305,215)	300,591
Net Pension Liability	2,821,359	238,458	-	3,059,817
OPEB Liability	961,908	138,522	(627)	1,099,803
Trust and Annuity Obligations	39,726	2,308	(68)	41,966
Other	282,010	738,154	(726,245)	293,919
Total Component Units	<u>\$ 26,592,287</u>	<u>\$ 5,976,132</u>	<u>\$ (4,165,420)</u>	<u>\$ 28,402,999</u>

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) Net Pension Liability and OPEB Liability for primary government have been restated by \$3,357 (dollars in thousands) and \$656,381, respectively, due to the change in accounting principle related to the Unclaimed Property Fund (nonmajor special revenue) as discussed in Note 2.

Note (4) Foundations represent FASB reporting entities defined in Note 1.B.

Note (5) Amounts are net of any unamortized discounts and premiums.

Foundations (4)	Balance June 30	Due Within One Year
\$ -	\$ 897,018	\$ 51,685
934,666	19,404,922	1,146,593
-	29,959	5,647
475	2,271,857	4,147
269,242	2,207,530	203,998
17,608	318,199	240,699
-	3,059,817	-
-	1,099,803	-
80,868	122,834	1,829
259,721	553,640	64,226
<u>\$ 1,562,580</u>	<u>\$ 29,965,579</u>	<u>\$ 1,718,824</u>

Bond and Note Defeasance

Primary Government

In October 2016, the Virginia Public Building Authority (VPBA) issued \$179.0 million of Series 2016B Public Facilities Revenue Refunding Bonds with a true interest cost (TIC) of 1.9 percent to refund \$193.9 million of certain outstanding bonds. The bonds that were refunded include Public Facilities Revenue Bonds, Series 2009B and 2011A. The net proceeds from the sale of the Refunding Bonds of \$221.6 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 \$11.5 million. It will, however, reduce total debt service payments over the next 14 years by \$24.1 million, resulting in an economic gain of \$20.9 million discounted at the rate of 2.1 percent.

In November 2016, the Commonwealth issued \$117.1 million of General Obligation Refunding Bonds, Series 2016B, pursuant to Sections 9(b) and 9(c) of Article X of the Constitution of Virginia, with a true interest cost (TIC) of 1.9 percent to refund \$126.9 million of certain outstanding bonds. The bonds that were refunded include \$60.3 million of outstanding Higher Education Institution Bonds, Series 2006A and 2009B, \$8.8 million of Parking Facilities Bonds, Series 2009B, \$14.2 million of Transportation Bonds, Series 2006A, and \$43.6 million of Public Facilities Bonds, Series 2009A. The net proceeds from the sale of the Refunding Bonds of \$140.0 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 \$4.4

million. It will, however, reduce total debt service payments over the next 18 years by \$20.7 million, resulting in an economic gain of \$15.4 million discounted at the rate of 1.8 percent.

In May 2017, the Commonwealth Transportation Board of the Commonwealth of Virginia issued \$11.9 million in Transportation Revenue Refunding Bonds Series 2017A and \$26.7 million in Transportation Revenue Refunding Bonds Series 2017B with an interest rate of 5.0 percent. The bonds that were refunded include \$12.9 million of Series 2007A and \$28.2 million of Series 2007B. The net proceeds from the sale of the Refunding Bonds of \$40.9 million (after payment of underwriter's fees and other issuance costs) were deposited into an irrevocable trust with an escrow agent to provide future debt service payments on the Refunded Bonds and to pay the costs related to issuance and refunding. As a result, the Refunded Bonds are considered to be defeased and the liability has been removed from the governmental activities column of the Statement of Net Position. The reacquisition price exceeded the net carrying amount of the old debt by \$167,781. Total debt service payments will be reduced by \$2.2 million resulting in an economic gain of \$2.1 million.

Component Units

Higher education institutions (nonmajor) participate in the Virginia College Building Authority Pooled Bond Program. In July 2016, the Virginia College Building Authority (VCBA) (major) issued \$231.9 million of Series 2016A Pooled Bond Program refunding bonds. The bonds were issued to refund \$37.8 million of its 2006A bonds, \$52.9 million of its 2007A bonds, and \$156.4 million of its 2009B bonds. The net proceeds from the sale of the refunding bonds of \$272.8 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 \$15.8 million. Total debt service payments over the next 24 years will be reduced by \$43.0 million resulting in a present value savings of \$35.8 million discounted at the rate of 1.9 percent.

In November 2016, the Virginia Public School Authority (VPSA) (major) issued \$6.4 million of Series 2016B refunding bonds. The bonds were issued to refund \$7.0 million of its 2009D bonds. The net proceeds from the sale of the refunding bonds of \$7.5 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 \$513,000. Total debt service payments over the next 13 years will be reduced by \$367,373 resulting in a present value savings of \$795,662 discounted at the rate of 2.1 percent. In addition, in November 2016, under VPSA's stand-alone program, Montgomery County issued \$64.6 million of its school refunding bonds, which was used to refund \$64.8 million of VPSA's 2011 Series Montgomery County bonds. The net proceeds from the sale of the refunding bonds of \$76.1 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 \$240,000. Total debt service payments over the next 15 years will be reduced by \$6.0 million resulting in a present value savings of \$5.3 million discounted at the rate of 1.9 percent.

In June 2017, VCBA issued \$173.3 million of Series 2017B 21st Century Program refunding bonds. The bonds were issued to refund \$70.9 million of its 2006B and C bonds, \$39.4 million of its 2007A bonds, and \$82.7 million of its 2011A bonds. The net proceeds from the sale of the refunding bonds of \$202.5 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 \$1.5 million. Total debt service payments over the next 11 years will be reduced by \$16.6 million resulting in a present value savings of \$16.1 million discounted at the rate of 1.5 percent.

In February 2017, the University of Virginia (UVA) (nonmajor) issued \$231.8 million of Series 2017A bonds to refund \$45.4 million of tax-exempt commercial paper and advance refund \$209.2 million of Series 2008 bonds. In addition, UVA issued \$123.4 million of Series 2017B bonds to refund \$92.0 million of tax-exempt commercial paper, advance refund \$22.2 million of Series 2008 bonds, and provide \$23.6 million of cash proceeds to the

University. Additional information can be found at the University's website at www.virginia.edu.

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, 2017, there were \$551.8 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 \$2.7 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.

Rebate liability on bonds of the Virginia Public School Authority (VPSA) (major component unit) is payable from earnings on related bond funds and from local issuers whose local school bonds were purchased by VPSA. During fiscal year 2016, an arbitrage rebate calculation for VPSA's School Financing Bonds (1997 Resolution), Series 2006A identified a rebate liability of \$18,985 due to the Federal government in fiscal year 2017. The liability was paid in July 2016 and a subsequent rebate report, following final redemption of the Series 2006A bonds, identified that no additional rebate payments were due.

Rebatable arbitrage need only be calculated for tax purposes every fifth year that debt is outstanding. Consistent with modified accrual basis of accounting, it is not recognized as a liability in governmental funds until amounts actually become due and payable; however, a liability is recognized in accrual basis government-wide statements as soon as the underlying event has occurred. Accordingly, as of June 30, 2017, the Virginia Resources Authority (major component unit) has recognized a liability of \$109,873.

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 2017, no rebate payments were owed on the Commonwealth's General Obligation Bonds, Virginia Public Building Authority, Commonwealth Transportation Board, the Virginia College Building Authority 21st Century or Pooled Bond Programs, 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, 2017, are shown in the following table (dollars in thousands).

	Governmental Activities	Business-Type Activities	Component Units (1)
2018	\$ 9,892	\$ 589	\$ 79,528
2019	7,728	604	92,687
2020	7,093	619	95,634
2021	6,987	634	96,267
2022	6,950	650	98,044
2023-2027	8,266	3,502	516,043
2028-2032	4,515	3,962	560,418
2033-2037	2,216	4,483	584,515
2038-2042	2,218	5,072	628,504
2043-2047	93	10	680,305
2048-2052	415	-	736,860
2053-2057	-	-	796,586
2058-2062	-	-	862,385
2063-2067	-	-	677,908
Total Gross Minimum Lease Payments	56,373	20,125	6,505,684
Less: Amount Representing Executory Costs	(5,327)	-	-
Net Minimum Lease Payments	51,046	20,125	6,505,684
Less: Amount Representing Interest	(10,022)	(15,100)	(4,234,302)
Present Value of Net Minimum Lease Payments	\$ 41,024	\$ 5,025	\$ 2,271,382

Note (1): The above amounts exclude capital lease obligations of foundations.

	Foundations (2)
2018	\$ 141
2019	123
2020	117
2021	106
Net Minimum Lease Payments	487
Less: Amount Representing Interest	(12)
Present Value of Net Minimum Lease Payments	\$ 475

Note (2): Foundations represent FASB reporting entities defined in Note 1.B.

At June 30, 2017, 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	Infrastructure	Total
Governmental Activities:				
Gross Capital Assets	\$ 175,480	\$ 3,337	\$ -	\$ 178,817
Less: Accumulated Depreciation	(82,599)	(1,259)	-	(83,858)
Total Governmental Activities	\$ 92,881	\$ 2,078	\$ -	\$ 94,959
Business-Type Activities:				
Gross Capital Assets	\$ 8,800	\$ -	\$ -	\$ 8,800
Less: Accumulated Depreciation	(1,416)	-	-	(1,416)
Total Business-Type Activities	\$ 7,384	\$ -	\$ -	\$ 7,384
Component Units:				
Gross Capital Assets	\$ 131,592	\$ 3,798	\$ 2,115,138	\$ 2,250,528
Less: Accumulated Depreciation	(50,309)	(2,998)	(17,431)	(70,738)
Subtotal (excluding Foundations)	81,283	800	2,097,707	2,179,790
Foundations:				
Gross Capital Assets	-	817	-	817
Less: Accumulated Depreciation	-	(302)	-	(302)
Subtotal Foundations	-	515	-	515
Total Component Units (3)	\$ 81,283	\$ 1,315	\$ 2,097,707	\$ 2,180,305

Note (3): In addition to the above, 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	
Installment Notes	109,721
Total Primary Government	109,721
Component Units	
Virginia Public School Authority	199,905
Virginia Resources Authority	53
Nonmajor Component Units	1,738,330
Installment Notes	29,959
Subtotal (excluding Foundations)	1,968,247
Foundations:	
Notes Payable	269,242
Subtotal - Foundations	269,242
Total Component Units	2,237,489
Total Notes Payable	\$ 2,347,210

The Virginia Public School Authority (major component unit) notes of \$199.9 million are for the School Technology and Security Notes Program. The note proceeds were used to finance technology equipment purchases and to make grants to school divisions for the purchase of security 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 \$53,121 are Equipment and Term Financing loans.

An additional amount of \$1.7 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 pursuant to the Pooled Bond Program. Interest rates range from 2.0 percent to 5.6 percent and shall be paid semi-annually and the planned interest payments total \$515.1 million. Additionally, in accordance with the American Recovery and Reinvestment Act, the Commonwealth expects to receive a Build America Bonds (BABs) interest subsidy to reimburse interest payments of \$29.0 million. The final principal payment is due in fiscal year 2046.

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) \$21.9 million, which includes \$11.7 million reported by the University Health Services (a component unit of the Authority); Virginia State University \$790,282; and Norfolk State University \$10,220.

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, 2017, are shown in the following table (dollars in thousands).

Foundations' Notes Payable (Component Units) (1)

Maturity	Principal
2018	\$ 25,151
2019	64,749
2020	46,122
2021	7,407
2022	9,370
Thereafter	<u>116,443</u>
Total	<u>\$ 269,242</u>

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 \$139.7 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, 2017.

Installment Purchase Obligations - Governmental Funds

June 30, 2017

Maturity	Principal	Interest	Total
2018	\$ 13,305,536	\$ 2,866,861	\$ 16,172,397
2019	13,890,703	2,533,609	16,424,312
2020	14,224,487	2,176,453	16,400,940
2021	13,229,296	1,810,419	15,039,715
2022	13,331,860	1,570,843	14,902,703
2023-2027	35,945,941	3,289,059	39,235,000
2028-2032	<u>5,793,070</u>	<u>311,229</u>	<u>6,104,299</u>
Total	<u>\$ 109,720,893</u>	<u>\$ 14,558,473</u>	<u>\$ 124,279,366</u>

Installment Purchase Obligations - Component Units

June 30, 2017

Maturity	Principal	Interest	Total
2018	\$ 5,647,091	\$ 607,713	\$ 6,254,804
2019	5,882,927	511,155	6,394,082
2020	4,914,845	384,189	5,299,034
2021	4,631,692	285,810	4,917,502
2022	2,689,444	192,416	2,881,860
2023-2027	5,822,498	364,867	6,187,365
2028-2032	<u>370,642</u>	<u>10,749</u>	<u>381,391</u>
Total	<u>\$ 29,959,139</u>	<u>\$ 2,356,899</u>	<u>\$ 32,316,038</u>

The foundations (component units) had no installment purchase obligations as of June 30, 2017.

On May 23, 2016, the Virginia Department of Transportation (VDOT) (primary government) and Chesterfield County (County) signed a memorandum of understanding concerning payment of interest relating to the County's contribution to VDOT for the construction of the Powhite Parkway Extension Project. The parties agreed that the interest to be paid by VDOT on the County's contribution to the construction of the Powhite Parkway Extension is \$18.5 million. The interest requirement paid during fiscal year 2017 totaled \$825,116. The remaining outstanding interest amount of \$7.4 million is payable in annual installments on September 1 in the years 2017 to 2022. This interest is applicable to a note payable that VDOT repaid to the County in fiscal year 2014.

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 assets 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 assets.

Lottery prizes payable represent the future annual prize payments valued at cost plus accrued interest (current value of securities held to maturity) of the assets funding the payments.

Lottery prizes payable for the fiscal year ended June 30, 2017, are shown in the following table:

	<u>Jackpot</u>	<u>Win For Life</u>	<u>Total</u>
Due within one year	\$ 5,900,675	\$ 4,946,302	\$ 10,846,977
Due in subsequent years	<u>48,427,056</u>	<u>62,735,177</u>	<u>111,162,233</u>
Total (current value)	54,327,731	67,681,479	122,009,210
Add:			
Interest to Maturity	<u>20,378,269</u>	<u>32,547,521</u>	<u>52,925,790</u>
Lottery Prizes Payable at Maturity	<u>\$ 74,706,000</u>	<u>\$ 100,229,000</u>	<u>\$ 174,935,000</u>

Tuition Benefits Payable

The Virginia College Savings Plan administers the Prepaid529 program. Prepaid529 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, 2017, tuition benefits payable of \$2.0 billion have been recorded for the Prepaid529 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 Prepaid529 program. In addition, a receivable in the amount of \$194.6 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, 2017.

	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	\$ 4,165	\$ 223,666	\$ 18,353	\$ 476	\$ 30,509
Major Special Revenue Funds:					
Commonwealth Transportation	14,258	14,578	209,916	7,483	1,942
Federal Trust	-	7,750	-	-	459
Literary	-	55,735	-	-	-
Nonmajor Governmental Funds	118,507	52,419	69,913	6,249	6,994
Major Enterprise Funds:					
Unemployment Compensation	-	295	-	-	-
Nonmajor Enterprise Funds	-	14,275	-	-	-
Private Purpose Trust Funds	-	-	-	-	-
Pension and Other Employee Benefit Trust Funds	-	-	-	-	-
Total Primary Government	\$ 136,930	\$ 368,718	\$ 298,182	\$ 14,208	\$ 39,904

	Tobacco Master Settlement	Taxes	E-Z Pass	Other (1)	Total Other Revenue
Primary Government:					
General	\$ 49,019	\$ -	\$ -	\$ 229,824	\$ 556,012
Major Special Revenue Funds:					
Commonwealth Transportation	-	-	25,265	48,887	322,329
Federal Trust	-	-	-	137,729	145,938
Literary	-	-	-	3,324	59,059
Nonmajor Governmental Funds	-	-	-	294,584	548,666
Major Enterprise Funds:					
Unemployment Compensation	-	-	-	-	295
Nonmajor Enterprise Funds	-	4,506	-	1,331	20,112
Private Purpose Trust Funds	-	-	-	3	3
Pension and Other Employee Benefit Trust Funds	-	-	-	3,684	3,684
Total Primary Government	\$ 49,019	\$ 4,506	\$ 25,265	\$ 719,366	\$ 1,656,098

Note (1): \$156,672 (dollars in thousands) is related to prior year expenditures refunded in the current fiscal year for the General Fund. \$104,208 (dollars in thousands) is related to prior year expenditures refunded in the current fiscal year in the Federal Trust Fund. The total amount recorded for the Literary Fund is related to unclaimed prizes in the Virginia Lottery. \$160,606 (dollars in thousands) is related to proceeds from unclaimed property in the Unclaimed Property Fund, \$42,766 (dollars in thousands) is related to indirect costs and court collection fees in the Other Special Revenue Fund, and the remaining \$91,212 (dollars in thousands) is related to other miscellaneous activities in the nonmajor governmental funds.

28. TAX ABATEMENTS

The Commonwealth implemented GASB Statement No. 77, *Tax Abatements*, during fiscal year 2017. As of June 30, 2017, the Commonwealth participates in the following tax abatements programs. There are no provisions for recapturing abated taxes since the requirements must be met prior to receiving the abatement.

- The Retail Sales and Use Tax Data Center Exemptions are intended to attract data centers to the Commonwealth pursuant to the *Code of Virginia* by Title 58.1-609.3(18). Qualifying entities may purchase or lease certain computer equipment, enabling software and other enabling hardware for use in the data center exempt from the retail sales and use tax. Each recipient's retail sales and use taxes are reduced by being able to purchase qualifying items for use in the data center without having to pay the retail sales and use tax on the purchase price. The amount of the abatement for each recipient is determined by multiplying the purchase price of the qualifying computer equipment, enabling software and other enabling hardware purchased by the recipient by the rate of the retail sales and use tax that would be imposed on the purchase if the exemption was not available. The rate of the retail sales and use tax is 6.0 percent in the Northern Virginia and Hampton Roads localities and 5.3 percent in the remainder of the state. The exemption is available for data centers that (i) are located in a Virginia locality; (ii) result in a new capital investment of at least \$150.0 million on or after January 1, 2009; and (iii) meet specified employment and salary requirements. On or after July 1, 2009, the data center or tenants must result in the creation of at least 50 new jobs paying at least one and one-half the prevailing average wage in the locality, or 25 new jobs paying at least one and one-half the prevailing average wage in the locality if the data center is located in a locality that has an unemployment rate for the preceding year of at least 150.0 percent of the average statewide unemployment rate or is located in an enterprise zone. Effective July 1, 2012, the exemption was extended to purchases and leases made by tenants of a data center that meets the requirements of the data center exemption.

In order to qualify for the exemption, the data center operator must enter into a memorandum of understanding with the Virginia Economic Development Partnership Authority (component unit). The exemption is scheduled to sunset June 30, 2035. The amount of abated taxes for fiscal year 2017 is \$65.2 million.

- The Motion Picture Production Tax Credit is intended to encourage the filming of motion picture productions in the Commonwealth. Pursuant to the *Code of Virginia*, Section 58.1-439.12:03, a motion picture production company with qualifying expenses of at least \$250,000 may abate its individual income tax or corporate income tax liability

by the amount of the Motion Picture Production Tax Credit. The amount of the tax credit is equal to (i) 15.0 percent of the production company's qualifying expenses or (ii) 20.0 percent of such expenses if the production is filmed in an economically distressed area of the Commonwealth. In addition to the credit for the qualifying expenses incurred by a motion picture production company, such company may receive an Additional Virginia Resident Credit and an Additional Virginia Resident First-Time Industry Employee Credit. The Additional Virginia Resident Credit equals (i) 10.0 percent of the total aggregate payroll for Virginia residents employed in connection with the production of a film in Virginia when total production costs in Virginia are at least \$250,000, but not more than \$1.0 million or (ii) 20.0 percent of the total aggregate payroll of such residents when total production costs in Virginia exceed \$1.0 million. The Additional Virginia Resident First-Time Industry Employee Credit is equal to 10.0 percent of the total aggregate payroll for Virginia residents employed for the first time as actors or members of a production crew in connection with the production of a film in Virginia.

The Motion Picture Production Tax Credit is a refundable tax credit. Therefore, if the amount of credit that a company is allowed to claim exceeds the company's tax liability for the taxable year, the excess amount of credit will be refunded to the company.

The credit is scheduled to sunset January 1, 2022. The annual cap on the amount of credits granted during a fiscal year is \$6.5 million. The credits will be claimed by the taxpayer when filing a return. As a result, the credits claimed in a fiscal year may exceed \$6.5 million. The amount of taxes abated for fiscal year 2017 is \$6.6 million. Companies must have a memorandum of understanding with the Virginia Film Office (part of primary government) in order to participate in this program.

- The Virginia Enterprise Zone Program was enacted to stimulate business and industrial growth in designated enterprise zones. Although it originally used tax credits to achieve this purpose, the tax credits are currently being phased out in favor of a grant program. The Enterprise Zone Business Tax Credit is still allowed, but only for those businesses that initiated use of the credit on or before July 1, 2005 or have signed agreements on or before July 1, 2005, with the Commonwealth allowing such businesses to use the credit.

Pursuant to Section 59.1-280 of the *Code of Virginia*, a qualified business firm may abate its individual income tax, corporate income tax, bank franchise tax, insurance premium license tax, or public service corporation license tax by the amount of the Enterprise Zone Business Tax Credit. The amount of the tax credit (i) for a small qualified business firm is equal to 80.0 percent of its tax liability attributable to enterprise zone activity for the first year and 60.0 percent for the next nine years and, (ii) for a large

qualified business firm, is equal to a percentage that must be negotiated with the Virginia Department of Housing and Community Development (part of primary government). The negotiated percentage cannot exceed 80.0 percent of the tax liability attributable to enterprise zone activity for the first year and 60.0 percent for the next nine years.

A business firm may generally be eligible for the Enterprise Zone Business Tax Credit if it (i) establishes within an enterprise zone a trade or business not previously conducted in Virginia by the firm and (ii) 25.0 percent or more of the employees employed at the business firm's establishment or establishments located within the enterprise zone either have incomes below 80.0 percent of the median income for the jurisdiction prior to employment or are residents of an enterprise zone. Special rules are specified in § 59.1-279(A) of the *Code of Virginia* for business firms that were already in business before an area was designated as an enterprise zone or were previously conducting business in Virginia in an area outside of the enterprise zone.

All enterprise zones designated prior to July 1, 2005, remain in effect until the end of their 20-year designation period. Prior to July 1, 2005, enterprise zones were designated based upon various factors,

including whether the area had 25.0 percent or more of its population with incomes below 80.0 percent of the median income of the jurisdiction or whether the area had an unemployment rate 1.5 times the state average.

The amount of taxes abated for fiscal year 2017 was \$164,823.

- The Entitlement to Tax Revenues from Tourism Projects is intended to provide assistance when certain tourism projects fall short of the intended revenue. Pursuant to the *Code of Virginia*, Section 58.1-3851.1, a locality that has established a tourism zone and adopted an ordinance authorizing a tourism project to meet a deficiency identified in the adopted tourism plan approved by the Virginia Tourism Authority (component unit), and the tourism project has been certified by the State Comptroller as qualifying for the entitlement, the authorized tourism project shall be entitled tax revenue. This amount is equal to the revenues generated by a one percent state sales and use tax on the premises of the authorized tourism project. In order to receive the sales tax revenue, an agreement must exist between the developer of the authorized tourism project and the local economic development authority. The amount of abated taxes for fiscal year 2017 is \$100,550.

29. PRIZES AND CLAIMS

The following table summarizes Prizes and Claims Expense for the fiscal year ended June 30, 2017.

(Dollars in Thousands)

	Insurance Claims	Lottery Prize Expense	Total Prizes and Claims
Proprietary Funds:			
Major Enterprise Funds:			
Virginia Lottery	\$ -	\$ 1,202,005	\$ 1,202,005
Unemployment Compensation	347,869	-	347,869
Nonmajor Enterprise Funds	427,956	-	427,956
Total Enterprise Funds	<u>\$ 775,825</u>	<u>\$ 1,202,005</u>	<u>\$ 1,977,830</u>
Internal Service Funds	<u>\$ 1,327,292</u>	<u>\$ -</u>	<u>\$ 1,327,292</u>

30. OTHER EXPENSES

The following table summarizes Other Expenses for the fiscal year ended June 30, 2017.

(Dollars in Thousands)

	<u>Grants and Distributions To Localities</u>	<u>Expendable Equipment/ Improvements</u>	<u>Other (1)</u>	<u>Total Other Expenses</u>
Proprietary Funds:				
Major Enterprise Funds:				
Virginia College Savings Plan	\$ -	\$ 502	\$ 1,115	\$ 1,617
Nonmajor Enterprise Funds	70	4,669	2,127	6,866
Total Enterprise Funds	<u>\$ 70</u>	<u>\$ 5,171</u>	<u>\$ 3,242</u>	<u>\$ 8,483</u>
Internal Service Funds	<u>\$ 1,892</u>	<u>\$ 2,658</u>	<u>\$ 11,300</u>	<u>\$ 15,850</u>
Pension and Other Employee Benefit Trust Funds (2)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,688</u>	<u>\$ 13,688</u>

Note (1): \$6,618 (dollars in thousands) can be attributed to expenses related to cyber insurance in the Risk Management internal service fund and \$4,571 (dollars in thousands) can be attributed to Affordable Care Act related fees in the Health Care Fund internal service fund. \$1,115 (dollars in thousands) can be attributed to the Prepaid529 Program for the SOAR scholarship program and other promotional scholarships.

Note (2): Fiduciary expenses of \$13,688 (dollars in thousands) are not included in the Government-wide Statement of Activities.

31. OTHER NON-OPERATING REVENUE/EXPENSES

The following table summarizes Other Non-Operating Revenue/Expenses for the fiscal year ended June 30, 2017.

(Dollars in Thousands)

	<u>Gain/ (Loss) on Sale of Capital Assets</u>	<u>VRS Contributions (1)</u>	<u>Interest Expense</u>	<u>Federal Unemployment Tax Act</u>	<u>Other (2)</u>	<u>Total Other Non- Operating Revenue/ (Expenses)</u>
Proprietary Funds:						
Major Enterprise Funds:						
Virginia Lottery	\$ -	\$ 755	\$ -	\$ -	\$ 110	\$ 865
Virginia College Savings Plan	(13)	288	(240)	-	-	35
Unemployment Compensation	-	-	-	(401)	-	(401)
Nonmajor Enterprise Funds	-	2,639	-	-	9,128	11,767
Total Enterprise Funds	<u>\$ (13)</u>	<u>\$ 3,682</u>	<u>\$ (240)</u>	<u>\$ (401)</u>	<u>\$ 9,238</u>	<u>\$ 12,266</u>
Internal Service Funds	<u>\$ (84)</u>	<u>\$ 1,594</u>	<u>\$ (2,428)</u>	<u>\$ -</u>	<u>\$ 28</u>	<u>\$ (890)</u>

Note (1): Represents the proportionate share of the Commonwealth's payment to the VRS as an accelerated payback of the deferred contribution in the 2010-2012 biennium.

Note (2): Other Non-Operating Revenue/Expenses of the nonmajor enterprise funds are primarily comprised of amounts reported by the Department of Alcoholic Beverage Control.

32. SPECIAL ITEM

Under the terms of an operating lease, the Virginia Port Authority (VPA) (nonmajor component unit) acquired certain assets with a cost of \$13.3 million. The inflation-adjusted value of similar assets was to be returned to the lessor upon lease termination for which VPA recorded a commensurate liability. Upon commencement of the amended lease agreement, all such provisions were combined into the minimum lease payments and the existing liability was de-recognized.

33. TRANSFERS

The following table summarizes Transfers In and Transfers Out for the fiscal year ended June 30, 2017 (dollars in thousands).

Transfers In (Reported In):					
Transfers Out (Reported In):	General	Commonwealth Transportation	Federal Trust	Literary	Nonmajor Governmental Funds
Primary Government					
General	\$ -	\$ 4,405	\$ -	\$ -	\$ 436,605
Major Special Revenue Funds:					
Commonwealth Transportation	30,468	-	16	-	199,100
Federal Trust	31	33,198	-	-	18,145
Nonmajor Governmental Funds	79,373	267	9,423	142,000	5,047
Major Enterprise Funds:					
Virginia Lottery	559,072	-	-	12,298	-
Virginia College Savings Plan	935	-	-	-	-
Unemployment Compensation	-	-	1,427	-	-
Nonmajor Enterprise Funds	181,017	-	-	4	15,170
Internal Service Funds	2,931	-	-	-	222
Total Primary Government	\$ 853,827	\$ 37,870	\$ 10,866	\$ 154,302	\$ 674,289

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 \$27.2 million to the General Fund as required by Chapter 836, 2017 Virginia Acts of Assembly.

Nonmajor Enterprise Funds	Internal Service Funds	Total Primary Government
\$ -	\$ 660	\$ 441,670
-	388	229,972
79	-	51,453
-	-	236,110
-	-	571,370
-	-	935
-	-	1,427
-	-	196,191
-	-	3,153
<u>\$ 79</u>	<u>\$ 1,048</u>	<u>\$ 1,732,281</u>

34. ON-BEHALF PAYMENTS

For higher education institutions and other nonmajor component units, there is approximately \$73.8 million that represents the proportionate share of the payment from the Commonwealth to the Virginia Retirement System as an accelerated payback of the deferred contributions in the 2010-2012 biennium. These amounts are included in Program Revenue Operating Grants and Contributions and as part of Expenses. During fiscal year 2017, higher education institutions were required to transfer to the Commonwealth of Virginia approximately \$26.1 million to fund a portion of the nongeneral share of these costs as required by Chapter 836, 2017 Acts of Assembly.

35. 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, 2017. 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.

36. CASH FLOWS – ADDITIONAL DETAILED INFORMATION

The following table (dollars in thousands) summarizes specific cash flows for the fiscal year ended June 30, 2017.

	<u>Virginia Lottery</u>	<u>Virginia College Savings Plan</u>	<u>Unemployment Compensation</u>
Cash Flow s Resulting from:			
Payments for Prizes, Claims, and Loss Control:			
Lottery Prizes	\$ (1,228,244)	\$ -	\$ -
Claims and Loss Control	-	-	(359,748)
Total	<u>\$ (1,228,244)</u>	<u>\$ -</u>	<u>\$ (359,748)</u>
Other Operating Revenue:			
Other Operating Revenue	\$ -	\$ -	\$ 318
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 318</u>
Other Operating Expense:			
Other Operating Expenses (1)	\$ -	\$ (1,115)	\$ -
Total	<u>\$ -</u>	<u>\$ (1,115)</u>	<u>\$ -</u>
Other Noncapital Financing Receipt Activities:			
Advances/Contributions from the Commonwealth	\$ -	\$ -	\$ -
Receipts from Taxes	-	-	-
Other Noncapital Financing Receipt Activities	100	-	44
Total	<u>\$ 100</u>	<u>\$ -</u>	<u>\$ 44</u>
Other Noncapital Financing Disbursement Activities:			
Repayments of Advances/Contributions from the Commonwealth	\$ -	\$ -	\$ -
Other Noncapital Financing Disbursement Activities	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Other Capital and Related Financing Receipt Activities:			
Other Capital and Related Financing Receipt Activities	\$ -	\$ -	\$ -
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Other Capital and Related Financing Disbursement Activities:			
Other Capital and Related Financing Disbursement Activities	\$ -	\$ -	\$ -
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Note (1): \$1,115 (dollars in thousands) can be attributed to SOAR scholarship expenses and other scholarships and awards. Also, \$6,945 (dollars in thousands) can be attributed to expenses related to cyber insurance in the Risk Management internal service fund and \$4,571 (dollars in thousands) can be attributed to Affordable Care Act related fees in the Health Care Fund internal service fund.

37. TOBACCO SETTLEMENT AND SECURITIZATION

Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
\$ -	\$ (1,228,244)	\$ -
(424,410)	(784,158)	(1,381,539)
<u>\$ (424,410)</u>	<u>\$ (2,012,402)</u>	<u>\$ (1,381,539)</u>
\$ 5,130	\$ 5,448	\$ -
<u>\$ 5,130</u>	<u>\$ 5,448</u>	<u>\$ -</u>
\$ (5,055)	\$ (6,170)	\$ (14,197)
<u>\$ (5,055)</u>	<u>\$ (6,170)</u>	<u>\$ (14,197)</u>
\$ 34,724	\$ 34,724	\$ 29,124
234,591	234,591	-
263	407	713
<u>\$ 269,578</u>	<u>\$ 269,722</u>	<u>\$ 29,837</u>
\$ (29,749)	\$ (29,749)	\$ (33,863)
(33)	(33)	(1,000)
<u>\$ (29,782)</u>	<u>\$ (29,782)</u>	<u>\$ (34,863)</u>
\$ 182	\$ 182	\$ -
<u>\$ 182</u>	<u>\$ 182</u>	<u>\$ -</u>
\$ -	\$ -	\$ (2,231)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,231)</u>

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 Tobacco Region Revitalization 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.

38. 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 five SCAs as of June 30, 2017: Pocahontas 895, the 495 Express Lanes, Elizabeth River – Midtown Tunnel, the 95 Express Lanes, and the I-66 Outside the Beltway. 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 \$506.5 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. In December 2016, the majority owner of toll rights, Macquarie and other rights owners closed on the sale of 100.0 percent of the tolling rights to Globalvia.

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 \$888.8 million and deferred inflows of \$996.2 million 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 Martin Luther King Jr. (MLK) Freeway and I-264. As of January 1, 2017 all project components of this agreement have reached substantial completion and are in service.

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. Capital assets of \$914.1 million and deferred inflow balances of \$917.2 million are included in the government-wide financial statements. Liabilities are contingent on specific events occurring pursuant to the agreement. In July 2017, VDOT issued a Department Project Enhancement directive for Elizabeth River Crossings OPCO LLC, to design and build noise barrier walls for the MLK Freeway. VDOT is committed for these costs estimated at \$23.1 million with construction to begin in fiscal year 2018 and be completed in fiscal year 2019.

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 \$578.5 million and deferred inflows of \$610.5 million are included in the government-wide financial statements. Liabilities are contingent on specific events occurring pursuant to the agreement.

During fiscal year 2016, the Commonwealth Transportation Board awarded a contract to design and construct a reversible extension of the 95 Express Lanes at the southern terminus in Stafford County. The approximately 2.5-mile extension will carry traffic beyond the location where the 95 Express Lanes currently end. The construction began in fiscal year 2017 and lanes opened to traffic on October 31, 2017. In addition, plans were announced by VDOT during fiscal year 2016, to extend the 95 Express Lanes north to I-395. This project involves expanding and converting two high occupancy vehicle (HOV) lanes to three express lanes near the Pentagon. Construction on this eight-mile extension began in summer of 2017 with completion scheduled for fall 2019.

VDOT reached commercial close with Transurban on June 8, 2017, and financial close was completed on July 25, 2017, for this project.

On June 8, 2017, an amended and restated Comprehensive Agreement was signed between VDOT and 95 Express Lanes LLC to include the scope of the project work for the I-395 northern extension. The Comprehensive Agreement was updated to include this addition to the project and features payments to the Department for Transit Improvements. In consideration for the rights granted by VDOT to 95 Express Lanes LLC, solely in respect of the 395 Project, 95 Express Lanes LLC will agree to make a payment to VDOT of \$15.0 million on the 395 Project service commencement date and escalating annually thereafter at a rate of 2.5 percent per annum as such amounts per payment year are set forth in the Amended and Restated Comprehensive Agreement (ARCA).

In fiscal year 2017, planning was initiated on the additional extension of the Express Lanes from Garrisonville Road to Route 17 in Stafford County, which is about 10 miles. It will have direct connection with both the northbound and southbound Rappahannock River crossing projects and will be analyzing access points and operational improvements with the project. VDOT is

currently working with Transurban under an Advanced Development Framework Agreement for the Fredericksburg extension of the I-95 HOV/HOT Lanes.

I-66 Outside the Beltway Express Lanes

On December 8, 2016, a 50-year Public Private Partnership Agreement (the Agreement) between VDOT, the Department of Rail and Public Transportation (DRPT), and private partner, I-66 Express Mobility Partners, was signed.

The \$2.3 billion I-66 Outside the Beltway Project with Express Mobility Partners is to build express lanes on I-66 outside the I-495 Capital Beltway. During the 50-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 purpose of this Agreement is to build new express lanes to provide users with a faster and more reliable travel option.

The I-66 Outside the Beltway Project will include 22.5 miles of new express lanes alongside three regular lanes from I-495 to University Boulevard in Gainesville, Virginia. The project will also provide new and improved bus service and transit routes, new and improved park and ride lots, and interchange improvements to enhance safety and reduce congestion.

Express Mobility Partners will be responsible for all costs to design, build, operate and maintain the I-66 Express Lanes, without any upfront public contribution.

Financial close on the project occurred on November 9, 2017. The express lanes will open to traffic in mid-2022. These lanes will remain open for the public as long as the applicable tolls are paid. Liabilities for VDOT from the Agreement are contingent on specific events occurring pursuant to the Agreement.

Express Mobility Partners provided \$578.9 million at financial close as a concession payment to the Commonwealth to be received by VDOT. Pending approval by the Commonwealth Transportation Board, these funds will be used for project oversight by VDOT, contingency risk during construction that is released during the construction period, and projects in the corridor as selected by the Commonwealth Transportation Board.

Additional consideration to be provided by Express Mobility Partners includes several components of the permit fee established in the Agreement. A description of these components and the stipulations around receiving is provided below.

Express Mobility Partners is required to pay VDOT a permit fee that consists of transit funding payments, support for corridor improvements, and revenue sharing as further described below.

The transit funding payment portion of the permit fee that becomes due during the operating period will be payable

after debt service and required reserve accounts, and will be subject to the lock-up provisions required in the Transportation Infrastructure Finance and Innovation Act (TIFIA) Loan Agreement, but prior to support for corridor improvements and distributions. If funds are insufficient to make scheduled transit funding payments at the time due, such payments or any unpaid portion thereof will be considered past due and will remain due and payable without interest charges. The net present value of these payments is \$768.0 million.

The support for corridor improvements are to be paid as indicated in the Agreement. Amounts to be paid annually are contingent on actual toll revenues. The net present value of the support for corridor improvements is expected to total \$350.0 million. At the end of the term of the Agreement, any unpaid balance of these payments is to be forgiven or cancelled.

Express Mobility Partners will make revenue sharing payments in amounts calculated based on actual cumulative net present value of gross revenue at the end of each year of the Agreement. The percentage of gross revenue to be paid by Express Mobility Partners to VDOT increases in accordance with a five-tier revenue sharing scale. Revenue sharing payments do not have to be made if transit funding payments or support for corridor improvements are past due or unpaid.

Additional information on these payments can be found in the Agreement executed between VDOT, DRPT, and Express Mobility Partners.

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, 2017, the University has accrued a \$18.8 million receivable, a \$12.0 million liability and a \$68.5 million deferred inflow of resources related to the service concession arrangement.

39. 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 was to significantly improve the Commonwealth's IT infrastructure and the manner in which such infrastructure was 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 were 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.

The CIA provides various termination scenarios. The Commonwealth can 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 would 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 include 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. On the other hand, NG can 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 might be required to pay exit and resolution fees, as outlined in 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 all or a portion of the business relationship on or before the conclusion of the CIA term, the Commonwealth will incur significant costs to obtain and transition the IT infrastructure necessary to continue the Commonwealth's operations.

In 2015, in anticipation of contract expiration in 2019, and with recognition of the complexity of the change in such a large shared services environment, VITA engaged a consulting firm to help develop sourcing strategies to better align with current best practices and future customer requirements. After evaluating options and engaging numerous Commonwealth stakeholders, VITA determined that it should start disentangling services from the CIA and transition services in waves to a new, multi-supplier model. The transition has begun with the messaging tower and a contract signed with Tempus

Nova, and efforts to transition messaging services from NG. Other transitions and accompanying terminations of services, on a tower-by-tower basis, are in progress or are planned, all with a goal of complete disentanglement from the CIA by June 30, 2019. These terminations may result in payment of exit and resolution fees as contemplated by the CIA, the amount of which will be determined as part of the disentanglement process. Furthermore, certain services and transition work are now the subject of litigation between NG and VITA in Richmond Circuit Court.

Expenses associated with the CIA in fiscal year 2017 are \$317.0 million, including payments to Northrop Grumman of \$277.3 million. Based on current expenses, the Commonwealth expects to spend an additional \$600.0 million over the next two fiscal years, either with NG or new providers.

40. 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 and portions of selected rebates. The Commonwealth has paid the amount it believes is owed for fiscal years 2009-2014, and is currently appealing a DHHS determination letter indicating that an additional amount may be owed for this time period.

Additionally, the DHHS has received the 2017 and 2016 payback schedules which are based on fiscal year 2016 and 2015 data, respectively. The Commonwealth has computed a liability of \$9.1 million representing the amounts owed to the federal

government for internal service fund over-recoveries and transfers, as well as the federal share of various rebates received. This amount has been reflected in the accompanying financial statements.

The Virginia Tourism Authority (nonmajor component unit) had unclaimed awards totaling \$1.7 million payable to awardees upon submission of proper claims for reimbursement for the Marketing Leverage Program. Additionally, the Authority had unclaimed awards totaling \$62,456 payable to awardees upon submission of proper claims for reimbursement for the Sesquicentennial Marketing Program. In addition, the program has \$142,544 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 \$2.8 billion. The discretely presented component units have such debt of \$3.9 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, 2017, the bailment inventory was valued at \$37.9 million.

E. Loan Guarantees

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, 2017, the loan guaranty program has guarantees outstanding of \$8.2 million and restricted assets pledged as collateral of \$16.5 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, 2017, the VSBFA recognized a nonexchange financial guarantee liability of \$326,902. This is an increase of \$191,375 from the beginning balance of \$135,527. There were no required payments made during fiscal year 2017. Additionally, there have been no cumulative amounts paid on these outstanding loan guarantees nor are there any expected recoveries.

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, 2017, there was approximately \$18,045 of guaranteed loans held by the Authority's banking partner.

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 was embodied in a State administrative order. 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 is 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, 2017, the HRSD has outstanding commitments for contracts in progress of approximately \$114.0 million.

41. PENDING GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT

The GASB has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement will significantly impact the Commonwealth's reporting disclosures and accrued other postemployment benefit liability amounts. The Commonwealth will implement GASB Statement No. 75 in fiscal year 2018.

42. SUBSEQUENT EVENTS

Primary Government

Debt

On July 12, 2017, the Commonwealth Transportation Board issued \$260.7 million of Commonwealth of Virginia Transportation Capital Projects Revenue Bonds, Series 2017, to provide for the payment of the costs of certain transportation projects in the Commonwealth.

On November 27, 2017, the Virginia Public Building Authority (VPBA) defeased portions of Public Facilities Revenue Bonds and Public Facilities Revenue Refunding Bonds that included Series 2010A-2, 2010B-1, 2011A, 2012A, 2014C, 2015B and 2016B Bonds. On the following day, VPBA issued a conditional call notice to redeem a portion of its Series 2010B-2 Bonds on December 28, 2017. The defeasance and call notices were completed using \$12.7 million of funds received from the November 15, 2017 sale of certain real estate owned by the Commonwealth. A portion of such sale proceeds was transferred to VPBA to take the actions described above due to outstanding VPBA bonds remaining at the time of the property sale.

On December 7, 2017, the Commonwealth Transportation Board issued \$483.0 million of Commonwealth of Virginia Federal Transportation Grant Anticipation Revenue and Refunding Notes (GARVEEs), Series 2017 to provide for the payment of certain transportation projects and to refund certain maturities of Series 2012A, 2012B and 2013A Bonds.

On December 14, 2017, the Commonwealth Transportation Board issued \$629.2 million of Commonwealth of Virginia Transportation Capital Projects Revenue Refunding Bonds, Series 2017A, to refund certain maturities of Series 2011 and 2012 Bonds.

On December 14, 2017, VPBA issued \$145.3 million of Public Facilities Revenue Refunding Bonds, Series 2017A. The Bonds will refund certain maturities of VPBA's Series 2011A, 2013A and 2014A Bonds.

Component Units

Debt

On July 1, 2017, the Virginia Housing Development Authority (VHDA) (major) redeemed Commonwealth Mortgage Bonds Series 2007A in the amount of \$154.2 million.

On July 5, 2017, the Virginia Resources Authority (major) issued bonds in the amount of \$6.5 million with an interest rate of 3.8 percent and another bond on August 16, 2017 in the amount of \$39.2 with an interest rate from 1.6 percent to 5.0 percent. Additionally, a locality prepaid an outstanding obligation in the amount of \$5.1 million on August 17, 2017.

On August 2, 2017, the Virginia College Building Authority (VCBA) (major) issued \$492.7 million of Educational Facilities Revenue Bonds (21st Century College and Equipment Programs), Series 2017C and \$99.9 million of Educational Facilities Federally Taxable

Revenue Bonds (21st Century College and Equipment Programs), Series 2017D. The Bonds will provide funding for authorized VCBA capital projects at public institutions of higher education around the Commonwealth.

On August 22, 2017, the Virginia Public School Authority (VPSA) (major) issued School Financing and Refunding Bonds Series 2017B in the amount of \$106.1 million. The proceeds will be used to refund certain outstanding bonds of the Authority.

On September 13, 2017, and October 19, 2017, VHDA issued Series C and D Tax exempt bonds in the amount of \$2.9 million and \$5.6 million, respectively.

On September 28, 2017, the University of Virginia (nonmajor) issued \$300.0 million of taxable General Revenue Pledge Bonds, Series 2017C. The 2017C Series was issued to advance fund new construction on the Grounds of the University of Virginia. The bonds were issued with a coupon rate of 4.2 percent.

On November 7, 2017, VPSA issued \$115.8 million in School Financing Bonds (1997 Resolution), Series 2017C to purchase certain general obligation local school bonds to finance capital projects for schools.

On November 9, 2017, VPSA issued Special Obligation School Financing Bonds, King George County Series 2017 in the amount of \$20.8 million. The Bonds will be used by the County to finance the costs of various capital school improvement projects for the County.

On December 5, 2017, VCBA issued \$113.1 million in Educational Facilities Revenue Bonds, Series 2017A and \$24.6 million in Educational Facilities Federally Taxable Revenue Bonds, Series 2017B under the Public Higher Education Financing Program (the Pool Program). VCBA used the proceeds of the Series 2017A and Series 2017B 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.

On December 5, 2017, VHDA issued series 2017 Tax Exempt bonds in the amount of \$54.1 million.

On December 21, 2017, VCBA plans to issue \$560.6 million in Educational Facilities Revenue Refunding Bonds (21st Century College and Equipment Programs), Series 2017E. The Bonds will refund certain maturities of VCBA's 2008A, 2009A, 2011A, 2012A, 2012B, 2013A, 2014A, and 2015A Bonds.

