Index to the Notes to the Financial Statements

June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying financial statements have been prepared in conformance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB).

B. Reporting Entity

For financial reporting purposes, the Commonwealth of Virginia's (the Commonwealth's) reporting entity consists of (1) the primary government, (2) component unit organizations for which the primary government is financially accountable (blended component units), and (3) other component unit organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading, and they are financially accountable to the primary government (discrete component units). The funds of all agencies, boards, commissions, foundations, and authorities that have been identified as part of the primary government or a component unit have been included. GASB standards require the inclusion of numerous organizations that raise and hold funds for the direct benefit of the primary government.

Section 2100 of the GASB *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification) describes the criteria for determining which organizations, functions, and activities should be considered part of the Commonwealth for financial reporting purposes. The basic criteria include appointing a voting majority of an organization's governing body, and the Commonwealth's ability to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Commonwealth. Additionally, in instances where the voting majority is not appointed, the above benefit/burden criteria apply. If the organization's assets are also held for, or can be accessed by, the Commonwealth, the organization is considered part of the reporting entity.

(1) Primary Government – A primary government consists of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, and departments are, for financial reporting purposes, part of the primary government.

(2) Blended Component Units – Though legally separate entities, these component units are, in substance, part of the primary government's operations. The blended component units serve or benefit the primary government almost exclusively. Financial information from these units is combined with that of the primary government. The Commonwealth's blended component units are:

Virginia Public Building Authority (VPBA) (nonmajor governmental fund) – The Authority was created as a body politic and corporate and is fiscally independent. A government instrumentality, the Authority finances the acquisition and construction of buildings for the use of the Commonwealth and other approved purposes. The Governor appoints the 7-member board, and the primary government is able to impose its will on the Authority. The Auditor of Public Accounts audits the Authority, and a separate report is issued from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218-1879.

Route 460 Funding Corporation of Virginia (nonmajor enterprise) – The Corporation, a private, non-stock nonprofit corporation was created to develop, construct, and provide financing for the U.S. Route 460 Corridor Improvements Project. The Corporation was a blended component unit of the Virginia Department of Transportation (VDOT) (primary government) because it was fiscally dependent on the primary government, and there was a financial benefit/burden relationship between the primary government and the Corporation. The corporate offices of the Corporation were located at VDOT, 1401 East Broad Street, Richmond, Virginia 23219. Dixon Hughes Goodman, LLP audited the Corporation, and a separate report is available from VDOT. The continuing operations of the Corporation ceased during fiscal year 2016.

(3) Discrete Component Units – Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading. These discrete component units serve or benefit those outside of the primary government.

GASB statements generally require any organization that raises and holds economic resources for the direct benefit of these reporting entity to be reported as a component unit, even if the reporting entity is not financially accountable for the organization. The entities are included in the Commonwealth's reporting entity as nonprofit charitable organizations and exist solely to support the Commonwealth's higher education institutions and certain state agencies. The higher education institution nonprofit organizations are included in the applicable higher education institution's column in the accompanying financial statements. In all instances where separate disclosure of these nonprofit organizations is required in the accompanying footnotes, the entities' totals are aggregated and disclosed as "foundations."

The criteria for reporting certain component units as major component units focuses on the nature and significance of the component unit's relationship to the primary government versus other component units.

Discretely presented component units are:

Virginia Housing Development Authority (VHDA) (major) – The Authority was created as a political subdivision and instrumentality of the Commonwealth and is granted both politic and corporate powers by the *Code of Virginia*. The Governor appoints a majority of the Authority's board members and the remaining board members are ex-officio. The Commonwealth may make grants to the Authority including, but not limited to, reserve funds, which is a potential financial benefit/burden to the primary government. The Commonwealth is not legally obligated by the debt of the Authority. The Authority was created in the public interest to provide investment in and stimulate construction of low to moderate income housing which benefits the citizens of the Commonwealth. The administrative offices of the Authority are located at 601 South Belvidere Street, Richmond, Virginia 23220. KPMG, LLP audits the Authority, and a separate report is issued.

Virginia Public School Authority (VPSA) (major) – The Authority was created as a public body corporate, and an agency and instrumentality of the Commonwealth to finance capital projects of city and county school boards. The Governor appoints the board members, who serve at his pleasure. Therefore, the primary government is able to impose its will on the Authority. The Auditor of Public Accounts audits the Authority, and a separate report is issued from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218-1879.

Virginia Resources Authority (VRA) (major) – The Authority was created as a public body corporate and a political subdivision of the Commonwealth to provide financing of infrastructure projects for water supply, wastewater, storm water, solid waste treatment, airports, public safety, brownfields remediation and redevelopment, and recycling. The Governor appoints the 11-member board and the Executive Director of the Authority. The primary government is able to impose its will on the Authority, and there is a financial benefit/burden to the primary government. The Commonwealth does not guarantee any bonds issued by the Virginia Resources Authority. The administrative offices of the Authority are located at 1111 East Main Street, Suite 1920, Richmond, Virginia 23219. Brown, Edwards and Company, LLP audits the Authority, and a separate report is issued.

Virginia College Building Authority (VCBA) (major) – The Authority was created as a public body corporate, a political subdivision, and an agency and instrumentality of the Commonwealth. The Governor appoints a majority of the board and members serve at his pleasure. Therefore, the primary government is able to impose its will on the Authority. The Authority finances certain capital projects and equipment purchases of state-supported colleges and universities. The Auditor of Public Accounts audits the Authority, and a separate report is issued from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218-1879.

Only the activity of the Authority that relates to the financing of capital projects and equipment purchases by state-supported colleges and universities is included in the accompanying financial statements. The state-supported colleges and universities reported revenue from the Authority of $468.3 million as Program Revenue Capital Grants and Contributions for the 21st Century Program and $71.2 million as Program Revenue Operating Grants and Contributions for equipment. The Authority reported Operating Appropriations from Primary Government of approximately $318.4 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 $12.3 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 $817.4 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 $1.8 billion and Program Revenue Capital Grants and Contributions of approximately $96.9 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' individually published financial statements. The Auditor of Public Accounts (APA) does not audit the Roanoke Higher Education Authority, the Institute for Advanced Learning and Research, and the component units of the higher education institutions, including foundations, but relies on the reports issued by other auditors to render her opinion.

The APA audits the colleges and universities, and individual reports are issued under separate cover. Complete financial statements for each institution may be obtained from their respective administrative offices. The addresses for these institutions may be obtained from the Department of Accounts, 101 North 14th Street, Richmond, Virginia 23219-3638.

Innovation and Entrepreneurship Investment Authority (IEIA) (nonmajor) – The Authority is granted corporate powers by the *Code of Virginia*. The Authority serves to facilitate the marketing, organization, and development of scientific research and technology by the state's institutions of higher education and private industry in the Commonwealth. In addition, the Authority serves to promote the economic development of the Commonwealth by attracting and retaining high technology jobs and businesses in Virginia. The Governor and General Assembly appoint the 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 (VEDP) (nonmajor) – The Partnership was created as a body corporate and operates to encourage, stimulate, and support the development and expansion of commerce in the Commonwealth. The Governor appoints the 15-member board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 901 East 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 39 Garrett Street, Suite 200, Warrenton, VA 20186. Hicok, Fern & Company CPAs audits the Foundation, and a separate report is issued.

Virginia Port Authority (VPA) (nonmajor) – The Authority was established as a corporate body and operates to serve the citizens and promote commerce through the harbors and ports of Virginia. The Governor appoints a majority of the 12-member board, and the primary government is able to impose its will on the Authority. There is also a financial benefit/burden to the primary government. The administrative offices of the Authority are located at 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 (formerly Tobacco Indemnification and Revitalization Commission) (nonmajor) – The Commission was created as a body corporate and as a political subdivision of the Commonwealth. The Commission was established to determine the appropriate recipients of the monies in the Tobacco Indemnification and Community Revitalization Fund. This fund is to provide payments to tobacco farmers as compensation for the adverse economic effects resulting from loss of investment in specialized tobacco equipment and barns, as well as lost tobacco production opportunities. It also provides monies to revitalize tobacco dependent communities. The Governor appoints the majority of the board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 701 East Franklin Street, Suite 501, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Commission, and a separate report is issued.

Hampton Roads Sanitation District Commission (nonmajor) – The Commission was established as a political subdivision of the Commonwealth and a government instrumentality. The Commission, which is the governing board of the district, was granted corporate powers by the *Code of Virginia*. The Governor appoints the Commission members, who serve at his pleasure. Therefore, the primary government is able to impose its will on the Commission. The Commonwealth is not obligated by the debt of the Commission. The Commission was established to benefit the inhabitants of the district and operates a sewage system for 17 localities in the Chesapeake Bay area. The address for the administrative offices of the Commission is 1434 Air Rail Avenue, Virginia Beach, Virginia 23455. KPMG, LLP, audits the Commission, and a separate report is issued.

Virginia Biotechnology Research Partnership Authority (nonmajor) – The Authority is a legally separate, political subdivision of the Commonwealth created by the General Assembly to assist in the development of a biotechnology research park. The Governor appoints the board members of the Authority, and there is a potential financial benefit/burden to the primary government. The administrative offices of the Authority are located at 800 East Leigh Street, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

The Authority issued the 2002 Series, the 2013B Series, and the 2013A Series of revenue bonds for specific customers. The 2002 Series variable rate revenue bonds were for a facility built specifically for the United Network for Organ Sharing. The 2013B Series variable rate revenue bonds were for the Virginia Blood Services project. The 2013A Series variable rate revenue bonds were to assist the Institute for Transfusion Medicine (ITxM). The bonds are secured by a letter of credit and are payable solely from the payments made by the borrower under the loan agreement. 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 (VSBFA) (nonmajor) – Section 2.2-2280 of the *Code of Virginia* established the Authority as a public body corporate and a political subdivision of the Commonwealth. The

Governor appoints the 11-member board, and the primary government is able to impose its will on the Authority. The Authority was created to assist small businesses in the Commonwealth in obtaining financing for new businesses or the expansion of existing businesses. The Authority can provide financial assistance to small businesses by providing loans, guarantees, insurance, and other assistance, thereby encouraging the investment of private capital in small businesses in the Commonwealth. The Authority can loan money to local governments as defined by the *Code of Virginia* for economic development purposes. The Authority also guarantees loans made to small businesses by banks. The administrative offices of the Authority are located at 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. Cherry Bekaert, LLP, audits the Foundation, and a separate report is issued.

Virginia Commercial Space Flight Authority (VCSFA) (nonmajor) – The Authority is a legally separate political subdivision of the Commonwealth created by the General Assembly to facilitate and coordinate scientific and technological research and development and to promote the industrial and economic development of the Commonwealth. The Governor appoints the 9-member board and there is a potential financial benefit/burden to the primary government. The Commonwealth provided $26.0 million in bond offerings through the Virginia Public Building Authority (nonmajor) to the VCSFA in fiscal year 2009. The Commonwealth provided $25.6 million in capital contributions through a memorandum of understanding in September 2012. The Commonwealth provided an additional $10.0 million of capital contributions through a settlement agreement by and among the VCSFA, the Commonwealth, and Orbital Sciences Corporation to the VCSFA in January 2014. The Commonwealth approved the conversion of a $5.0 million interest-free note to repair Pad 0A into a grant in March 2015. The administrative offices of the Authority are located at 4111 Monarch Way, Suite 303, Norfolk, Virginia 23508. Dixon Hughes Goodman, LLP, audits the Authority, and a separate report is issued.

Danville Science Center, Inc. (nonmajor) – The Center is a nonprofit corporation formed for the purpose of implementing and funding those programs, projects and operations which are authorized and approved by the trustees of the Science Museum of Virginia (part of primary government). There is a financial benefit/burden to the primary government, 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.

Virginia University Research Partnership (nonmajor) – The Partnership was created as a nonprofit, non-stock corporation to receive grant monies appropriated by the General Assembly. The Partnership oversaw the administration of those grant payments for use by a nonprofit, public benefit research institute that conducted research and development for government agencies, commercial businesses, foundations, and other organizations. Due to the primary government being the sole source of funding, it was able to impose its will on the Partnership. The administrative offices were located at 901 East Byrd Street, Post Office Box 798, Richmond, Virginia 23218-0798. The Partnership ceased operations during fiscal year 2016.

Fort Monroe Authority (nonmajor) – The Authority is a legally separate, political subdivision of the Commonwealth created by the General Assembly to assist in formulating a reuse plan for Fort Monroe. The Governor appoints a majority of the 17-member board, and there is a potential financial benefit/burden to the primary government. The administrative offices of the Authority are located at 20 Ingalls Road, Fort Monroe, Virginia 23651. Cherry Bekaert, 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 General Assembly Building, 2nd Floor, 201 North 9th Street, Richmond, VA 23219. Brown, Edwards & Company, LLP, audits the Foundation, and a separate report is issued.

Virginia Land Conservation Foundation (nonmajor) – The Foundation was created as a body politic and corporate to serve the Department of Conservation and Recreation (part of primary government) by acquiring interests in preservation land and providing grants to other entities to acquire interests in preservation land. The Governor appoints the 18-member board, and the primary government can impose its will on the Foundation. The administrative offices of the Foundation are located at 600 East Main Street, 24th Floor, Richmond, VA 23219. The Auditor of Public Accounts audits the Foundation as part of the Department of Conservation and Recreation (part of primary government) and discloses its existence in that report.

Virginia Arts Foundation (nonmajor) – The Foundation was created as a body politic and corporate to serve the Virginia Commission for the Arts (part of primary government) by promoting the arts in the Commonwealth. The Governor appoints the board of trustees for the Virginia Commission for the Arts, which also serves as the board for the Virginia Arts Foundation. The Director of the Virginia Commission for the Arts serves as the board chairman. In addition, the primary government can impose its will on the Foundation. The administrative offices of the Foundation are located at 1001 East Broad Street, Suite 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 Bercalow, 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 (formerly Tobacco Indemnification and 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 institutions of higher education may follow a different policy. When committed, assigned, and unassigned resources are available for use, the Commonwealth's policy is to use the committed resources first, assigned resources next, and unassigned resources last.

Separate financial statements are provided for governmental funds, proprietary funds, fiduciary funds, and component units. However, fiduciary funds are not included in the government-wide statements. Major governmental funds, enterprise funds, and component units are reported in separate columns in the fund financial statements, with nonmajor funds being aggregated into a single column.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the primary government considers revenues to be available if they are collected within 60 days of the end of the current fiscal year (or one year for Medicaid). Significant revenues subject to accrual include federal grants and income and sales taxes. Income tax revenues for tax underpayments are only recognized to the extent of the primary government's estimated refunds for tax overpayments received. Revenues that the primary government earns by incurring obligations are recognized in the same period as when the obligations are recognized.

Expenditures generally are recorded when a liability is incurred, as under full accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when the payment is due.

The primary government reports the following major governmental funds:

General Fund – Accounts for the transactions related to resources received and used for those services traditionally provided by a state government, and which are not accounted for in any other fund. These services include general government, legislative and judicial activities, public safety, health and behavioral health programs, resources and economic development, licensing and regulation, and primary and secondary education.

Commonwealth Transportation Special Revenue Fund – Accounts for the revenues and expenditures associated with highway operations, maintenance, construction, and other transportation related activities. Funding for these programs is received from highway user taxes, fees, and funds received from the federal government.

Federal Trust Special Revenue Fund – Accounts for all federal dollars received by the Commonwealth except those received by the Commonwealth Transportation Fund, the Unemployment Compensation Fund, certain Medicaid reimbursements recorded in the General Fund, and component units.

Literary Fund Special Revenue Fund – Accounts for revenues from fines, forfeitures, and proceeds from unclaimed property used primarily to support public education in the Commonwealth. This fund provides low interest loans to school divisions for construction, renovations, and expansion of school buildings.

Proprietary Funds, Fiduciary Funds, and Component Units Financial Statements – The financial statements of the proprietary funds, fiduciary funds, and component units are reported using the economic resources measurement focus and the full accrual basis of accounting. As with the government-wide statements, revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds have no measurement focus since they only report assets and liabilities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating.

Foundations' (component units) financial statements are prepared using the economic resources measurement focus and the full accrual basis of accounting. The financial statements are prepared under FASB rather than GASB standards. In some instances, activities of the foundations (component units) are reported separately within the footnotes because of the different reporting standards. Also, some foundations (component units) have a December 31st or March 31st year-end rather than a fiscal year-end. Foundations (component units) with different year-ends are included in these financial statements for the year ending December 31, 2015, or March 31, 2016. 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 $468,365
  - institution liabilities of $32,259
  - institution revenue of $8.2 million
  - foundation assets of $952,323
  - foundation liabilities of $641,895
  - foundation expenses of $7.7 million

- Old Dominion University (nonmajor component unit):
  - institution liabilities of $59.6 million
  - institution revenue of $1.6 million
  - institution expenses of $636,555
  - foundation assets of $53.7 million

The primary government reports the following major enterprise funds:

Virginia Lottery Fund – Accounts for all receipts and expenses of the Virginia Lottery.

Virginia College Savings Plan Fund – Administers the Virginia529 prePAID Program.

Unemployment Compensation Fund – Accounts for receipts from employers and expenses incurred to provide benefits to eligible unemployed workers.

Additionally, the primary government reports the following fund types:

Governmental Fund Types:

Special Revenue Funds – Account for transactions related to resources received and used for restricted, committed, or specific purposes.

Debt Service Funds – Account for transactions related to resources retained and used for the payment of interest and principal on long-term obligations.

Capital Project Funds – Account for transactions related to resources received and used for the acquisition, construction, or improvement of capital facilities not reported in the other governmental or proprietary funds. The primary resource for these funds is the proceeds of bond issues and energy performance contracts. Principal uses are for construction and improvement of state office buildings, correctional and behavioral health facilities, and parks.

Permanent Funds – Account for transactions of the Commonwealth Health Research Fund and the Behavioral Health Endowment Funds whose principal must remain intact and whose income is used to benefit the Commonwealth's citizens and behavioral health patients.

Proprietary Fund Types:

Enterprise Funds – Account for transactions related to resources received and used for financing self-supporting activities of the primary government that offer products and services on a user-charge basis to external users.

Internal Service Funds – Account for transactions related to the financing and sale of goods or services provided by the agencies of the primary government to other agencies and institutions of the Commonwealth. Activities include the provision of information technology, manufacturing activities, insurance programs, fleet services, facilities and property management, engineering and payroll services.

Fiduciary Fund Types:

Private Purpose Trust Funds – Account for transactions of all other trust arrangements in which the principal and income benefit individuals, private organizations, or other governments. These trusts include those for escheat property, educational savings plan, and others.

Pension and Other Employee Benefit Trust Funds – Account for transactions of the Commonwealth administered retirement systems and other employment benefits.

Investment Trust Fund – Accounts for the external portion of the Local Government Investment Pool that is sponsored by the Commonwealth.

Agency Funds – Account for amounts held in trust by the primary government for others. Agency funds include those funds established to account for the collection of taxes and fees for distribution to localities and other states, employee benefits, deposits of insurance carriers, child support collections and other miscellaneous accounts.

E. Budgetary Process

Budgetary amounts shown in the Required Supplementary Information and Combining and Individual Fund Statements and Schedules Sections represent the total of the original budgeted amounts and all supplemental appropriations. The Commonwealth's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be reappropriated for expenditure in the following fiscal year. The Governor, as required by the *Code of Virginia*, submits a budget composed of all proposed expenditures for the Commonwealth, and of estimated revenues and borrowing for a biennium, to the General Assembly. Budgets are adopted for the General and Special Revenue Funds, except for the Literary Fund (major special revenue). Formal budgetary integration is not employed for the Capital Projects (nonmajor governmental), Debt Service (nonmajor governmental), Permanent Funds (nonmajor governmental), and the Literary (major special revenue) Funds because effective budgetary control is alternatively achieved through the General Fund and the remaining Special Revenue Funds.

The budget is prepared on a biennial basis; however, the budgets of the General and Special Revenue Funds contain separate appropriations for each year within the biennial budget, as approved by the General Assembly and signed into law by the Governor. For management control purposes, the budget is controlled at the program level. The Governor may transfer an appropriation within a state agency or from one state agency to another, provided that total fund appropriations, as contained within the budget, are not exceeded. Increases in General Fund appropriations must be approved by the General Assembly.

Appropriations for programs funded from Special Revenue Funds may allow expenditures in excess of the original appropriations to the extent that revenues of the funds exceed original budget estimates and such additional expenditures are approved by the Governor through supplemental appropriations.

F. Cash, Cash Equivalents, Investments, and Derivatives

Cash

In order to maximize the Commonwealth's earning potential, the majority of the primary government's cash balances are pooled together in the general account for investment purposes. The amounts required for operations are liquidated as needed. Since all amounts not required for operations are held in investment securities, it is possible that the cash balances could be negative due to timing differences in liquidating the investments.

As of June 30, 2016, the General Fund had a negative cash balance of $3.9 billion. In order to properly reflect the general account position, this negative cash balance has been eliminated in the accompanying statements and offset against the primary government's cash equivalents and investments (see Note 6).

Cash Equivalents

Cash equivalents are investments with an original maturity of 90 days or less.

Investments

Investments are principally comprised of monies held by component units, Pension and Other Employee Benefit Trust Funds, and monies held by the State Treasurer in both the general account and other fiduciary accounts.

Governmental and proprietary funds, both primary government and component units, report investments in money market and in the Commonwealth sponsored investment pools at amortized cost which approximates fair value. 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 Virginia Retirement System (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. 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).

H. Contributions Receivable, Net

Contributions Receivable reported by the foundations (component units) represents pledges or unconditional promises to give that have been discounted (see Note 8).

I. Internal Balances

Interfund receivables and payables have been eliminated from the Statement of Net Position, except for the residual amounts due between governmental and business-type activities (see Note 9).

J. Inventory

Inventories consist of materials and supplies and are reported as expenditures when consumed. These assets are classified as nonspendable fund balance. Inventories exceeding $1.0 million of the General and the Special Revenue Funds are maintained at cost using the first-in, first-out (FIFO) methodology, except for the following:

- Department of State Police (VSP)
- Virginia Department of Transportation (VDOT)

VSP inventories are recorded in the General (major) and Other Special Revenue (nonmajor) Funds using the average cost methodology and are maintained at cost. VDOT inventories are recorded in the Commonwealth Transportation Fund (major special revenue) using the FIFO and average cost methodologies and are maintained at either cost or average cost.

In addition to inventories maintained as stated above, the following agencies reported donated inventory balances on hand at June 30, 2016:

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

Inventories maintained by the Virginia Museum of Fine Arts (nonmajor enterprise fund), the Science Museum of Virginia (nonmajor enterprise fund), and the Consolidated Laboratory (nonmajor enterprise fund) are stated at cost using FIFO.

Inventories maintained by the Department of Alcoholic Beverage Control (nonmajor enterprise fund) are stated at average cost using FIFO.

Inventories maintained by the Virginia Lottery (major enterprise fund) and the Virginia Industries for the Blind (nonmajor enterprise fund) are stated at cost using the average cost methodology.

Inventories maintained by Correctional Enterprises (internal service fund) are stated at the lower of cost or market using FIFO. Inventories maintained by the internal service funds except for Correctional Enterprises are stated at cost using FIFO.

Institutions of higher education (nonmajor component units) use several methods for inventory valuations, including cost using FIFO, the lower of cost or market using FIFO, or weighted average methods. Inventories maintained by the Virginia Port Authority (nonmajor component unit), the Hampton Roads Sanitation District Commission (nonmajor component unit), and the Danville Science Center (nonmajor component unit) are reported using the moving average unit cost methodology. Inventories at the gift shop run by the Library of Virginia Foundation (nonmajor component unit) are stated at lower of cost or market using FIFO.

K. Prepaid Items

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

L. Interfund Loans Receivable/Payable

Loans Receivable/Payable represents working capital advances from one fund to another (see Note 9).

M. Other Assets

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

N. Capital Assets

Capital assets of governmental funds are recorded as expenditures at the time of purchase and capitalized in the governmental activities column of the Government-wide Statement of Net Position. Capital assets of the other funds and component units are capitalized in the fund in which they are utilized. All depreciable capital assets are depreciated on the straight-line basis over their useful lives (see Note 12).

Capital assets are stated at historical cost or, in some instances, estimated historical cost. Donated capital assets from entities external to the reporting entity are stated at 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 $3.7 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:

	Years
Buildings	10–75
Equipment	2–50
Infrastructure	5–50
Software	5–35

Selected agencies, business-type entities, and component units may utilize estimated lives and policies that differ from the above for various reasons.

O. Deferred Outflows of Resources

Deferred outflows of resources are a consumption of assets by the government that is applicable to a future reporting period. Deferred outflows have a natural debit balance and, therefore increase net position similar to assets (see Notes 13, 14, and 15).

P. Accounts Payable

Accounts payable represent amounts, including salaries and wages, owed for goods and services received prior to year-end. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, accounts payable also includes payments for nonexchange transactions that met eligibility requirements prior to fiscal year-end (see Note 24).

Q. Unearned Revenue

Unearned revenue represents monies received or revenues accrued but not earned as of June 30, 2016. 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, and multi-year vehicle registrations recorded in the Commonwealth Transportation Special Revenue Fund (major governmental). In the enterprise funds, a majority of unearned revenue represents online ticket monies received by the Virginia Lottery (major enterprise) for which corresponding drawings have not been held.

Unearned revenue in the internal service funds primarily represents unearned premiums in the Risk Management Fund; the transfer and purchase of assets for transition agencies, as well as advanced customer receipts in the Virginia Information Technologies Agency Fund; and prepaid rent and work orders in the Property Management Fund.

Unearned revenues in the other component units consist primarily of fees related to various activities.

R. Unearned Taxes

Unearned taxes represent income taxes related to the period January through June 2016. 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 $857.6 million and estimated underpayments total $911.8 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 $41.1 million and estimated underpayments total $58.3 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.

S. Obligations Under Securities Lending Program

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, liabilities resulting from these transactions have been recorded as obligations under securities lending transactions.

T. Other Liabilities

Other liabilities represent amounts owed for various governmental and proprietary activities. Some of these amounts will be paid shortly after fiscal year-end (see Note 25).

U. Claims Payable

Claims payable, reported in the proprietary funds of the primary government, represent both health and liability insurance claims payable at June 30, 2016. This includes both actual claims submitted, as well as actuarially determined claims incurred but not reported. Claims relating to the primary government's liability insurance programs are reported in the Risk Management – internal service fund and the Risk Management – nonmajor enterprise fund. Also, health insurance claims are reported in the Health Care – internal service fund and the Local Choice Health Care – nonmajor enterprise fund (see Notes 23.A. and 23.B.). Claims payable reported by the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University – nonmajor component unit) represents estimated malpractice, workers' compensation, and medical claims payable amounts.

V. Long-term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities column. The governmental fund statements reflect the portion of long-term liabilities that will be paid from expendable resources that represent payments to employees for separations that occurred prior to

June 30. The proprietary fund statements and discrete component unit statements reflect total long-term liabilities and distinguish between those portions payable within one year and those payable in future years (see Note 26).

Bond premiums and discounts are amortized over the life of the bond. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs, excluding prepaid insurance, are expensed.

Expenditures for principal and interest payments for governmental fund general obligation bonds and revenue bonds are recognized in the Debt Service Fund (nonmajor) when due. In these fund statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures (see Note 26).

W. Deferred Inflows of Resources

Deferred inflows of resources are an acquisition of assets by the government that is applicable to a future reporting period. Deferred inflows have a natural credit balance and, therefore decrease net position similar to liabilities (see Notes 13, 14, 15, and 36).

X. Nonspendable Fund Balances

Nonspendable fund balances indicate that portion of fund balance that cannot be spent because it is either not in spendable form or is legally or contractually required to be maintained intact.

Y. Restricted Fund Balances

Restricted fund balances are amounts that have constraints placed on the use of resources that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Z. Committed Fund Balances

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

AA. Assigned Fund Balances

Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Assignments are identified by Commonwealth management pursuant to the delegation of authority granted by the General Assembly and Governor specified in the Appropriation Act.

BB. Unassigned Fund Balances

Unassigned fund balance is the amount of fund balance that has not been assigned to other funds and has not been restricted, committed or assigned to specific purposes with the General Fund.

CC. Cash Management Improvement Act

Included in Amounts Due to Other Governments is the Commonwealth's Cash Management Improvement Act (CMIA) interest liability to the federal government, which is calculated in accordance with the interest calculation and exchange provisions of the Federal Cash Management Improvement Act of 1990. The Commonwealth's interest liability is subject to review and final confirmation by the Bureau of the Fiscal Service (BFS) of the U.S. Treasury. If required, the payment is to be made on March 31 of the following year. Payment will be made from a sum sufficient appropriation authorized for this purpose by the Appropriation Act. The CMIA interest rate of exchange is based by law on the average of the bond equivalent rates of 13-week Treasury Bills auctioned during the annual reporting period as calculated by BFS.

DD. Investment Income

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, all investment income reported in the accompanying financial statements include changes in the fair value of investments and the amount reported may be negative. Additionally, the Commonwealth's policy is to record all unrealized gains or losses for the State Treasurer's Portfolio in the General Fund.

EE. Intrafund Eliminations

Eliminations have been incorporated into the report to eliminate intrafund transactions within the related fund type. These eliminations prevent overstatement of financial activity.

FF. Interfund Activity

Generally, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are 1) activities between funds reported as governmental activities and funds reported as business-type activities, and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions.

In the fund financial statements, transfers represent the movement of resources between funds. For example, transfers are recorded when a fund receives revenue and subsequently disburses the resources to another fund for expenditure.

2. RESTATEMENT OF BEGINNING BALANCES

The government-wide beginning balance restatements resulted from the following:

Government-wide Activities

Governmental Activities

The Governmental Activities were restated for the following:

- The Commonwealth Transportation (major special revenue) has been restated by $51.3 million as a result of unearned revenue associated with multi-year vehicle registrations being understated.
- The Literary Fund (major special revenue) has been restated by $150.0 million as a result of a change in the investment liquidation management strategy related to the Private Purpose Trust Fund that increased beginning cash balances of the Literary Fund as discussed below.
- Capital Asset balances were restated by $9.7 million due to errors that resulted in an understatement of previous balances.

Fund Statements

The fund statement beginning balance restatements resulted from the following:

- The Commonwealth Transportation (major special revenue) has been restated by $51.3 million as discussed previously.
- The Federal Trust (major special revenue) and Other (nonmajor special revenue) beginning balances were restated by $5.2 million due to clarified federal reporting guidance for the Equitable Sharing program.
- The Literary Fund (major special revenue) has been restated by $150.0 million discussed previously.
- Private Purpose Trust Funds have been restated by $150.0 million as a result of a change made to the investment liquidation management strategy related to the Unclaimed Property Trust Fund. The strategy modification to liquidate all securities not claimed by the owner after three years increased the cash available to the fund. The Unclaimed Property Trust Fund should only report assets that will not revert to the Literary Fund (major special revenue).

Component Units

The government-wide and fund statements were restated for the following.

- The University of Virginia has restated balances by $39.6 million for the liability to beneficiaries related to irrevocable split-interest agreements previously omitted.

Beginning Balance Restatement

(Dollars in Thousands)

	Balance as of June 30, 2015	Change in Investment Liquidation	Clarified Reporting Guidance	Correction of Prior Year Errors	Balance June 30, 2015 as restated
Government-wide Activities:					
Primary Government:					
Governmental Activities	$ 19,436,857	$ 150,000	$ -	$ (41,636)	$ 19,545,221
Business-type Activities	1,379,462	-	-	-	1,379,462
Total Primary Government	$ 20,816,319	$ 150,000	$ -	$ (41,636)	$ 20,924,683
Component Units	$ 23,975,343	$ -	$ -	$ (39,596)	$ 23,935,747
Fund Statements:					
Governmental Funds					
Major Governmental Funds:					
General	$ 848,356	$ -	$ -	$ -	$ 848,356
Special Revenue Funds:					
Commonwealth Transportation	2,271,107	-	-	(51,306)	2,219,801
Federal Trust	115,436	-	5,219	-	120,655
Literary	(37,478)	150,000	-	-	112,522
Nonmajor Governmental Funds	1,119,955	-	(5,219)	-	1,114,736
Total Governmental Funds	$ 4,317,376	$ 150,000	$ -	$ (51,306)	$ 4,416,070
Fiduciary Funds					
Private Purpose Trust Funds	$ 3,606,491	$ (150,000)	$ -	$ -	$ 3,456,491
Pension and Other Employee Benefit Trust Funds	$ 68,197,614	$ -	$ -	$ -	$ 68,197,614
Investment Trust Funds	$ 2,727,929	$ -	$ -	$ -	$ 2,727,929
Component Units:					
Virginia Housing Development Authority	$ 2,820,285	$ -	$ -	$ -	$ 2,820,285
Virginia Public School Authority	(31,799)	-	-	-	(31,799)
Virginia Resources Authority	1,483,028	-	-	-	1,483,028
Virginia College Building Authority	(3,513,389)	-	-	-	(3,513,389)
Nonmajor Component Units	23,217,218	-	-	(39,596)	23,177,622
Total Component Units	$ 23,975,343	$ -	$ -	$ (39,596)	$ 23,935,747

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.

The governmental fund balance classifications and amounts at June 30, 2016, are shown in the following table.

Governmental Fund Balance Classifications

(Dollars in Thousands)

	General Fund	Commonwealth Transportation	Federal Trust	Literary	Nonmajor Governmental	Total
Nonspendable						
Inventory	$ 41,325	$ 85,918	$ 32,582	$ -	$ 4,989	$ 164,814
Prepaid Items	73,040	12,288	2,643	-	20,272	108,243
Permanent Funds	-	-	-	-	34,055	34,055
Total Nonspendable	114,365	98,206	35,225	-	59,316	307,112
Restricted						
Agriculture and Forestry	-	-	-	-	1,382	1,382
Capital Projects/Construction/Capital Acquisition	-	-	-	-	39,662	39,662
Contract and Debt Administration	-	3,205	-	-	1,243	4,448
Debt Service	-	-	-	-	21,752	21,752
Economic and Technological Development	-	-	-	-	13	13
Educational and Training Programs	-	-	-	-	8,633	8,633
Environmental Quality and Natural Resource Preservation	-	-	-	-	16,567	16,567
Gifts and Grants	-	7,775	93,763	-	2,285	103,823
Government Operations:						
Legislative Services	-	-	-	-	5	5
Administrative Services	-	-	-	-	1,672	1,672
Health and Public Safety	-	-	-	-	76,511	76,511
Literary Fund	-	-	-	50,815	-	50,815
Lottery Proceeds Fund	62,086	-	-	-	-	62,086
Revenue Stabilization Fund	841,057	-	-	-	-	841,057
Transportation Activities	-	320,116	-	-	-	320,116
Virginia Water Supply Assistance Grant Fund	5,060	-	-	-	-	5,060
Total Restricted	908,203	331,096	93,763	50,815	169,725	1,553,602
Committed						
Agriculture and Forestry	92	-	-	-	23,203	23,295
Amount Required for Mandatory Reappropriation	58,465	-	-	-	-	58,465
Amount Required for Reappropriation of 2016 Unexpended Balances for Capital Outlay	141,890	-	-	-	-	141,890
Capital Projects/Construction/Capital Acquisition	1,036	-	-	-	688	1,724
Central Capital Planning Fund	10,197	-	-	-	-	10,197
Commonwealth's Development Opportunity Fund	24,957	-	-	-	-	24,957
Communications Sales and Use Tax	2,599	-	-	-	-	2,599
Contract and Debt Administration	-	10,860	-	-	330	11,190
Economic and Technological Development	45,045	-	-	-	50,976	96,021
Educational and Training Programs	1,250	1,204	-	-	6,484	8,938
Environmental Quality and Natural Resource Preservation	11,376	-	-	-	107,182	118,558
Government Operations:						
Legislative Services	-	-	-	-	74	74
Administrative Services	97	-	-	-	70,361	70,458
Health and Public Safety	13,200	3,545	-	-	199,341	216,086
Natural Disaster Sum Sufficient	25,573	-	-	-	-	25,573
Regulatory Oversight	-	-	-	-	132,934	132,934
Transportation Activities	-	1,482,998	-	-	4,059	1,487,057
Virginia Health Care Fund	45,461	-	-	-	-	45,461
Virginia Water Quality Improvement Fund	15,773	-	-	-	-	15,773
Total Committed	397,011	1,498,607	-	-	595,632	2,491,250
Assigned						
Economic and Technological Development	-	-	-	-	1,849	1,849
Educational and Training Programs	-	-	-	-	5,611	5,611
Environmental Quality and Natural Resource Preservation	-	-	-	-	7,926	7,926
Government Operations:						
Administrative Services	-	-	-	-	348	348
Health and Public Safety	-	-	-	-	13,021	13,021
Transportation Activities	-	507	-	-	-	507
Total Assigned	-	507	-	-	28,755	29,262
Unassigned	(709,290)	-	-	-	-	(709,290)
Total Fund Balance	$ 710,289	$ 1,928,416	$ 128,988	$ 50,815	$ 853,428	$ 3,671,936

4. DEFICIT FUND BALANCES/NET POSITION

The Virginia Lottery (major enterprise fund), the Department of Alcoholic Beverage Control (nonmajor enterprise fund), the Department of General Services' Consolidated Laboratory Services Fund (nonmajor enterprise fund), the Department of Environmental Quality's Title V Air Pollution Permit Fund (nonmajor enterprise fund), and the Payroll Service Bureau (internal service fund) ended the year with deficit net positions of $30.9 million, $86.1 million, $2.0 million, $8.8 million, and $2.4 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 $19.4 million. The deficit was a result of increasing claims liability for constitutional officers' programs.

The Virginia Information Technologies Agency (internal service fund) ended the year with a deficit net position balance of $37.4 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 $7.9 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 $21.6 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 $692.6 million. The deficit was the result of the Worker's Compensation Program having estimated claims payable exceeding the available equity in the fund. Claims are paid on a pay-as-you-go basis. To the extent that claims exceed current resources, they will ultimately become a liability of the fund from which the claim originated.

The Virginia Public School Authority (major component unit) ended the year with a deficit net position balance of $22.8 million. This deficit is the result of an accrued credit against future debt service payments on Local School Bonds due from the localities subsequent to June 30.

The Virginia College Building Authority (major component unit) ended the year with a deficit net position balance of $3.8 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 $642,132. This was solely attributable to the entries for the net pension liability resulting from GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and 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 $9.8 million. This deficit occurs because the partnership's Statement of Net Position reflects $14.8 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 $1.9 million. This deficit occurs because the Authority's Statement of Net Position reflects $8.3 million in non-current liabilities related to compensated absences, net pension liabilities, and net other postemployment benefit obligation.

5. REVENUE STABILIZATION FUND

In accordance with Article X, Section 8 of the Constitution of Virginia, the amount estimated as required for deposit to the Revenue Stabilization Fund must be appropriated for that purpose by the General Assembly. During fiscal year 2016, 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 $235.5 million was made from the fund.

Under the provisions of Article X, Section 8 of the Constitution of Virginia, a deposit of $605.6 million is required during fiscal year 2017 based on fiscal year 2015 revenue collections. This required deposit is included as a restricted component of fund balance and includes the advance reservation of $129.5 million provided in Chapter 665, 2015 Acts of Assembly. No deposit is required based on fiscal year 2016 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 2016.

The Revenue Stabilization Fund has principal and interest on deposit of $235.5 million restricted as a part of General Fund balance. Pursuant to the constitutional amendment of Article X, Section 8, effective January 1, 2011, the amount on deposit cannot exceed 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, 2016, the Constitutional maximum is $2.5 billion.

6. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2016, the carrying amount of cash for the primary government was $3.6 billion and the bank balance was $387.4 million. The carrying amount of cash for component units was $1.9 billion and the bank balance was $1.1 billion. Cash equivalents are investments with an original maturity of 90 days or less. Cash and cash equivalents for foundations (component units) totaled $366.1 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.DD, unrealized gains or losses for the State Treasurer's Portfolio are recorded in the General Fund.

Certain deposits are held by trustees in accordance with the Trust Subsidiary Act, Section 6.2-1057 of the *Code of Virginia*. The act requires that cash held by trustees while awaiting investment or distribution is not to be used by an affiliate bank of the trustee in the conduct of its business unless the affiliate bank delivers securities to the trust department as collateral that is at least equal to the fair value of the trust funds held on deposit in excess of amounts insured by the FDIC.

The Commonwealth is authorized, in accordance with the guidelines set forth in Section 2.2-4500 et seq. of the *Code of Virginia*, to invest public funds in the following:

- U.S. Treasury and agency securities
- Corporate debt securities
- Asset–backed securities
- Mortgage–backed securities
- Municipal securities
- AAA rated obligations of foreign governments
- Bankers' acceptances and bank notes
- Negotiable certificates of deposit
- Repurchase agreements
- Money market funds

Permitted investments include agency mortgage-backed securities, corporate or private label mortgage-backed securities, and asset-backed securities which by definition usually expose the investor to prepayment risk. Prepayment risk, or the prepayment option granted the borrower, can create uncertainty concerning cash flows, can affect the price of the security causing negative convexity, and can expose the investor to reinvestment risk. Similarly, many agency and corporate securities are callable after some predetermined date at a predetermined price. The call options in regular agency debentures and some corporate securities can be open ended and may significantly impact cash flows, security pricing, and reinvestment risks of these securities.

At June 30, 2016, 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 interest of the beneficiaries and to invest the assets with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Board must also diversify such investments so as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so. The System does not have investment policies that place specific restrictions on investments related to custodial risk, interest rate risk, credit risk, or foreign currency risk. The System investment portfolio is intended to be managed through diversification and prudent judgment, rather than through specific policy restrictions.

The information presented for the external investment pool was obtained from audited financial statements. Copies of the Local Government Investment Pool (LGIP) report may be obtained by writing the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218. Participation in this pool is voluntary.

Custodial Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Commonwealth may not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Policies related to custodial credit risk pertaining to the Commonwealth's securities lending program are found in the securities lending section of this note.

As of June 30, 2016, the primary government had $3.1 million in cash balances that were uninsured and uncollateralized, and $40.1 million in cash balances that were uninsured and collateralized with securities held by the pledging financial institution. In addition, the primary government had $1.1 billion of cash equivalents and investments that were exposed to custodial risk as uninsured and uncollateralized. The majority of this amount, held by the System, consisted of various types of debt and equity securities that were held by counterparties' trust departments or agents, but not in the System's name. Common and preferred stocks represented $889.1 million of the total. The remainder was for various types of debt securities.

As of June 30, 2016, component units had $17.5 million in cash balances that were uninsured and uncollateralized, and $19.8 million in cash balances that were uninsured and collateralized with securities held by the pledging financial institution.

As of June 30, 2016, the investments of the Pension and Other Employee Benefit Trust Funds were approximately 81.3 percent of the primary government investments. Of the total primary government investments exposed to custodial risk, 99.8 percent were investments of the Pension and Other Employee Benefit Trust Funds.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Commonwealth has elected the Segmented Time Distribution method of disclosure.

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

Security Type	Maximum Duration
Corporate Security	15 years
Asset-Backed Securities	5 years
Sovereign Government Obligations (excluding U.S.)	5 years
Negotiable Certificates of Deposit and Negotiable Bank Notes	5 years

The State Treasurer's guidelines further describe target durations for the overall general account portfolio of 1.7 years.

The System manages the risk within the portfolio using the effective duration or option-adjusted methodology. It is widely used in the management of fixed income portfolios in that it quantifies, to a much greater degree, the risk of interest rate changes. The methodology takes into account optionality on bonds and scales the risk of price changes on bonds depending upon the degree of change in rates and the slope of the yield curve. All of the System's fixed income portfolios are managed in accordance with the System's investment guidelines, most of which are specific as to the degree of interest rate risk that can be taken.

As of June 30, 2016, the System's investments included $2.6 billion, primarily in Corporate Bonds and Notes, U.S. Treasury and Agency Securities, Agency Unsecured Bonds and Notes, and Other Debt Securities, 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, 2016, the College of William and Mary (nonmajor component unit) had $26.9 million in Mutual and Money Market Funds that have fair values that are highly sensitive to changes in interest rates due to the long term maturity of these securities.

At June 30, 2016, the Commonwealth had the following investments and maturities:

Primary Government Investments

(Dollars in Thousands)

Investment Type	June 30, 2016	Investment Maturities (in years) Less Than 1	1-5	6-10	More Than 10
Debt Securities					
U. S. Treasury and Agency Securities	$ 4,934,803	$ 370,260	$ 2,834,471	$ 1,086,245	$ 643,827
Corporate Bonds and Notes	12,392,363	3,843,642	4,102,900	2,896,420	1,549,401
Supranational and Non-U.S. Government Bonds and Notes	2,225,330	242,405	586,372	967,246	429,307
Commercial Paper	3,879,288	3,879,288	-	-	-
Negotiable Certificates of Deposit	3,529,830	3,514,557	15,273	-	-
Repurchase Agreements	1,433,076	1,433,076	-	-	-
Municipal Securities	272,295	2,897	47,418	69,030	152,950
Asset-Backed Securities	886,592	113,255	395,503	213,662	164,172
Agency Mortgage-Backed Securities	2,976,174	320,211	1,844,060	669,126	142,777
Agency Unsecured Bonds and Notes	2,890,951	1,787,477	758,685	53,850	290,939
Mutual and Money Market Funds (Includes SNAP)	1,847,268	1,847,268	-	-	-
The Boston Company Pooled Employee Trust Fund	62,519	62,519	-	-	-
Guaranteed Investment Contracts	786,361	-	786,361	-	-
Fixed Income and Commingled Funds	1,698,777	106,956	1,402,473	189,348	-
Investments held by broker-dealers under securities loans					
U. S. Government and Agency Securities	322	104	218	-	-
Corporate Bonds	1,355	203	733	419	-
Other	639,534	6,029	201,226	420,978	11,301
Total	$ 40,456,838	$ 17,530,147	$ 12,975,693	$ 6,566,324	$ 3,384,674

Component Unit Investments

(Dollars in Thousands)

Investment Type	June 30, 2016	Investment Maturities (in years) Less Than 1	1-5	6-10	More Than 10
Debt Securities					
U. S. Treasury and Agency Securities	$ 1,184,640	$ 181,439	$ 238,081	$ 56,254	$ 708,866
Corporate Bonds and Notes	393,399	98,637	269,704	20,327	4,731
Commercial Paper	376,961	376,961	-	-	-
Negotiable Certificates of Deposit	171,179	122,277	48,902	-	-
Repurchase Agreements	52,167	52,167	-	-	-
Reverse Repurchase Agreements	500,000	500,000	-	-	-
Municipal Securities	217,064	13,203	87,208	82,367	34,286
Asset-Backed Securities	146,607	15,012	107,071	4,246	20,278
Agency Unsecured Bonds and Notes	245,082	124,911	114,879	5,292	-
Agency Mortgage-Backed Securities	138,704	20,958	54,062	6,906	56,778
Mutual and Money Market Funds (Includes SNAP)	823,952	776,068	18,741	25,137	4,006
Guaranteed Investment Contracts	45,442	2,220	12,147	16,761	14,314
Fixed Income and Commingled Funds	90,110	5,390	1,372	83,348	-
Other	7,423	3,779	3,613	31	-
Total	$ 4,392,730	$ 2,293,022	$ 955,780	$ 300,669	$ 843,259

Foundation Investments

(Dollars in Thousands)

Investment Type	Fair Value
U.S. Treasury and Agency Securities	$ 1,302,193
Common & Preferred Stocks	832,104
Corporate Bonds and Notes	249,675
Negotiable Certificates of Deposit	18,284
Municipal Securities	6,262
Repurchase Agreements	385
Asset Backed Securities	1,261
Agency Mortgage Backed	5,104
Mutual and Money Market Funds	521,090
Real Estate	569,080
Index Funds	179,610
Hedge Funds	2,169,525
Partnerships	1,616,341
Venture Capital	824,841
Other	3,731,863
Total	$ 12,027,618

Note: Foundations represent FASB reporting entities defined in Note 1.B. A portion of these amounts are reported at cost rather than fair value because fair value was not available or readily determinable.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State Treasurer places emphasis on securities of high credit quality and marketability. At the time of purchase, the following limitations are in place:

- Bankers acceptances: P-1, Moody's Investors Service (Moody's) and A-1, Standard & Poor's (S&P)
- Negotiable CDs and bank notes:
  - maturities of one year or less: P-1, Moody's and A-1, S&P
  - maturities over one year: Aa, Moody's and AA, S&P
- Commercial paper: P-1, Moody's and A-1, S&P
- Corporate Notes and Bonds: A3/A- or equivalent by two nationally recognized rating agencies, one of which must be Moody's or S&P. However, each external investment manager may invest up to 10.0 percent of their portfolio in Baa2/BBB rated bonds which, at a minimum, must be rated Baa2/BBB by two nationally recognized rating agencies, one of which must be either Moody's or S&P.
- Municipal Bonds: A3/A- or equivalent by two nationally recognized rating agencies, one of which must be Moody's or S&P
- Asset-backed securities: AAA by two nationally recognized rating agencies, one of which must be Moody's or S&P
- Dollar denominated obligations of sovereign governments: Aaa, Moody's and AAA, S&P
- Commercial Mortgage-Backed Securities (CMBS) and Collateralized Mortgage Obligations (CMOs): AAA by two nationally recognized rating agencies, one of which must be Moody's or S&P

The following tables present the credit ratings for the majority of the investments of the primary government and component units as of June 30, 2016. The ratings presented are using S&P and Moody's rating scales. Within the primary government, the investments presented in the table represented 79.9 percent of the total debt securities. Within the component units, the investments presented in the table represented 84.5 percent of the total debt securities.

Credit risk for derivative instruments held by the Commonwealth results from counterparty risk assumed by the Commonwealth. This is essentially the risk that the borrower will be unable to meet its obligation. Information regarding the Commonwealth's credit risk related to derivatives is found in Note 14.

Policies related to credit risk pertaining to the Commonwealth's securities lending program are found in the Securities Lending section of this note.

Credit Rating - Primary Government
(Dollars in Thousands)

Investment	Amount	Rating Agency	Rating	Percent of Portfolio
U. S. Treasury and Agency Securities (1)	$ 4,934,737	N/A	N/A	12.2%
Commercial Paper	2,634,489	Moody's	P-1	6.5%
Agency Unsecured Bonds and Notes	2,335,669	Standard & Poor's	AA+	5.8%
Agency Mortgage Backed Securities	2,024,230	Moody's	Aaa	5.0%
Negotiable Certificates of Deposit	1,882,474	Moody's	P-1	4.7%
Corporate Bonds and Notes	1,413,640	Moody's	Aa3	3.5%
Negotiable Certificates of Deposit	1,296,241	Standard & Poor's	A-1	3.2%
Corporate Bonds and Notes	1,216,856	Moody's	NR	3.0%
Corporate Bonds and Notes	1,072,893	Moody's	A1	2.7%
Corporate Bonds and Notes	1,018,044	Moody's	Aa2	2.5%
Corporate Bonds and Notes	983,522	Moody's	Baa1	2.4%
Mutual and Money Market Funds (Include SNAP)	891,460	Standard & Poor's	AAA	2.2%
Repurchase Agreements	862,327	Moody's	NR	2.1%
Mutual and Money Market Funds (Include SNAP)	838,391	Moody's	Aaa	2.1%
Fixed Income and Commingled Funds	832,148	Moody's	Baa1	2.1%
Guaranteed Investment Contracts	786,361	N/A	N/A	1.9%
Agency Mortgage Backed Securities	729,271	Moody's	NR	1.8%
Corporate Bonds and Notes	722,080	Moody's	A3	1.8%
Corporate Bonds and Notes	720,155	Moody's	Baa3	1.8%
Corporate Bonds and Notes	659,397	Moody's	A2	1.6%
Corporate Bonds and Notes	655,795	Moody's	Baa2	1.6%
Commercial Paper	650,296	Moody's	P-2	1.6%
Commercial Paper	594,503	Standard & Poor's	A-1	1.5%
Agency Unsecured Bonds and Notes	553,617	Moody's	Aaa	1.4%
Fixed Income and Commingled Funds	518,079	N/A	N/A	1.3%
Corporate Bonds and Notes	507,629	Moody's	Ba3	1.3%
Repurchase Agreements	500,000	Standard & Poor's	AA+	1.2%
Other Debt Securities	456,699	Moody's	Aaa	1.1%

Credit Rating - Component Units
(Dollars in Thousands)

Investment	Amount	Rating Agency	Rating	Percent of Portfolio
U. S. Treasury and Agency Securities (1)	$ 1,184,640	N/A	N/A	27.0%
Mutual and Money Market Funds (Include SNAP)	440,401	Standard & Poor's	AAA	10.0%
Commercial Paper	303,246	Moody's	P-1	6.9%
Reverse Repurchase Agreements	300,000	Standard & Poor's	BBB-	6.8%
Mutual and Money Market Funds (Include SNAP)	289,618	N/A	N/A	6.6%
Reverse Repurchase Agreements	200,000	Moody's	Baa2	4.6%
Agency Unsecured Bonds and Notes	199,301	Moody's	Aaa	4.5%
Negotiable Certificates of Deposit	120,001	Moody's	P-1	2.7%
Fixed Income and Commingled Funds	90,110	N/A	N/A	2.1%
Mutual and Money Market Funds (Include SNAP)	84,880	Moody's	Aaa	1.9%
Asset Backed Securities	76,922	Moody's	Aaa	1.8%
Corporate Bonds and Notes	60,151	Moody's	A1	1.4%
Agency Mortgage Backed Securities	60,041	Moody's	Aaa	1.4%
Agency Mortgage Backed Securities	54,071	Standard & Poor's	AA+	1.2%
Corporate Bonds and Notes	52,425	Moody's	A2	1.2%
Commercial Paper	50,958	N/A	N/A	1.2%
Asset Backed Securities	48,435	Standard & Poor's	AAA	1.1%
Repurchase Agreements	48,405	N/A	N/A	1.1%
Guaranteed Investment Contracts	45,442	Standard & Poor's	AA-	1.0%

(1) Obligations of the U. S. Government or obligations explicitly guaranteed by the U. S. Government are not considered to have credit risk.

Concentration of Credit Risk

Concentration of credit risk is related to the risk of loss that may be attributed to the magnitude of a government's investment in a single issuer. The Commonwealth holds no investment in the securities of a single issuer that is more than 5.0 percent of the total market value of its investments. In addition, the State Treasury and the System have individual investment policies limiting the amounts that may be invested in any single issuer.

It is the State Treasurer's policy that each portfolio will be diversified with no more than 4.0 percent of the value of the fund invested in the securities of any single issuer. This limitation shall not apply to the U.S. Government, or agency thereof, or U.S. Government sponsored corporation securities and fully insured and/or collateralized certificates of deposit. Certain portfolios are limited to amounts less than 4.0 percent of the value of the fund invested in the securities of any single issuer.

The System investment guidelines for each specific portfolio also limit investments in any corporate entity to no more than 5.0 percent of the market value of the account for both the internally and externally managed portfolios. There is no concentration of investments in any one organization that represents 5.0 percent or more of plan net position available for benefits.

Foreign Currency Risk

Primary Government

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. All primary government investments exposed to foreign currency risk were part of the System, the Virginia College Savings Plan, and the Unclaimed Property portfolios at June 30, 2016.

Foreign currency risk exposure, or exchange rate risk, primarily exists in the international and global equity investment holdings. From time to time, external managers may hedge their portfolios' foreign currency exposures with currency forward contracts. This will depend upon their views about a specific foreign currency relative to the U.S. dollar. Exposure to foreign currency risk is highlighted in the following table.

Component Units

All nonmajor component unit investments exposed to foreign currency risk were part of the College of William and Mary, James Madison University, and the Virginia Economic Development Partnership at June 30, 2016.

Foreign Currency Exposures by Asset Class - Primary Government

(Dollars in Thousands)

Currency	Cash & Cash Equivalents	Equity	Fixed Income	Private Equity	Real Estate	Corporate Bonds	International Funds	Total
U.S. Dollar	$ -	$ 1,991	$ -	$ 2,145	$ -	$ -	$ 1,286,111	$ 1,290,247
Euro Currency Unit	(1,395,029)	1,744,423	38,173	652,675	220,516	27,801	-	1,288,559
Japanese Yen	(695,834)	1,611,536	-	-	1,682	7,899	-	925,283
Hong Kong Dollar	(124,791)	742,777	-	-	4,033	1,291	-	623,310
British Pound Sterling	(781,060)	1,202,631	1,869	-	116,085	3,267	-	542,792
South Korean Won	3,269	382,154	-	-	-	-	-	385,423
Canadian Dollar	(462,405)	752,811	-	-	29,392	2,510	-	322,308
Swiss Franc	(360,779)	625,023	-	-	1,997	1,742	-	267,983
Indian Rupee	14,253	221,543	7,045	-	-	-	-	242,841
S African Comm Rand	(4,552)	141,710	60,163	-	-	-	-	197,321
Australian Dollar	(294,750)	463,709	-	-	10,951	-	-	179,910
New Taiwan Dollar	(10,760)	185,345	-	-	-	-	-	174,585
Brazil Real	(40,709)	102,309	103,005	-	-	-	-	164,605
Turkish Lira	3,066	80,516	46,604	-	-	-	-	130,186
Mexican New Peso	38,597	45,891	44,147	-	847	-	-	129,482
Malaysian Ringgit	26,356	62,394	39,352	-	-	-	-	128,102
Thailand Baht	17,896	70,112	16,562	-	-	-	-	104,570
Swedish Krona	(99,523)	196,387	-	-	-	-	-	96,864
Indonesian Rupiah	(608)	33,934	57,512	-	-	-	-	90,838
Polish Zloty	9,294	18,839	42,869	-	-	-	-	71,002
Danish Krone	(69,486)	131,549	-	-	-	-	-	62,063
Russian Ruble (New)	18,717	18,922	21,525	-	-	-	-	59,164
Colombian Peso	10,072	1,797	26,545	-	-	-	-	38,414
Chilean Peso	(2,150)	37,566	-	-	-	-	-	35,416
Norwegian Krone	(65,897)	93,835	-	-	-	-	-	27,938
Philippines Peso	8,274	13,050	2,087	-	-	-	-	23,411
Hungarian Forint	(9,204)	8,019	14,884	-	-	-	-	13,699
Moroccan Dirham	12,479	-	-	-	-	-	-	12,479
Romanian Leu	(1,436)	-	13,734	-	-	-	-	12,298
Peruvian Nuevo Sol	3,353	-	7,855	-	-	-	-	11,208
Egyptian Pound	259	4,632	-	-	-	-	-	4,891
UAE Dirham	144	3,772	-	-	-	-	-	3,916
Argentina Peso	3,595	-	-	-	-	-	-	3,595
Ghanaian Cedi	-	-	3,390	-	-	-	-	3,390
Qatari Riyal	716	2,668	-	-	-	-	-	3,384
Nigerian Naira	-	-	736	-	-	-	-	736
Saudi Arabia Riyal	(5,572)	-	-	-	-	-	-	(5,572)
Czech Koruna	(23,392)	310	-	-	-	-	-	(23,082)
Israeli Shekel	(69,767)	44,607	-	-	-	-	-	(25,160)
New Zealand Dollar	(58,977)	26,703	-	-	608	-	-	(31,666)
Chinese Yuan Renminbi	(46,331)	104	-	-	-	-	-	(46,227)
Singapore Dollar	(189,425)	120,402	-	-	-	-	-	(69,023)
Total	$ (4,642,097)	$ 9,193,971	$ 548,057	$ 654,820	$ 386,111	$ 44,510	$ 1,286,111	$ 7,471,483

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

Currency	Cash & Cash Equivalents	Equity	Fixed Income	Private Equity	Real Estate	International Funds	Total
British Pound Sterling	$ 1,046	$ -	$ -	$ -	$ -	$ -	$ 1,046
Euro Currency Unit	2,815	-	-	-	-	-	2,815
Other	13	-	-	-	-	-	13
Total	$ 3,874	$ -	$ -	$ -	$ -	$ -	$ 3,874

Fair Value Measurements

Primary Government

The Commonwealth implemented GASB Statement No. 72, *Fair Value Measurement and Application*, during fiscal year 2016. This Statement 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 table summarizes cash equivalents and investments reported at fair value by the primary government as of June 30, 2016.

Fair Value Measurements - Primary Government
(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				
Debt Securities (1)				
U. S. Treasury and Agency Securities	$ 4,602,784	$ 4,066,089	$ 536,695	$ -
Corporate Bonds and Notes	9,100,701	1,102	9,097,443	2,156
Supranational and Non-U.S. Government Bonds and Notes	2,149,134	10,281	2,138,853	-
Commercial Paper	1,021,317	-	1,021,317	-
Negotiable Certificates of Deposit	1,611,416	2,034	1,609,382	-
Repurchase Agreements	70,749	-	70,749	-
Municipal Securities	272,296	6,788	265,508	-
Asset-Backed Securities	886,593	23	886,570	-
Agency Mortgage-Backed Securities	2,976,173	303	2,975,870	-
Agency Unsecured Bonds and Notes	1,780,207	7,669	1,772,538	-
Mutual and Money Market Funds	205,641	205,368	273	-
Fixed Income and Commingled Funds	265,503	68,655	-	196,848
Investments held by broker-dealers under securities loans				
U. S. Government and Agency Securities	322	322	-	-
Corporate Bonds	1,355	1,355	-	-
Other	639,533	2,671	636,862	-
Total Debt Securities	25,583,724	4,372,660	21,012,060	199,004
Equity Securities (2)				
Common and Preferred Stocks	21,710,001	21,581,265	128,025	711
Foreign Currencies	2,910	720	2,190	-
Equity Index and Pooled Funds	67,588	67,583	5	-
Index Funds	1,847,078	1,847,078	-	-
Real Estate	3,252,978	1,933	-	3,251,045
Other	1,995,874	1,081,788	-	914,086
Total Equity Securities	28,876,429	24,580,367	130,220	4,165,842
Total by Fair Value Level	$ 54,460,153	$ 28,953,027	$ 21,142,280	$ 4,364,846
Fair value established using the net asset value (NAV) (3)				
Mutual and Money Market Funds	12,514			
Fixed Income and Commingled Funds	1,433,274			
Equity Index and Pooled Funds	8,490,961			
Real Estate	4,507,388			
Other Equity Securities	8,521,634			
Total Fair Value established using NAV	22,965,771			
Total Fair Value	$ 77,425,924			

(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. The valuation techniques may include market participant's assumptions, quoted prices for similar securities, benchmark yield curves including but not limited to treasury benchmarks, LIBOR and swap 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 bid evaluations.
- Level 3 – valued using proprietary information and independent appraisals. This results in using one or more valuation techniques, such as the market approach and or the income approach, for those securities 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) Investments reported at fair value established using the NAV were all part of the System and the Virginia College Savings Plan Fund (major enterprise).

- Additional information is available in the System's separately issued financial statements, which may be obtained from the Virginia Retirement System at P.O. Box 2500, Richmond, Virginia 23218-2500.
- Additional information regarding the Virginia 529 prePAID assets is available in the Virginia529 individually published financial statements, which may be obtained by writing to Virginia529, 9001 Arboretum Parkway, North Chesterfield, Virginia 23236.

Component Units

The following table summarizes cash equivalents and investments reported at fair value by the component units as of June 30, 2016. 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				
Debt Securities (1)				
U. S. Treasury and Agency Securities	$ 1,134,669	$ 518,571	$ 616,098	$ -
Corporate Bonds and Notes	392,517	5,101	387,416	-
Commercial Paper	63,586	16,962	46,624	-
Negotiable Certificates of Deposit	49,899	29,907	19,992	-
Repurchase Agreements	52,167	26,881	25,286	-
Municipal Securities	211,437	309	211,128	-
Asset-Backed Securities	146,607	-	146,607	-
Agency Mortgage-Backed Securities	138,704	660	138,044	-
Agency Unsecured Bonds and Notes	245,082	330	244,752	-
Mutual and Money Market Funds	238,183	157,422	76,001	4,760
Fixed Income and Commingled Funds	4,726	4,726	-	-
Other	3,646	54	3,592	-
Total Debt Securities	2,681,223	760,923	1,915,540	4,760
Equity Securities (2)				
Common and Preferred Stocks	68,863	68,863	-	-
Equity Index and Pooled Funds	34,514	34,514	-	-
Index Funds	13,611	13,611	-	-
Real Estate	2,347	2,313	-	34
Other	519,779	515,493	1,576	2,710
Total Equity Securities	639,114	634,794	1,576	2,744
Total by Fair Value Level	$ 3,320,337	$ 1,395,717	$ 1,917,116	$ 7,504
Fair value established using the net asset value (NAV) (3)				
Mutual and Money Market Funds	20,344			
Guaranteed Investment Contracts	45,442			
Fixed Income and Commingled Funds	85,384			
Equity Index and Pooled Funds	130,375			
Index Funds	5,973			
Real Estate	21,101			
Other Equity Securities	462,316			
Total Fair Value established using NAV	770,935			
Total Fair Value	$ 4,091,272			

(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 market or quoted prices for identical or similar securities in markets that are not active and a matrix pricing technique. The valuation techniques may include securities' relationship to benchmark quoted prices and market corroborated inputs.
- Level 3 - valued based on a market comparable companies technique where inputs are obtained from various sources including market participants, dealers, and brokers.

(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. They are valued based on long-dated commodity swaps whose forward pace curve was correlated with observable market data or shares of a privately held company whose value was based on projected cash flows.

(3) Virginia Resources Authority (major) and the following nonmajor component units reported investments at fair value established using the NAV: Virginia Polytechnic Institute and State University, Virginia Commonwealth University (VCU), Virginia Commonwealth University Health System Authority (blended component unit of VCU), College of William and Mary, Virginia Military Institute, and Virginia Biotechnology Research Partnership Authority. Additional information is available in the individually published 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. The general account participated in a securities lending program for the entire year.

All securities lending loans are on an open-ended or one-day basis and may be terminated by the State Treasury with a 24-hour notice or are term loans with the right of substitution. While all securities may be recalled on a daily basis, securities are often on loan for much longer periods. Generally cash reinvestments security maturities do not match the maturities of loans. Per the contract with Deutsche Bank, all cash collateral reinvestment securities attributable to loans made on the Commonwealth's behalf shall be maintained by Deutsche Bank, and the State Treasury cannot pledge or sell such collateral absent a default.

The State Treasury's contract with Deutsche Bank provides for loss indemnification against insolvency default with respect to lending transactions and in the case of reverse transactions (Repurchase Agreements) as defined in the applicable Agency Securities Lending and Repurchase Agreement. Additionally, Deutsche Bank AG is liable for any losses experienced from reinvestment of cash collateral in investments not authorized by the provisions of the investment guidelines for the Commonwealth of Virginia agreed upon by both parties and made a part of the Agency Securities Lending and Repurchase Agreement. There were no realized losses resulting from default during this reporting period.

When securities are loaned, the collateral received is at least 100.0 percent of fair value of the securities loaned and must be maintained at 100.0 percent or greater. There are no stated restrictions on the amount of securities that may be loaned, but the basic composition of the general account portfolio effectively restricts the maximum percentage of the portfolio that may be loaned. During the past fiscal year, approximately 4.3 percent of the general account securities were on loan.

During the past year, a combination of U.S. Treasury, agency, agency mortgage and corporate securities have been loaned, with the majority of the loaned securities being U.S. Treasury and agency securities. At June 30, 2016, all collateral received was in the form of cash.

Securities loaned for the State Treasurer's cash collateral reinvestment pool, which consisted of 50.6 percent general account funds and 49.4 percent Virginia Lottery funds as of June 30, 2016, had a carrying value of $50.0 million and a fair value of $69.4 million. The fair value of the collateral received was $70.7 million providing for coverage of 101.9 percent. At year-end, the State Treasury's securities lending program had no credit risk exposure to borrowers because the amounts it owed the borrowers exceeded the amounts the borrowers owed Treasury's securities lending program. All securities are marked to market daily. The carrying value of the cash collateral reinvestment pool received was $70.7 million and the fair value of the investments purchased with the cash collateral was $70.7 million. As of June 30, 2016, the State Treasurer's cash collateral reinvestment pool had an unrealized gain of $262, and is recorded in the General Fund as stated in Note 1.DD. This amount is included in the total State Treasurer's Portfolio discussed earlier in this note.

Cash collateral reinvestment guidelines were amended effective April 16, 2014. Approved investment instruments include Indemnified Repurchase Agreements marked to market daily and preapproved Government Money Market Funds. Term repurchase agreements are limited to 93 days. At June 30, 2016, 100.0 percent of cash collateral reinvestments were in indemnified repurchase agreements.

At June 30, 2016, the cash collateral reinvestment portfolio had a weighted average maturity, expected maturity and final maturity of one day.

At June 30, 2016 the cash collateral reinvestment portfolio was in compliance with the State Treasury's current cash collateral reinvestment guidelines. During the fiscal year, Treasury received final pay downs on all securities that were out of compliance due to various security ratings downgrades during the past few years and the adoption of more restrictive reinvestment guidelines in 2014.

Under authorization of the Board, the Virginia Retirement System (the System) lends its fixed income and equity securities to various broker-dealers on a temporary basis. This program is administered through an agreement with the System's custodial agent bank. All security loan agreements are collateralized by cash, securities, or an irrevocable letter of credit issued by a major bank, and have a market value equal to at least 102.0 percent of the market value for domestic securities and 105.0 percent for international securities. Securities received as collateral cannot be pledged or sold by the System unless the borrower defaults. Contracts require the lending agents to indemnify the System if the borrowers fail to return the securities lent and related distributions and if the collateral is inadequate to replace the securities lent. All securities loans can be terminated on demand by either the System or the borrowers. The majority of loans are open loans, meaning the rebate is set daily. This results in a maturity of one or two days on average, although securities are often on loan for longer periods. The maturity of loans generally does not match the maturity of collateral investments, which averages 14 days. At year-end, the System has no credit risk exposure to borrowers because the amounts it owes the borrowers exceeded the amounts the borrowers owe the System. All securities are marked to market daily and carried at market value. The market value of securities on loan at June 30, 2016, was $8.3 billion. The June 30, 2016, balance was composed of U.S. Government and agency securities of $2.6 billion, corporate and other bonds of $1.7 billion and common and preferred stocks of $4.0 billion. The value of collateral (cash and non-cash) at June 30, 2016, was $8.7 billion.

At June 30, 2016, the invested cash collateral had a cost of $5.0 billion and was composed of time deposits of $85.1 million, floating rate notes of $3.3 billion, mutual and money market funds of $872.2 million, and repurchase agreements of $774.1 million.

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, 2016.

	Accounts Receivable	Loans / Mortgage Receivable	Local School Bonds Receivable	Interest Receivable	Taxes Receivable
Primary Government:					
General	$ 1,050,212	$ 233	$ -	$ 373,255	$ 1,873,833
Major Special Revenue Funds:					
Commonwealth Transportation	143,493	160,134	-	-	184,587
Federal Trust	818,946	228	-	-	-
Literary	289,044	137,359	-	38,463	-
Nonmajor Governmental Funds	126,544	35	-	13,525	7,239
Major Enterprise Funds:					
Virginia Lottery	63,070	-	-	-	-
Virginia College Savings Plan	11,853	-	-	4,337	-
Unemployment Compensation	136,092	-	-	-	-
Nonmajor Enterprise Funds	52,720	-	-	-	-
Internal Service Funds	10,292	-	-	-	-
Private Purpose Trust Funds	93	2	-	2,282	-
Pension and Other Employee Benefit Trust Funds (1)	236,774	-	-	219,464	-
Investment Trust Fund	-	-	-	1,097	-
Agency Funds	602	-	-	-	108,327
Total Primary Government (2)	$ 2,939,735	$ 297,991	$ -	$ 652,423	$ 2,173,986
Discrete Component Units:					
Virginia Housing Development Authority (3)	$ -	$ 6,554,553	$ -	$ 30,803	$ -
Virginia Public School Authority (4)	-	-	3,402,283	63,043	-
Virginia Resources Authority	-	4,391,211	-	29,834	-
Virginia College Building Authority	-	-	-	24,252	-
Nonmajor Component Units (5)	1,692,914	154,794	-	5,472	7,504
Total Component Units	$ 1,692,914	$ 11,100,558	$ 3,402,283	$ 153,404	$ 7,504

Note (1): In the Pension and Other Employee Benefit Trust Funds, Interest Receivable of $219,464 (dollars in thousands) also includes dividends receivable. Additionally, Other Receivables of $327,144 (dollars in thousands) are made up of $319,098 (dollars in thousands) in pending investment transactions, which includes $282,903 (dollars in thousands) in futures margins receivable, $32,881 (dollars in thousands) in futures contracts receivable, and $3,314 (dollars in thousands) in securities lending; and $8,046 (dollars in thousands) in other receivables related to benefit plans.

Note (2): Fiduciary net receivables in the amount of $2,056,037 (dollars in thousands) are not included in the Government-wide Statement of Net Position.

Note (3): The Virginia Housing Development Authority (major component unit) reports $6,284,707 (dollars in thousands) as Restricted Loans Receivable, $28,995 (dollars in thousands) as Restricted Interest Receivable, and $1,584 (dollars in thousands) as Restricted Other Receivables.

Note (4): The Virginia Public School Authority (major component unit) reports $3,402,283 (dollars in thousands) as Local School Bonds Receivable. This amount will be used to repay the Authority's bonds.

Note (5): Other Receivables of the nonmajor component units are primarily comprised of pledges receivable of $15,840 (dollars in thousands) reported by the University of Virginia; sponsors accounts receivable of $27,433 (dollars in thousands) reported by Virginia Commonwealth University; premium receivables of $84,918 (dollars in thousands) and third-party settlements and non-patient receivables of $45,095 (dollars in thousands) reported by Virginia Commonwealth University Health System Authority (blended component unit of Virginia Commonwealth University), and $54,932 (dollars in thousands) reported by foundations of the higher education institutions representing FASB reporting entities defined in Note 1.B.; and $24,725 (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
$ -	$ -	$ -	$ (1,537,171)	$ 1,760,362	$ 401,143
-	-	-	(34,112)	454,102	164,494
-	-	-	(7,678)	811,496	180
-	-	-	(293,283)	171,583	120,950
-	-	-	(88,714)	58,629	424
-	-	-	-	63,070	-
198,759	-	-	-	214,949	152,005
-	-	-	(28,014)	108,078	-
-	-	13	(1,113)	51,620	-
-	-	-	(615)	9,677	-
-	-	308	-	2,685	-
-	1,211,865	327,144	-	1,995,247	-
-	-	-	-	1,097	-
-	-	-	(51,921)	57,008	8,290
$ 198,759	$ 1,211,865	$ 327,465	$ (2,042,621)	$ 5,759,603	$ 847,486
$ -	$ -	$ 11,992	$ (178,122)	$ 6,419,226	$ 6,026,690
-	-	-	-	3,465,326	3,146,746
-	-	1,768	(326)	4,422,487	4,120,639
-	-	-	-	24,252	-
-	-	350,100	(872,009)	1,338,775	216,871
$ -	$ -	$ 363,860	$ (1,050,457)	$ 15,670,066	$ 13,510,946

8. CONTRIBUTIONS RECEIVABLE, NET

The following schedule details the contributions receivable for foundations[1] included with the nonmajor component units, as of June 30, 2016. The major component units reported no contributions receivable for fiscal year 2016.

(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	$ 152,158	$ 221,020	$ 61,069	$ 434,247	$ (23,069)	$ (24,858)	$ 386,320
Total Component Units	$ 152,158	$ 221,020	$ 61,069	$ 434,247	$ (23,069)	$ (24,858)	$ 386,320

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, 2016.

Schedule of Due from/to Other Funds

June 30, 2016

(Dollars in Thousands)

Due From	Amount	Due To	Amount
Primary Government		**Primary Government**	
General Fund	$ 77,181	Major Special Revenue Funds:	
		Federal Trust	$ 145
		Major Enterprise Funds:	
		Virginia Lottery	53,486
		Nonmajor Enterprise Funds	22,439
		Internal Service Funds	1,111
Major Special Revenue Funds:			
Federal Trust	2,762	General Fund	78
		Major Enterprise Funds:	
		Unemployment Compensation	2,684
Nonmajor Governmental Funds	6,822	Major Special Revenue Funds:	
		Commonwealth Transportation	2,349
		Federal Trust	2,974
		Nonmajor Governmental Funds	900
		Major Enterprise Funds:	
		Unemployment Compensation	149
		Nonmajor Enterprise Funds	446
		Internal Service Funds	4
Major Enterprise Funds:			
Unemployment Compensation	494	General Fund	315
		Major Special Revenue Funds:	
		Commonwealth Transportation	9
		Federal Trust	92
		Nonmajor Governmental Funds	73
		Major Enterprise Funds:	
		Virginia Lottery	1
		Nonmajor Enterprise Funds	4
Nonmajor Enterprise Funds	808	General Fund	124
		Major Special Revenue Funds:	
		Commonwealth Transportation	416
		Federal Trust	110
		Nonmajor Governmental Funds	121
		Nonmajor Enterprise Funds	23
		Internal Service Funds	14
Internal Service Funds	50,970	General Fund	29,005
		Major Special Revenue Funds:	
		Commonwealth Transportation	8,288
		Federal Trust	6,326
		Nonmajor Governmental Funds	3,956
		Major Enterprise Funds:	
		Virginia Lottery	435
		Virginia College Savings Plan	67
		Nonmajor Enterprise Funds	2,108
		Internal Service Funds	785
Pension and Other Employee Benefit Trust Funds	25	Private Purpose Trust Funds	25
Total Primary Government	$ 139,062	Total Primary Government	$ 139,062

Schedule of Due from/to Internal/External Parties
June 30, 2016

(Dollars in Thousands)

Due From	Amount	Due To	Amount
Primary Government		**Primary Government**	
General Fund	$ 1	Investment Trust Fund	$ 1
Nonmajor Governmental Funds	168	Agency Funds	168
Internal Service Funds	13,887	Private Purpose Trust Funds	65
		Pension and Other Employee Benefit Trust Funds	13,822
Pension and Other Employee Benefit Trust Funds	30,237	General Fund	18,559
		Major Special Revenue Funds:	
		Commonwealth Transportation	5,020
		Federal Trust	2,627
		Nonmajor Governmental Funds	2,738
		Major Enterprise Funds:	
		Virginia Lottery	184
		Virginia College Savings Plan	68
		Nonmajor Enterprise Funds	650
		Internal Service Funds	391
Total Primary Government	$ 44,293	Total Primary Government	$ 44,293

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, 2016. There were no Interfund Receivables/Payables for the component units as of June 30, 2016.

Interfund Receivables/Payables
June 30, 2016

(Dollars in Thousands)

Receivable From:	Amount	Payable To:	Amount
Primary Government		**Primary Government**	
Nonmajor Governmental Funds	$ 157,909	Major Special Revenue Funds:	
		Federal Trust	$ 23,135
		Nonmajor Enterprise Funds	29,749
		Internal Service Funds	105,025
Total Primary Government	$ 157,909	Total Primary Government	$ 157,909

Due from/to Primary Government and Component Units

Included in this category is activity between the Commonwealth and its component units, as well as activity between component units.

A due from primary government amount that is due from the Federal Trust Fund (major special revenue) to the Virginia College Building Authority (major component unit) of $4.0 million is for interest on Build America Bonds (BABs).

An $83.4 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 $83.1 million, and payments awaiting disbursements of $316,098. The General Fund reports $4.1 million in the fund financial statements and an additional $79.3 million in the government-wide financial statements.

A $38,591 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 the Virginia Community College System (nonmajor component unit).

A $30.0 million due from component units is due from the University of Virginia (nonmajor component unit) in the amount of $15.5 million, and the Virginia Commonwealth University Health System Authority (blended component unit of Virginia Commonwealth University – nonmajor component unit) in the amount of $14.5 million, to the Department of Medical Assistance Services regarding a federal disallowance amount, and the entire General Fund amount is in the government-wide financial statements.

An $18.7 million due from component units in the Health Care Fund (internal service fund) represents amounts due from the nonmajor component units.

A $773,521 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 $120.0 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 the Old Dominion University (nonmajor component unit) to the Virginia Commercial Space Flight Authority (nonmajor component unit).

Due from/to Component Units and Fiduciary Funds

A $38.6 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 College of William and Mary (nonmajor component unit) loan of $2.0 million was used to fund a capital project until bonds were issued. The George Mason University (nonmajor component unit) and the Virginia Community College System (nonmajor component unit) loans of $12.5 million and $4.4 million were used to advance fund federally-funded programs. These amounts are due to a nonmajor governmental fund.

The $193.9 million in loans receivable from primary government represents loans from the Virginia Public School Authority (VPSA) (major component unit) to the Literary Special Revenue Fund (major governmental fund). The VPSA makes grants to local school divisions to finance the purchase of educational technology equipment. The VPSA makes these grants using the proceeds of notes issued for that purpose, which will be repaid from appropriations to be made by the Virginia General Assembly from the Literary Special Revenue Fund (major governmental fund).

10. OTHER ASSETS

The following table summarizes Other Assets as of June 30, 2016.

(Dollars in Thousands)

	Cash and Travel Advances	Other Assets	Total Other Assets
Primary Government:			
General	$ 809	$ -	$ 809
Major Special Revenue Funds:			
Commonwealth Transportation	415	-	415
Federal Trust	1,867	-	1,867
Nonmajor Governmental Funds	692	1,022	1,714
Major Enterprise Funds:			
Virginia Lottery	1	-	1
Nonmajor Enterprise Funds	209	-	209
Internal Service Funds (1)	-	13,054	13,054
Agency Funds (2)	-	49	49
Total Primary Government	$ 3,993	$ 14,125	$ 18,118
Discrete Component Units:			
Virginia Housing Development Authority	$ -	$ 13,952	$ 13,952
Virginia Resources Authority	-	299	299
Nonmajor Component Units (3)	2,521	86,544	89,065
Total Component Units	$ 2,521	$ 100,795	$ 103,316

Note (1): Of the $13,054 (dollars in thousands) shown above, $11,915 (dollars in thousands) and $1,109 (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 (2): Other Assets of the Agency Funds represent prepaid expenses and advances to third party agents. The $49 (dollars in thousands) shown above is not included in the Government-wide Statement of Net Position.

Note (3): Other Assets of the nonmajor component units are primarily comprised of debt issuance costs, goodwill, a derivative asset, 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 $338.5 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 $1.6 billion, $174.2 million, and $373.4 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 $686.7 million. Of this amount, $679.0 million is restricted for loans to local governments, bond indentures, or federal and state regulations for various revolving funds, and $7.7 million is restricted for the Operating Reserve Fund for the Virginia Pooled Financing Program.

The Virginia Port Authority (nonmajor component unit) reported restricted assets of $148.2 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 $215.4 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 $91.6 million. Of this amount, $23.8 million is for debt service and $67.8 million is revenue bond construction funds.

The Virginia Small Business Financing Authority (nonmajor component unit) reported restricted assets of $37.7 million for gifts and grants.

The higher education institutions (nonmajor component units) reported restricted assets totaling approximately $4.6 billion primarily for endowment and other contractual obligations. Included in this amount is approximately $4.0 billion of foundations' restricted assets. The two museum foundations, the Virginia Museum of Fine Arts Foundation (nonmajor component unit) and the Science Museum of Virginia Foundation (nonmajor component unit) had restricted assets of $244.0 million and $21.4 million, respectively, primarily for donor-imposed restricted endowments.

The remaining $5.2 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, 2016.

Schedule of Changes in Capital Assets

Governmental Activities

(Dollars in Thousands)

	Balance July 1, as restated (1)	Increases	Decreases	Balance June 30
Nondepreciable Capital Assets:				
Land	$ 2,940,964	$ 211,460	$ (50,836)	$ 3,101,588
Water Rights and/or Easements	69,770	5,558	-	75,328
Infrastructure	322,741	-	-	322,741
Construction-in-Progress	4,001,765	1,958,541	(1,590,135)	4,370,171
Total Nondepreciable Capital Assets	7,335,240	2,175,559	(1,640,971)	7,869,828
Depreciable Capital Assets:				
Buildings	4,022,494	20,031	(17,212)	4,025,313
Equipment	1,163,187	59,757	(25,781)	1,197,163
Infrastructure	32,695,809	1,797,719	(299,329)	34,194,199
Software	499,043	27,151	-	526,194
Total Capital Assets being Depreciated	38,380,533	1,904,658	(342,322)	39,942,869
Less Accumulated Depreciation for:				
Buildings	1,389,551	95,078	(12,186)	1,472,443
Equipment	677,019	56,665	(19,017)	714,667
Infrastructure	14,038,825	906,282	(19,668)	14,925,439
Software	252,825	33,453	(1,517)	284,761
Total Accumulated Depreciation	16,358,220	1,091,478	(52,388)	17,397,310
Total Depreciable Capital Assets, Net	22,022,313	813,180	(289,934)	22,545,559
Total Capital Assets, Net	$ 29,357,553	$ 2,988,739	$ (1,930,905)	$ 30,415,387

Note (1): Beginning balances have been restated by $9.7 million as discussed in Note 2.

Depreciation Expense Charged to Functions of the Primary Government

June 30, 2016

(Dollars in Thousands)

Governmental Activities:	
General Government	$ 28,498
Education	12,679
Transportation	937,019
Resources and Economic Development	24,745
Individual and Family Services	25,403
Administration of Justice	46,094
Capital Assets held by the Internal Service Funds are charged to various functions	17,040
Total	$ 1,091,478

Schedule of Changes in Capital Assets
Business-type Activities

(Dollars in Thousands)

	Balance July 1	Increases	Decreases	Balance June 30
Nondepreciable Capital Assets:				
Land	$ 1,977	$ -	$ -	$ 1,977
Construction-in-Progress	4,602	789	(3,851)	1,540
Total Nondepreciable Capital Assets	6,579	789	(3,851)	3,517
Depreciable Capital Assets:				
Buildings	30,784	78	(112)	30,750
Equipment	65,580	3,830	(1,958)	67,452
Software	7,039	4,304	(181)	11,162
Total Capital Assets being Depreciated	103,403	8,212	(2,251)	109,364
Less Accumulated Depreciation for:				
Buildings	13,146	572	-	13,718
Equipment	53,431	4,656	(1,942)	56,145
Software	3,178	1,588	(67)	4,699
Total Accumulated Depreciation	69,755	6,816	(2,009)	74,562
Total Depreciable Capital Assets, Net	33,648	1,396	(242)	34,802
Total Capital Assets, Net	$ 40,227	$ 2,185	$ (4,093)	$ 38,319

Schedule of Changes in Capital Assets
Component Units

(Dollars in Thousands)

	Balance July 1 (1)	Increases	Decreases	Subtotal June 30	Foundations (2)	Total June 30
Nondepreciable Capital Assets:						
Land	$ 600,210	$ 16,490	$ (5,345)	$ 611,355	$ 294,959	$ 906,314
Construction-in-Progress	1,671,305	1,366,995	(1,566,508)	1,471,792	37,991	1,509,783
Inexhaustible Works of Art/Historical Treasures	78,508	2,490	-	80,998	19,713	100,711
Livestock	1,168	-	(571)	597	2,065	2,662
Total Nondepreciable Capital Assets	2,351,191	1,385,975	(1,572,424)	2,164,742	354,728	2,519,470
Depreciable Capital Assets:						
Buildings	14,741,600	1,189,587	(33,665)	15,897,522	1,212,396	17,109,918
Infrastructure	3,311,062	256,657	(5,928)	3,561,791	6,196	3,567,987
Equipment	3,421,861	289,461	(220,351)	3,490,971	156,023	3,646,994
Improvements Other Than Buildings	509,677	29,436	(3,116)	535,997	80,773	616,770
Library Books	833,428	24,260	(10,833)	846,855	-	846,855
Software	436,779	40,356	(1,499)	475,636	-	475,636
Other Intangible Assets	2,000	-	-	2,000	-	2,000
Total Capital Assets being Depreciated	23,256,407	1,829,757	(275,392)	24,810,772	1,455,388	26,266,160
Less Accumulated Depreciation for:						
Buildings	4,715,850	422,115	(21,212)	5,116,753	330,777	5,447,530
Infrastructure	1,504,299	93,124	(5,666)	1,591,757	3,215	1,594,972
Equipment	2,302,726	248,559	(166,183)	2,385,102	106,120	2,491,222
Improvements Other Than Buildings	302,852	21,720	(1,841)	322,731	53,010	375,741
Library Books	707,498	30,516	(8,635)	729,379	-	729,379
Software	326,847	44,451	(1,476)	369,822	-	369,822
Other Intangible Assets	1,467	133	-	1,600	-	1,600
Total Accumulated Depreciation	9,861,539	860,618	(205,013)	10,517,144	493,122	11,010,266
Total Depreciable Capital Assets, Net	13,394,868	969,139	(70,379)	14,293,628	962,266	15,255,894
Total Capital Assets, Net	$ 15,746,059	$ 2,355,114	$ (1,642,803)	$ 16,458,370	$ 1,316,994	$ 17,775,364

Note (1): There have been reclassifications in beginning balances of certain line items above.

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 36 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, 2016.

Government-wide Statements

(Dollars in Thousands)	Primary Government			
	Governmental Activities	Business-type Activities	Total	Total Component Units
Deferred Outflows of Resources				
Effective Hedges in a Loss Position	$ -	$ -	$ -	$ 22,933
Loss on Refunding of Debt	75,896	-	75,896	433,468
Pension Related	655,383	17,903	673,286	350,504
Total Deferred Outflows of Resources	$ 731,279	$ 17,903	$ 749,182	$ 806,905
Deferred Inflows of Resources				
Effective Hedges in a Gain Position	$ -	$ -	$ -	$ 2,466
Service Concession Arrangements	2,142,066	-	2,142,066	70,161
Gain on Refunding of Debt	-	-	-	35,035
Pension Related	432,869	9,967	442,836	239,499
Total Deferred Inflows of Resources	$ 2,574,935	$ 9,967	$ 2,584,902	$ 347,161

Fund Statements

(Dollars in Thousands)	Primary Government - Governmental Funds					
	General	Commonwealth Transportation	Federal Trust	Literary	Nonmajor Governmental Funds	Total Governmental Funds
Deferred Outflows of Resources						
Total Deferred Outflows of Resources	$ -	$ -	$ -	$ -	$ -	$ -
Deferred Inflows of Resources						
Revenues Considered Unavailable	$ 967,818	$ 49,020	$ 85,467	$ 22,452	$ 26,971	$ 1,151,728
Total Deferred Inflows of Resources	$ 967,818	$ 49,020	$ 85,467	$ 22,452	$ 26,971	$ 1,151,728

(Continued on next page)

(Dollars in Thousands)	Business-type Activities Enterprise Funds					
	Virginia Lottery	Virginia College Savings Plan	Nonmajor	Total Business-type Activities	Internal Service Funds	Private Purpose Trust Funds
Deferred Outflows of Resources						
Effective Hedges in a Loss Position	$ -	$ -	$ -	$ -	$ -	$ -
Loss on Refunding of Debt	-	-	-	-	-	-
Pension Related	4,454	1,833	11,616	17,903	6,495	506
Total Deferred Outflows of Resources	$ 4,454	$ 1,833	$ 11,616	$ 17,903	$ 6,495	$ 506
Deferred Inflows of Resources						
Effective Hedges in a Gain Position	$ -	$ -	$ -	$ -	$ -	$ -
Service Concession Arrangements	-	-	-	-	-	-
Gain on Refunding of Debt	-	-	-	-	-	-
Pension Related	2,026	758	7,183	9,967	5,820	258
Total Deferred Inflows of Resources	$ 2,026	$ 758	$ 7,183	$ 9,967	$ 5,820	$ 258

(Dollars in Thousands)	Component Units				
	Virginia Public School Authority	Virginia Resources Authority	Virginia College Building Authority	Nonmajor Component Units	Total Component Units
Deferred Outflows of Resources					
Effective Hedges in a Loss Position	$ -	$ -	$ -	$ 22,933	$ 22,933
Loss on Refunding of Debt	138,112	83,002	27,544	184,810	433,468
Pension Related	-	99	-	350,405	350,504
Total Deferred Outflows of Resources	$ 138,112	$ 83,101	$ 27,544	$ 558,148	$ 806,905
Deferred Inflows of Resources					
Effective Hedges in a Gain Position	$ -	$ -	$ -	$ 2,466	$ 2,466
Service Concession Arrangements	-	-	-	70,161	70,161
Gain on Refunding of Debt	-	26,778	-	8,257	35,035
Pension Related	-	30	-	239,469	239,499
Total Deferred Inflows of Resources	$ -	$ 26,808	$ -	$ 320,353	$ 347,161

14. DERIVATIVES

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* requires additional reporting and disclosures for derivative instruments.

Primary Government

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates or financial indexes. They include futures, forwards, options and swap contracts. Some traditional securities, such as structured notes, can have derivative-like characteristics. In this case, the return may be linked to one or more indexes and asset-backed securities, such as collateralized mortgage obligations (CMOs), which are sensitive to changes in interest rates and pre-payments. Futures, forwards, options and swaps generally are not recorded on the financial statements, whereas structured notes and asset-backed investments generally are recorded.

Virginia College Savings Plan (Virginia529)

GASB Statement No. 53 defines stable value investment vehicles as synthetic guaranteed investment contracts. Stable value funds are invested in a high quality, diversified, intermediate term, fixed income portfolio that is protected against interest rate volatility by wrap or investment contracts from banks and insurance companies that guarantee the payment of benefits at book value (cost plus accrued interest), which enables the entire investment to be carried at its book value. The Virginia529 utilizes stable value investments in both the Virginia529 prePAID Program (major enterprise fund) and Virginia529 inVEST Fund (Private Purpose Trust Fund). Virginia529's stable value investments meet the definition of fully benefit-responsive synthetic guaranteed investment contracts and are reported at contract value. At June 30, 2016, 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, 2016 Fair Value	June 30, 2015 Fair Value
Enterprise	American General Life	$ 28,391	2/21/2014	Open ended	1.7%	$ 118,683	$ 120,898
	RGA	28,376	6/22/2016	Open ended	2.3%		
	Voya Retirement & Annuity	29,420	12/3/2002	Open ended	2.4%		
	State Street Bank	28,375	5/1/2002	Open ended	2.7%		
Private Purpose	American General Life	$ 133,505	1/16/2014	Open ended	1.4%	$ 690,820	$ 666,733
	Voya Retirement & Annuity	27,490	12/3/2002	Open ended	3.2%		
	Voya Retirement & Annuity	107,734	10/5/2012	Open ended	1.6%		
	Prudential Retirement Insurance & Annuity	134,869	1/30/2014	Open ended	2.1%		
	RGA	133,498	8/28/2015	Open ended	2.0%		
	State Street Bank	134,702	5/1/2002	Open ended	2.1%		

The following table (dollars in thousands) contains information relating to fair value, changes in fair value, and notional value for U.S. Treasury Futures Contracts.

Investment Derivatives - U.S. Treasury Futures Contracts

	Changes in Fair Value		Fair Value at June 30, 2016		
Fund	Classification	Amount	Classification	Amount	Notional Amount
Enterprise	Revenue	$ 111	Investment	$ 207	$ 13,040

Pursuant to its investment management agreement, Advent Capital Management, LLC may invest in derivatives for hedging purposes or for the use of efficient portfolio management. Synthetic positions are not allowed and the use of derivatives should not be considered as an alpha generator. Advent primarily uses forward foreign exchange contracts to hedge the value of investments denominated in non-U.S. dollar currencies. Credit risk of exchange traded currency contracts lies with the clearinghouse of the exchange at which the contracts are traded, while credit risk of currency contracts traded over the counter lies with the counterparty. Counterparty risk exposure is generally equal to the unrealized gain on in-the-money contracts. The following table (dollars in thousands) contains a breakdown of these forward contracts by currency.

Virginia prePAID Currency Forwards

Currency	Cost	Foreign Exchange Purchases	Foreign Exchange Sales	Market Value
British Pound Sterling	$ 3,724	$ 257	$ (3,677)	$ (3,420)
Canadian Dollar	2,484	-	(2,514)	(2,514)
Euro	28,356	679	(28,782)	(28,103)
Hong Kong Dollar	1,321	-	(1,322)	(1,322)
Japanese Yen	7,424	205	(8,133)	(7,928)
Swiss Franc	1,790	-	(1,819)	(1,819)
U.S. Dollar	(45,099)	46,245	(1,147)	45,098
Total	$ -	$ 47,386	$ (47,394)	$ (8)

Additional information is available in the Virginia529 individually published financial statements, which may be obtained by writing to Virginia529, 9001 Arboretum Parkway, North Chesterfield, Virginia 23236.

Virginia Retirement System

The Virginia Retirement System (the System) is a party, directly and indirectly, to various derivative financial investments that appear on the financial statements and that are used in the normal course of business to enhance returns on investments and manage risk exposure to changes in value resulting from fluctuations in market conditions. These investments may involve, to varying degrees, elements of credit and market risk in excess of amounts recognized on the financial statements.

At June 30, 2016, the System had four types of derivative financial instruments: futures, currency forwards, options and swaps. Futures, currency forwards, and options contracts provide the System with the opportunity to build passive benchmark positions, manage portfolio duration in relation to various benchmarks, adjust portfolio yield curve exposure and gain market exposure to various indexes in a more efficient way and at lower transaction costs. Credit risks depend on whether the contracts are exchange-traded or exercised over-the-counter. Market risks arise from adverse changes in market prices, interest rates and foreign exchange rates.

Futures Contracts

Futures contracts are contracts to deliver or receive securities at a specified future date and at a specified price or yield. Futures contracts are traded on organized exchanges (exchange-traded) and require an initial margin (collateral) in the form of cash or marketable securities. The net change in the futures contract value is settled daily, in cash, with the exchanges. The net gains or losses resulting from the daily settlements are included in the accompanying financial statements. Holders of futures contracts look to the exchange for performance under the contract and not to the entity holding the offsetting futures position. Accordingly, the amount at risk posed by nonperformance of counterparties to futures contracts is minimal. The market value of the System's investments in futures contracts at June 30, 2016 and 2015 was $9.9 million and negative $10.9 million, respectively. The notional value of the System's investment in futures contracts at June 30, 2016 and 2015 is shown in the following table.

Futures Contracts
as of June 30
(Dollars in Thousands)

	2016	2015
Cash & Cash Equivalent Derivatives Futures:		
Long	$ -	$ -
Short	-	(183,747)
Equity Derivatives Futures:		
Long	635,381	827,881
Short	(2,019)	-
Fixed Income Derivatives Futures:		
Long	1,021,181	89,556
Short	(733,650)	(606,020)
Total Futures	$ 920,893	$ 127,670

Currency Forwards

Currency forwards represent foreign exchange contracts and are used by the System to effect settlements and to protect the base currency ($US) value of portfolio assets denominated in foreign currencies against fluctuations in the exchange rates of those currencies. A forward foreign currency exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated price. The credit risk of currency contracts that are exchange-traded lies with the clearinghouse of the exchange where the contracts are traded. The credit risk of currency contracts traded over-the-counter lies with the counterparty, and exposure usually is equal to the unrealized profit on in-the-money contracts. The market risk in foreign currency contracts is related to adverse movements in currency exchange rates. Information on the System's currency forwards contracts at June 30, 2016 and 2015 is shown in the following table.

Currency Forwards
as of June 30

(Dollars in Thousands)

Currency	Cost	Pending Foreign Exchange Purchases	Pending Foreign Exchange Sales	Fair Value 2016	Fair Value 2015
Argentine Peso	$ 2,320	$ 2,302	$ -	$ 2,302	$ -
Australian Dollar	(292,607)	182,514	(473,459)	(290,945)	(222,487)
Brazil Real	(40,627)	9,773	(52,000)	(42,227)	(57,527)
British Pound Sterling	(832,753)	363,019	(1,168,566)	(805,547)	(1,050,547)
Canadian Dollar	(473,519)	205,071	(678,116)	(473,045)	(566,277)
Chilean Peso	(3,282)	1,606	(4,964)	(3,358)	319
Chinese Yuan Renminbi	(46,791)	638	(46,969)	(46,331)	-
Colombian Peso	8,385	8,918	(194)	8,724	(7,814)
Czech Koruna	(23,683)	-	(23,679)	(23,679)	-
Danish Krone	(69,336)	52,808	(121,681)	(68,873)	(94,319)
Euro Currency Unit	(1,417,991)	395,667	(1,793,541)	(1,397,874)	(1,037,892)
Hong Kong Dollar	(126,132)	13,546	(139,681)	(126,135)	(166,460)
Hungarian Forint	(14,200)	8,120	(22,431)	(14,311)	1,083
Indian Rupee	12,449	25,553	(13,122)	12,431	19,477
Indonesian Rupiah	1,431	9,785	(11,112)	(1,327)	1,057
Israeli Shekel	(68,884)	10,140	(79,210)	(69,070)	(69,449)
Japanese Yen	(697,641)	278,767	(972,110)	(693,343)	(1,052,403)
Malaysian Ringgit	24,839	28,117	(2,581)	25,536	15,840
Mexican Peso	32,716	44,500	(11,215)	33,285	10,738
Moroccan Dirham	12,417	12,478	-	12,478	-
New Taiwan Dollar	(10,780)	-	(10,961)	(10,961)	-
New Turkish Lira	1,591	12,936	(11,262)	1,674	4,646
New Zealand Dollar	(58,895)	104,421	(164,592)	(60,171)	(127,251)
Norwegian Krone	(69,448)	166,245	(235,000)	(68,755)	68,428
Peruvian Nuevo Sol	3,338	3,345	-	3,345	2,345
Philippine Peso	7,624	8,237	(616)	7,621	8,733
Polish Zloty	8,217	31,372	(23,941)	7,431	7,278
Romanian Leu	(1,663)	80	(1,719)	(1,639)	(1,630)
Russian Ruble	17,402	20,938	(3,187)	17,751	(5,981)
Saudi Arabian Riyal	(5,462)	-	(5,572)	(5,572)	-
Singapore Dollar	(188,111)	157,502	(347,958)	(190,456)	(253,062)
South African Rand	(5,542)	15,351	(21,129)	(5,778)	(2,081)
South Korean Won	686	11,883	(11,452)	431	(23,077)
Swedish Krona	(101,805)	117,325	(218,539)	(101,214)	(158,286)
Swiss Franc	(369,479)	10,415	(379,769)	(369,354)	(293,002)
Thai Baht	17,782	20,642	(2,887)	17,755	7,426
U.S. Dollar	4,770,298	7,039,144	(2,268,846)	4,770,298	5,037,287
Total Forwards Subject to Foreign Currency Risk				**$ 51,097**	**$ (4,888)**

Options Contracts

Options may be either exchange-traded or negotiated directly between two counterparties over-the-counter. Options grant the holder the right, but not the obligation, to purchase (call) or sell (put) a financial instrument at a specified price and within a specified period of time from the writer of the option. As a purchaser of options, the System typically pays a premium at the outset. This premium is reflected as an asset on the financial statements. The System then retains the right, but not the obligation, to exercise the options and purchase the underlying financial instrument. Should the option not be exercised, it expires worthless and the premium is recorded as a loss.

A writer of options assumes the obligation to deliver or receive the underlying financial instrument on exercise of the option. Certain option contracts may involve cash settlements based on specified indexes such as stock indexes. As a writer of options, the System receives a premium at the outset.

This premium is reflected as a liability on the financial statements, and the System bears the risk of an unfavorable change in the price of the financial instrument underlying the option. Information on the System's options balances at June 30, 2016 and 2015 is shown in the following table.

Options Contracts
as of June 30

(Dollars in Thousands)

	2016	2015
Cash and Cash Equivalent Options:		
Call	$ 2,117	$ (3)
Put	(192)	14
Equity Options:		
Call	-	-
Put	-	-
Fixed Income Options:		
Call	-	(12)
Put	-	(37)
Swaptions:		
Call	-	(12)
Put	-	(51)
Total Options	$ 1,925	$ (101)

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 2016, the System entered into credit defaults, interest rate and total return swaps. Information on the System's swap balances at June 30, 2016 and 2015 is shown in the following table.

Swap Agreements
as of June 30

(Dollars in Thousands)

Counterparty	Notional Amount	VRS Rate	Counterparty Rate	Maturity Date	Buying/ Selling Protection	Pay/ Receive Rate	Fair Value 2016	Fair Value 2015
Credit Default Swaps:								
Barclays Bank PLC	$ 3,900			6/20/2019	Selling	1.0%	$ 44	$ 47
Barclays Bank PLC	3,700			12/20/2018	Buying	1.0%	-	(64)
Barclays Bank PLC	3,450			9/20/2020	Selling	1.0%	-	(53)
Barclays Bank PLC	3,400			6/20/2019	Selling	1.0%	(32)	(57)
Barclays Bank PLC	2,600			9/20/2015	Selling	1.0%	-	(9)
Barclays Bank PLC	1,800			12/20/2018	Buying	1.0%	-	(33)
Barclays Bank PLC	1,800			9/20/2015	Selling	1.0%	-	(1)
Barclays Bank PLC	1,239			6/20/2021	Buying	1.0%	6	-
Barclays Bank PLC	884			6/20/2021	Buying	1.0%	4	-
Barclays Bank PLC	800			12/20/2020	Selling	1.0%	(62)	-
Barclays Bank PLC	800			9/20/2015	Selling	1.0%	-	1
Barclays Bank PLC	700			12/20/2018	Buying	1.0%	-	(9)
Barclays Bank PLC	600			6/20/2019	Selling	1.0%	(1)	(4)
Barclays Bank PLC	600			9/20/2020	Selling	1.0%	(18)	-
Barclays Bank PLC	530			6/20/2021	Buying	1.0%	3	-
Barclays Bank PLC	500			9/20/2016	Selling	1.0%	1	-
Barclays Bank PLC	200			9/20/2016	Selling	1.0%	-	-
Barclays Bank PLC	200			6/20/2017	Selling	1.0%	1	-
Barclays Bank PLC	200			12/20/2017	Selling	1.0%	-	-
Barclays Bank PLC	100			12/20/2016	Selling	1.0%	-	-
BNP Paribas SA/London	2,800			6/20/2021	Buying	1.0%	28	-
BNP Paribas SA/London	537			6/20/2021	Buying	1.0%	9	-
BNP Paribas SA/London	343			6/20/2021	Buying	1.0%	6	-
BNP Paribas SA/London	330			6/20/2021	Buying	1.0%	6	-
BNP Paribas SA/London	47			6/20/2021	Buying	1.0%	-	-
Credit Suisse Group AG	3,400			12/20/2018	Buying	1.0%	-	(52)
Credit Suisse Group AG	1,300			6/20/2020	Selling	5.0%	-	35
Credit Suisse Group AG	800			12/20/2016	Selling	1.0%	3	8
Credit Suisse Group AG	555			12/20/2017	Selling	1.0%	4	-
Credit Suisse Group AG	225			12/20/2015	Selling	5.0%	-	3
Credit Suisse Group AG	200			9/20/2020	Selling	1.0%	(6)	-
Credit Suisse Group AG	200			12/20/2016	Selling	1.0%	1	2
Credit Suisse Group AG	150			12/20/2016	Selling	5.0%	-	5
Deutsche Bank AG/London	8,875			6/20/2019	Selling	1.0%	(155)	(421)
Deutsche Bank AG/London	5,300			12/20/2018	Selling	1.0%	26	24
Deutsche Bank AG/London	2,900			6/20/2019	Selling	1.0%	7	-
Deutsche Bank AG/London	2,600			9/20/2015	Selling	1.0%	-	(9)
Deutsche Bank AG/London	1,400			9/20/2015	Selling	1.0%	-	1
Deutsche Bank AG/London	1,200			12/20/2016	Selling	1.0%	4	12
Deutsche Bank AG/London	800			9/20/2015	Selling	1.0%	-	1
Deutsche Bank AG/London	700			6/20/2018	Selling	1.0%	(4)	(21)
Deutsche Bank AG/London	400			3/20/2020	Selling	1.0%	(2)	(4)
Deutsche Bank AG/London	400			3/20/2016	Selling	1.0%	-	-
Goldman Sachs International	6,600			6/20/2019	Selling	1.0%	(62)	(110)
Goldman Sachs International	5,800			9/20/2019	Selling	1.0%	-	(301)
Goldman Sachs International	5,225			3/20/2020	Selling	5.0%	-	(37)
Goldman Sachs International	5,200			6/20/2020	Selling	1.0%	-	(362)
Goldman Sachs International	5,200			9/20/2015	Selling	1.0%	-	2
Goldman Sachs International	5,000			12/20/2018	Selling	1.0%	-	(99)
Goldman Sachs International	4,900			6/20/2020	Selling	5.0%	-	(67)
Goldman Sachs International	3,400			6/20/2019	Selling	1.0%	(4)	(22)
Goldman Sachs International	2,800			12/20/2017	Selling	1.0%	5	-
Goldman Sachs International	2,300			3/20/2019	Selling	5.0%	-	263
Goldman Sachs International	2,100			12/20/2019	Selling	5.0%	-	83
Goldman Sachs International	2,100			12/20/2019	Selling	1.0%	-	(258)
Goldman Sachs International	1,950			9/20/2015	Selling	1.0%	-	(799)
Goldman Sachs International	1,050			12/20/2020	Selling	1.0%	-	(33)
Goldman Sachs International	900			3/20/2020	Buying	1.0%	-	88
Goldman Sachs International	700			3/20/2016	Selling	1.0%	-	1
Goldman Sachs International	650			6/20/2019	Buying	1.0%	-	(16)
Goldman Sachs International	650			6/20/2020	Selling	5.0%	-	46
Goldman Sachs International	400			12/20/2016	Selling	1.0%	1	-
Goldman Sachs International	300			12/20/2020	Selling	1.0%	(23)	-
Goldman Sachs International	300			12/20/2018	Selling	1.0%	(1)	(3)
Goldman Sachs International	200			12/20/2017	Selling	1.0%	1	-
HSBC Securities Inc	7,200			6/20/2021	Buying	1.0%	591	-
HSBC Securities Inc	5,300			9/20/2020	Selling	1.0%	-	(81)
HSBC Securities Inc	2,100			3/20/2020	Selling	1.0%	-	(21)
HSBC Securities Inc	1,500			9/20/2019	Selling	1.0%	-	(78)
HSBC Securities Inc	1,400			12/20/2020	Selling	1.0%	(109)	-
HSBC Securities Inc	1,300			9/20/2015	Selling	1.0%	-	-
HSBC Securities Inc	1,200			9/20/2016	Selling	1.0%	2	-
HSBC Securities Inc	1,100			6/20/2019	Selling	1.0%	(1)	(7)
HSBC Securities Inc	1,000			6/20/2019	Selling	1.0%	(9)	(17)
HSBC Securities Inc	900			3/20/2019	Selling	1.0%	-	(27)
HSBC Securities Inc	800			12/20/2016	Selling	1.0%	2	-

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Swap Agreements
as of June 30
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(Dollars in Thousands)

Counterparty	Notional Amount	VRS Rate	Counterparty Rate	Maturity Date	Buying/ Selling Protection	Pay/ Receive Rate	Fair Value 2016	Fair Value 2015
Credit Default Swaps *(continued)*:								
HSBC Securities Inc	700			6/20/2018	Selling	1.0%	(4)	(21)
HSBC Securities Inc	400			3/20/2019	Selling	1.0%	-	(12)
HSBC Securities Inc	400			6/20/2019	Selling	1.0%	-	(11)
HSBC Securities Inc	200			3/20/2023	Selling	1.0%	-	(19)
HSBC Securities Inc	200			12/20/2016	Selling	1.0%	1	-
HSBC Securities Inc	100			3/20/2023	Selling	1.0%	-	(10)
Intercontinental Exchange Holdings	26,159			6/20/2020	Selling	5.0%	-	1,633
Intercontinental Exchange Holdings	18,300			6/20/2020	Selling	1.0%	-	(1,685)
Intercontinental Exchange Holdings	10,000			6/20/2021	Selling	1.0%	(757)	-
Intercontinental Exchange Holdings	5,000			6/20/2020	Selling	5.0%	-	346
Totals-Credit Default Swaps	206,449						(494)	(2,232)
Interest Rate Swaps:								
Banque Nationale de Paris	89,000	Brazil Cetip Interbank Deposit	13.5%	1/2/2017			-	(155)
Barclays Bank PLC	2,372	12.2%	Brazil Cetip Interbank Deposit	1/4/2021			19	-
Barclays Bank PLC	2,123	12.3%	Brazil Cetip Interbank Deposit	1/4/2021			(5)	-
Barclays Bank PLC	1,481	Brazil Cetip Interbank Deposit	13.8%	1/4/2016			-	(2)
Barclays Bank PLC	1,288	Brazil Cetip Interbank Deposit	12.4%	1/2/2018			-	(17)
Barclays Bank PLC	999	Brazil Cetip Interbank Deposit	16.0%	1/2/2019			69	-
Barclays Bank PLC	608	3-month Johannesburg (JIBAR)	8.0%	12/18/2023			(6)	(8)
Barclays Bank PLC	650	Mexico Interbank 28-day Index	5.0%	2/26/2018			-	9
Barclays Bank PLC	335	3-month Johannesburg (JIBAR)	7.5%	12/17/2019			(3)	(2)
BlackRock Inc	553	Mexico Interbank 28-day Index	5.0%	2/26/2018			-	-
Chicago Mercantile Exchange Inc	183,813	3-month LIBOR	1.5%	9/15/2017			-	1,663
Chicago Mercantile Exchange Inc	140,213	3-month LIBOR	1.5%	9/15/2017			-	1,268
Chicago Mercantile Exchange Inc	73,271	2.8%	3-month LIBOR + 500 bps	9/21/2046			(15,295)	-
Chicago Mercantile Exchange Inc	50,159	2.3%	3-month LIBOR + 500 bps	9/21/2026			(3,891)	-
Chicago Mercantile Exchange Inc	12,813	6-month EURIBOR +100 bps	0.8%	9/16/2025			-	571
Chicago Mercantile Exchange Inc	10,397	3.0%	3-month LIBOR	9/15/2045			(2,802)	(72)
Chicago Mercantile Exchange Inc	8,300	1.3%	3-month LIBOR	5/6/2017			-	(12)
Chicago Mercantile Exchange Inc	7,400	2.0%	3-month LIBOR	12/16/2019			-	(56)
Chicago Mercantile Exchange Inc	6,290	Mexico Interbank 28-day Index	5.6%	7/7/2021			-	(16)
Chicago Mercantile Exchange Inc	5,209	1.0%	6-month LIBOR - Japanese Yen	9/18/2023			-	(208)
Chicago Mercantile Exchange Inc	4,246	2.0%	6-month LIBOR - British Pound	9/16/2025			-	82
Chicago Mercantile Exchange Inc	3,617	3.0%	6-month LIBOR - British Pound	9/17/2024			-	(274)
Chicago Mercantile Exchange Inc	1,785	Mexico Interbank 28-day Index	5.8%	6/5/2023			-	(41)
Chicago Mercantile Exchange Inc	1,651	Mexico Interbank 28-day Index + 100 bps	6.2%	1/3/2035			-	(168)
Chicago Mercantile Exchange Inc	1,553	1.0%	6-month LIBOR - Japanese Yen	9/20/2024			-	(10)
Chicago Mercantile Exchange Inc	1,262	Mexico Interbank 28-day Index	5.6%	11/10/2021			-	(13)
Chicago Mercantile Exchange Inc	1,114	6-month EURIBOR	0.8%	9/16/2025			-	50
Chicago Mercantile Exchange Inc	1,114	1.5%	6-month EURIBOR	3/16/2046			-	68
Chicago Mercantile Exchange Inc	196	0.5%	6-month LIBOR - Japanese Yen	9/17/2021			-	(2)
Chicago Mercantile Exchange Inc	134	Mexico Interbank 28-day Index + 100 bps	5.5%	2/22/2023			-	(5)
Credit Suisse AG	4,682	13.4%	Brazil Cetip Interbank Deposit	1/2/2018			(6)	-
Credit Suisse AG	3,496	Brazil Cetip Interbank Deposit	16.0%	1/2/2019			241	-
Credit Suisse AG	3,058	Brazil Cetip Interbank Deposit	12.2%	1/4/2021			-	(5)
Credit Suisse AG	1,661	14.7%	Brazil Cetip Interbank Deposit	1/2/2018			(41)	-
Credit Suisse AG	716	Thai Baht 6-month fixing range	2.8%	9/23/2025			50	-
Deutsche Bank AG/London	13,484	Brazil Cetip Interbank Deposit	12.8%	1/4/2021			237	148
Deutsche Bank AG/London	11,267	Brazil Cetip Interbank Deposit	13.9%	1/2/2017			-	(2)
Deutsche Bank AG/London	6,664	10.9%	Brazil Cetip Interbank Deposit	1/2/2017			-	202
Deutsche Bank AG/London	6,503	12.3%	Brazil Cetip Interbank Deposit	1/2/2017			-	45
Deutsche Bank AG/London	4,744	16.2%	Brazil Cetip Interbank Deposit	1/4/2021			(546)	-
Deutsche Bank AG/London	4,603	Brazil Cetip Interbank Deposit	11.7%	1/4/2021			-	(97)
Deutsche Bank AG/London	4,370	Brazil Cetip Interbank Deposit	12.4%	1/2/2019			9	-
Deutsche Bank AG/London	3,153	16.6%	Brazil Cetip Interbank Deposit	1/2/2018			(159)	-
Deutsche Bank AG/London	1,385	Colombia IBR Overnight Interbank	5.3%	8/29/2019			(43)	10
Deutsche Bank AG/London	1,451	Brazil Cetip Interbank Deposit	12.9%	4/1/2021			47	34
Deutsche Bank AG/London	1,215	Klibor Interbank Offered Rate	3.3%	4/19/2018			(4)	(13)
Deutsche Bank AG/London	1,035	Mexico Interbank 28-day Index	5.0%	10/10/2019			(9)	(6)
Deutsche Bank AG/London	1,109	Thai Baht 6-month fixing range	1.9%	2/26/2021			11	-
Deutsche Bank AG/London	817	Colombia IBR Overnight Interbank	6.1%	10/16/2024			(33)	(6)
Deutsche Bank AG/London	749	Brazil Cetip Interbank Deposit	13.3%	1/4/2021			26	-
Deutsche Bank AG/London	596	5.3%	Mexican Interbank Equilibrium	9/6/2019			-	4
Deutsche Bank AG/London	618	Thai Baht 6-month fixing range	2.6%	10/19/2025			32	-
Deutsche Bank AG/London	541	Thai Baht 6-month fixing range	2.0%	8/17/2020			8	-
Deutsche Bank AG/London	333	Thai Baht 6-month fixing range	2.2%	11/23/2020			7	-
Deutsche Bank AG/London	2,469	Brazil Cetip Interbank Deposit	12.4%	1/2/2018			46	(6)
Deutsche Bank AG/London	324	6-month LIBOR-Thai Baht	2.6%	1/29/2025			17	(5)
Deutsche Bank AG/London	206	Colombia IBR Overnight Interbank	5.3%	3/17/2020			(7)	1
Deutsche Bank AG/London	142	Thai Baht 6-month fixing range	3.4%	1/15/2021			11	9
Deutsche Bank AG/London	142	Thai Baht 6-month fixing range	3.4%	1/21/2021			11	9
Deutsche Bank AG/London	57	Thai Baht 6-month fixing range	3.4%	11/19/2018			3	3
Deutsche Bank AG/London	28	Thai Baht 6-month fixing range	3.4%	11/14/2018			1	1
Deutsche Bank AG/London	17	Thai Baht 6-month fixing range	2.2%	1/29/2020			-	-

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Swap Agreements
as of June 30
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(Dollars in Thousands)

Counterparty	Notional Amount	VRS Rate	Counterparty Rate	Maturity Date	Buying/ Selling Protection	Pay/ Receive Rate	Fair Value 2016	Fair Value 2015
Interest Rate Swaps *(continued)*:								
Goldman Sachs International	16,356	14.1%	Brazil Cetip Interbank Deposit	8/1/2016			-	-
Goldman Sachs International	4,058	3-month New Zealand Bank Bill	5.0%	12/17/2024			-	360
Goldman Sachs International	1,017	3-month Johannesburg (JIBAR)	8.5%	9/21/2021			22	-
Goldman Sachs International	404	3-month Johannesburg (JIBAR)	7.5%	12/17/2019			-	(2)
HSBC Securities Inc	968	14.1%	Brazil Cetip Interbank Deposit	1/2/2018			(14)	-
HSBC Securities Inc	11,611	13.8%	Brazil Cetip Interbank Deposit	1/2/2017			29	12
HSBC Securities Inc	11,330	13.3%	Brazil Cetip Interbank Deposit	1/4/2021			(398)	-
HSBC Securities Inc	7,304	12.4%	Brazil Cetip Interbank Deposit	1/2/2018			135	-
HSBC Securities Inc	6,555	Brazil Cetip Interbank Deposit	15.5%	1/2/2018			245	-
HSBC Securities Inc	6,535	13.9%	Brazil Cetip Interbank Deposit	1/6/2017			-	(1)
HSBC Securities Inc	4,245	12.2%	Brazil Cetip Interbank Deposit	1/4/2021			(11)	(8)
HSBC Securities Inc	3,465	Brazil Cetip Interbank Deposit	13.4%	1/2/2018			4	-
HSBC Securities Inc	2,189	Brazil Cetip Interbank Deposit	13.8%	4/1/2016			-	(7)
HSBC Securities Inc	2,134	Thai Baht 6-month fixing range	2.0%	8/17/2020			32	-
HSBC Securities Inc	687	Brazil Cetip Interbank Deposit	14.5%	1/1/2019			26	-
HSBC Securities Inc	485	3-month Johannesburg (JIBAR)	7.5%	12/17/2024			(22)	(29)
HSBC Securities Inc	562	Brazil Cetip Interbank Deposit	12.8%	1/4/2021			10	6
HSBC Securities Inc	483	Brazil Cetip Interbank Deposit	11.5%	1/4/2021			-	(14)
HSBC Securities Inc	458	Thai Baht 6-month fixing range	2.5%	1/28/2025			21	(10)
HSBC Securities Inc	395	Colombia IBR Overnight Interbank	6.2%	3/21/2024			(12)	3
HSBC Securities Inc	325	Mexico Interbank 28-day Index	5.5%	2/22/2023			(5)	(13)
HSBC Securities Inc	281	Brazil Cetip Interbank Deposit	12.1%	1/4/2021			(1)	(2)
HSBC Securities Inc	239	3-month Johannesburg (JIBAR)	8.8%	9/21/2026			6	-
HSBC Securities Inc	177	6-month Warsaw Interbank	2.8%	12/17/2024			9	(3)
HSBC Securities Inc	134	6.4%	Colombia IBR Overnight Interbank	7/2/2025			4	(1)
HSBC Securities Inc	105	Thai Baht 6-month fixing range	2.1%	1/28/2020			4	2
HSBC Securities Inc	51	Thai Baht 6-month fixing range	2.2%	11/23/2020			1	-
UBS AG	10,769	Brazil Cetip Interbank Deposit	12.6%	1/4/2021			197	125
UBS AG	1,654	10.9%	Brazil Cetip Interbank Deposit	1/2/2017			59	268
UBS AG	3,402	11.7%	Brazil Cetip Interbank Deposit	1/4/2021			73	74
UBS AG	2,716	Brazil Cetip Interbank Deposit	11.6%	1/2/2018			(100)	(83)
UBS AG	1,165	Mexico Interbank 28-day Index	5.6%	10/11/2021			3	(9)
UBS AG	936	Brazil Cetip Interbank Deposit	9.1%	1/2/2017			(74)	(66)
UBS AG	661	Mexico Interbank 28-day Index	5.2%	10/21/2020			(6)	-
UBS AG	163	5.3%	Mexican Interbank Equilibrium	9/6/2019			-	1
UBS AG	5,565	Brazil Cetip Interbank Deposit	12.4%	1/2/2018			(103)	(88)
Total Interest Rate Swaps	805,165						(21,871)	3,491
Total Return Swaps:								
Barclays Bank PLC	50,000	1-month LIBOR - 5 bps	Barclays Capital US Aggregate Index	8/1/2017			-	-
Barclays Bank PLC	25,000	1-month LIBOR - 10 bps	Barclays Capital US Aggregate Index	10/1/2016			-	-
Barclays Bank PLC	25,000	1-month LIBOR	Barclays Capital US Aggregate Index	7/1/2017			-	-
Barclays Bank PLC	25,000	1-month LIBOR	Barclays Capital US Aggregate Index	2/1/2017			-	-
Barclays Bank PLC	20,000	1-month LIBOR + 10 bps	Barclays Capital US Aggregate Index	6/1/2017			-	-
Barclays Bank PLC	20,000	1-month LIBOR + 15 bps	Barclays Capital US Aggregate Index	8/1/2016			-	-
Deutsche Bank AG/London	250,000	3-month LIBOR + 42 bps	MSCI ACWI IMI	7/18/2016			-	-
Deutsche Bank AG/London	25,000	1-month LIBOR + 15 bps	Barclays Capital US Aggregate Index	7/1/2016			-	-
Deutsche Bank AG/London	18,000	1-month LIBOR + 3 bps	Barclays Capital US Aggregate Index	9/1/2016			-	-
Deutsche Bank AG/London	1	3-month LIBOR + 42 bps	MSCI ACWI IMI	7/16/2016			-	-
Goldman Sachs Group Inc	250,101	3-month LIBOR + 42 bps	MSCI ACWI	7/16/2015			(100)	-
Goldman Sachs Group Inc	186,653	3-month LIBOR + 42 bps	MSCI ACWI	7/16/2015			-	(5,306)
Goldman Sachs Group Inc	2	3-month LIBOR + 42 bps	MSCI ACWI IMI	7/18/2016			-	-
Goldman Sachs Group Inc	226,219	3-month LIBOR + 42 bps	MSCI ACWI	7/16/2015			-	(6,430)
Goldman Sachs Group Inc	150,616	3-month LIBOR + 42 bps	MSCI ACWI IMI	7/16/2015			-	(4,281)
Goldman Sachs Group Inc	150,120	3-month LIBOR + 42 bps	MSCI ACWI IMI	7/16/2015			-	(2,832)
Total Return Swaps	1,421,712						(100)	(18,849)
Total Swaps	$ 2,433,326						$ (22,465)	$ (17,590)

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 the Virginia Retirement System at P.O. Box 2500, Richmond, Virginia 23218-2500.

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 on the statement of revenues, expenses, and changes in net position. 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 are classified as Level 2 in the fair value hierarchy. The outstanding forward contracts, summarized by counterparty rating as of June 30, 2016, were as follows:

Counterparty Rating	Par	Concentration	Notional Amount	Market Value	Fair Value Asset (Liability)
A-1/AA+	$ 166,000,000	40.4%	$ 169,521,836	$ 171,443,437	$ (1,921,601)
A-1/AA-	140,000,000	34.0%	143,191,836	144,922,188	(1,730,352)
A-1/A	97,000,000	23.4%	99,554,141	100,820,312	(1,266,171)
Baa2/BBB	9,000,000	2.2%	9,177,539	9,348,750	(171,211)
	$ 412,000,000	100.0%	$ 421,445,352	$ 426,534,687	$ (5,089,335)

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, 2016, the negative fair value of the swaps of $43.0 million is included in other liabilities and the change in fair value of negative $14.2 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. The deferred outflows of resources balance of $648,468 was reported as investment earnings upon reclassification in the accompanying financial statements. At June 30, 2016, the positive fair value of the fixed-receiver interest rate swaps of $3.6 million is included in other assets and the change in fair value of $4.3 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 derivative instruments is available in the institution's individually published financial statements.

Hedging Derivative Instruments

At June 30, 2016, the Virginia Commonwealth University (VCU) (nonmajor) had two fixed-payer interest rate swaps with a notional amount of $57.6 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, 2016, the negative fair value of VCU's swaps of $11.6 million is included in other liabilities and the cumulative change in fair value of VCU's swaps since reestablishing hedge accounting of $2.5 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, 2016, the Medical College of Virginia Hospitals (MCVH), which is a division of the Virginia Commonwealth University Health System Authority (a blended component unit of VCU), had two interest rate swap agreements with a notional amount of $119.0 million and another interest rate swap agreement with a notional amount of $59.5 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, 2016, the negative fair value of MCVH's swaps of $65.0 million is included in other liabilities and the cumulative change in fair value of MCVH's swaps of $22.9 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 $243.5 million and net receipts/payments on associated derivative instruments. These amounts assume that current variable and reference rates on the hedging instruments will remain the same for their terms. As these rates vary, net receipt/payments on the hedging instruments will vary. Additional information is available in the individually published financial statements of the higher education institution.

Maturity	Principal	Interest	Derivative Instruments, Net	Total
2017	$ 5,690,000	$ 2,191,675	$ 8,149,489	$ 16,031,164
2018	5,920,000	2,135,950	7,966,088	16,022,038
2019	6,085,000	2,078,571	7,775,236	15,938,807
2020	6,385,000	2,018,427	7,579,229	15,982,656
2021	6,615,000	1,956,040	7,373,398	15,944,438
2022-2026	45,675,000	8,627,027	33,354,581	87,656,608
2027-2031	68,760,000	5,658,172	24,183,497	98,601,669
2032-2036	67,540,000	2,418,663	12,802,211	82,760,874
2037-2041	30,815,000	129,030	1,645,763	32,589,793
Total	$ 243,485,000	$ 27,213,555	$ 110,829,492	$ 381,528,047

Various foundations of higher education institutions have derivative instruments. The foundations follow FASB rather than GASB reporting requirements. Disclosures for the foundations' derivatives can be found in the individually published financial statements of the foundations.

15. RETIREMENT AND PENSION SYSTEMS

A separately issued financial report that includes financial statements and required supplemental information for each of the individual plans discussed below is publicly available. Copies may be obtained by writing to Virginia Retirement System, P. O. Box 2500, Richmond, Virginia 23218-2500.

A. Administration

GASB Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73*, addressed certain issues that were raised during the implementation of these Standards. Specifically, the Statement addressed the issues regarding (1) the presentation of payroll-related measures in the required supplementary information, (2) the selection of assumptions and the treatment of deviations from guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. While this Statement was effective for reporting periods beginning after June 15, 2016, the Virginia Retirement System (the System) has elected to implement it early and provided disclosure guidance to participating employers based on this Statement.

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 2016 were $3.2 billion with a reserve balance available for benefits of $64.0 billion. The current year contributions include $162.4 million as an additional contribution from the Commonwealth representing an expedited payment of the deferred contribution from the 2010-2012 biennium. At June 30, 2016, the VRS had 827 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. Employers may assume the 5.0 percent member contribution. If a member leaves covered employment, the accumulated contributions plus earned interest may be refunded to the member. Each participating employer is required by state statute to contribute the remaining amounts necessary to fund the retirement plans using the entry age normal actuarial cost method adopted by the Board of Trustees. Contributions for fiscal year 2016 were $39.4 million, $45.4 million, and $97.0 million, and reserved balances available for benefits were $730.7 million, $468.3 million, and $1.2 billion, for SPORS, JRS, and VaLORS, respectively. The current year contributions include $2.1 million, $8.5 million, and $16.5 million, respectively, as additional contributions from the Commonwealth representing an expedited payment of the deferred contribution from the 2010-2012 biennium. 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	54,034	1,242	4,066	504
Terminated Employees Entitled to Benefits but not Receiving Them	10,947	100	655	2
Total	64,981	1,342	4,721	506
Active Members:				
Vested	54,828	1,525	5,532	324
Non-Vested	22,823	422	3,615	94
Total	77,651	1,947	9,147	418

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 2016 were based on the actuary's valuation as of June 30, 2013. Employer contributions by the Commonwealth to VRS, SPORS, VaLORS, and JRS were 12.3 percent, 25.8 percent, 17.7 percent, and 49.6 percent, respectively in July 2015; 13.3 percent, 26.8 percent, 18.3 percent, and 49.8 percent, respectively in August 2015; and 14.2 percent, 27.8 percent, 19.0 percent, and 50.0 percent, respectively for the remainder of the fiscal year. These rates were lower than the actuary's recommended rates to VRS, SPORS, VaLORS, and JRS of 15.8 percent, 30.8 percent, 21.1 percent, and 55.5 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, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015. The following tables (dollars in thousands) show the Commonwealth's total pension liability, plan fiduciary net position, and net pension liability for the VRS, SPORS, JRS, and VaLORS for the current and prior year.

Primary Government

	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, 2015	$ 12,249,869	$ 9,099,234	$ 3,150,635	$ 1,031,856	$ 720,990	$ 310,866
Changes for the year						
Service cost	125,726	-	125,726	18,847	-	18,847
Interest	496,994	-	496,994	70,350	-	70,350
Differences between actual and expected experience	20,082	-	20,082	(2,890)	-	(2,890)
Contributions - employer	-	9,301	(9,301)	-	28,427	(28,427)
Contributions - member	-	3,786	(3,786)	-	5,680	(5,680)
Net investment income	-	14,089	(14,089)	-	32,466	(32,466)
Benefit payments, including refunds	(390,042)	(22,522)	(367,520)	(53,713)	(53,713)	-
Administrative expense	-	(200)	200	-	(471)	471
Other changes	-	(2)	2	-	(27)	27
Net changes	252,760	4,452	248,308	32,594	12,362	20,232
Balances at June 30, 2016	$ 12,502,629	$ 9,103,686	$ 3,398,943	$ 1,064,450	$ 733,352	$ 331,098

	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, 2015	$ 616,680	$ 442,194	$ 174,486	$ 1,693,538	$ 1,067,826	$ 625,712
Changes for the year						
Service cost	23,254	-	23,254	40,230	-	40,230
Interest	41,759	-	41,759	105,444	-	105,444
Differences between actual and expected experience	(9,107)	-	(9,107)	(4,105)	-	(4,105)
Contributions - employer	-	31,503	(31,503)	-	51,602	(51,602)
Contributions - member	-	3,015	(3,015)	-	14,197	(14,197)
Net investment income	-	20,051	(20,051)	-	43,480	(43,480)
Benefit payments, including refunds	(40,205)	(40,205)	-	(75,996)	(74,629)	(1,367)
Administrative expense	-	(283)	283	-	(617)	617
Other changes	-	(17)	17	-	(37)	37
Net changes	15,701	14,064	1,637	65,573	33,996	31,577
Balances at June 30, 2016	$ 632,381	$ 456,258	$ 176,123	$ 1,759,111	$ 1,101,822	$ 657,289

Component Units

	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, 2015	$ 9,517,064	$ 7,069,300	$ 2,447,764	$ 131,039	$ 82,624	$ 48,415
Changes for the year						
Service cost	249,423	-	249,423	7,301	-	7,301
Interest	985,957	-	985,957	19,135	-	19,135
Differences between actual and expected experience	39,841	-	39,841	(744)	-	(744)
Contributions - employer	-	471,356	(471,356)	-	10,482	(10,482)
Contributions - member	-	191,796	(191,796)	-	2,884	(2,884)
Net investment income	-	713,994	(713,994)	-	8,832	(8,832)
Benefit payments, including refunds	(773,784)	(1,141,304)	367,520	(13,791)	(15,158)	1,367
Administrative expense	-	(10,101)	10,101	-	(126)	126
Other changes	-	(152)	152	-	(7)	7
Net changes	501,437	225,589	275,848	11,901	6,907	4,994
Balances at June 30, 2016	$ 10,018,501	$ 7,294,889	$ 2,723,612	$ 142,940	$ 89,531	$ 53,409

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 $44.3 million for all other component units and includes the fiduciary net pension liability of $3.7 million.

The 2014 actuarial valuations were prepared using the entry age normal cost method. The actuarial assumptions included (a) 7.0 percent investment rate of return, per year compounded annually; (b) projected salary increases ranging from 3.5 percent to 6.0 percent, including a 2.5 percent inflation component and (c) COLA of 2.5 percent for Plan 1 and 2.3 percent for Plan 2. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

For more detailed actuarial information, refer to the Virginia Retirement System's financial statements, including mortality rates shown in the "Actuarial Assumptions and Methods – Pension Plans" schedule.

F. Changes to and Sensitivity of Discount Rate

The discount rate used to measure the total pension liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be based on the actuarially determined rates based on the Board's funding policy, which certifies the required rates under Title 51.1 of the *Code of Virginia* (1950), as amended. Based 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%)
$ 4,881,905	$ 3,398,943	$ 2,155,357	$ 458,781	$ 331,098	$ 224,093

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%)
$ 234,187	$ 176,123	$ 125,757	$ 893,614	$ 657,289	$ 462,817

Component Units

VRS			VaLORS		
Net Pension Liability			Net Pension Liability		
1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)	1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)
$ 3,911,926	$ 2,723,612	$ 1,727,112	$ 72,612	$ 53,409	$ 37,607

The long-term expected rate of return on the System's investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocations are based on the Strategic Asset Allocation Implementation Schedule and Allowable Ranges document, which was approved by the VRS Board of Trustees on June 20, 2013. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation are summarized in the following table.

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.5%	6.5%	1.3%
Developed Non U.S Equity	16.5%	6.3%	1.0%
Emerging Market Equity	6.0%	10.0%	0.6%
Fixed Income	15.0%	0.1%	0.0%
Emerging Debt	3.0%	3.5%	0.1%
Rate Sensitive Credit	4.5%	3.5%	0.2%
Non Rate Sensitive Credit	4.5%	5.0%	0.2%
Convertibles	3.0%	4.8%	0.1%
Public Real Estate	2.2%	6.1%	0.1%
Private Real Estate	12.8%	7.1%	0.9%
Private Equity	12.0%	10.4%	1.3%
Cash	1.0%	-1.5%	0.0%
Total	100.0%		5.8%
Inflation			2.5%
Expected arithmetic nominal return			8.3%

The allocation in the previous table provides a one-year expected return of 8.3 percent. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the pension system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.4 percent, including expected inflation of 2.5 percent.

G. Pension Related Deferred Outflows and Deferred Inflows

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* requires certain pension related items to be reported as either deferred outflows or deferred inflows of resources. The following table (dollars in thousands) summarizes these amounts as of June 30, 2016.

Primary Government (1) (3)

	VRS		SPORS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 24,466	$ -	$ -	$ 2,405
Changes of assumptions	-	-	-	-
Net difference between projected and actual earnings on plan investments	-	244,493	-	19,166
Changes in proportion and difference between employer contributions and proportionate share of contributions	69,779	105,656	-	-
Employer contributions subsequent to the Measurement Date	312,433	-	31,561	-
Total	$ 406,678	$ 350,149	$ 31,561	$ 21,571

	JRS		VaLORS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 5,819	$ -	$ 3,195
Changes of assumptions	-	-	-	-
Net difference between projected and actual earnings on plan investments	-	11,773	-	27,855
Changes in proportion and difference between employer contributions and proportionate share of contributions	-	-	21,589	22,732
Employer contributions subsequent to the Measurement Date	33,291	-	60,887	-
Total	$ 33,291	$ 17,592	$ 82,476	$ 53,782

Component Units (2) (3)

	VRS		VaLORS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 19,604	$ -	$ -	$ 261
Changes of assumptions	-	-	-	-
Net difference between projected and actual earnings on plan investments	-	195,915	-	2,261
Changes in proportion and difference between employer contributions and proportionate share of contributions	61,857	25,980	2,984	1,842
Employer contributions subsequent to the Measurement Date	244,034	-	4,904	-
Total	$ 325,495	$ 221,895	$ 7,888	$ 4,364

(1) During fiscal year 2016, the primary government made an expedited payment of the deferred contribution from the 2010-2012 biennium of $119,786 (dollars in thousands) to the System. This amount is reflected as a deferred outflow of resources for the primary government in the accompanying financial statements and is excluded from the above amounts.

(2) The component unit amounts include deferred outflows of resources and deferred inflows of resources of $17,121 (dollars in thousands) and $13,240 (dollars in thousands), respectively, not related to the VRS State Plan.

(3) Additionally, during fiscal year 2016, the Commonwealth recognized pension expense for the primary government and component units of $315,272 (dollars in thousands) and $198,885 (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.

Primary Government

	VRS	SPORS	JRS	VaLORS
2017	$ (86,994)	$ (8,026)	$ (7,924)	$ (12,288)
2018	(86,994)	(8,026)	(7,167)	(12,288)
2019	(88,929)	(8,028)	(4,638)	(11,621)
2020	42,890	2,974	2,137	5,147
2021	-	(465)	-	-

Component Units

	VRS	VaLORS
2017	$ (69,709)	$ (998)
2018	(69,709)	(998)
2019	(71,261)	(944)
2020	34,368	418
2021	-	-

H. Defined Contribution Plan for Political Appointees

Officers appointed by the Governor, officers elected by popular vote or the General Assembly, and executive branch chief deputies and confidential assistants may participate in the deferred contribution plan for Political Appointees, rather than the VRS. This optional retirement plan is authorized by the *Code of Virginia* and offered through the ICMARC. This is a defined contribution plan where the retirement benefits are based upon the Commonwealth's 12.3 percent and the employee's (5.0 percent) contributions, plus interest and dividends. The Commonwealth pays the required employee contributions. During the year ended June 30, 2016, the total contributions to this plan were $1.4 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, 2016, there were three participants in this plan. Total contributions to the plan for fiscal year 2016 were $40,117.

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, 2016, there were two participants in this plan. There were no contributions to the plan for fiscal year 2016.

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 Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF), and Fidelity Investments Tax-Exempt Services Company. There are two defined contribution plans. Plan 1 is for employees hired prior to July 1, 2010, and retirement benefits received are based upon the employer's 10.4 percent contributions, plus net investment gains. Plan 2 is for employees hired on or after July 1, 2010, and retirement benefits received are based upon the employer's 8.5 percent not to exceed 8.9 percent contribution and the employee's 5.0 percent contribution, plus net investment gains. For Plan 2, the employer contributions for fiscal year 2016 were 8.5 percent except the employer contributions for the University of Virginia (nonmajor) were 8.9 percent. Vesting is full and immediate for both employer and employee contributions. For fiscal year 2016, total pension expense recognized was $143.5 million and contributions were calculated using the base salary amount of $1.5 billion. As of June 30, 2016, the Commonwealth's colleges and universities had accrued $9.5 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 individually published 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 individually published financial statements.

Prior to July 1, 1997, certain employees of the Virginia Commonwealth University Health System Authority (Authority) (a blended component unit of Virginia Commonwealth University – nonmajor) were eligible to participate in the VRS 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 individually published financial statements.

Effective January 1, 1997, James Madison University (nonmajor) established a Supplemental Retirement Plan for tenured faculty members. The plan is a qualified plan within the meaning of section 401(c) of the Internal Revenue Code of 1986 (the Code) and is a governmental plan within the meaning of section 414(d) of the Code. For information regarding this plan, see the University's individually published financial statements.

The Center for Innovative Technology (CIT) is a blended component unit of the Innovation and Entrepreneurship Investment Authority (nonmajor). The CIT has a defined contribution retirement plan covering substantially all employees. Under the plan, CIT makes contributions fixed at a percentage of each employee's compensation to pay premiums for individual retirement annuity contracts written by TIAA-CREF. For information regarding this plan, see the Authority's individually published financial statements.

L. Other Component Units

Note 1.B. outlines the component units included in the Commonwealth's reporting entity. The Virginia Public Building Authority (blended - primary government), the Virginia Public School Authority (major), the Virginia College Building Authority (major), the Virginia University Research Partnership (nonmajor), and the Virginia School for the Deaf and Blind Foundation (nonmajor) have no employees. Virginia Resources Authority (major) and the following nonmajor component units participate in the retirement plans administered by VRS: the Virginia Economic Development Partnership, the Virginia Small Business Financing Authority, the Hampton Roads Sanitation District Commission, the Virginia Biotechnology Research Partnership Authority, the Virginia Tourism Authority, the Tobacco 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 individually published financial statements.

The Virginia Outdoors Foundation (nonmajor) maintains a 401(k) contribution plan and provides an employer contribution to all eligible employees of 2.0 percent of their salary. Employees can contribute to the plan up to the IRS limit and the Foundation will match up to an additional 2.0 percent for a maximum of 4.0 percent of an employees' contribution. For information regarding this plan, see the Foundation's individually published financial statements.

The Virginia Commercial Space Flight Authority (nonmajor) maintains a 401(a) contribution plan and provides an employer contribution to all eligible employees of 11.0 percent of their base salary. For information regarding this plan, see the Authority's individually published financial statements.

The Virginia Port Authority (VPA) (nonmajor) maintains two defined benefit plans for its employees. Employees of record on July 1, 1997, had the option of continuing to maintain their benefit status as a State employee, and their benefits maintained under the VRS, or elect to be covered under a newly created pension plan (the VPA Defined Benefit Plan). The VPA Defined Benefit Plan covers all employees hired between July 1, 1997 and February 1, 2014. Employees hired after February 1, 2014 are eligible for a defined contribution plan only. The Virginia International Terminals (VIT) (a blended component unit of VPA – nonmajor) has a Virginia International Terminals, LLC Pension Plan that is a single employer, noncontributory defined benefit pension plan administered by VIT. VIT also sponsors noncontributory supplemental plans covering certain key employees. For information regarding these plans, see the Authority's individually published financial statements.

Employees of the Virginia Museum of Fine Arts Foundation (nonmajor) who are age 21 or older are eligible to participate in the Employee's Savings Plan, a 401(k) defined contribution profit sharing plan. Also, the Foundation entered into a supplemental retirement agreement to pay a key employee of the Museum upon retirement the difference between the amount accrued under the VRS retirement plan, based on salary, and the amount based on the supplemental salary. For additional information regarding these plans, see the Foundation's individually published financial statements.

The Science Museum of Virginia Foundation (nonmajor) has a 403(b) defined contribution pension plan through the Teachers Insurance and Annuity Association (TIAA) and the College Retirement Equities Fund (CREF) Retirement Plan for employees meeting age and service requirements. For additional information regarding this plan, see the Foundation's individually published financial statements.

16. OTHER EMPLOYMENT BENEFITS

In addition to the pension plans, the Commonwealth participates in two other employment benefit plans, Group Life Insurance and the Virginia Sickness and Disability Program, which are administered by the Virginia Retirement System (the System). The System administers a third other employment benefit plan, the Volunteer Firefighters' and Rescue Squad Workers' Fund, in which the Commonwealth does not participate, but may provide funding. The significant accounting policies for all three plans are the same as those described in Note 15 for pension plans. A separately issued financial report that includes financial statements for the Group Life Insurance and Virginia Sickness and Disability Program is publicly available. Copies may be obtained by writing to the Virginia Retirement System, P. O. Box 2500, Richmond, Virginia 23218-2500.

Group Life Insurance

The Group Life Insurance Plan was established for Commonwealth employees, teachers, employees of political subdivisions participating in the VRS, state police officers, other state law enforcement and correctional officers, judges, and other qualifying employees. The program provides life insurance for natural death coverage equal to a member's annual compensation rounded to the next highest $1,000 and then doubled. Accidental death coverage is double the natural death benefit. The program also provides coverage for accidental dismemberment and accidental blindness, a safety belt benefit, a repatriation benefit, a felonious assault benefit and an accelerated death benefit for terminal conditions. Approximately 359,679 members participate in the program at June 30, 2016.

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 67,493 members were covered under this program at June 30, 2016.

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 74,657 members were covered under the program at June 30, 2016.

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 2016, there were no monies appropriated for administration of the program. At June 30, 2016, there were 1,743 workers participating in the fund.

17. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. Virginia Retirement System (The System) Administered Plans

The Governmental Accounting Standards Board (GASB) issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which requires additional reporting and disclosures for OPEB plans. The statement became effective for System-administered OPEB plans beginning with the fiscal year ended June 30, 2007. The assets and actuarial accrued liabilities for the following other postemployment benefits were determined through an actuarial valuation performed as of June 30, 2015, 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 169,786 retirees in the Basic Group Life Insurance Program and 2,874 retirees were covered under the Optional Group Life Insurance Program in fiscal year 2016.

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 116,408 retired members were covered under this program at June 30, 2016. 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 2,844 former members receiving benefits from the program during fiscal year 2016. 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 992 retirees and 936 other participants in the program in fiscal year 2016. The Line of Duty Death and Disability Program is a cost-sharing, multiple-employer defined benefit OPEB plan. The employer contribution rate was determined by the System's actuary using the anticipated costs and the number of covered individuals associated with all of the covered employers. Additionally, the Department of Accounts provides certain administrative support in claims administration.

Virginia Local Disability Program

The Virginia Local Disability Program (VLDP) was a new program for the System in fiscal year 2014. The program provides eligible local government employees who are members of the Hybrid retirement plan with sick, family and personal leave and short-term and long-term disability benefits for non-work-related and work-related illnesses and injuries. The System is responsible for administering the disability program and the payment of long-term disability benefits. Local employers are responsible for administering the leave program and the payment of short-term disability benefits.

During fiscal year 2016, the System collected contributions for eligible employees and continued implementation of the structure for administering the program going forward. At June 30, 2016, there were 9,699 participants in the program.

B. Pre-Medicare Retiree Healthcare

The Commonwealth provides a healthcare plan established by Title 2.2, Chapter 28 of the *Code of Virginia* for retirees who are not yet eligible to participate in Medicare. For a retiree to participate in the Plan, the participant must be eligible for a monthly annuity from the VRS or a periodic benefit from one of the qualified Optional Retirement Plan (ORP) vendors, and:

- be receiving (not deferring) the annuity or periodic benefit immediately upon retirement;
- have his or her last employer before retirement be the state;
- be eligible for coverage as an active employee in the State Health Benefits Program until his or her retirement date (not including Extended Coverage); and,
- have submitted within 31 days of his or her retirement date an Enrollment Form to his or her Benefits Administrator to enroll.

This fund is reported as part of the Commonwealth's Healthcare Internal Service Fund. The significant accounting policies for this plan are the same as those described in Note 15 for pension plans. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan and is administered by the Department of Human Resource Management. There were approximately 6,387 retirees in the program in fiscal year 2016.

C. Annual OPEB Cost and Net OPEB Obligation

The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which required additional reporting and disclosures for OPEB plans beginning with the fiscal year ending June 30, 2008. The Commonwealth calculated an OPEB liability as of June 30, 2016 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 $202.7 million, $207.1 million, and $1.3 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		
	2016	2015	2014	2016	2015	2014
Annual required contribution	$ 65,735	$ 63,778	$ 63,250	$ 84,832	$ 81,253	$ 72,322
Interest on net OPEB obligation	-	-	-	12,784	11,437	10,515
Adjustment to annual required contribution	-	-	-	(11,051)	(9,911)	(9,092)
Annual OPEB cost	65,735	63,778	63,250	86,565	82,779	73,745
Contributions made	(65,735)	(63,778)	(63,250)	(66,215)	(64,025)	(60,219)
Increase in net OPEB obligation	-	-	-	20,350	18,754	13,526
Net OPEB obligation, beginning of year	-	-	-	182,306	163,552	150,026
Net OPEB obligation, end of year	$ -	$ -	$ -	$ 202,656	$ 182,306	$ 163,552
Percentage of annual OPEB cost contributed	100.0%	100.0%	100.0%	76.5%	77.3%	81.7%

	Disability Insurance Trust Fund			Line of Duty Death and Disability		
	2016	2015	2014	2016 (3)	2015 (2)	2014 (1)
Annual required contribution	$ 38,675	$ 36,831	$ 30,302	$ 5,840	$ 6,122	$ 6,486
Interest on net OPEB obligation	13,406	12,315	11,262	-	-	-
Adjustment to annual required contribution	(11,586)	(10,681)	(9,763)	-	-	-
Annual OPEB cost	40,495	38,465	31,801	5,840	6,122	6,486
Contributions made	(24,495)	(23,642)	(16,644)	(5,840)	(6,122)	(6,486)
Increase in net OPEB obligation	16,000	14,823	15,157	-	-	-
Net OPEB obligation, beginning of year	191,096	176,273	161,116	-	-	-
Net OPEB obligation, end of year	$ 207,096	$ 191,096	$ 176,273	$ -	$ -	$ -
Percentage of annual OPEB cost contributed	60.5%	61.5%	52.3%	100.0%	100.0%	100.0%

	Pre-Medicare Retiree Healthcare		
	2016	2015	2014
Annual required contribution	$ 213,660	$ 206,590	$ 198,451
Interest on net OPEB obligation	43,377	36,398	30,013
Adjustment to annual required contribution	(44,829)	(37,762)	(31,007)
Annual OPEB cost	212,208	205,226	197,457
Contributions made	(42,996)	(35,028)	(34,229)
Increase in net OPEB obligation	169,212	170,198	163,228
Net OPEB obligation, beginning of year	1,081,893	911,695	748,467
Net OPEB obligation, end of year	$ 1,251,105	$ 1,081,893	$ 911,695
Percentage of annual OPEB cost contributed	20.3%	17.1%	17.3%

(1) During fiscal year 2014, the required annual contributions of $6.5 million were paid by the Commonwealth. Additionally, the loan decreased to $8.3 million that will be repaid in future periods with contributions received.

(2) During fiscal year 2015, the required annual contributions of $6.1 million were paid by the Commonwealth.

(3) During fiscal year 2016, the required annual contributions of $5.8 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 $2.2 million, $1.2 million, $368,220, and $57,719, respectively. The table also excludes non-Commonwealth sponsored OPEB liabilities of $57.1 million for all other component units and includes the fiduciary OPEB liability of $669,523.

The annual required contributions for the current year were determined during the actuarial valuations conducted as of June 30, 2013, as that is the most recent report that reflects the current funding policies. Employer contributions by the Commonwealth for Group Life Insurance, Retiree Health Insurance Credit and Disability Insurance were 1.2 percent, 1.0 percent, and 0.7 percent, respectively, of covered payrolls for fiscal year 2016. The valuations were prepared using the entry age normal cost method for all plans except for the Disability Insurance trust fund and the Line of Duty Act trust fund for which the Projected Unit Credit actuarial cost method was used. The Pre-Medicare Retiree Healthcare plan uses a 4.0 percent investment rate of return, per year compounded annually, which approximates the projected rate of return on the State Treasurer's Portfolio. The Group Life Insurance, Retiree Health Insurance Credit and Disability Insurance use a 7.0 percent investment rate of return, per year compounded annually. The Line of Duty Act trust fund uses a 4.8 percent rate of return compounded annually. The actuarial assumptions for all but the Pre-Medicare Retiree Healthcare plan included a projected salary increase of 3.0 percent, including a 2.5 percent inflation component. Valuation techniques were applied to smooth the effects of short-term volatility in the market value of investments over a five year period. The actuarial assumptions for the Pre-Medicare Retiree Healthcare plan as to current claim cost, projected increases in health insurance costs, mortality, turnover, retirement, disability and discount rate include (a) projected salary increases ranging from 3.8 percent to 5.6 percent, including a 2.5 percent inflation component; and, (b) assumption that there is no liability associated with those retirees eligible for Medicare, as costs for members aged 65 and older are not subsidized by the active population (no implicit subsidy), participants pay 100.0 percent of the costs, and the liability associated with the health insurance credit is measured and held by the Virginia Retirement System. Initial healthcare costs trend rates used were 10.0 percent, 11.0 percent, and 6.0 percent for medical, pharmacy, and dental benefits, respectively. The ultimate trend rates used were 5.0 percent, 5.0 percent, and 4.0 percent for medical, pharmacy, and dental benefits, respectively. The remaining open amortization period at June 30, 2013, was 30 years.

D. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2015, per the most recent actuarial valuation, was as follows:

(Dollars in Millions)

Actuarial Valuation Date June 30	Actuarial Value of Assets [a]	Actuarial Accrued Liability (AAL) [b]	Unfunded AAL (UAAL) [b-a]	Funded Ratio [a/b]	Covered Payroll [c]	UAAL as a Percentage of Covered Payroll [b-a]/[c]
Group Life Insurance Fund						
2015	$ 1,129	$ 2,829	$ 1,700	39.9%	$ 17,814	9.5%
Retiree Health Insurance Credit Fund						
2015	$ 174	$ 2,380	$ 2,206	7.3%	$ 15,267	14.4%
Disability Insurance Trust Fund						
2015	$ 398	$ 235	$ (163)	169.4%	$ 3,627	(4.5%)
Line of Duty Death and Disability						
2015	$ -	$ 245	$ 245	-	N/A	-
Pre-Medicare Retiree Healthcare						
2015	$ -	$ 1,309	$ 1,309	-	$ 4,034	32.4%

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 in the individually published financial statements of the University.

F. Other Component Units

The Virginia Housing Development Authority (major) has a Retiree Health Care Plan, a single-employer defined benefit plan which is administered through the Virginia Housing Development Authority Retiree Health Care Plan Trust, an irrevocable trust to be used solely for providing benefits to eligible participants. Effective January 1, 2006, eligible retirees must be at least 55 years of age with 15 years of service or at least 55 years of age with 10 years of service if employed by the Authority prior to such date. For the year ended June 30, 2016, the Authority's Annual OPEB cost was $406,132; the percentage of Annual OPEB Cost Contributed was 313.8 percent; and the ending Net OPEB asset was $4.0 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 6.0 percent of annual covered payroll. For 2016, the Commission's annual OPEB cost was $2.2 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, 2016, of $2.2 billion are not included in the financial statements.

In addition, the Commonwealth provides a cash match under Internal Revenue Code Section 401(a) for employees participating in the deferred compensation plan. The match amount for an employee was established at 50.0 percent of the voluntary contributions to the deferred compensation plan. During the current fiscal year, the maximum match was $20 per pay period or $40 per month. The fair value of assets in the cash match savings plan at June 30, 2016, was $379.1 million, which is also excluded from the financial statements.

Most employees of the Commonwealth's colleges and universities may participate in the Commonwealth's deferred compensation plan in accordance with Internal Revenue Code Section 457(b) and/or the institution's deferred compensation plan in accordance with Internal Revenue Code Section 403(b). Under either plan, the institution's cash match under the Internal Revenue Code Section 401(a) during fiscal year 2016 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 $13.3 million for fiscal year 2016.

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 $3.5 million for fiscal year 2016.

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 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 refer to the VPA's individually published financial statements.

19. STATE NON-ARBITRAGE POOL

The Commonwealth sponsors the Virginia State Non-Arbitrage Program (SNAP) for use by the Commonwealth and local governments to invest bond proceeds. The Commonwealth's responsibility is limited to hiring service providers to manage SNAP. The investment manager and the custodian have the fiduciary responsibility for SNAP.

The SNAP fund is a class of the PFM Funds Prime Series, a money market mutual fund registered with the Securities and Exchange Commission. PFM Funds is a diversified, open-end management investment company organized as a Virginia business trust. Shares of the SNAP fund are solely available to investors participating in the SNAP program. The PFM Funds Board of Trustees has overall responsibility for supervising the SNAP fund's business and affairs, including the oversight of organizations providing investment advisory, administration, and distribution services to the SNAP fund. PFM Asset Management LLC serves as the investment adviser of the SNAP fund. The SNAP individual investment portfolios are the responsibility of the SNAP investment manager and the governments investing proceeds in the portfolios. These investments are held solely in the SNAP participants' names. Since the Commonwealth has no fiduciary relationship with local governmental entities participating in the plan, these assets of $2.2 billion are not included in the financial statements.

20. COMMITMENTS

A. Construction Projects

Primary Government

Highway Projects

At June 30, 2016, the Department of Transportation had contractual commitments of approximately $3.2 billion for construction of various highway projects. Funding for these expenditures is expected to be provided as follows: (1) federal funds – approximately 26.0 percent or $832.0 million, (2) state funds – approximately 71.6 percent or $2.3 billion, and (3) Proceeds from Bonds – approximately 2.4 percent or $78.0 million.

Mass Transit Projects

At June 30, 2016, the Department of Rail and Public Transportation had contractual commitments of approximately $293.1 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 77.3 percent or $226.5 million, and 2) Federal funds – approximately 22.7 percent or $66.6 million.

Wastewater Treatment Projects

At June 30, 2016, 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 $77.7 million provided by bond proceeds and the Water Quality Improvement Fund.

Other Construction Projects

At June 30, 2016, the Department of General Services had construction commitments of approximately $18.2 million for design work related to capitol complex infrastructure projects.

At June 30, 2016, the Department of Forensic Science had contractual commitments of approximately $13.5 million and non-contractual commitments of $430,700 for construction projects.

At June 30, 2016, the Department of Corrections had construction commitments of $11.8 million for operational and security upgrades.

At June 30, 2016, the Department of Military Affairs had construction commitments of approximately $8.7 million.

At June 30, 2016, the Department of Conservation and Recreation had contractual commitments of approximately $4.5 million and non-contractual commitments of $60,861 for construction projects.

At June 30, 2016, the Wilson Workforce and Rehabilitation Center had construction commitments of approximately $7.3 million.

Component Units

Port Projects

At June 30, 2016, the Virginia Port Authority (nonmajor) was committed to construction contracts totaling $145.4 million.

Wallops Island Project

At June 30, 2016, the Virginia Commercial Space Flight Authority (nonmajor) was committed to construction programs totaling $8.1 million.

Treatment Plant

At June 30, 2016, the Hampton Roads Sanitation District Commission (nonmajor) was committed to construction contracts totaling $161.1 million.

Higher Education Institutions

Colleges and universities (nonmajor) had contractual commitments as of June 30, 2016, of approximately $585.1 million primarily for construction contracts. Higher education foundations' commitments total approximately $19.4 million and are primarily for construction contracts.

B. Operating Leases

The Commonwealth has entered into numerous agreements to lease land, buildings, and equipment. Most of the operating leases contain the provision that the Commonwealth may renew the operating leases at the expiration date of the lease on a month-to-month basis. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases of a similar nature. Rental expense for the primary government under these operating leases for the year ended June 30, 2016, was $69.4 million for governmental activities (including internal service funds) and $26.5 million for business-type activities. Rental expense for the discrete component units (excluding foundations) for the year ended June 30, 2016, was $148.6 million. The Commonwealth has, as of June 30, 2016, the following minimum rental payments due under the above leases (dollars in thousands):

	Primary Government		
	Governmental Activities	Business-type Activities	Component Units (1)
2017	$ 62,868	$ 22,478	$ 141,879
2018	52,528	18,550	128,862
2019	41,342	14,571	111,217
2020	32,780	10,620	102,493
2021	26,202	7,090	97,211
2022-2026	65,301	13,174	486,231
2027-2031	3,320	-	430,325
2032-2036	1,190	-	2,329
2037-2041	23	-	823
2042-2046	42	-	823
2047-2051	-	-	521
Total	$ 285,596	$ 86,483	$ 1,502,714

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

	Foundations (2)
2017	$ 5,950
2018	5,128
2019	2,918
2020	2,372
2021	2,071
Thereafter	14,519
Total	$ 32,958

Note (2): Foundations represent FASB reporting entities defined in Note 1.B. Rental expense for the year ended June 30, 2016, was approximately $6.3 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, 2016, amounted to $10.2 billion.

D. Virginia Transportation Infrastructure Bank

Section 33.2-1500 of the *Code of Virginia* states the Virginia Transportation Infrastructure Bank is intended to help alleviate a critical financing need for present and future highways within the Commonwealth. This includes toll facilities; mass transit; freight, passenger, and commuter rail; and port, airport and other transportation facilities. As of June 30, 2016, the Department of Transportation had $135.1 million in outstanding loans to the City of Chesapeake for the Dominion Boulevard Project and Loudoun County for the Pacific Boulevard Project coordinated through the Virginia Resources Authority.

E. Tobacco Grants

The Tobacco Region Revitalization Commission (nonmajor component unit) had $126.8 million in grant award commitments not reflected in the accompanying financial statements since eligibility requirements were not met as of June 30, 2016, in accordance with GASB Statement No. 33.

The Virginia Foundation for Healthy Youth (nonmajor component unit) had $8.4 million in grant commitments and outstanding contracts not reflected in these statements since eligibility requirements were not met as of June 30, 2016, in accordance with GASB Statement No. 33.

F. Other Commitments

Primary Government

At June 30, 2016, the Department of Behavioral Health and Developmental Services had contractual commitments of approximately $11.2 million.

At June 30, 2016, the Department of Corrections had contractual commitments of approximately $267.5 million and non-contractual commitments of approximately $531.8 million for detention services, medical care, and food services.

At June 30, 2016, the Virginia Department of Health had commitments of approximately $34.3 million to localities, trauma centers, trainers, grants to rescue squads, and water supply assistance grants.

At June 30, 2016, the Department of Motor Vehicles had contractual commitments of approximately $28.2 million for security technology services.

At June 30, 2016, the Virginia Employment Commission had contractual commitments of approximately $12.5 million and non-contractual commitments of approximately $7.5 million for information systems modernization projects. The agency also had $6.5 million in other contractual commitments.

At June 30, 2016, the Department of Environmental Quality had commitments of approximately $16.3 million for reimbursement claims for cleanup of leaking underground storage tanks.

The Enterprise Applications (internal service fund) began an upgrade of the Cardinal Financial System in May 2016. At June 30, 2016, the upgrade had contractually obligated commitments of $9.0 million.

The Virginia College Savings Plan (major enterprise fund) administers the Virginia529 prePAID Program. At June 30, 2016, the Program had $157.3 million in private equity commitments.

The Virginia Wireless E-911 (nonmajor enterprise fund) had $6.0 million in outstanding grants awarded but not yet disbursed to localities as of June 30, 2016, 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 $703.5 million in commitments to fund new loans as of June 30, 2016, since all of the eligibility criteria have not been met in accordance with GASB Statement No. 33.

The Virginia Resources Authority (major) was obligated to disburse $126.6 million in loan commitments to various localities and other governmental entities in the Commonwealth of Virginia as of June 30, 2016, since all of the eligibility criteria have not been met in accordance with GASB Statement No. 33.

The Virginia Small Business Financing Authority (nonmajor) had $1.2 million in loan commitments to banks and borrowers as of June 30, 2016, since all of the eligibility criteria have not been met in accordance with GASB Statement No. 33.

21. ACCRUED LIABILITY FOR COMPENSATED ABSENCES

Employees accrue annual leave at a rate of four to nine hours semimonthly, depending on their length of service. The maximum leave accumulation is dependent upon years of service, but in no case may it exceed 432 hours at the end of the leave year. The maximum compensation for annual leave balances is also dependent upon years of service, but in no case may an employee be compensated for more than 336 hours upon separation.

All employees hired after January 1, 1999, are required to enroll in the Virginia Sickness and Disability Program (VSDP) (see Note 16). Under the VSDP, employees receive a specified number of sick and personal leave hours, depending on their length of service, and any balances at the end of the leave year revert. Individuals employed at January 1, 1999, had the option of converting to the VSDP or remaining in the traditional sick leave plan. If converting, the employee's sick leave balance could be used to purchase retirement credits or be converted to disability credits. If an employee opted to remain in the traditional sick leave program, sick leave accrues at a rate of five hours semimonthly. Employees who leave state service after a minimum of five years employment receive the lesser of 25.0 percent of the value of their disability credits or accumulated sick leave at their current earnings rate or $5,000. All employees leaving state service are paid for accrued annual leave up to the maximum leave year limit at their current earnings rate.

In conformance with Section C60 of the GASB Codification, the monetary value of accumulated vacation, compensatory, overtime, recognition, and sick leave payable upon termination is included in the accompanying financial statements and is reported as Compensated Absences. In the government-wide statements, proprietary fund statements, and discrete component unit fund statements, compensated absence amounts are segregated into two components – the amount due within one year and the amount due in more than one year. Compensated absences due within one year consist of an estimate of the amount that will be used by active employees for paid time off and/or paid upon termination, plus the actual amount paid after June 30 for employees terminating on or before June 30. In the governmental fund statements, amounts to be paid from expendable resources are recognized as fund liabilities in the applicable governmental fund types as long-term liabilities and represent payments to employees for separations that occurred on or before June 30. Amounts not payable from expendable resources are reflected in the governmental activities column in the Government-wide Statement of Net Position (see Note 26). All amounts related to the fiduciary funds are recognized in those funds.

The liability at June 30, 2016, 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 $11.3 million, of which $2.0 million is due within one year. With the exception of the Department of Environmental Quality (DEQ), agencies estimated future obligations based on professional consultant estimates and/or historical project expenses of similar projects; however, there is the potential for change in estimates due to price increases or reductions, technology, or applicable laws and regulations. Remediations for DEQ are not estimates but contractual obligations between the Commonwealth and the U.S. Environmental Protection Agency (EPA), and any change due to a reconciliation of incurred costs requires mutual consent and contract amendment.

The estimated Commonwealth pollution remediation liability relates to the anticipated cost of hazardous waste removal, cleanup relating to leakage of underground storage tanks, soil and groundwater contaminations, dump site cleanups, asbestos, lead contamination and remediation relating to superfund state contracts.

Agencies involved in remediation include:

- Department of Corrections (DOC)
- Department of Emergency Management (VDEM)
- Department of Environmental Quality (DEQ)
- Department of Juvenile Justice (DJJ)
- Department of Transportation (VDOT)

A Facility Lead Agreement was signed between the EPA and VDOT to resolve an issue concerning the storage of lab wastewater in an outdoor lined surface impoundment that operated between 1979 and 1983 for which contamination is present in soil and groundwater. DOC was fined by the EPA in September/October 2003. DOC proposed to conduct a Supplemental Environmental Project (SEP) which included the formation of the Pollution Prevention Section of the Environmental Services Unit, disclosure of all environmental deficiencies to both the EPA and DEQ and corrections of those deficiencies.

The following pollution remediation outlays could not reasonably be estimated as of June 30, 2016:

- 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, 2016, $123.4 million is reported as the estimated claims payable for this fund, which is undiscounted as nearly all health care claims are current in nature. The estimated liability is based upon actual claims that have been submitted as well as actuarially determined claims incurred but not reported as described in Note 1.U. Changes in the balances of claims liabilities (dollars in thousands) during the current and prior fiscal years are as follows:

	Balance July 1,	Current Year Claims and Changes in Estimates	Claim Payments	Balance June 30, (1)
2015-2016	$ 118,005	$ 1,314,073	$ (1,308,693)	$ 123,385
2014-2015	$ 124,890	$ 1,215,569	$ (1,222,454)	$ 118,005

(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, 2016, $835.3 million is reported as the estimated claims payable for the risk management plan. This amount is discounted to present value at a rate of 1.4 percent. Undiscounted claims payable at June 30, 2016, is $1.0 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)
2015-2016	$ 651,421	$ 260,020	$ (76,158)	$ 835,283
2014-2015	$ 624,543	$ 98,941	$ (72,063)	$ 651,421

(1) Of the balance shown above, $75.0 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, 2016, the Virginia Commonwealth University Health System Authority (Authority) (a blended component unit of the Virginia Commonwealth University – nonmajor component unit) reports the following claims payable amounts: estimated workers' compensation claims of $21.5 million and estimated losses on malpractice claims of $3.4 million. MCV Associated Physicians (component unit of the Authority) reports claims payable of $22.2 million for estimated losses on malpractice claims. Virginia Premier Health Plan (component unit of the Authority) reports claims payable of $84.5 million for estimated medical claims payable. Additional information on claims payable can be found in the Authority's individually published financial statements.

Virginia International Terminals, LLC (VIT) (a blended component unit of the Virginia Port Authority – nonmajor) is partially self-insured for certain workers' compensation claims. The Authority maintains insurance coverage of $5.0 million per claim, but is obligated to pay the first $1.0 million of any individual's claims per incident. The Authority 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 2015 and 2016, 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 $7.0 million for calendar year 2016 and $6.8 million for calendar year 2015. As of June 30, 2016, the Authority had accrued $373,830 for claims incurred but not reported (IBNR).

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 335 local government units participating in the pool. This includes 40 school districts, 40 counties, 125 cities/towns, and 130 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, 2016, $36.3 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, 2016, there were 518 units of local government in the pool, including 1 city, 22 towns, and 28 counties. The remaining 467 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, 2016, $31.5 million and $4.6 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, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Unpaid Claims and Claim Adjustment Expenses at Beginning of Fiscal Year (4)	$ 31,839	$ 33,028	$ 29,272	$ 31,440
Incurred Claims and Claim Adjustment Expenses:				
Provision for Insured Events of the Current Fiscal Year (4)	383,850	327,910	11,799	8,875
Changes in Provision for Insured Events of Prior Fiscal Years (4)	-	-	(94)	(307)
Total Incurred Claims and Adjustment Expenses	383,850	327,910	11,705	8,568
Payments:				
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Fiscal Year (4)	379,376	329,099	1,206	922
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Prior Fiscal Year (4)	-	-	4,786	9,186
Total Payments	379,376	329,099	5,992	10,108
Change in Provision for Discounts	-	-	1,078	(628)
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Discounted) (1) (2) (3)	$ 36,313	$ 31,839	$ 36,063	$ 29,272
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Undiscounted)	$ 36,313	$ 31,839	$ 37,261	$ 31,551

Note (1): The entire balance for Local Choice Health Care, $36,313 (dollars in thousands) is due within one year.

Note (2): Of the balance shown above for Risk Management, $10,245 (dollars in thousands) is due within one year.

Note (3): The interest rate used for discounting is 1.4 percent.

Note (4): Fiscal year 2015 balances for Risk Management have been modified to agree to their actuary schedule.

24. ACCOUNTS PAYABLE

The following table (dollars in thousands) summarizes Accounts Payable as of June 30, 2016.

	Vendor	Salary/ Wage	Retainage	Other	Foundations (1)	Total
Primary Government:						
General	$ 166,869	$ 102,254	$ 56	$ -	$ -	$ 269,179
Major Special Revenue Funds:						
Commonwealth Transportation	320,079	32,916	3,791	-	-	356,786
Federal Trust	54,926	17,254	3,116	-	-	75,296
Literary	2	-	-	-	-	2
Nonmajor Governmental Funds	33,616	18,061	4,947	445	-	57,069
Major Enterprise Funds:						
Virginia Lottery (2)	10,534	1,623	-	5,253	-	17,410
Virginia College Savings Plan (2)	312	479	-	26	-	817
Unemployment Compensation	104	-	-	-	-	104
Nonmajor Enterprise Funds	62,853	5,844	-	-	-	68,697
Internal Service Funds	98,841	2,915	273	-	-	102,029
Private Purpose Trust Funds	161	167	-	1,754	-	2,082
Pension and Other Employee Benefit Trust Funds (3)	1,044	2,422	-	41,255	-	44,721
Agency Funds	2,222	-	-	4,678	-	6,900
Total Primary Government (4)	$ 751,563	$ 183,935	$ 12,183	$ 53,411	$ -	$ 1,001,092
Discrete Component Units:						
Virginia Housing Development Authority	$ 2,353	$ 2,621	$ -	$ 35,330	$ -	$ 40,304
Virginia Public School Authority	305	-	-	-	-	305
Virginia Resources Authority	315	7	-	-	-	322
Nonmajor Component Units	503,319	457,958	43,610	31,505	104,492	1,140,884
Total Component Units	$ 506,292	$ 460,586	$ 43,610	$ 66,835	$ 104,492	$ 1,181,815

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

Note (2): Other Accounts Payable for the Virginia Lottery represents administrative costs payable. Other Accounts Payable for the Virginia College Savings Plan represents program distributions payable.

Note (3): Other Accounts Payable for the Pension and Other Employee Benefit Trust Fund consists of $24,955 (dollars in thousands) in investment management fees and $16,300 (dollars in thousands) in program benefit liabilities.

Note (4): Fiduciary liabilities of $53,703 (dollars in thousands) are not included in the Government-wide Statement of Net Position. In addition, governmental fund liabilities of $125,673 (dollars in thousands) are included in the Government-wide Statement of Net Position, but excluded from the above amounts.

25. OTHER LIABILITIES

The following table (dollars in thousands) summarizes Other Liabilities as of June 30, 2016.

	Primary Government				
	General	Commonwealth Transportation (1)	Federal Trust	Nonmajor Governmental Funds	Virginia Lottery
Lottery Prizes Payable	$ -	$ -	$ -	$ -	$ 74,955
Due to Program Participants, Escrows, and Providers	-	-	-	-	-
Medicaid Payable	367,440	-	358,676	-	-
Family Access to Medical Insurance Security Payable	1,345	-	9,879	-	-
Tax Refunds Payable	439,657	-	-	-	-
Insurance Carrier Surety Deposit	-	-	-	-	-
Deposits Pending Distribution	5,222	1,317	-	4,537	-
Car Tax Payable	263,025	-	-	-	-
Other Liabilities	575	4,366	-	368	-
Total Other Liabilities	$ 1,077,264	$ 5,683	$ 368,555	$ 4,905	$ 74,955

	Primary Government				
	Virginia College Savings Plan (2)	Unemployment Compensation	Nonmajor Enterprise Funds	Internal Service Funds	Private Purpose Trust Funds
Lottery Prizes Payable	$ -	$ -	$ -	$ -	$ -
Due to Program Participants, Escrows, and Providers	754	35,079	-	-	4,656
Medicaid Payable	-	-	-	-	-
Family Access to Medical Insurance Security Payable	-	-	-	-	-
Tax Refunds Payable	-	-	-	-	-
Insurance Carrier Surety Deposit	-	-	-	-	-
Deposits Pending Distribution	-	-	178	433	-
Car Tax Refund Payable	-	-	-	-	-
Other Liabilities	13,805	-	95	-	-
Total Other Liabilities	$ 14,559	$ 35,079	$ 273	$ 433	$ 4,656

	Primary Government		
	Pension and Other Employee Benefit Trust Funds (3)	Agency Funds	Total Primary Government (4)
Lottery Prizes Payable	$ -	$ -	$ 74,955
Due to Program Participants, Escrows, and Providers	-	42,571	83,060
Medicaid Payable	-	-	726,116
Family Access to Medical Insurance Security Payable	-	-	11,224
Tax Refunds Payable	-	-	439,657
Insurance Carrier Surety Deposit	-	454,210	454,210
Deposits Pending Distribution	-	78,627	90,314
Car Tax Refund Payable	-	-	263,025
Other Liabilities	385,398	1,903	406,510
Total Other Liabilities	$ 385,398	$ 577,311	$ 2,549,071

Note (1): Other Liabilities of $4,366 (dollars in thousands) reported by the Commonwealth Transportation Fund (major special revenue) is primarily related to the remaining balance of managing the construction of the Unmanned Aircraft Systems (UAS) runway project for the Virginia Commercial Space Flight Authority (nonmajor component unit).

Note (2): Other Liabilities of $13,805 (dollars in thousands) reported by the Virginia College Savings Plan represent amounts associated with pending investment trades.

Note (3): Other Liabilities of $385,398 (dollars in thousands) reported in Pension and Other Employee Benefit Trust Funds are made up of $35,226 (dollars in thousands) in funds held for the Commonwealth Health Research Fund; $18,793 (dollars in thousands) in funds held for the Commonwealth's Attorneys Training Fund; $34,488 (dollars in thousands) in other funds managed by the System; $276,992 (dollars in thousands) in pending investment transactions, including $275,613 (dollars in thousands) in hedge fund funding and margin collateral, and $1,379 (dollars in thousands) in other investment payables; $16,718 (dollars in thousands) in other payables related to the System benefit plans; $2,362 (dollars in thousands) in foreign taxes payables related to the System benefit plans, and $819 (dollars in thousands) in dividends payable related to the System benefit plans.

Note (4): Fiduciary liabilities of $967,365 (dollars in thousands) are not included in the Government-wide Statement of Net Position. Governmental fund liabilities of $82,052 (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	$ 48,278	$ 55,802	$ 26,642	$ 85,719	$ 74,789	$ 291,230
Other Liabilities	5,089	-	15,367	-	227,905	248,361
Deposits Pending Distribution	-	-	-	2,769	414,035	416,804
Short-term Debt	444,600	-	-	-	192,670	637,270
Grants Payable	-	-	-	-	4,025	4,025
Total Other Liabilities	$ 497,967	$ 55,802	$ 42,009	$ 88,488	$ 913,424	$ 1,597,690

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, 2016, the estimated liability related to Medicaid claims totaled $726.1 million. Of this amount, $367.4 million is reflected in the General Fund (major governmental) and $358.7 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, 2016, the estimated liability related to claims totaled $11.2 million. Of this amount, $1.3 million is reflected in the General Fund (major governmental) and $9.9 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, 2015, and on business tax returns filed for corporate fiscal years ending on or before June 30, 2016. 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 2016, the Commonwealth laid off 272 employees. The affected employees had the option of volunteering for enhanced retirement benefits or severance benefits. The enhanced retirement benefits option was elected by 32 employees, and the remaining 240 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 2016 and will end no later than June 30, 2017. The benefit cost expended and the outstanding liability as of June 30, 2016 for governmental funds, are $3.5 million and $1.4 million, respectively. Since the severance benefits last for a maximum of 12 months, discounting of future cash flows is unnecessary. Additionally, the estimated payments are calculated using the Department of Human Resources' Termination Benefits Calculator and actual costs.

Short-term Debt

Short-term debt results from borrowings from anticipation notes, lines of credit, and similar loans with parties external to the primary government. The primary government's policy is to disclose activity related to short-term borrowings occurring during the fiscal year. For fiscal year 2016, 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 $192.6 million. Of this amount, $167.1 million is primarily to provide bridge financing for capital projects. The remaining short-term debt is primarily for working capital, property acquisition, and operations. The Virginia Housing Development Authority (major component unit) has borrowing from lines of credit in the amount of $444.6 million. The Library of Virginia Foundation (nonmajor component unit) has a $30,000 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, 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, 2016

(Dollars in Thousands)	**Balance At June 30**	**Amount Due Within One Year**
Primary Government:		
Governmental Activities:(1)		
General Obligation Bonds: (2)		
9(b) Public Facilities (3)	$ 571,915	$ 53,110
9(c) Parking Facilities (3)	15,155	890
9(c) Transportation Facilities (3)	14,562	2,620
Total General Obligation Bonds	601,632	56,620
Nongeneral Obligation Bonds - 9(d):		
Transportation Debt (3) (4)	3,385,385	167,190
Virginia Public Building Authority (3)	2,441,413	177,020
Total Nongeneral Obligation Bonds	5,826,798	344,210
Other Long-term Obligations:		
Net Pension Liability (9)	4,419,257	-
OPEB Liability (11)	734,064	-
Compensated Absences	317,053	167,612
Capital Lease Obligations	46,524	7,024
Pollution Remediation Obligations	11,308	2,012
Notes Payable	114	114
Installment Purchase Obligations	108,877	12,096
Economic Development Authority Obligations (3)	44,712	5,870
Other Liabilities	47,657	8,355
Total Other Long-term Obligations	5,729,566	203,083
Total Governmental Activities (3)	12,157,996	603,913
Business-type Activities: (1) (5)		
Other Long-term Obligations:		
Net Pension Liability	140,522	-
OPEB Liability	25,113	-
Compensated Absences	10,003	5,915
Capital Lease Obligations	5,359	334
Tuition Benefits Payable	2,035,608	250,472
Lottery Prizes Payable	129,895	13,422
Total Other Long-term Obligations	2,346,500	270,143
Total Business-type Activities	2,346,500	270,143
Total Primary Government	14,504,496	874,056

Total Long-term Liabilities
June 30, 2016

(Dollars in Thousands)	Balance At June 30	Amount Due Within One Year
Component Units:		
General Obligation Bonds: (2)		
Higher Education Fund - 9(c) Bonds (3)	877,118	52,115
Nongeneral Obligation Bonds:		
Higher Education Institutions - 9(d) (3) (5)	2,081,823	22,457
Virginia College Building Authority (3)	4,049,060	255,895
Virginia Port Authority (3) (6)	527,887	17,070
Virginia Housing Development Authority (3) (5)	4,320,935	456,903
Virginia Resources Authority (3) (7)	3,611,530	175,652
Virginia Public School Authority (3) (5)	3,655,914	237,348
Hampton Roads Sanitation District Commission (3) (5)	879,294	76,477
Virginia Biotechnology Research Partnership Authority (3)	26,743	3,665
Foundations (5) (8)	966,746	47,681
Total Nongeneral Obligation Bonds	20,119,932	1,293,148
Other Long-term Obligations:		
Net Pension Liability (10)	2,821,359	-
OPEB Liability (12)	961,908	-
Compensated Absences	293,026	220,315
Capital Lease Obligations	71,403	4,066
Notes Payable (5)	2,041,726	166,471
Installment Purchase Obligations	50,825	11,825
Trust and Annuity Obligations (5) (13)	39,726	-
Other Liabilities (5)	282,010	41,655
Total Other Long-term Obligations (Excluding Foundations)	6,561,983	444,332
Other Long-term Obligations (Foundations): (5) (8)		
Compensated Absences	15,855	11,732
Capital Lease Obligations	95	64
Notes Payable	304,389	10,312
Trust and Annuity Obligations (13)	74,703	3,022
Other Liabilities	352,960	20,026
Total Other Long-term Obligations - Foundations	748,002	45,156
Total Other Long-term Obligations	7,309,985	489,488
Total Component Units	28,307,035	1,834,751
Total Long-term Liabilities	$ 42,811,531	$ 2,708,807

1. Pursuant to GASB Statement No. 34, governmental activities include internal service funds. Business-type activities are considered enterprise funds.
2. Total general obligation debt of the Commonwealth is $1.5 billion.
3. Amounts are net of any unamortized discounts and premiums.
4. This debt includes $663.1 million that is not supported by taxes.
5. This debt is not supported by taxes.
6. This debt includes $252.6 million that is not supported by taxes.
7. This debt is not supported by taxes; however, $907.2 million is considered moral obligation debt.
8. Foundations represent FASB reporting entities defined in Note 1.B.
9. This does not include net pension liabilities from fiduciary funds of $3.7 million.
10. 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 $26.1 million and $18.2 million, respectively. This debt is not supported by taxes.
11. This does not include OPEB obligations from fiduciary funds of $668,523.
12. This includes OPEB obligations that do not relate to the Virginia Retirement System from University of Virginia of $55.7 million and Virginia Port Authority of $1.3 million.
13. 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 $14.6 million of Section 9(c) general obligation bonds and $3.4 billion of Transportation Facilities Section 9(d) debt. The Section 9(d) debt includes $2.7 billion of Section 9(d) revenue bonds and $663.1 million of Grant Anticipation Revenue Vehicles (GARVEES) in addition to the outstanding Section 9(d) revenue bonds. 9(c) principal and interest requirements for the current year totaled $3.2 million. 9(d) principal and interest requirements for the current year totaled $321.6 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 5.0 percent and the issuance dates range from March 15, 2012 to November 21, 2013.

On February 24, 2016, the Commonwealth Transportation Board issued $75.9 million of Series 2016A Refunding, 2016B Refunding, and 2016C Refunding Revenue Bonds. Series 2016A, 2016B, and 2016C Refunding Revenue Bonds will be maturing in annual installments on May 15 in the years 2017 to 2026 and interest is payable on May 15 and November 15 at rates varying from 2.0 to 5.0 percent. The 2015A, 2016B, and 2016C Series bonds were issued to advance refund outstanding Series 2006A, 2006B and 2006C revenue bonds, respectively.

On May 17, 2016, the Commonwealth Transportation Board issued $273.7 million of Commonwealth of Virginia Capital Projects Transportation Revenue Bonds, Series 2016. Series 2016 will be maturing in annual installments on May 15 in the years 2017 to 2041 and interest is payable on May 15 and November 15 at rates varying from 3.0 to 5.0 percent. The net proceeds of the Series 2016 bonds will be used to pay for the costs of certain transportation projects in the Commonwealth and certain costs related to the issuance of the 2016 bonds.

The following schedules detail the annual funding requirements necessary to amortize Transportation Facilities 9(c) bonds and 9(d) debt. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth expects to receive an interest subsidy to reimburse interest payments of $93.7 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
2017	$ 2,620,000	$ 568,200	$ 3,188,200
2018	2,730,000	463,400	3,193,400
2019	2,840,000	354,200	3,194,200
2020	2,950,000	240,600	3,190,600
2021	3,065,000	122,600	3,187,600
Add:			
Unamortized Premium	356,810	-	356,810
Total	$ 14,561,810	$ 1,749,000	$ 16,310,810

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

Maturity	Principal	Interest	Total
2017	$ 167,190,000	$ 140,863,057	$ 308,053,057
2018	174,120,000	132,938,044	307,058,044
2019	172,925,483	125,082,626	298,008,109
2020	155,598,337	116,854,146	272,452,483
2021	156,765,956	109,440,871	266,206,827
2022-2026	791,044,196	436,063,589	1,227,107,785
2027-2031	661,831,299	254,840,213	916,671,512
2032-2036	618,380,000	109,790,939	728,170,939
2037-2041	166,235,000	12,708,400	178,943,400
Less:			
Unamortized Discount	(90,804)	-	(90,804)
Add:			
Accretion on Capital Appreciation Bonds	25,634,032	-	25,634,032
Unamortized Premium	295,751,410	-	295,751,410
Total	$ 3,385,384,909	$ 1,438,581,885	$ 4,823,966,794

Fairfax Economic Development Authority Obligations

In fiscal year 2006, the Fairfax County Economic Development Authority (EDA) issued Section 9(d) revenue bonds to pay for the Commonwealth's (VDOT) costs of the planning, design and construction of a transportation infrastructure and related public safety operations complex to be developed on the contiguous sites in the county commonly referred to as "Camp 30" for the joint use of VDOT and the county. In fiscal year 2014, Fairfax County EDA issued a series of revenue refunding bonds, which partially refunded Series 2006 revenue bonds. The Commonwealth's obligation is set out in a payment agreement between Fairfax County EDA and the Commonwealth of Virginia, Department of Transportation, in which the Commonwealth agrees to make payments equal to the debt service from amounts appropriated by the General Assembly. The interest rates for these bonds range from 1.0 percent to 5.0 percent and the issue 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
2017	$ 5,870,000	$ 1,957,500	$ 7,827,500
2018	6,165,000	1,664,000	7,829,000
2019	6,470,000	1,355,750	7,825,750
2020	6,795,000	1,032,250	7,827,250
2021	7,135,000	692,500	7,827,500
2022-2026	6,715,000	335,750	7,050,750
Add:			
Unamortized Premium	5,562,360	-	5,562,360
Total	$ 44,712,360	$ 7,037,750	$ 51,750,110

Public Facilities Bonds

Section 9(b) general obligation bonds consist of Public Facilities Bonds, Series 2007A, Series 2007B, Series 2008A, Series 2008B, Series 2009A, Series 2009D Refunding, Series 2009E, Series 2012A Refunding, Series 2013B Refunding, Series 2014B Refunding, and Series 2015B Refunding. Bonds were issued to fund construction projects for higher educational institutions, behavioral health, and/or park facilities. The Series 2009D bonds were issued to advance refund outstanding Series 2004A, Series 2005A, and Series 2006B bonds. The Series 2012A bonds were issued to advance refund outstanding Series 2002, Series 2003A, Series 2004A, and Series 2005A bonds. The Series 2013B bonds were issued to advance refund outstanding Series 2005A, Series 2006B, Series 2007A, and Series 2007B. The Series 2014B bonds were issued to advance refund outstanding Series 2004B Refunding. The Series 2015B bonds were issued to advance refund certain maturities of outstanding Series 2007B, Series 2008A, and Series 2008B bonds. Principal and interest requirements for the current year totaled $87.2 million. The interest rates for all bonds range from 3.4 percent to 5.0 percent and the issuance dates range from June 20, 2007, to May 6, 2015. The following schedule details the annual funding requirements necessary to repay these bonds. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth expects to receive an interest subsidy to reimburse interest payments of $3.5 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
2017	$ 53,110,000	$ 23,565,345	$ 76,675,345
2018	49,120,000	20,974,502	70,094,502
2019	48,220,000	18,718,148	66,938,148
2020	48,280,000	16,426,345	64,706,345
2021	48,285,000	14,127,445	62,412,445
2022-2026	211,790,000	37,544,375	249,334,375
2027-2031	47,720,000	3,544,200	51,264,200
Add:			
Unamortized Premium	65,389,990	-	65,389,990
Total	$ 571,914,990	$ 134,900,360	$ 706,815,350

Parking Facilities Bonds

Section 9(c) general obligation bonds consist of Parking Facilities Bonds, Series 2009B and 2009D Refunding, and 2012A Refunding. The Series 2009B bonds were issued to fund the construction of a new 1,000 vehicle parking structure at 7th and Franklin Streets. The Series 2009D Refunding bonds were issued to advance refund outstanding Series 2004A bonds. The Series 2012A Refunding bonds were issued to advance refund outstanding Series 2002 Refunding and Series 2004A bonds. The interest rate for these bonds is 5.0 percent, and the issuance dates range from October 21, 2009, to March 7, 2012. Current year principal and interest requirements totaled $1.4 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
2017	$ 890,000	$ 667,611	$ 1,557,611
2018	940,000	623,111	1,563,111
2019	985,000	576,110	1,561,110
2020	1,035,000	526,860	1,561,860
2021	1,085,000	475,110	1,560,110
2022-2026	5,409,045	1,544,202	6,953,247
2027-2031	3,090,000	314,000	3,404,000
Add:			
Unamortized Premium	1,721,040	-	1,721,040
Total	$ 15,155,085	$ 4,727,004	$ 19,882,089

Virginia Public Building Authority

Virginia Public Building Authority Section 9(d) bonds consist of 2005D, 2006A, 2006B, 2007A, 2008B, 2009A, 2009B, 2009C, 2009D Refunding, 2010A, 2010B-1, 2010B-2, 2010B-3 Refunding, 2011A, 2011B, 2012A Refunding, 2013A, 2013B Refunding, 2014A, 2014B, 2014C Refunding, 2015A, and 2015B Refunding. All bonds were issued for the purpose of constructing, improving, furnishing, maintaining, and acquiring public buildings for the use of the Commonwealth and also to reimburse localities, regional jail authorities or other combination of localities under the Regional Jail Financing Program. The Series 2009D bonds were issued to advance refund outstanding series 2001A and 2002A Revenue bonds. The Series 2010B-3 bonds were issued to advance refund outstanding series 2002A and 2004B Revenue bonds. The Series 2012A bonds were issued to advance refund outstanding series 2004B and 2005C Revenue bonds. The Series 2013B bonds were issued to advance refund 2006A and 2006B revenue bonds. The Series 2014C bonds were issued to advance refund outstanding Series 2004A Refunding, 2004B, 2004C Refunding, and 2004D Refunding bonds, and certain maturities of the 2005C, 2006A, 2006B, and 2007A bonds. The interest rates range from 0.4 percent to 5.9 percent and the issuance dates range from December 7, 2005, to June 9, 2015. The Series 2005D bonds are variable rate bonds and the rates are reset weekly by the remarketing agent. Current year principal and interest requirements totaled $262.0 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 $73.1 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
2017	$ 177,020,000	$ 99,496,360	$ 276,516,360
2018	160,770,000	91,320,746	252,090,746
2019	145,340,000	83,950,314	229,290,314
2020	146,580,000	77,056,112	223,636,112
2021	140,990,000	70,266,508	211,256,508
2022-2026	729,375,000	251,867,088	981,242,088
2027-2031	582,900,000	96,788,538	679,688,538
2032-2036	174,015,000	13,557,250	187,572,250
Add:			
Unamortized Premium	184,423,129	-	184,423,129
Total	$ 2,441,413,129	$ 784,302,916	$ 3,225,716,045

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	$ 1,579,951
College and university debt backed exclusively by pledged revenues of an institution	501,872
Total Higher Education Institution 9(d) debt	$ 2,081,823

The interest rates for these bonds range from 0.4 percent to 6.2 percent and the issuance dates range from March 15, 2006, to June 1, 2016. The Virginia College Building Authority Series 2006B and 2006C bonds, the Virginia Commonwealth University Series 2012A and 2012B bonds, and the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University – nonmajor) Series 2013A and 2013B bonds are variable rate bonds and the rates are reset weekly by the remarketing agent.

The following schedules detail the annual funding requirements necessary to amortize Higher Education Institution 9(c) and 9(d) bonds. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth expects to receive an interest subsidy to reimburse interest payments of $303.2 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
2017	$ 52,115,000	$ 34,782,191	$ 86,897,191
2018	49,200,000	32,406,271	81,606,271
2019	49,400,000	30,206,921	79,606,921
2020	49,120,000	28,005,901	77,125,901
2021	51,085,000	25,864,783	76,949,783
2022-2026	255,160,955	95,655,042	350,815,997
2027-2031	204,605,000	42,399,986	247,004,986
2032-2036	83,390,000	9,994,709	93,384,709
2037-2041	7,085,000	821,435	7,906,435
Add:			
Unamortized Premium	75,956,775	-	75,956,775
Total	$ 877,117,730	$ 300,137,239	$ 1,177,254,969

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

Maturity	Principal	Interest (1)	Total
2017	$ 22,456,606	$ 86,689,159	$ 109,145,765
2018	23,257,056	86,129,917	109,386,973
2019	23,748,580	85,512,904	109,261,484
2020	24,736,209	84,783,134	109,519,343
2021	24,909,971	84,040,745	108,950,716
2022-2026	274,071,338	382,069,191	656,140,529
2027-2031	161,569,554	355,215,072	516,784,626
2032-2036	207,726,959	331,793,716	539,520,675
2037-2041	782,050,000	243,835,759	1,025,885,759
2042-2046	449,015,000	61,239,250	510,254,250
Add:			
Unamortized Premium	88,281,245	-	88,281,245
Total	$ 2,081,822,518	$ 1,801,308,847	$ 3,883,131,365

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
2017	$ 255,895,000	$ 153,561,566	$ 409,456,566
2018	240,100,000	148,179,789	388,279,789
2019	236,355,000	137,346,070	373,701,070
2020	228,540,000	126,593,911	355,133,911
2021	237,340,000	116,296,788	353,636,788
2022-2026	1,074,025,000	434,100,093	1,508,125,093
2027-2031	989,705,000	212,669,792	1,202,374,792
2032-2036	478,950,000	41,252,094	520,202,094
Add:			
Unamortized Premium	308,149,825	-	308,149,825
Total	$ 4,049,059,825	$ 1,370,000,103	$ 5,419,059,928

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	
2017	$ 46,949,224	(2)
2018	53,422,465	
2019	104,207,399	
2020	28,350,177	
2021	44,680,949	
Thereafter	689,135,328	
Total	$ 966,745,542	

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

Note (2): This amount excludes $732,000 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 (VPA) (nonmajor) has issued Section 9(d) revenue bonds and notes pursuant to powers provided to its Board of Commissioners by the *Code of Virginia*. The interest rates for these bonds range from 0.7 percent to 5.5 percent, and the issuance dates range from April 6, 2006, to June 23, 2015. Series 2006A bonds were issued to advance refund $22.9 million of outstanding Series 1996 bonds. Series 2010 bonds were issued to currently refund in full the outstanding principal amount of the Authority's Series 2009 Bond Anticipation Note. Series 2012 bonds were issued to currently refund in full the outstanding principal amount of the Authority's Commonwealth Port Fund Revenue Bonds and to pay all or a portion of the expenses incurred with respect to the issuance of the Series 2012 Bonds and the refunding of the Series 2002 Bonds. Series 2012B and 2012C bonds were issued to pay the cost of refunding all or a portion of the Series 2005A and 2005B bonds, and to pay costs of issuance of the 2012B and 2012C bonds. Series 2013 bonds were issued to pay the costs of refunding all or a portion of Series 2003 and 2006 bonds and series 2013 issuance costs. Series 2015A bonds were issued to pay the costs of refunding all of the remaining Series 2003 and 2006 bonds, and to pay costs of issuance of the Series 2015A bonds. Series 2015B bonds were issued to pay the costs of refunding a portion of the remaining Series 2007 bonds, and to pay costs of issuance of the Series 2015B bonds. The following schedule details the annual funding requirements necessary to amortize VPA bonds.

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

Maturity	Principal	Interest	Total
2017	$ 17,070,000	$ 19,990,624	$ 37,060,624
2018	17,605,000	19,583,500	37,188,500
2019	17,965,000	19,216,774	37,181,774
2020	18,350,000	18,786,266	37,136,266
2021	18,815,000	18,295,315	37,110,315
2022-2026	102,795,000	82,384,665	185,179,665
2027-2031	121,330,000	62,179,961	183,509,961
2032-2036	117,765,000	33,218,875	150,983,875
2037-2041	74,650,000	8,150,250	82,800,250
Add:			
Unamortized Premium	21,542,431	-	21,542,431
Total	$ 527,887,431	$ 281,806,230	$ 809,693,661

Virginia Housing Development Authority

The Virginia Housing Development Authority (VHDA) (major) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 2.1 percent to 6.8 percent and the origination dates range from March 20, 2002, to June 9, 2016. 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
2017	$ 456,902,903	$ 172,794,166	$ 629,697,069
2018	168,950,000	156,039,081	324,989,081
2019	188,115,000	149,924,488	338,039,488
2020	196,540,000	142,909,339	339,449,339
2021	163,365,000	135,864,949	299,229,949
2022-2026	581,430,000	608,499,474	1,189,929,474
2027-2031	488,883,096	502,554,624	991,437,720
2032-2036	557,409,842	393,721,757	951,131,599
2037-2041	573,010,491	254,740,002	827,750,493
2042-2046	943,928,652	63,339,235	1,007,267,887
2047-2051	2,495,000	207,461	2,702,461
Less: Unamortized Discount	(1,953,454)	-	(1,953,454)
Add: Unamortized Premium	1,858,788	-	1,858,788
Total	$ 4,320,935,318	$ 2,580,594,576	$ 6,901,529,894

Virginia Resources Authority

The Virginia Resources Authority (VRA) (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 June 30, 2016. 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
2017	$ 175,651,581	$ 141,081,225	$ 316,732,806
2018	186,754,941	134,285,290	321,040,231
2019	170,551,440	126,324,203	296,875,643
2020	175,166,941	118,630,246	293,797,187
2021	179,278,442	110,598,557	289,876,999
2022-2026	867,409,771	433,307,615	1,300,717,386
2027-2031	786,113,478	246,524,185	1,032,637,663
2032-2036	465,710,000	115,570,718	581,280,718
2037-2041	234,928,000	44,897,234	279,825,234
2042-2046	91,690,000	7,806,217	99,496,217
Less: Unaccreted Capital Appreciation Bonds	(32,490,681)	-	(32,490,681)
Add: Unamortized Premium	310,765,995	-	310,765,995
Total	$ 3,611,529,908	$ 1,479,025,490	$ 5,090,555,398

Virginia Public School Authority

The Virginia Public School Authority (VPSA) (major) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 0.0 percent to 5.5 percent, and the origination dates range from December 31, 2002, to May 17, 2016. 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 $171.8 million for Qualified School Construction Bonds (QSCBs) issued. The QSCBs are applicable to Series 2010-1, 2011-1, 2011-2, and 2012-1 Revenue Bonds.

9(d) VIRGINIA PUBLIC SCHOOL AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2017	$ 237,348,003	$ 143,098,093	$ 380,446,096
2018	242,405,000	134,089,692	376,494,692
2019	233,195,000	122,659,413	355,854,413
2020	229,765,000	111,819,031	341,584,031
2021	219,855,000	101,292,097	321,147,097
2022-2026	962,611,000	360,848,714	1,323,459,714
2027-2031	954,730,000	148,789,001	1,103,519,001
2032-2036	299,790,000	31,323,713	331,113,713
2037-2041	44,075,000	3,302,547	47,377,547
2042-2046	3,330,000	224,697	3,554,697
Add: Unamortized Premium	228,810,080	-	228,810,080
Total	$ 3,655,914,083	$ 1,157,446,998	$ 4,813,361,081

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 0.3 percent to 5.9 percent. The following schedule details the annual funding requirements necessary to amortize these bonds. The fiscal year 2017 principal amount excludes $50.0 million for demand bonds, which are classified as “due within one year” in the accompanying financial statements. The schedule below reflects the debt service on these bonds at their stated maturities.

HAMPTON ROADS SANITATION DISTRICT COMMISSION
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2017	$ 26,477,000	$ 31,295,000	$ 57,772,000
2018	25,798,000	31,729,000	57,527,000
2019	26,485,000	30,674,000	57,159,000
2020	27,485,000	29,637,000	57,122,000
2021	27,821,000	28,555,000	56,376,000
2022-2026	153,967,000	124,456,000	278,423,000
2027-2031	172,273,000	90,556,000	262,829,000
2032-2036	164,389,000	52,091,000	216,480,000
2037-2041	119,565,000	18,425,000	137,990,000
2042-2046	53,565,000	3,157,000	56,722,000
2047-2051	8,255,000	-	8,255,000
Add: Unamortized Premium	73,214,000	-	73,214,000
Total	$ 879,294,000	$ 440,575,000	$ 1,319,869,000

Virginia Biotechnology Research Partnership Authority

The Virginia Biotechnology Research Partnership Authority (nonmajor) consists of Series 2009 Commonwealth of Virginia Lease Revenue bonds. Coupon interest rates range from 3.0 percent to 5.0 percent.

VIRGINIA BIOTECH RESEARCH PARTNERSHIP AUTHORITY
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2017	$ 3,665,000	$ 1,088,150	$ 4,753,150
2018	3,815,000	938,550	4,753,550
2019	3,990,000	762,500	4,752,500
2020	4,200,000	557,750	4,757,750
2021	4,415,000	342,375	4,757,375
2022-2026	4,640,000	116,000	4,756,000
Add:			
Unamortized Premium	2,017,767	-	2,017,767
Total	$ 26,742,767	$ 3,805,325	$ 30,548,092

Total principal outstanding at June 30, 2016, on all component unit bonds amounted to $21.0 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	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	$ 567,320	$ -	$ (60,795)	$ 506,525
Parking Facilities Bonds	14,156	-	(722)	13,434
Transportation Facilities Bonds	16,725	-	(2,520)	14,205
Add: Unamortized Premium	77,170	-	(9,702)	67,468
Total General Obligation Bonds	675,371	-	(73,739)	601,632
Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Transportation Facilities Bonds	2,989,510	349,565	(274,985)	3,064,090
Virginia Public Building Authority Bonds	2,417,460	-	(160,470)	2,256,990
Economic Development Authority Obligations	44,740	-	(5,590)	39,150
Add: Unamortized Premium	488,264	45,270	(47,797)	485,737
Accretion on Capital Appreciation Bonds	23,139	2,495	-	25,634
Less: Unamortized Discount	(96)	5	-	(91)
Installment Purchase Obligations	113,373	13,245	(17,741)	108,877
Notes Payable - Aviation	307	-	(193)	114
Compensated Absences	311,406	184,228	(178,581)	317,053
Capital Lease Obligations	57,948	967	(12,391)	46,524
Net Pension Liability	4,133,117	286,140	-	4,419,257
OPEB Liability	654,173	80,396	(505)	734,064
Pollution Remediation Liability	11,954	210	(856)	11,308
Other	33,155	18,346	(3,844)	47,657
Total Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth	11,278,450	980,867	(702,953)	11,556,364
Total Governmental Activities	11,953,821	980,867	(776,692)	12,157,996
Business-type Activities:				
Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Debt:				
Non-General Obligation Bonds - 9(d)				
Route 460 Funding Corporation of Virginia Bonds	445,865	-	(445,865)	-
Add: Unamortized Premium	18,590	-	(18,590)	-
Less: Unaccreted Capital Appreciation Bonds	(144,345)	144,345	-	-
Capital Lease Obligations	5,708	-	(349)	5,359
Compensated Absences	10,123	3,188	(3,308)	10,003
Net Pension Liability	125,294	15,228	-	140,522
OPEB Liability	22,051	3,073	(11)	25,113
Lottery Prizes Payable	136,222	6,128	(12,455)	129,895
Tuition Benefits Payable	2,116,769	81,957	(163,118)	2,035,608
Total Business-type Activities	2,736,277	253,919	(643,696)	2,346,500
Total Primary Government	$ 14,690,098	$ 1,234,786	$ (1,420,388)	$ 14,504,496

Foundations (3)	Balance June 30	Due Within One Year
$ -	$ 506,525	$ 53,110
-	13,434	890
-	14,205	2,620
-	67,468	-
-	601,632	56,620
-	3,064,090	167,190
-	2,256,990	177,020
-	39,150	5,870
-	485,737	-
-	25,634	-
-	(91)	-
-	108,877	12,096
-	114	114
-	317,053	167,612
-	46,524	7,024
-	4,419,257	-
-	734,064	-
-	11,308	2,012
-	47,657	8,355
-	11,556,364	547,293
-	12,157,996	603,913
-	-	-
-	-	-
-	-	-
-	5,359	334
-	10,003	5,915
-	140,522	-
-	25,113	-
-	129,895	13,422
-	2,035,608	250,472
-	2,346,500	270,143
$ -	$ 14,504,496	$ 874,056

Continued on next page

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

(Dollars in Thousands)

	Balance July 1 as restated (4)	Issuances and Other Increases	Retirements and Other Decreases	Subtotal June 30
Component Units				
Long-term Debt Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
General Obligation Bonds - Higher Education 9(c) (5)	$ 936,857	$ -	$ (59,739)	$ 877,118
Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Bonds (5)	18,442,527	2,752,258	(2,041,599)	19,153,186
Installment Purchase Obligations	63,812	19	(13,006)	50,825
Capital Lease Obligations	77,456	19,985	(26,038)	71,403
Notes Payable	2,083,619	300,537	(342,430)	2,041,726
Compensated Absences	288,320	321,764	(317,058)	293,026
Net Pension Liability	2,537,695	299,508	(15,844)	2,821,359
OPEB Liability	830,507	131,949	(548)	961,908
Trust and Annuity Obligations	41,348	124	(1,746)	39,726
Other	293,098	763,048	(774,136)	282,010
Total Component Units	$ 25,595,239	$ 4,589,192	$ (3,592,144)	$ 26,592,287

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

Note (4) Trust and Annuity Obligations have been restated by $39,596 (dollars in thousands) for a nonmajor component unit for the liability to beneficiaries related to irrevocable split-interest agreements. Other Liabilities have been restated by $6,862 (dollars in thousands) for the Virginia Housing Development Authority (major) to remove third party escrow balances.

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

Foundations (3)	Balance June 30	Due Within One Year
$ -	$ 877,118	$ 52,115
966,746	20,119,932	1,293,148
-	50,825	11,825
95	71,498	4,130
304,389	2,346,115	176,783
15,855	308,881	232,047
-	2,821,359	-
-	961,908	-
74,703	114,429	3,022
352,960	634,970	61,681
$ 1,714,748	$ 28,307,035	$ 1,834,751

Bond and Note Defeasance

Primary Government

In February 2016, the Commonwealth Transportation Board of the Commonwealth of Virginia issued $10.1 million in Transportation Revenue Refunding Bonds Series 2016A, $13.9 million in Transportation Revenue Refunding Bonds Series 2016B, and $51.9 million in Transportation Revenue Refunding Bonds Series 2016C. Series 2016A and 2016C have an interest rate of 5.0 percent and 2016B has a varying interest rate of 2.0 to 5.0 percent. The bonds that were refunded include $11.3 million of Series 2006A, $16.3 million of Series 2006B, and $63.5 million of Series 2006C. The net proceeds from the sale of the Refunding Bonds of $93.6 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 $2.2 million. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt or the new debt, whichever is shorter. Total debt service payments will be reduced by $22.6 million resulting in an economic gain of $20.7 million.

Component Units

Higher education institutions (nonmajor) participate in the Virginia College Building Authority Pooled Bond Program. In December 2015, the Virginia College Building Authority (VCBA) (major) issued $153.9 million of Series 2015B Pooled Bond Program refunding bonds. The bonds were issued to refund $159.1 million of its 2009A bonds. The net proceeds from the sale of the refunding bonds of $177.2 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 $13.0 million. Total debt service payments over the next 24 years will be reduced by $20.7 million resulting in a present value savings of $15.8 million discounted at the rate of 2.7 percent.

In June 2016, VCBA issued $49.3 million of Series 2016B 21st Century Program refunding bonds. The bonds were issued to refund $7.1 million of its 2008A bonds and $43.7 million of its 2009A bonds. The net proceeds from the sale of the refunding bonds of $56.7 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 $3.9 million. Total debt service payments over the next 13 years will be reduced by $8.4 million resulting in a present value savings of $7.3 million discounted at the rate of 2.2 percent.

The Virginia Polytechnic Institute and State University (nonmajor) issued $2.6 million of Series 2015E bonds to refund $2.7 million of Series 2004A bonds. For additional information regarding this refunding, see the institution's individually published financial statements.

GASB Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt*, provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of June 30, 2016, there were $564.9 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 $2.2 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 VPSA (major component unit) is payable from earnings on related bond funds and from local issuers whose local school bonds were purchased by the 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.

Although rebatable arbitrage need only be calculated for tax purposes every fifth year that debt is outstanding, and consistent with modified accrual basis of accounting, is not recognized as a liability in governmental funds until amounts actually become due and payable, a liability is recognized in accrual basis government-wide statements as soon as the underlying event has occurred. Accordingly, as of June 30, 2016, the Virginia Resources Authority (major component unit) has recognized a liability of $391,873.

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 2016, 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, 2016, are shown in the following table (dollars in thousands).

	Governmental Activities	Business-Type Activities	Component Units (1)
2017	$ 10,779	$ 574	$ 6,790
2018	9,570	589	6,903
2019	7,363	603	6,377
2020	6,758	619	6,361
2021	6,669	634	5,573
2022-2026	13,402	3,417	26,144
2027-2031	5,600	3,866	25,867
2032-2036	2,180	4,374	8,613
2037-2041	2,305	4,948	708
2042-2046	464	1,075	650
2047-2051	-	-	1,176
Total Gross Minimum Lease Payments	65,090	20,699	95,162
Less: Amount Representing Executory Costs	(6,353)	-	-
Net Minimum Lease Payments	58,737	20,699	95,162
Less: Amount Representing Interest	(12,213)	(15,340)	(23,759)
Present Value of Net Minimum Lease Payments	$ 46,524	$ 5,359	$ 71,403

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

	Foundations (2)
2017	$ 67
2018	25
2019	7
Net Minimum Lease Payments	99
Less: Amount Representing Interest	(4)
Present Value of Net Minimum Lease Payments	$ 95

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

At June 30, 2016, assets purchased under capital leases were included in depreciable capital assets as follows (dollars in thousands). The amounts are net of accumulated depreciation where applicable. For a portion of these assets, ownership will pass to the Commonwealth at the end of the lease term.

	Buildings	Equipment	Total
Governmental Activities:			
Gross Capital Assets	$ 176,141	$ 4,309	$ 180,450
Less: Accumulated Depreciation	(77,802)	(2,968)	(80,770)
Total Governmental Activities	$ 98,339	$ 1,341	$ 99,680
Business-Type Activities:			
Gross Capital Assets	$ 8,800	$ -	$ 8,800
Less: Accumulated Depreciation	(1,178)	-	(1,178)
Total Business-Type Activities	$ 7,622	$ -	$ 7,622
Component Units:			
Gross Capital Assets	$ 131,592	$ 3,757	$ 135,349
Less: Accumulated Depreciation	(48,026)	(2,283)	(50,309)
Subtotal (excluding Foundations)	83,566	1,474	85,040
Foundations:			
Gross Capital Assets	-	733	733
Less: Accumulated Depreciation	-	(551)	(551)
Subtotal Foundations	-	182	182
Total Component Units (3)	$ 83,566	$ 1,656	$ 85,222

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	
Aviation Note	$ 114
Installment Notes	108,877
Total Primary Government	108,991
Component Units	
Virginia Public School Authority	193,865
Virginia Resources Authority	105
Nonmajor Component Units	1,847,756
Installment Notes	50,825
Subtotal (excluding Foundations)	2,092,551
Foundations:	
Notes Payable	304,389
Subtotal - Foundations	304,389
Total Component Units	2,396,940
Total Notes Payable	$ 2,505,931

The Department of Aviation (primary government) Note represents a loan agreement with the Virginia Resources Authority (major component unit) with an outstanding balance of $114,381. The purpose of the loan was to finance and refinance grants-in-aid made to the Peninsula Airport Commission to provide funding for capital improvements at the Newport News/Williamsburg International Airport. The principal amount shall be paid semi-annually with the final payment due in 2017.

The Virginia Public School Authority (major component unit) notes of $193.9 million are for the School Equipment Financing Notes Educational Technology program. The note proceeds were used to make grants to school divisions for the purchase of educational technology equipment. The notes will be repaid from appropriations to be made by the Virginia General Assembly from the Literary Fund (major special revenue).

The Virginia Resources Authority (major component unit) notes of $104,562 are Equipment and Term Financing loans.

An additional amount of $1.8 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 $611.3 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 $31.8 million. The final principal payment is due in 2045.

The following higher education institutions (nonmajor component units) reported notes payables primarily for construction: Virginia Commonwealth University Health System Authority (Authority) (a blended component unit of the Virginia Commonwealth University – nonmajor component unit) $23.7 million, which includes $11.7 million reported by the University Health Services (a component unit of the Authority); Virginia State University $940,068; and Norfolk State University $15,824.

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, 2016, are shown in the following table (dollars in thousands).

Foundations' Notes Payable (Component Units) (1)

Maturity	Principal
2017	$ 10,312
2018	90,735
2019	48,379
2020	31,449
2021	7,021
Thereafter	116,493
Total	$ 304,389

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 $159.7 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, 2016.

Installment Purchase Obligations - Governmental Funds
June 30, 2016

Maturity	Principal	Interest	Total
2017	$ 12,096,135	$ 2,992,190	$ 15,088,325
2018	12,272,971	2,683,832	14,956,803
2019	12,577,813	2,354,239	14,932,052
2020	12,878,233	2,014,707	14,892,940
2021	11,444,501	1,668,893	13,113,394
2022-2026	37,468,275	4,356,401	41,824,676
2027-2031	10,128,547	554,455	10,683,002
2032-2036	10,952	19	10,971
Total	$ 108,877,427	$ 16,624,736	$ 125,502,163

Installment Purchase Obligations - Component Units
June 30, 2016

Maturity	Principal	Interest	Total
2017	$ 11,825,349	$ 1,001,737	$ 12,827,086
2018	11,839,003	827,682	12,666,685
2019	9,466,948	575,791	10,042,739
2020	5,046,240	389,662	5,435,902
2021	4,257,202	286,999	4,544,201
2022-2026	7,778,877	569,689	8,348,566
2027-2031	611,672	26,710	638,382
Total	$ 50,825,291	$ 3,678,270	$ 54,503,561

The foundations (component units) had no installment purchase obligations as of June 30, 2016.

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 2016 totaled $10.3 million. The outstanding interest amount of $8.2 million is payable in annual installments on September 1 in the years 2016 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 U.S. Treasury STRIPS purchased by the Virginia Lottery. For Life prizes payable represent estimated prizes payable monthly, quarterly or annually for the life of the winner based on life expectancy tables from the Virginia Bureau of Insurance, and funded with a pool of U.S. Treasury STRIPS.

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

Lottery prizes payable for the fiscal year ended June 30, 2016, are shown in the following table:

	Jackpot	Win For Life	Total
Due within one year	$ 8,339,546	$ 5,082,776	$ 13,422,322
Due in subsequent years	51,599,365	64,873,461	116,472,826
Total (present value)	59,938,911	69,956,237	129,895,148
Add:			
Interest to Maturity	23,199,089	35,263,763	58,462,852
Lottery Prizes Payable at Maturity	$ 83,138,000	$ 105,220,000	$ 188,358,000

Tuition Benefits Payable

The Virginia College Savings Plan administers the Virginia529 prePAID program. Virginia529 prePAID offers contracts at actuarially determined amounts that provide for future tuition and mandatory fee payments at state higher education institutions. The contract provisions also allow the benefits to be used for private or out-of-state institutions at differing amounts.

At June 30, 2016, tuition benefits payable of $2.0 billion have been recorded for the Virginia529 prePAID program on the statement of net position for the actuarially determined present value of future obligations anticipated for payment of benefits and administrative expenses for the Virginia529 prePAID program. In addition, a receivable in the amount of $198.8 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, 2016.

	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	$ 3,484	$ 221,400	$ 16,951	$ 361	$ 41,486
Major Special Revenue Funds:					
Commonwealth Transportation	15,172	13,830	130,990	21,121	1,381
Federal Trust	-	527	-	-	-
Literary	-	58,280	-	-	-
Nonmajor Governmental Funds	117,953	53,020	67,243	6,342	13,605
Major Enterprise Funds:					
Virginia College Savings Plan	-	-	-	-	-
Unemployment Compensation	-	475	-	-	-
Nonmajor Enterprise Funds	-	14,122	-	-	-
Internal Service Funds	-	-	-	-	-
Private Purpose Trust Funds	-	-	-	-	-
Pension and Other Employee Benefit Trust Funds	-	-	-	-	-
Total Primary Government	$ 136,609	$ 361,654	$ 215,184	$ 27,824	$ 56,472

	Tobacco Master Settlement	Taxes	E-Z Pass	Other (1)	Total Other Revenue
Primary Government:					
General	$ 47,664	$ -	$ -	$ 223,104	$ 554,450
Major Special Revenue Funds:					
Commonwealth Transportation	-	-	21,392	668	204,554
Federal Trust	-	-	-	185,311	185,838
Literary	-	-	-	100,550	158,830
Nonmajor Governmental Funds	-	-	-	173,430	431,593
Major Enterprise Funds:					
Virginia College Savings Plan	-	-	-	6	6
Unemployment Compensation	-	-	-	-	475
Nonmajor Enterprise Funds	-	4,321	-	1,089	19,532
Internal Service Funds	-	-	-	43	43
Private Purpose Trust Funds	-	-	-	19	19
Pension and Other Employee Benefit Trust Funds	-	-	-	2,458	2,458
Total Primary Government	$ 47,664	$ 4,321	$ 21,392	$ 686,678	$ 1,557,798

Note (1): $183,520 (dollars in thousands) is related to prior year expenditures refunded in the current fiscal year for the General Fund. $129,683 (dollars in thousands) is related to prior year expenditures refunded in the current fiscal year in the Federal Trust Fund. $100,300 (dollars in thousands) of the total amount recorded for the Literary Fund is related to unclaimed property. $36,579 (dollars in thousands) is related to indirect costs and court collection fees in the Other Special Revenue Fund, and the remaining $136,851 (dollars in thousands) is related to other miscellaneous charges and fees in the nonmajor governmental funds.

28. PRIZES AND CLAIMS

The following table summarizes Prizes and Claims Expense for the fiscal year ended June 30, 2016.

(Dollars in Thousands)

	Insurance Claims	Lottery Prize Expense	Total Prizes and Claims
Proprietary Funds:			
Major Enterprise Funds:			
Virginia Lottery	$ -	$ 1,202,455	$ 1,202,455
Unemployment Compensation	390,441	-	390,441
Nonmajor Enterprise Funds	399,236	-	399,236
Total Enterprise Funds	$ 789,677	$ 1,202,455	$ 1,992,132
Internal Service Funds	$ 1,581,252	$ -	$ 1,581,252

29. OTHER EXPENSES

The following table summarizes Other Expenses for the fiscal year ended June 30, 2016.

(Dollars in Thousands)

	Grants and Distributions To Localities	Expendable Equipment/ Improvements	Other (1)	Total Other Expenses
Proprietary Funds:				
Major Enterprise Funds:				
Virginia College Savings Plan	$ -	$ 266	$ 61	$ 327
Nonmajor Enterprise Funds	91	3,190	3,423	6,704
Total Enterprise Funds	$ 91	$ 3,456	$ 3,484	$ 7,031
Internal Service Funds	$ 1,781	$ 952	$ 15,293	$ 18,026
Pension and Other Employee Benefit Trust Funds (2)	$ -	$ -	$ 4,031	$ 4,031

Note (1): $7,827 (dollars in thousands) can be attributed to expenses related to cyber insurance in the Risk Management internal service fund and $7,315 (dollars in thousands) can be attributed to Affordable Care Act related fees in the Health Care Fund internal service fund. $61 (dollars in thousands) can be attributed to the Virginia529 prePAID Program for promotional scholarships.

Note (2): Fiduciary expenses of $4,031 (dollars in thousands) are not included in the Government-wide Statement of Activities.

30. OTHER NON-OPERATING REVENUE/EXPENSES

The following table summarizes Other Non-Operating Revenue/Expenses for the fiscal year ended June 30, 2016.

(Dollars in Thousands)

	Gain/ (Loss) on Sale of Capital Assets	Expenses for Securities Lending Transactions	Interest Expense	Federal Unemployment Tax Act	Other (1)	Total Other Non-Operating Revenue/ (Expenses)
Proprietary Funds:						
Major Enterprise Funds:						
Virginia Lottery	$ -	$ (36)	$ -	$ -	$ 287	$ 251
Virginia College Savings Plan	-	-	(212)	-	-	(212)
Unemployment Compensation	-	-	-	(16)	-	(16)
Nonmajor Enterprise Funds	(129)	(11)	(621)	-	8,774	8,013
Total Enterprise Funds	$ (129)	$ (47)	$ (833)	$ (16)	$ 9,061	$ 8,036
Internal Service Funds	$ 800	$ (23)	$ (2,830)	$ -	$ 726	$ (1,327)

Note (1): Other Non-Operating Revenue/Expenses of the nonmajor enterprise funds are primarily comprised of $9,165 (dollars in thousands) reported by the Department of Alcoholic Beverage Control offset by $407 (dollars in thousands) of expenses reported by the Route 460 Funding Corporation of Virginia.

31. TRANSFERS

The following table summarizes Transfers In and Transfers Out for the fiscal year ended June 30, 2016 (dollars in thousands).

	Transfers In (Reported In):				
Transfers Out (Reported In):	**General**	**Commonwealth Transportation**	**Federal Trust**	**Literary**	**Nonmajor Governmental Funds**
Primary Government					
General	$ -	$ 91,912	$ -	$ -	$ 372,323
Major Special Revenue Funds:					
Commonwealth Transportation	23,763	-	169	-	315,708
Federal Trust	35	17,103	-	-	10,430
Nonmajor Governmental Funds	46,776	-	2,511	-	2,071
Major Enterprise Funds:					
Virginia Lottery	588,187	-	-	5,898	-
Virginia College Savings Plan	415	-	-	-	-
Unemployment Compensation	-	-	4,185	-	-
Nonmajor Enterprise Funds	174,031	-	150	4	14,892
Internal Service Funds	1,750	-	-	-	886
Total Primary Government	$ 834,957	$ 109,015	$ 7,015	$ 5,902	$ 716,310

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 $3.8 million to the General Fund as required by Chapter 732, 2016 Virginia Acts of Assembly.

Nonmajor Enterprise Funds	Internal Service Funds	Total Primary Government
$ 250	$ 74	$ 464,559
-	388	340,028
98	-	27,666
-	162	51,520
-	-	594,085
-	-	415
-	-	4,185
-	-	189,077
-	-	2,636
$ 348	$ 624	$ 1,674,171

32. ON-BEHALF PAYMENTS

Higher education institutions (nonmajor component units) received various on-behalf payments from foundations primarily for salary supplements and stipends during fiscal year 2016. Since the foundations are included as part of the higher education entity, most on-behalf payments were considered intrafund and were eliminated from the financial statements. On-behalf payments not eliminated for fiscal year 2016 totaled $75,844 and were recorded as program revenue – charges for services with corresponding expenses.

33. ENDOWMENTS

Donor restricted endowments reside primarily within the higher education institutions. The net appreciation available for expenditure is $1.3 billion as of June 30, 2016. Of this amount, $1.0 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.

34. CASH FLOWS – ADDITIONAL DETAILED INFORMATION

The following table (dollars in thousands) summarizes specific cash flows for the fiscal year ended June 30, 2016.

	Virginia Lottery	Virginia College Savings Plan	Unemployment Compensation
Cash Flows Resulting from:			
Payments for Prizes, Claims, and Loss Control:			
Lottery Prizes	$ (1,209,781)	$ -	$ -
Claims and Loss Control	-	-	(407,866)
Total	$ (1,209,781)	$ -	$ (407,866)
Other Operating Revenue:			
Receipts from Interest, Dividends, and Rents	$ -	$ -	$ -
Other Operating Revenue	-	-	92
Total	$ -	$ -	$ 92
Other Operating Expense:			
Other Operating Expenses (1)	$ -	$ (55)	$ -
Total	$ -	$ (55)	$ -
Other Noncapital Financing Receipt Activities:			
Advances/Contributions from the Commonwealth	$ -	$ -	$ -
Receipts from Taxes	-	-	-
Other Noncapital Financing Receipt Activities	310	-	40
Total	$ 310	$ -	$ 40
Other Noncapital Financing Disbursement Activities:			
Repayments of Advances/Contributions from the Commonwealth	$ -	$ -	$ -
Other Noncapital Financing Disbursement Activities	-	-	-
Total	$ -	$ -	$ -
Other Capital and Related Financing Receipt Activities:			
Receipts from Contract Termination	$ -	$ -	$ -
Other Capital and Related Financing Receipt Activities	-	-	-
Total	$ -	$ -	$ -
Other Capital and Related Financing Disbursement Activities:			
Disbursement of Residual Cash Balances	$ -	$ -	$ -
Other Capital and Related Financing Disbursement Activities	-	-	-
Total	$ -	$ -	$ -

Note (1): $55,373 can be attributed to disbursements related to the Virginia529 prePAID Program for promotional scholarships. Also, $7,827 (dollars in thousands) can be attributed to expenses related to cyber insurance in the Risk Management internal service fund and $7,315 (dollars in thousands) can be attributed to Affordable Care Act related fees in the Health Care Fund internal service fund.

Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
$ -	$ (1,209,781)	$ -
(385,364)	(793,230)	(1,384,904)
$ (385,364)	$ (2,003,011)	$ (1,384,904)
$ -	$ -	$ -
5,721	5,813	-
$ 5,721	$ 5,813	$ -
$ (4,510)	$ (4,565)	$ (17,383)
$ (4,510)	$ (4,565)	$ (17,383)
$ 23,749	$ 23,749	$ 10,000
225,364	225,364	-
32	382	3,405
$ 249,145	$ 249,495	$ 13,405
$ (31,065)	$ (31,065)	$ (1,901)
(224)	(224)	-
$ (31,289)	$ (31,289)	$ (1,901)
$ 165,794	$ 165,794	$ -
68	68	-
$ 165,862	$ 165,862	$ -
$ (727)	$ (727)	$ -
(3)	(3)	(633)
$ (730)	$ (730)	$ (633)

35. TOBACCO SETTLEMENT AND SECURITIZATION

On November 23, 1998, 46 states' Attorneys General and the major tobacco companies signed a proposed settlement that reimburses states for smoking-related medical expenses paid through Medicaid and other health care programs. At the time of the settlement, it was estimated that the Commonwealth could receive approximately $4.1 billion over the duration of the settlement. The settlement was approved in a Consent Decree in December 1998. On March 29, 1999, the General Assembly enacted a law approving the establishment of the Tobacco Region Revitalization Commission (formerly the Tobacco Indemnification and Community Revitalization Commission) (Commission) (nonmajor component unit), in compliance with the Consent Decree, to help communities in Virginia hurt by the decline of tobacco.

The Commission was established for the purposes of determining the appropriate recipients of monies in the Tobacco Indemnification and Community Revitalization Fund. The monies are to be used to provide payments to tobacco farmers as compensation for the tobacco equipment and barns and lost tobacco production opportunities associated with a decline in quota. The monies are also to be used to revitalize tobacco dependent communities.

The General Assembly also created the Virginia Foundation for Healthy Youth (Foundation) (nonmajor component unit). The purpose of the Foundation is to determine the appropriate recipients of monies in the Virginia Tobacco Settlement Fund. The Foundation will also be responsible for distributing monies for the purposes provided in the legislation. Disbursements can be made to assist in financing efforts to restrict the use of tobacco products by minors, through educational and awareness programs describing the health effects of tobacco use on minors, and laws restricting the distribution of tobacco products to minors.

Additionally, the General Assembly created two special non-reverting funds. The Tobacco Settlement monies were accounted for in these funds and in the General Fund. Of the Settlement monies, 50.0 percent was deposited into the Tobacco Indemnification and Community Revitalization Fund at the Commission and 10.0 percent continues to be deposited into the Virginia Tobacco Settlement Fund at the Foundation. The remaining 40.0 percent continues to be reported in the General Fund.

Pursuant to Purchase and Sale Agreements executed in 2005 and 2007, the Commonwealth, acting as an agent on behalf of the Commission, sold the Commission's future right, title and interest in the Tobacco Settlement Revenues (TSRs) to the Tobacco Settlement Financing Corporation (Corporation) (related organization).

Consideration paid by the Corporation to the Commission for TSRs consisted of a cash amount deposited into an endowment to fund the long-term spending plan approved by the Commission. Bonds issued by the Corporation to finance the purchase price are asset-backed instruments secured solely by the Corporation's right to receive TSRs. At the time of issuance these revenues were expected to produce sufficient funds to repay the bond obligations issued by the Corporation.

The Commission is a nonmajor component unit of the Commonwealth, and the Corporation is disclosed as a related organization.

36. SERVICE CONCESSION ARRANGEMENTS

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, describes the criteria for when an arrangement is classified as a Service Concession Arrangement (SCA). The basic criteria are: the operator of the capital asset owned by the transferor has the right to provide services in exchange for significant consideration; the operator's revenue must come from a third party; the transferor must retain some level of control over the asset; and the transferor must receive significant residual interest at the conclusion of the arrangement.

Primary Government

The Commonwealth of Virginia has four SCAs as of June 30, 2016: Pocahontas 895, the 495 Express Lanes, Elizabeth River – Midtown Tunnel, and the 95 Express Lanes. They are all related to highway construction and operation and were established per the Public-Private Transportation Act of 1995, as amended (PPTA). PPTA project goals are to provide highway projects to the public in a timely and cost effective manner with private funding and support.

Pocahontas 895

On June 21, 2006, the Pocahontas Parkway Association (Association – previously reported as a blended component unit of the Virginia Department of Transportation (VDOT), part of primary government) signed an agreement with Transurban (895) LLC (Transurban). Under the terms of the agreement, all assets and rights of the Association under the Comprehensive Agreement with VDOT were transferred to Transurban. In exchange for the existing toll road and other assets, Transurban transferred sufficient funds and securities to pay or defease all outstanding bonds of the Association and pay all other outstanding obligations owed to VDOT. Additionally, Transurban agreed to construct an enhancement to the original toll road, and this enhancement was completed and placed in service in 2011.

During the 99-year agreement term, VDOT will have fee title or good and valid interest in the asset. VDOT retains the right of inspection of the asset and has outlined maximum toll charges and increases in the terms of the agreement. Capital assets of $337.2 million and deferred inflow balances of $512.2 million are included in the government-wide financial statements. No contractual liabilities exist for this arrangement as of June 30.

During fiscal year 2014, the Transurban Board approved the transfer of Pocahontas 895 to the lenders of the asset due to lower revenues than anticipated. On May 15, 2014, DBi Services assumed control of Pocahontas 895.

495 Express Lanes

On December 19, 2007, VDOT signed an 80-year public-private partnership agreement with Capital Beltway Express, LLC. The purpose of this agreement is to build new express lanes to provide users with a faster and more reliable travel option. The construction of the express lanes was completed in November 2012.

During the 80-year agreement, VDOT maintains regulatory control and jurisdiction of the express lanes. VDOT will have fee title or good and valid interest in the express lanes. The lanes will remain open for the public as long as the applicable tolls are paid. Capital assets of $924.1 million and deferred inflows of $1.0 billion are included in the government-wide financial statements. Liabilities are contingent on specific events occurring pursuant to the agreement.

Elizabeth River – Midtown Tunnel

On December 5, 2011, VDOT signed a 58-year public private partnership agreement with Elizabeth River Crossings OPCO, LLC. The purposes of this agreement are to build and operate a new tunnel that will be adjacent to the existing Midtown Tunnel for crossing the Elizabeth River, provide improvements to the existing Midtown Tunnel and the Downtown Tunnel, and to provide various extensions and improvements of the MLK Freeway and I-264.

During the agreement, Elizabeth River Crossings OPCO, LLC will operate and maintain the road. The revenue source for the concessionaire will be toll collections, excluding the MLK Freeway, which will be used for maintenance, operating and return on investment for constructing the project. At the end of the 58-year term, control of and the rights to operate the facilities will revert back to VDOT. Since assets related to this project will not be operational until fiscal year 2017, no capital assets, liabilities, or deferred inflows of resources have been included in the financial statements.

95 Express Lanes

On July 31, 2012, VDOT signed a 73-year public private partnership agreement with 95 Express Lanes, LLC. This project will create approximately 29 miles of Express Lanes on I-95 in Northern Virginia. The project will also add capacity to the existing HOV Lanes. The construction of the express lanes was completed in December 2014.

During the agreement, 95 Express Lanes LLC will operate and maintain the road. The revenue source for the concessionaire will be toll collections which will be used for maintenance, operating and return on investment for constructing the project. At the end of the 73-year term, control of and the rights to operate the facilities will revert back to VDOT. The lanes will remain open for the public as long as the applicable tolls are paid. Capital assets of $599.9 million and deferred inflows of $619.5 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 will begin in fiscal year 2017 with final completion scheduled for summer 2018.

In addition, plans were announced by VDOT during fiscal year 2016, to extend the 95 Express Lanes north to I-395. This involves expanding and converting two high occupancy vehicle (HOV) lanes to three express lanes near the Pentagon. Construction on this eight-mile extension is expected to begin in spring 2017 with completion scheduled for Summer 2019.

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, 2016, the University has accrued a $18.5 million receivable, a $13.7 million liability and a $70.2 million deferred inflow of resources related to the service concession arrangement.

37. 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, along with an accompanying termination of 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, the amount of which is being determined as part of a negotiated disentanglement process.

Expenses associated with the CIA in fiscal year 2016 are $307.4 million, including payments to Northrop Grumman of $263.3 million. The Commonwealth expects to spend an additional $650.0 million over the next three fiscal years, either with NG or new providers.

38. 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 2016 payback schedule which is based on fiscal year 2015 data. The Commonwealth has computed a liability of $4.7 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 SNAP error rate may have been inconsistently reported, and there is a reasonable possibility that the Commonwealth may owe an amount not expected to exceed $5.1 million.

The Virginia Tourism Authority (nonmajor component unit) had unclaimed awards totaling $1.8 million payable to awardees upon submission of proper claims for reimbursement for the Marketing Leverage Program. Additionally, the Authority had unclaimed awards totaling $50,201 payable to awardees upon submission of proper claims for reimbursement for the Sesquicentennial Marketing Program. In addition, the program has $46,358 in funding that had not been awarded to specific grantees.

B. Litigation

The Commonwealth is named as a party in legal proceedings and investigations that occur in the normal course of governmental operations, some involving substantial amounts. It is not possible at the present time to estimate the ultimate outcome or liability, if any, of the Commonwealth in respect to the various proceedings; however, it is believed that any ultimate liability resulting from these suits or investigations will not have a material, adverse effect on the financial condition of the Commonwealth.

C. Subject to Appropriation

Both the primary government and the discretely presented component units enter into agreements and issue debt secured solely by future appropriations from the General Fund of the Commonwealth. The primary government has leases and other agreements of such debt of $2.5 billion. The discretely presented component units have such debt of $4.1 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, 2016, the bailment inventory was valued at $40.6 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, 2016, the loan guaranty program has guarantees outstanding of $6.7 million and restricted assets pledged as collateral of $13.7 million.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees,* requires that certain information be disclosed regarding selected nonexchange financial guarantees. As of June 30, 2016, the VSBFA recognized a nonexchange financial guarantee liability of $135,527. This is a reduction of $12,365 from the beginning balance of $147,892. There were no required payments made during fiscal year 2016. 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, 2016, there was approximately $46,346 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, 2016, the HRSD has outstanding commitments for contracts in progress of approximately $161.1 million.

39. PENDING GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT

The GASB has issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Both statements will significantly impact the Commonwealth's reporting disclosures and accrued other postemployment benefit liability amounts. The Virginia Retirement System and the Department of Human Resource Management will implement GASB Statement No. 74 in fiscal year 2017. The Commonwealth will implement GASB Statement No. 75 in fiscal year 2018.

40. SUBSEQUENT EVENTS

Primary Government

Debt

On October 5, 2016, the Virginia Public Building Authority (VPBA) (nonmajor special revenue) issued $206.4 million of Public Facilities Revenue Bonds, Series 2016A; $179.0 million of Public Facilities Revenue Refunding Bonds, Series 2016B; $147.4 million of Public Facilities Revenue Bonds, Series 2016C (AMT) and $13.8 million of Public Facilities Revenue Bonds, Series 2016D (Taxable). The Bonds will provide funding for authorized VPBA projects, reimbursement of the Commonwealth's share of regional and local jail costs and refund portions of VPBA's Series 2009B and 2011A Bonds.

On November 9, 2016, the Commonwealth Transportation Board issued $316.9 million of Commonwealth of Virginia Federal Transportation Grant Anticipation Revenue Notes (GARVEEs) to fund the construction of several highway projects.

On November 10, 2016, the Commonwealth of Virginia issued $71.2 million of General Obligation Bonds, Series 2016A and $117.1 million of General Obligation Refunding Bonds, Series 2016B. The Bonds will provide funding for authorized 9(c) projects and refund certain maturities of prior General Obligation Bonds, Series 2006A, 2009A and 2009B.

Component Units

Debt

On July 12, 2016, the Virginia College Building Authority (VCBA) (major) issued $231.9 million of Educational Facilities Revenue Refunding Bonds (Public Higher Education Financing Program), Series 2016A. The VCBA used the proceeds to acquire Institutional Notes from participating public institutions of higher education. The Bonds refunded portions of VCBA's 2006A, 2007A and 2009B Bonds.

On July 19, 2016, the Virginia Housing Development Authority (major) issued $5.0 million of Rental Housing Bonds.

On July 27, 2016, the Virginia Resources Authority (VRA) (major) issued bonds in the amount of $52.5 million. The interest rates range from 0.5 percent to 2.9 percent with a final maturity date of November 1, 2036.

On November 10, 2016, the Virginia Public School Authority (VPSA) (major) issued $64.6 million of Special Obligation School Refunding Bonds, Montgomery County Series 2016B to purchase certain general obligation local school bonds from Montgomery County to refund certain VPSA Bonds previously issued for Montgomery County.

On November 17, 2016, VPSA issued $90.1 million of School Financing and Refunding Bonds (1997 Resolution), Series 2016B to purchase certain general obligation local school bonds to finance capital projects for schools and to refund certain previously issued VPSA Bonds.

On November 30, 2016, VPSA issued $2.4 million of School Tax Credit Bonds (Qualified Zone Academy Bonds) Series 2016-1 to purchase certain general obligation local school bonds to finance capital projects for schools.

Other

The University of Virginia Medical Center (part of the University of Virginia – nonmajor component unit) entered into a real estate purchase agreement with the University of Virginia Physicians Group (component unit of the University) to purchase the Northridge Medical Office building. The purchase price is $18.4 million. The Medical Center made an earnest money deposit of $9.0 million on July 29, 2016. An estimated closing date of April 2017 is expected. The Medical Center purchased from Grove Street Properties, LLC seven parcels of land situated in the City of Charlottesville. The purchase price was $8.7 million and closed on August 26, 2016. The Medical Center entered into a membership interest purchase agreement with Mary Washington Hospital, Inc., where Mary Washington Hospital agreed to purchase the Medical Center's 20 units of ownership for $268,254. The Medical Center received payment on August 11, 2016.

In September 2016, the University of Mary Washington (nonmajor) approved a 2.5 percent salary increase for all full-time teaching faculty, and a $1,000 recognition bonus for all A/P faculty and classified staff who attained a satisfactory performance evaluation in the most recent cycle. Wage employees who worked more than 100 hours total during fiscal year 2016 will receive a $500 bonus. Wage employees who worked less than 100 hours total during fiscal year 2016 will receive a $100 bonus.

On September 6, 2016, the U.S. Bankruptcy Court in Newark, New Jersey, granted Hanjin Shipping's request to have its rehabilitation filed in Korean Bankruptcy Court recognized in the United States. Hanjin is, based on capacity, the seventh largest ship line in the world, and is a customer of Virginia International Terminals, LLC (VIT) (a blended component unit of the Virginia Port Authority (VPA) – nonmajor). VIT has taken measures to mitigate exposure to the bankruptcy including, but not limited to, requiring cash deposits and advance payments, affirming guarantees from third parties, and securing collateralized property on the terminal grounds. While the outcome of the proceedings and absolute effect on VIT is uncertain at this time, based on available information and management's assessment of the matter, the bankruptcy is not expected to have a material adverse effect on VIT's consolidated net position.

On September 21, 2016, VPA announced an agreement for the extension and restatement of the lease with Virginia International Gateway, Inc., (VIG) from its current expiration date of July 1, 2030, to December 31, 2065. The restated lease will provide for, among other things, the development of 60 acres (designated as Phase II) of the terminal property, expansion of the existing wharf by 650 feet, provision of an additional 10,000 feet of on-dock rail, and the effective doubling of the capacity of the VIG terminal. Detailed information regarding the terms of the lease can be found in the Authority's individually published financial statements.

On October 31, 2016, VPA's contract with the current operator of Richmond Marine Terminal (RMT) expired. On November 1, 2016, VIT became the operator of RMT.