

VIRGINIA COLLEGE BUILDING AUTHORITY

RICHMOND, VIRGINIA

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2003**

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

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Commonwealth of Virginia

Auditor of Public Accounts
P.O. Box 1295
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Walter J. Kucharski, Auditor

December 12, 2004

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Lacey E. Putney
Vice-Chairman, Joint Legislative Audit
and Review Commission

Board of Directors
Virginia College Building Authority

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and the major special revenue fund of the **Virginia College Building Authority**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2003, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major special revenue fund of the Virginia College Building Authority as of June 30, 2003, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The *Management Discussion and Analysis* on pages 4 through 8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Virginia College Building Authority's basic financial statements. The Schedules of Outstanding Bond Issues for Private Colleges and Universities and Detail of Long-Term Indebtedness are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The Schedule of Detail of Long Term Indebtedness has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Outstanding Bond Issues for Private Colleges has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

AUDITOR OF PUBLIC ACCOUNTS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

VIRGINIA COLLEGE BUILDING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2003

This section of the annual financial report of the Virginia College Building Authority (the Authority) presents an analysis of the Authority's financial performance during the fiscal year that ended on June 30, 2003. This information should be considered in conjunction with the information contained in the financial statements, which follow this section.

Authority Activities and Highlights

The Virginia College Building Authority is authorized to issue revenue bonds and notes to finance capital projects of (1) public institutions of higher education under the Pooled Bond Program; (2) public institutions of higher education under the 21st Century College and Equipment Programs; (3) instructional and research equipment under the Equipment Leasing Program; and (4) loans to private, non-profit institutions of higher education within the Commonwealth.

Under the Pooled Bond Program, bonds of the Authority are secured by notes of participating institutions of higher education to which the general revenues of the college or university have been pledged. During fiscal year 2003, the Authority issued \$134.9 million of bonds under the Program.

The 21st Century Program and the Equipment Program were established in 1996 and 1986, respectively, and provide financing for state-supported institutions of higher education. The 21st Century Program provides funding for capital projects designated by the General Assembly. The Equipment Program provides funding for educational equipment. Bonds for both programs are payable from amounts to be appropriated by the General Assembly, and in recent years have been issued together as a single 21st Century College and Equipment Programs offering. During fiscal year 2003, the Authority issued the aggregate amount of \$140.2 million for these programs.

The Authority is also authorized to issue conduit revenue bonds and notes to finance educational projects through loans to private, non-profit institutions of higher education within the Commonwealth. Since these financings are not obligations of the Commonwealth, they are not included in these financial statements. However, for informational purposes only, a Schedule of Outstanding Bond Issues for Private Colleges and Universities is included on page 23 of this report. The Authority issued \$24,115,000 in bonds or notes for private, non-profit institutions of higher education in fiscal year 2003.

Overview of the Financial Statements

This discussion and analysis is an introduction to the Authority's basic financial statements, which are comprised of two components: 1) combined government-wide and fund financial statements; and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

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

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

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

Both statements report Governmental activities:

- The financial information in this section is related to Authority programs backed by appropriations from the Commonwealth and by note obligations from institutions of higher education. This includes the Authority's 21st Century College and Equipment Programs, Equipment Leasing Program, and Pooled Bond Program.

Fund Financial Statements

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

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

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

The Authority has one governmental fund, Special Revenue, which is considered to be a major fund for presentation purposes.

Notes to the Financial Statements

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

Government-wide Financial Analysis of the Authority

The primary purpose of the Authority is to provide a vehicle for financing capital and equipment needs for state supported institutions of higher education. The Department of the Treasury provides staff support for the Authority. Consequently, the only operating costs are those attributable to its financing programs, which are paid from bond proceeds. The Authority owns no capital assets.

Virginia College Building Authority's Net Assets (in millions)

| | 2003 | 2002 |
|------------------------|-----------------|-----------------|
| Current assets | \$ 234 | \$ 172 |
| Noncurrent assets | <u>429</u> | <u>307</u> |
| Total assets | <u>663</u> | <u>479</u> |
| Current liabilities | 203 | 128 |
| Noncurrent liabilities | <u>824</u> | <u>612</u> |
| Total liabilities | <u>1,027</u> | <u>740</u> |
| Net assets: | | |
| Restricted | 105 | 105 |
| Unrestricted | <u>(469)</u> | <u>(365)</u> |
| Total net assets | <u>\$ (364)</u> | <u>\$ (260)</u> |

The increase of \$184 million, or 38 percent, in total assets is due primarily to issuance of new bonds. This event had the same effect on the total liabilities, causing them to increase for the same reason.

Virginia College Building Authority's Changes in Net Assets (in millions)

| | 2003 | 2002 |
|---|-----------------|-----------------|
| Revenues: | | |
| Appropriations from the Commonwealth | \$ 58 | \$ 46 |
| Interest income | <u>30</u> | <u>15</u> |
| Total revenues | <u>88</u> | <u>61</u> |
| Expenditures: | | |
| Equipment allocation | 35 | 49 |
| Disbursements to higher education inst. | 115 | 24 |
| Debt service interest expense | <u>42</u> | <u>33</u> |
| Total expenditures | <u>192</u> | <u>106</u> |
| Decrease in net assets | <u>(104)</u> | <u>(45)</u> |
| Net assets July 1 | <u>(260)</u> | <u>(215)</u> |
| Net assets June 30 | <u>\$ (364)</u> | <u>\$ (260)</u> |

The increases in revenues and in expenditures are primarily due to higher interest receipts and higher payments on bond-related activity. Also reflected in the increased expenditures are higher disbursements to institutions as capital project activity increased. For both revenues and expenditures, fiscal year 2003 reflects initial payments on new bonds issued and full annual payments for bonds issued in fiscal year 2002.

Financial Analysis of the Authority's Funds

In the special revenue fund, total assets increased by \$66 million, or 43 percent, in fiscal year 2003. This is primarily attributable to new bond proceeds totaling \$293 million, offset by the disbursement of bond proceeds held totaling \$237 million. Also included is an increase in interest payments received on bonds outstanding of \$13 million, or 192 percent, which is primarily due to the increased amount of bonds outstanding resulting from the new bond issuances. Liabilities also increased by \$10 million, or 190 percent. This is due to higher year-end payables due to the institutions, which fluctuates with available funds and construction schedules.

Debt Administration

As a financing entity, the whole business of the Authority is debt administration. The Authority issues bonds to finance capital projects approved by the General Assembly of the Commonwealth of Virginia. Depending on the program, certain bonds are secured by obligations of the recipient institutions of higher education; other bonds are secured by amounts to be appropriated by the General Assembly. The following table summarizes bond issuance activity during the year under each program.

Summary of Authority Bond Obligations (in millions)

| | Outstanding 7/1/02 | Issued During Year | Retired During Year | Outstanding 6/30/03 |
|---|-----------------------|-----------------------|------------------------|------------------------|
| Equipment Leasing Program | \$ 9 | \$ - | \$ (9) | \$ - |
| 21 st Century Program – Capital | 224 | 108 | (8) | 324 |
| 21 st Century Program – Equipment ¹ | 131 | 31 | (38) | 124 |
| Pooled Bond Program | <u>311</u> | <u>135</u> | <u>(10)</u> | <u>436</u> |
| Total | <u>\$ 675</u> | <u>\$ 274</u> | <u>\$ (65)</u> | <u>\$ 884</u> |

¹ Beginning in 1999, the Authority began using the financing structure of the 21st Century College and Equipment Program to finance equipment theretofore financed through the Equipment Leasing Program. The last series of bonds issued under the Equipment Leasing Program (Series 1998) was retired February 1, 2003.

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

Virginia College Building Authority Bond Ratings

| | Moody's | S & P | Fitch |
|----------------------------------|---------|-------|-------|
| Equipment Leasing Program | Aa2 | AA+ | AA |
| 21 st Century Program | Aa1 | AA+ | AA+ |
| Pooled Bond Program | Aa1 | AA | AA+ |

Since the Authority's bond programs are either backed by state appropriations (Equipment Leasing and 21st Century Programs) or carry the credit support of the State Aid Intercept Provision (Pooled Bond Program), the bond ratings are a direct reflection of the Commonwealth's triple-A rating from each of the three rating agencies.

Future Impact to Financial Position

In November of 2003, the Authority issued \$115,715,000 of its Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 2003A under its Pooled Bond Program. The proceeds of these bonds will be used to purchase institutional notes from higher education institutions. The institutions will in turn use the proceeds of the notes to finance capital projects.

FINANCIAL STATEMENTS

VIRGINIA COLLEGE BUILDING AUTHORITY
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
As of June 30, 2003

| | Special Revenue Fund | Adjustments (Note 1F) | Statement of Net Assets |
|---|-------------------------|--------------------------|----------------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents (Note 2A) | \$ 218,973,739 | \$ - | \$ 218,973,739 |
| Short-term notes receivable (Note 2B) | - | 14,730,000 | 14,730,000 |
| Interest receivable | 243,153 | - | 243,153 |
| Total current assets | 219,216,892 | 14,730,000 | 233,946,892 |
| Noncurrent assets: | | | |
| Restricted cash and cash equivalents (Note 2A) | 278,133 | - | 278,133 |
| Long-term notes receivable (Note 2B) | - | 421,320,000 | 421,320,000 |
| Discount on bonds | - | 418,267 | 418,267 |
| Restricted interest receivable | 138 | 7,236,419 | 7,236,557 |
| Total noncurrent assets | 278,271 | 428,974,686 | 429,252,957 |
| Total assets | \$ 219,495,163 | 443,704,686 | 663,199,849 |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Due to higher education institutions (Note 2E) | \$ 12,435,809 | 98,011,285 | 110,447,094 |
| Allocation payable (Note 2D) | 3,645,635 | - | 3,645,635 |
| Interest payable | - | 14,155,559 | 14,155,559 |
| Accrued interest sold | 248,030 | - | 248,030 |
| Bonds payable (Note 2C) | - | 73,865,000 | 73,865,000 |
| Premium on bonds sold | - | 728,864 | 728,864 |
| Accounts payable | - | 4,271 | 4,271 |
| Total current liabilities | 16,329,474 | 186,764,979 | 203,094,453 |
| Noncurrent liabilities: | | | |
| Bonds payable (Note 2C) | - | 810,710,000 | 810,710,000 |
| Premium on bonds sold | - | 13,404,145 | 13,404,145 |
| Total noncurrent liabilities | - | 824,114,145 | 824,114,145 |
| Total liabilities | 16,329,474 | 1,010,879,124 | 1,027,208,598 |
| FUND BALANCES/NET ASSETS | | | |
| Fund balances: | | | |
| Unreserved | 203,165,689 | (203,165,689) | - |
| Total liabilities and fund balances | \$ 219,495,163 | | |
| Net assets: | | | |
| Restricted for construction and equipment purchases | | 104,596,617 | 104,596,617 |
| Restricted for debt service | | 762,905 | 762,905 |
| Unrestricted | | (469,368,271) | (469,368,271) |
| Total net assets (Note 2G) | | \$ (364,008,749) | \$ (364,008,749) |

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

VIRGINIA COLLEGE BUILDING AUTHORITY
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
For the Fiscal Year Ended June 30, 2003

| | Special Revenue Fund | Adjustments (Note 1F) | Statement of Activities |
|---|-------------------------|--------------------------|----------------------------|
| REVENUES: | | | |
| Interest on investments | \$ 2,598,330 | \$ (899,790) | \$ 1,698,540 |
| Interest on bonds | 19,230,728 | 9,067,363 | 28,298,091 |
| Lease income | - | 224,829 | 224,829 |
| Receipt of note principal payments | 10,148,506 | (10,148,506) | - |
| Appropriations from the Commonwealth | 67,420,127 | (9,589,359) | 57,830,768 |
| Total revenues | 99,397,691 | (11,345,463) | 88,052,228 |
| EXPENDITURES: | | | |
| Current: | | | |
| Legal and financial services | 162,489 | (100,707) | 61,782 |
| Bond rating fees | 148,467 | (61,614) | 86,853 |
| Printing and electronic distributions | 13,836 | (4,086) | 9,750 |
| Equipment allocation | 34,790,623 | - | 34,790,623 |
| Disbursement to higher education institutions | 203,084,407 | (88,343,696) | 114,740,711 |
| Underwriter's discount | 673,987 | (357,902) | 316,085 |
| Miscellaneous | 143,300 | (140,476) | 2,824 |
| Debt service: | | | |
| Principal retirement | 65,960,000 | (65,960,000) | - |
| Interest and fiscal charges | 32,982,117 | 8,775,756 | 41,757,873 |
| Total expenditures | 337,959,226 | (146,192,725) | 191,766,501 |
| Excess (deficiency) of revenue over expenditures | (238,561,535) | 134,847,262 | (103,714,273) |
| Other financing sources (uses): | | | |
| Premium on bonds issued | 18,906,122 | (18,906,122) | - |
| Face amount of bonds issued | 275,195,000 | (275,195,000) | - |
| Change in net assets | 55,539,587 | (159,253,860) | (103,714,273) |
| Fund balance/net assets, July 1, 2002 | 147,626,102 | (407,920,578) | (260,294,476) |
| Fund balance/net assets, June 30, 2003 (Note 2G) | \$ 203,165,689 | \$ (567,174,438) | \$ (364,008,749) |

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

NOTES TO FINANCIAL STATEMENTS

VIRGINIA COLLEGE BUILDING AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

AS OF JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia College Building Authority (the “Authority”) was created by the Virginia College Building Authority Act of 1966, Chapter 3.2, Title 23, Code of Virginia. The Authority is a public body corporate and a political subdivision, agency, and instrumentality of the Commonwealth. Under this chapter, the Authority is authorized to issue revenue bonds and notes to finance (i) capital projects under the Authority’s Pooled Bond Program, (ii) capital projects under the Authority’s 21st Century College and Equipment Program, and (iii) instructional and research equipment under the Authority’s Equipment Leasing Program, all for public institutions of higher education of the Commonwealth.

Under the Pooled Bond Program, the Authority issues its bonds and uses the proceeds thereof to purchase notes of public institutions of higher education in the Commonwealth. Proceeds are used by the institutions to finance or refinance capital projects approved by the General Assembly. Authority bonds issued under the Pooled Bond Program are secured by payments on the notes to which the institutions have pledged their general revenues. Pooled Bond Program bonds have been issued under a Master Indenture of Trust dated as of September 1, 1997 (the “1997 Indenture”).

Under the 21st Century College and Equipment Program, bonds are issued under the Master Indenture of Trust dated December 1, 1996 (the “1996 Indenture”), which provides for the payment of debt service from amounts to be appropriated by the General Assembly through a payment agreement between the Authority and the Treasury Board. Title to the capital projects financed remains with the Commonwealth.

Prior to 1999, bonds under the Equipment Leasing Program were issued under the Authority’s Master Indenture of Trust dated March 1, 1994 (the “1994 Indenture”). The 1994 Indenture provides for equipment under the Program to be owned by the Authority and leased to the public institutions of higher education. Lease agreements provide for the payment of rentals from the institutions in the aggregate amounts necessary to pay debt service on the bonds, subject to appropriation by the General Assembly. The 1998 Appropriation Act eliminated the requirement for leases and authorized bonds to finance equipment to be issued with other obligations of the Authority. Accordingly, in 1999, the Authority consolidated the Equipment and 21st Century Programs for issuance purposes, issuing bonds for both Programs under the 1996 Indenture.

Pursuant to the Educational Facilities Authority Act, Chapter 3.3 of Title 23, Code of Virginia, the Authority is authorized to issue revenue bonds and notes and to use the proceeds thereof to finance educational facilities projects through loans to private, non-profit institutions of higher education within the Commonwealth. Such financings are not

obligations of the Commonwealth, but are limited obligations of the Authority payable solely from loan payments made by the private, non-profit institutions of higher education. This indebtedness, therefore, is not included in the financial statements. Total debt outstanding under this program at June 30, 2003 was \$363,520,000. (Detailed information for this program is presented on page 23 in the Supplementary Information section following the Notes to the Financial Statements).

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

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

B. Measurement Focus and Basis of Accounting

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

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

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

C. Fund Accounting

The special revenue fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. The special revenue fund consists of bond proceeds, bond funds and issuance expense funds. Included are funds established in accordance with the provisions of the 1996 Indenture with the Bank of New York for the 21st Century College Program and, since their consolidation in 1999, the Equipment Program revenue bonds issued by the Authority. Also included are the outstanding bonds issued under the Authority's Pooled Bond Program.

D. Bond Issuance Costs, Premiums, and Discounts

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

E. Budget to Actual Statement

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

2. DETAILED NOTES

A. Cash and Investments

The Bank of New York and SunTrust Bank hold certain deposits and investments of the Authority as trustees. Other funds of the Authority are invested in the State Treasurer's Local Government Investment Pool. Cash is defined as demand deposits, non-negotiable time deposits and certificates of deposit in accordance with Section 2.2-4401 of the Code of Virginia. Cash equivalents are defined as investments with an original maturity of less than three months.

Deposits held by trustees are collateralized in accordance with the Trust Subsidiary Act, Section 6.1-32.8 et seq. of the Code of Virginia. Under the Act, the affiliate bank delivers securities to the trust department as collateral that is at least equal to the market value of the trust funds held on deposit in excess of amounts insured by federal deposit insurance.

Under a Master Indenture of Trust dated March 1, 1994, SunTrust Bank, successor to Crestar Bank as trustee, is authorized to invest in the following instruments: government obligations; government certificates; bonds, notes and other evidences of indebtedness of the Commonwealth, any locality of the Commonwealth, or any agency of the United States of America; savings accounts, time deposits, certificates of deposit or other interest bearing accounts of any bank or other financial institution that is approved for the deposit of funds of the Commonwealth that are secured in accordance with Section 2.2-4401 of the Code of Virginia; money market funds permitted by Section 2.2-4501 of the Code of Virginia; units in any pool or pools of investments created under the Government Non-Arbitrage Investment Act; commercial paper permitted by Section 2.2-4502 of the Code of Virginia; and bankers acceptances permitted by Section 2.2-4504 of the Code of Virginia. At June 30, 2003, SunTrust Bank held \$3,752 in cash for the Authority.

Under a Master Indenture of Trust dated December 1, 1996, The Bank of New York, successor to Signet Bank as trustee, and under a Master Indenture of Trust dated September 1, 1997, is authorized to invest in the following investments in addition to those noted above: bonds, notes and other obligations issued or guaranteed by the United States government; bonds, notes and other evidences of indebtedness of any state of the United States of America or any locality of any state of the United States of America that meet the requirements of Code Sections 2.2-4500 and 2.2-4501A.3; and investments made pursuant to

the Investment of Public Funds and Local Government Investment Pool Act. At June 30, 2003, the Bank of New York maintained \$219,151,814 in cash and investments for the Authority.

At June 30, 2003, the Authority's investments were held in the Local Government Investment Pool, the State Non-Arbitrage Programsm, or other money market funds which are not categorized by credit risk since they are not evidenced by securities that exist in physical or book entry form. Details of the Authority's investments are presented below.

Summary of Cash and Cash Equivalents

As of June 30, 2003

| | <u>Carrying Amount</u> | <u>Fair Value</u> |
|---|------------------------|----------------------|
| Cash and cash equivalents: | | |
| State Non-Arbitrage Program ^{sm(1)} | \$218,873,681 | \$218,873,681 |
| Local government investment pool ⁽²⁾ | 94,238 | 94,238 |
| Other Money Market Funds ⁽³⁾ | 283,953 | 283,953 |
| Total cash and cash equivalents | <u>\$219,251,872</u> | <u>\$219,251,872</u> |

⁽¹⁾ The Virginia State Non-Arbitrage Programsm (SNAPsm) offers a professionally-managed money market mutual fund, which provides issuers with a temporary pooled investment vehicle for proceeds pending expenditure, and with record keeping, depository and arbitrage rebate calculation services. SNAPsm is an external investment pool registered under the Investment Company Act of 1940.

⁽²⁾ The Local Government Investment Pool (LGIP) enables governmental entities to maximize their return on investments by providing for a State administered fund where monies can be commingled for investment purposes in order to realize the economies of large-scale investing and professional funds management. The LGIP is not registered with the SEC as an investment company, but maintains a policy to operate in a manner consistent with the SEC's Rule 2a7.

⁽³⁾ The Authority invests certain short-term cash balances held within its accounts in open-ended mutual funds registered under the Investment Company Act of 1940. These funds maintain a policy of investing all their assets in U.S. Treasury obligations and repurchase agreements backed by those obligations.

B. Leases and Notes Receivable

Under the Authority's Equipment Leasing Program, lease payments made by the public institutions of higher education under the terms of lease agreements between the Authority and the institutions provide for the payment of debt service on the Equipment Leasing Bonds issued prior to 1999. Under the Authority's Pooled Bond Program, note payments made by the public institutions of higher education under the terms of note agreements between the Authority and the institutions provide for the payment of debt service on the Pooled Bonds. Final payments under the Authority's Equipment Leasing Program were made in fiscal year 2003. A summary of future minimum note payments due from the institutions is as follows:

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|----------------------|----------------------|----------------------|
| 2004 | \$ 14,730,000 | \$ 21,424,586 | \$ 36,154,586 |
| 2005 | 18,065,000 | 20,783,337 | 38,848,337 |
| 2006 | 18,710,000 | 20,023,144 | 38,733,144 |
| 2007 | 19,460,000 | 19,177,171 | 38,637,171 |
| 2008 | 18,835,000 | 18,278,520 | 37,113,520 |
| 2009-2013 | 106,115,000 | 76,391,075 | 182,506,075 |
| 2014-2018 | 133,065,000 | 45,757,905 | 178,822,905 |
| 2019-2023 | 94,845,000 | 13,179,918 | 108,024,918 |
| 2024-2028 | <u>12,225,000</u> | <u>1,454,375</u> | <u>13,679,375</u> |
| Total | <u>\$436,050,000</u> | <u>\$236,470,031</u> | <u>\$672,520,031</u> |

C. Long-Term Indebtedness

Changes in Long-Term Debt - The following is a summary of changes in long-term debt of the Authority for the year ended June 30, 2003.

| | |
|--------------------------------|----------------------|
| Bonds Payable at July 1, 2002 | \$675,340,000 |
| Bonds Issued | 275,195,000 |
| Bonds Retired | <u>(65,960,000)</u> |
| Bonds Payable at June 30, 2003 | <u>\$884,575,000</u> |

Annual Requirements to Amortize Long-Term Debt:

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|----------------------|----------------------|------------------------|
| 2004 | \$ 73,865,000 | \$ 41,352,283 | \$115,217,283 |
| 2005 | 69,005,000 | 39,680,308 | 108,685,308 |
| 2006 | 48,330,000 | 36,245,703 | 84,575,703 |
| 2007 | 50,425,000 | 34,055,463 | 84,480,463 |
| 2008 | 40,455,000 | 31,749,630 | 72,204,630 |
| 2009-2013 | 190,855,000 | 130,763,448 | 321,618,448 |
| 2014-2018 | 236,685,000 | 76,900,218 | 313,585,218 |
| 2019-2023 | 162,730,000 | 21,755,530 | 184,485,530 |
| 2024-2028 | <u>12,225,000</u> | <u>1,454,375</u> | <u>13,679,375</u> |
| Total | <u>\$884,575,000</u> | <u>\$413,956,958</u> | <u>\$1,298,531,958</u> |

D. Allocation Payable

During fiscal year 2003, the General Assembly appropriated \$35,000,000 for the purchase of equipment at public institutions of higher education. The Authority is committed by this appropriation to pay the equipment costs from its cash and investments. Institutions purchased and obtained reimbursement for \$8,203,363 in equipment, relating to this appropriation during the fiscal year, leaving \$26,796,637 of this allocation outstanding at June 30, 2003. A portion of this allocation payable is presented in the special revenue fund, which represents the amount that is currently due and payable.

In addition, the institutions purchased and obtained reimbursement for \$25,962,111 of equipment relating to a prior year's appropriation by the General Assembly.

E. Due To Higher Education Institutions

Bonds were issued under the Pooled Bond Program and the proceeds of these bonds were used to purchase institutional notes from various public institutions of higher education. These institutions in turn will use the proceeds of the notes to finance capital projects. Therefore, the unspent portion of the note proceeds still held by the trustee at June 30, 2003 in the special revenue fund is reflected as “due to higher education institutions” in the government-wide statements. Amounts reflected as “due to higher education institutions” in the fund financial statements represent normal year-end payables to institutions as a result of on-going operations.

F. Reconciliation of Government-Wide and Fund Financial Statements

1. Explanation of certain differences between special revenue fund column in the balance sheet and the government-wide statement of net assets.

| | |
|--|------------------------|
| Total fund balances – special revenue funds | \$203,165,689 |
| Assets related to the issuance of long-term debt are not available to pay for current period expenditures and, therefore, are not reported in the funds | |
| Notes receivable | 436,050,000 |
| Interest receivable | 7,236,419 |
| Long-term liabilities and related assets (discounts) and liabilities (interest and premiums) are not due and payable in the current period and, therefore, are not reported in the funds | |
| Discount on bonds sold | 418,267 |
| Interest payable | (14,155,559) |
| Premium on bonds sold | (14,133,009) |
| Bonds Payable | (884,575,000) |
| Accounts payable | (4,271) |
| Other long-term payables (Due to higher education institutions) are not due and payable in the current period and, therefore, are not reported in the funds | <u>(98,011,285)</u> |
| Net assets of governmental activities | <u>\$(364,008,749)</u> |

2. Explanation of certain differences between special revenue fund column in the Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities.

| | |
|--|-------------------------------|
| Net change in fund balances – special revenue funds | \$ 55,539,587 |
| Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds | |
| Interest income | 8,167,573 |
| Lease income | 224,829 |
| Governmental funds report certain transactions for bond proceeds provided to the higher education institutions as revenue and expenditures. However, in the Statement of Activities, these transactions result in assets and liabilities for amounts due from and due to the institutions, respectively. | |
| Receipt of note principal payments | (10,148,506) |
| Appropriations from the Commonwealth | (9,589,359) |
| Disbursement to higher education institutions | 88,343,696 |
| Issuance Cost | (9,202) |
| The issuance of long-term debt provides current financial resources while the repayment of the principal of long term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. | |
| Proceeds from the sale of bonds | (293,427,135) |
| Principal retirement | 65,960,000 |
| Some expenses reported in the statement of activities do not require the use of current resources and, therefore, are not reported as expenditures in the government funds | <u>(8,775,756)</u> |
| Change in net assets of governmental activities | <u><u>\$(103,714,273)</u></u> |

G. Deficit Net Assets

Generally accepted accounting principles direct that governmental funds recognize revenues in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Under the 21st Century College and Equipment Programs, bonds issued under the Master Indenture of Trust dated December 1, 1996 are secured by General Assembly appropriations through a payment agreement between the Authority and the Treasury Board. Because future appropriations are not considered available and do not constitute a legally binding commitment, the Authority ended the year with a fund deficit of \$364,008,749. The General Assembly has never failed to appropriate funds to the Authority for payment of debt service on the Authority's bonds.

H. Subsequent Events

In November of 2003, the Authority issued \$115,715,000 of its Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 2003A under its Pooled Bond Program. The proceeds of these bonds will be used to purchase institutional notes from higher education institutions. The institutions will in turn use the proceeds of the notes to finance capital projects.

I. Risk Management

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

SUPPLEMENTARY INFORMATION

VIRGINIA COLLEGE BUILDING AUTHORITY
 SUPPLEMENTARY INFORMATION
 DETAIL OF LONG-TERM INDEBTEDNESS

June 30, 2003

(Dollars in Thousands)

Detail of Long-Term Indebtedness by Series

| Series | Dated Date | Bond Program | True Interest Cost ("TIC") | Amount Issued | Institutional Notes Purchased | Outstanding July 1, 2002 | Issued (Retired) During Year | Outstanding June 30, 2003 | Original Maturity |
|--------------|------------|---------------------|----------------------------|---------------|-------------------------------|--------------------------|------------------------------|---------------------------|-------------------|
| Series 1996 | 12/01/96 | 21st Century | 5.18% | \$ 53,160 | \$ - | \$ 45,185 | \$ (2,070) | \$ 43,115 | 08/01/16 |
| Series 1997A | 09/15/97 | Pooled | 5.05% | 55,765 | 55,765 | 48,325 | (2,210) | 46,115 | 09/01/17 |
| Series 1998 | 05/01/98 | ELP | 4.34% | 38,875 | - | 9,165 | (9,165) | - | 02/01/03 |
| Series 1998 | 06/01/98 | 21st Century | 4.85% | 54,785 | - | 48,975 | (2,110) | 46,865 | 08/01/17 |
| Series 1998A | 10/01/98 | Pooled | 4.56% | 50,735 | 50,735 | 45,000 | (2,045) | 42,955 | 09/01/18 |
| Series 1999 | 06/01/99 | 21st Century/Equip. | 4.44% | 59,495 | - | 33,765 | (9,185) | 24,580 | 02/01/19 |
| Series 1999A | 10/15/99 | Pooled | 5.62% | 71,200 | 71,200 | 67,500 | (2,350) | 65,150 | 09/01/19 |
| Series 2000 | 06/01/00 | 21st Century/Equip. | 5.49% | 60,900 | - | 42,555 | (9,590) | 32,965 | 02/01/20 |
| Series 2000A | 11/01/00 | Pooled | 5.17% | 83,010 | 83,010 | 81,095 | (2,615) | 78,480 | 09/01/20 |
| Series 2001 | 05/01/01 | 21st Century/Equip. | 4.40% | 65,795 | - | 53,615 | (11,980) | 41,635 | 02/01/21 |
| Series 2001A | 10/01/01 | Pooled | 4.51% | 69,365 | 69,365 | 69,365 | (960) | 68,405 | 09/01/26 |
| Series 2002 | 05/15/02 | 21st Century/Equip. | 4.55% | 130,795 | - | 130,795 | (11,680) | 119,115 | 02/01/22 |
| Series 2002A | 10/15/01 | Pooled | 4.60% | 134,945 | 134,945 | - | 134,945 | 134,945 | 09/01/27 |
| Series 2003A | 05/15/03 | 21st Century/Equip. | 3.66% | 140,250 | - | - | 140,250 | 140,250 | 02/01/23 |
| Total | | | | \$ 1,069,075 | \$ 465,020 | \$ 675,340 | \$ 209,235 | \$ 884,575 | |

Detail of Long-Term Indebtedness by Program

| Program | Amount Issued | Institutional Notes Purchased | Outstanding July 1, 2002 | Issued (Retired) During Year | Outstanding June 30, 2003 |
|---------------------------------|---------------|-------------------------------|--------------------------|------------------------------|---------------------------|
| Equipment Leasing Program (ELP) | \$ 38,875 | \$ - | \$ 9,165 | \$ (9,165) | \$ - |
| 21st Century College Program | 382,135 | - | 224,480 | 100,110 | 324,590 |
| Pooled Bond Program | 465,020 | 465,020 | 311,285 | 124,765 | 436,050 |
| Equipment Program | 183,045 | - | 130,410 | (6,475) | 123,935 |
| Total | \$ 1,069,075 | \$ 465,020 | \$ 675,340 | \$ 209,235 | \$ 884,575 |

VIRGINIA COLLEGE BUILDING AUTHORITY
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF OUTSTANDING BOND ISSUES FOR PRIVATE COLLEGES AND UNIVERSITIES

June 30, 2003

(Dollars in Thousands)

| College/University | Series | Dated Date | Yield (a) | Amount Originally Issued | Amount of Notes Purchased | Outstanding July 1, 2002 | Issued (Retired) During Year | Outstanding June 30, 2003 | Original Final Maturity |
|-----------------------------|----------|------------|------------|--------------------------|---------------------------|--------------------------|------------------------------|---------------------------|-------------------------|
| Hampden-Sydney College | 1998 | 04/01/98 | 5.08% | \$ 13,340 | \$ 13,340 | \$ 12,330 | \$ (550) | \$ 11,780 | 09/01/18 |
| Hampton University | 1993 | 05/15/93 | 5.85% | 22,640 | 22,640 | 17,455 | (17,455) | - | 04/01/14 |
| | 1998 | 12/01/98 | 4.55% | 10,745 | 10,745 | 9,535 | (790) | 8,745 | 04/01/18 |
| | 2000 | 02/15/00 | 5.90% | 21,500 | 21,500 | 20,315 | (690) | 19,625 | 04/01/20 |
| | 2003 | 04/16/03 | 3.64% | 16,670 | 16,670 | - | 16,670 | 16,670 | 04/01/14 |
| Marymount University | 1992 | 07/01/92 | 7.11% | 16,880 | 16,880 | 330 | (330) | - | 07/01/22 |
| | 1998 | 11/01/98 | 5.08% | 26,015 | 26,015 | 25,250 | (375) | 24,875 | 07/01/28 |
| Randolph Macon College | 1998 | 04/01/98 | 4.59% | 9,830 | 9,830 | 9,830 | - | 9,830 | 03/01/13 |
| Regent University | 2001 | 06/15/01 | 5.38% | 65,170 | 65,170 | 65,170 | - | 65,170 | 10/01/31 |
| Roanoke College | 1992 | 10/15/92 | 6.67% | 5,190 | 5,190 | 3,565 | (235) | 3,330 | 10/15/12 |
| Shenandoah University | 2002 | 05/23/02 | VAR | 17,445 | 17,445 | 17,445 | - | 17,445 | 05/01/32 |
| University of Richmond | 1992 | 10/15/92 | 6.16% | 16,125 | 16,125 | 7,355 | (7,355) | - | 11/01/12 |
| | 1994 | 06/01/94 | VAR | 17,000 | 17,000 | 17,000 | - | 17,000 | 11/01/19 |
| | 1996 | 08/07/96 | VAR | 22,500 | 22,500 | 22,500 | - | 22,500 | 11/01/26 |
| | 1999 | 11/01/99 | VAR | 15,400 | 15,400 | 15,400 | - | 15,400 | 11/01/22 |
| | 2002A | 03/01/02 | 4.47% | 22,170 | 22,170 | 22,170 | - | 22,170 | 03/01/32 |
| | 2002B | 08/01/02 | 4.47% | 7,445 | 7,445 | - | 7,445 | 7,445 | 03/01/32 |
| Washington & Lee University | 1990A | 01/15/90 | 7.09% | 5,945 | 5,945 | 1,200 | (1,200) | - | 01/01/04 |
| | 1992 | 01/15/92 | 6.44% | 8,390 | 8,390 | 225 | (105) | 120 | 01/01/12 |
| | 1994 | 06/01/94 | 5.97% | 40,500 | 40,500 | 6,625 | (415) | 6,210 | 01/01/24 |
| | 1998 | 04/01/98 | 5.09% | 52,205 | 52,205 | 52,205 | - | 52,205 | 01/01/31 |
| 2001 | 06/01/01 | 5.35% | 43,000 | 43,000 | 43,000 | - | 43,000 | 01/01/34 | |
| | | | \$ 476,105 | \$ 476,105 | \$ 368,905 | \$ (5,385) | \$ 363,520 | | |

(a) "Yield" refers to the Net Interest Cost in most cases, to the Total Interest Cost when available, and to the Arbitrage Yield in other cases.

VIRGINIA COLLEGE BUILDING AUTHORITY
Richmond, Virginia

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