

**VIRGINIA COLLEGE BUILDING AUTHORITY**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDING JUNE 30, 2008**



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## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

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, 2008. 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 (1) capital projects of public institutions of higher education under the Pooled Bond Program; (2) capital projects of public institutions of higher education under the 21<sup>st</sup> Century College and Equipment Programs; and (3) 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 the year, the Authority issued \$317.7 million of bonds under this Program.

The 21<sup>st</sup> Century Program and the Equipment Program were established in 1996 and 1986, respectively, and provide financing for state-supported institutions of higher education. The 21<sup>st</sup> 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 are issued together as a single 21<sup>st</sup> Century College and Equipment Programs offering. During the year, the Authority issued \$144 million of bonds under this Program.

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.

### **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 21<sup>st</sup> Century College and Equipment Programs and Pooled Bond Program.

### ***Fund Financial Statements***

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

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

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

### ***Notes to the Financial Statements***

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

## Government-wide Financial Analysis of the Authority

The primary purpose of the Authority is to provide a vehicle for financing 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)

	2008	2007
Current assets	\$ 386	\$ 323
Noncurrent assets	1,014	832
Total assets	<u>1,400</u>	<u>1,155</u>
Current liabilities	408	347
Noncurrent liabilities	1,811	1,566
Total liabilities	<u>2,219</u>	<u>1,913</u>
Net assets:		
Restricted	93	82
Unrestricted	(912)	(840)
Total net assets	<u>\$ (819)</u>	<u>\$ (758)</u>

Net assets decreased by \$61 million, or 8%, in fiscal year 2008 as compared to fiscal year 2007. The 21<sup>st</sup> Century College and Equipment Programs comprise the majority of the Authority's net assets. During the year, through these programs, the Authority spent \$179 million on disbursements to institutions and on bond interest expenses. Offsetting revenues were only \$118 million. While the Authority's total assets did increase by \$245 million, or 21%, this increase is primarily attributable to the issuance of bonds under the Pooled Bond Program; related increases in liabilities under the Pooled Bond Program offset this increase. As a result of the activity noted above, the 21<sup>st</sup> Century College and Equipment Program's total assets actually decreased by \$4 million while related liabilities under the 21<sup>st</sup> Century College and Equipment Programs increased by \$56 million.

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

	2008	2007
Revenues:		
Appropriations from the Commonwealth	\$ 112	\$ 99
Other revenues	64	56
Total revenues	176	155
Expenses:		
Interest on long-term debt	94	82
Construction and equipment disbursements	142	181
Other	1	1
Total expenses	237	264
Decrease in net assets	(61)	(109)
Net assets July 1	(758)	(649)
Net assets June 30	\$ (819)	\$ (758)

The increase in revenues (\$21 million, or 14%) is primarily due to higher receipts on bond-related activity combined with increases in interest earnings due to higher invested balances. The decrease in expenditures (\$27 million, or 10%) is primarily due to a \$19 million decrease in disbursements to institutions for equipment allocation expenses, combined with a decrease of \$19 million in disbursements for capital project activity. Additionally, debt service expenses increased by \$12 million as a result of initial payments on new bonds issued in fiscal year 2008 and full annual payments for bonds issued in fiscal year 2007.

**Financial Analysis of the Authority's Funds**

In the Special Revenue Fund, total assets increased by \$56 million, or 19%, in fiscal year 2008. This is primarily attributable to availability of new construction proceeds resulting from two new money bond issuances. Liabilities decreased by \$16 million, or 28%. This is primarily due to lower year-end payables due to the institutions, which fluctuates with construction schedules and reimbursement requests.

**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 table on page 5 summarizes bond issuance activity during the year under each program.

**Summary of Authority Bond Obligations**  
(in millions)

	21st Century Program - Capital	21st Century Program - Equipment	Pooled Bond Program	Total
Outstanding, 7/1/07	\$ 606	\$ 183	\$ 851	\$ 1,640
Issued during year	96	48	317	461
Retired during year	(28)	(51)	(33)	(112)
Defeased during year	-	-	(98)	(98)
Deferral on debt defeasance	1	-	-	1
Outstanding, 6/30/08	<u>\$ 675</u>	<u>\$ 180</u>	<u>\$ 1,037</u>	<u>\$ 1,892</u>

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
21 <sup>st</sup> Century College and Equipment Programs	Aa1	AA+	AA+
Pooled Bond Program	Aa1	AA	AA+

Since the Authority's bond programs are either backed by state appropriations (21<sup>st</sup> Century College and Equipment 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**

The Virginia College Building Authority is currently preparing to issue approximately \$275 million in Educational Facilities Revenue Bonds, Series 2008A, ("the Bonds") under the Public Higher Education Financing Program (the "Program"). The Authority will use the proceeds of the Bonds to acquire Institutional Notes from participating public institutions of higher education (the "Institutions") in the Commonwealth. Each participating Institution will, in turn, use the proceeds of its Institutional Note to finance capital projects which have been approved by the General Assembly. The 2008 Bonds will be the fourteenth series of bonds to be issued under the Program. The bonds are expected to be sold prior to February 2009.

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# **Financial Statements**

VIRGINIA COLLEGE BUILDING AUTHORITY  
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET  
As of June 30, 2008

|                                                                   | Special Revenue<br>Fund | Adjustments<br>(Note 1F) | Statement of Net<br>Assets |
|-------------------------------------------------------------------|-------------------------|--------------------------|----------------------------|
| <b>ASSETS</b>                                                     |                         |                          |                            |
| Current assets:                                                   |                         |                          |                            |
| Cash and cash equivalents (Note 2A)                               | \$ 345,437,372          | \$ -                     | \$ 345,437,372             |
| Short-term notes receivable (Note 2B)                             | -                       | 39,770,000               | 39,770,000                 |
| Interest receivable                                               | 663,861                 | -                        | 663,861                    |
| Total current assets                                              | <u>346,101,233</u>      | <u>39,770,000</u>        | <u>385,871,233</u>         |
| Noncurrent assets:                                                |                         |                          |                            |
| Restricted cash and cash equivalents (Note 2A)                    | 233,400                 | -                        | 233,400                    |
| Long-term notes receivable (Note 2B)                              | -                       | 997,880,000              | 997,880,000                |
| Discount on bonds                                                 | -                       | 141,584                  | 141,584                    |
| Restricted interest receivable                                    | 249                     | 16,281,220               | 16,281,469                 |
| Total noncurrent assets                                           | <u>233,649</u>          | <u>1,014,302,804</u>     | <u>1,014,536,453</u>       |
| Total assets                                                      | <u>\$ 346,334,882</u>   | <u>1,054,072,804</u>     | <u>1,400,407,686</u>       |
| <b>LIABILITIES</b>                                                |                         |                          |                            |
| Current liabilities:                                              |                         |                          |                            |
| Due to higher education institutions (Note 2D)                    | \$ 17,894,258           | 212,397,871              | 230,292,129                |
| Allocation payable (Note 2F)                                      | 22,573,086              | -                        | 22,573,086                 |
| Interest payable                                                  | -                       | 29,068,924               | 29,068,924                 |
| Bonds payable (net of deferral on debt defeasance) (Notes 2C, 2E) | -                       | 122,575,200              | 122,575,200                |
| Premium on bonds sold                                             | -                       | 3,177,463                | 3,177,463                  |
| Accounts payable                                                  | -                       | 680                      | 680                        |
| Total current liabilities                                         | <u>40,467,344</u>       | <u>367,220,138</u>       | <u>407,687,482</u>         |
| Noncurrent liabilities:                                           |                         |                          |                            |
| Bonds payable (net of deferral on debt defeasance) (Notes 2C, 2E) | -                       | 1,769,769,400            | 1,769,769,400              |
| Premium on bonds sold                                             | -                       | 41,700,079               | 41,700,079                 |
| Total noncurrent liabilities                                      | <u>-</u>                | <u>1,811,469,479</u>     | <u>1,811,469,479</u>       |
| Total liabilities                                                 | <u>40,467,344</u>       | <u>2,178,689,617</u>     | <u>2,219,156,961</u>       |
| <b>FUND BALANCE/NET ASSETS:</b>                                   |                         |                          |                            |
| Fund Balance:                                                     |                         |                          |                            |
| Unreserved                                                        | 305,867,538             | (305,867,538)            | -                          |
| Total liabilities and fund balance                                | <u>\$ 346,334,882</u>   |                          |                            |
| Net assets:                                                       |                         |                          |                            |
| Restricted for construction and equipment purchases               |                         | 92,929,783               | 92,929,783                 |
| Restricted for debt service                                       |                         | 375,233                  | 375,233                    |
| Unrestricted                                                      |                         | (912,054,291)            | (912,054,291)              |
| Total net assets (Note 2G)                                        |                         | <u>\$ (818,749,275)</u>  | <u>\$ (818,749,275)</u>    |

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

VIRGINIA COLLEGE BUILDING AUTHORITY  
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
For the Fiscal Year Ended June 30, 2008

|                                                                                           | Special Revenue<br>Fund | Adjustments<br>(Note 1F)  | Statement of<br>Activities |
|-------------------------------------------------------------------------------------------|-------------------------|---------------------------|----------------------------|
| <b>REVENUES:</b>                                                                          |                         |                           |                            |
| Interest on investments                                                                   | \$ 12,724,602           | \$ (7,626,017)            | \$ 5,098,585               |
| Interest on bonds                                                                         | 42,052,743              | 16,281,220                | 58,333,963                 |
| Receipt of note principal payments                                                        | 32,520,935              | (32,520,935)              | -                          |
| Appropriations from the Commonwealth                                                      | 112,479,178             | -                         | 112,479,178                |
|                                                                                           | <u>199,777,458</u>      | <u>(23,865,732)</u>       | <u>175,911,726</u>         |
| <b>EXPENDITURES/EXPENSES:</b>                                                             |                         |                           |                            |
| Current:                                                                                  |                         |                           |                            |
| Legal and financial services                                                              | 260,928                 | (198,665)                 | 62,263                     |
| Bond rating fees                                                                          | 197,001                 | (133,501)                 | 63,500                     |
| Printing and electronic distributions                                                     | 9,109                   | (5,235)                   | 3,874                      |
| Equipment allocation                                                                      | 64,394,557              | -                         | 64,394,557                 |
| Disbursement to higher education institutions                                             | 252,126,657             | (173,844,718)             | 78,281,939                 |
| Payment to escrow agent                                                                   | 102,054,758             | (102,054,758)             | -                          |
| Underwriter's discount                                                                    | 1,495,919               | (1,139,697)               | 356,222                    |
| Miscellaneous                                                                             | 249,182                 | (245,554)                 | 3,628                      |
| Debt service:                                                                             |                         |                           |                            |
| Principal retirement                                                                      | 111,540,000             | (111,540,000)             | -                          |
| Interest and fiscal charges                                                               | 76,052,367              | 17,861,729                | 93,914,096                 |
|                                                                                           | <u>608,380,478</u>      | <u>(371,300,399)</u>      | <u>237,080,079</u>         |
| Excess (deficiency) of revenues over (under) expenditures                                 | <u>(408,603,020)</u>    | <u>-</u>                  | <u>-</u>                   |
| Other financing sources (uses):                                                           |                         |                           |                            |
| Bond issuance                                                                             | 461,745,000             | (461,745,000)             | -                          |
| Bond premium                                                                              | 18,441,527              | (18,441,527)              | -                          |
|                                                                                           | <u>480,186,527</u>      | <u>(480,186,527)</u>      | <u>-</u>                   |
| Excess of revenues and other financing sources over expenditures and other financing uses | 71,583,507              | (71,583,507)              | -                          |
| Change in net assets                                                                      | -                       | (61,168,353)              | (61,168,353)               |
| Fund Balance/Net Assets, July 1, 2007                                                     | <u>234,284,031</u>      | <u>(991,864,953)</u>      | <u>(757,580,922)</u>       |
| Fund Balance/Net Assets, June 30, 2008 (Note 2G)                                          | <u>\$ 305,867,538</u>   | <u>\$ (1,124,616,813)</u> | <u>\$ (818,749,275)</u>    |

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

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## **Notes to the Financial Statements**

**VIRGINIA COLLEGE BUILDING AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AS OF JUNE 30, 2008**

**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, and (ii) capital projects under the Authority’s 21<sup>st</sup> Century College and Equipment Programs 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 21<sup>st</sup> Century College and Equipment Programs, 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.

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, 2008 was \$455,295,000. (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 basic 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 funds financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available to fund current operations. Expenditures are recognized when the related fund liability is incurred, except for principal and interest on long-term debt which is recognized when due.

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

**C. Fund Accounting**

The activities of the Authority are accounted for in a Special Revenue Fund. The Special Revenue Fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Special Revenue Fund consists of bond proceeds, bond funds and issuance expense funds. Included are funds established in accordance with the provisions of the 1996 Indenture with the Bank of New York Mellon for the 21<sup>st</sup> Century College Program and the Equipment Program revenue bonds issued by the Authority, since their consolidation in 1999. 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 or recorded as revenue in the year incurred unless it exceeds 1% of the amount of the bonds issued. In that case, the original issue premium or discount is deferred and amortized, on a straight-line basis, over the life of the outstanding debt.

## **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.

## **F. Adjustments**

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

## **2. DETAILED NOTES**

### **A. Cash and Cash Equivalents**

The Bank of New York Mellon holds certain deposits and cash equivalents of the Authority as trustee. 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 December 1, 1996, and under a Master Indenture of Trust dated September 1, 1997, the trustee is authorized to invest in the following investments: 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, 2008, The Bank of New York Mellon, which currently serves as trustee for both Indentures, maintained \$345,533,201 in cash and cash equivalents for the Authority. The Authority also directly held cash equivalents of \$137,571, for a total invested balance of \$345,670,772.

At June 30, 2008, the Authority's funds were held in the Local Government Investment Pool, the State Non-Arbitrage Program<sup>®</sup>, and other money market funds. All investments of the Authority are rated AAA by Standard and Poor's. Details of the Authority's investments are presented on the following page.

Summary of Cash and Cash Equivalents  
As of June 30, 2008

|                                                 | Fair<br>Value  |
|-------------------------------------------------|----------------|
| Cash and cash equivalents:                      |                |
| State Non-Arbitrage Program <sup>® (1)</sup>    | \$ 211,926,406 |
| Local Government Investment Pool <sup>(2)</sup> | 133,501,230    |
| Money Market Funds <sup>(3)</sup>               | 243,136        |
| Total cash and cash equivalents                 | \$ 345,670,772 |

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

<sup>(2)</sup> 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.

<sup>(3)</sup> The Authority invests certain short-term cash balances held within its accounts in Federated Auto Government Money Trust and Fidelity Treasury Money Market. These are open-ended mutual funds registered under the Investment Company Act of 1940. Both funds maintain a policy of investing all their assets in U.S. Treasury obligations and repurchase agreements backed by those obligations.

**B. Notes Receivable**

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. A summary of future minimum note payments due from the institutions is as follows:

| Year Ending June 30 | Principal        | Interest       | Total            |
|---------------------|------------------|----------------|------------------|
| 2009                | 39,770,000       | 47,984,262     | 87,754,262       |
| 2010                | 44,375,000       | 46,104,997     | 90,479,997       |
| 2011                | 46,425,000       | 43,967,439     | 90,392,439       |
| 2012                | 48,675,000       | 41,627,215     | 90,302,215       |
| 2013                | 50,690,000       | 39,153,231     | 89,843,231       |
| 2014-2018           | 290,475,000      | 155,624,782    | 446,099,782      |
| 2019-2023           | 289,205,000      | 84,420,054     | 373,625,054      |
| 2024-2028           | 188,320,000      | 26,467,710     | 214,787,710      |
| 2029-2033           | 27,045,000       | 5,661,597      | 32,706,597       |
| 2034-2038           | 12,670,000       | 1,314,219      | 13,984,219       |
| Total               | \$ 1,037,650,000 | \$ 492,325,506 | \$ 1,529,975,506 |

**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, 2008.

|                                        |                         |
|----------------------------------------|-------------------------|
| Bonds payable at July 1, 2007          | \$ 1,639,869,800        |
| Bonds issued                           | 461,745,000             |
| Bonds retired                          | (111,540,000)           |
| Bonds refunded                         | (98,250,000)            |
| Annual amortization of debt defeasance | 519,800                 |
| Bonds payable at June 30, 2008         | <u>\$ 1,892,344,600</u> |

**Annual Requirements to Amortize Long-Term Debt:**

| <u>Year Ending June 30</u>           | <u>Principal</u>        | <u>Interest</u>       | <u>Total</u>            |
|--------------------------------------|-------------------------|-----------------------|-------------------------|
| 2009                                 | \$ 123,095,000          | \$ 84,335,699         | \$ 207,430,699          |
| 2010                                 | 122,290,000             | 80,977,475            | 203,267,475             |
| 2011                                 | 116,525,000             | 75,256,548            | 191,781,548             |
| 2012                                 | 109,370,000             | 69,537,710            | 178,907,710             |
| 2013                                 | 95,595,000              | 64,159,174            | 159,754,174             |
| 2014 - 2018                          | 518,590,000             | 248,542,159           | 767,132,159             |
| 2019 - 2023                          | 494,420,000             | 128,173,760           | 622,593,760             |
| 2024 - 2028                          | 278,010,000             | 34,807,749            | 312,817,749             |
| 2029 - 2033                          | 27,045,000              | 5,661,597             | 32,706,597              |
| 2034 - 2038                          | 12,670,000              | 1,314,219             | 13,984,219              |
| Less: Deferral on debt<br>defeasance | <u>(5,265,400)</u>      | <u>-</u>              | <u>(5,265,400)</u>      |
| Total                                | <u>\$ 1,892,344,600</u> | <u>\$ 792,766,090</u> | <u>\$ 2,685,110,690</u> |

**D. 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, 2008 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.

## **E. Defeasance of Debt**

In October 2007 the Authority issued refunding bonds to defease outstanding debt for the Pooled Program, marking the second refunding deal for this Program, and the third for the Authority. In fiscal year 2005 the Authority refunded bonds to defease outstanding debt for both the 21<sup>st</sup> Century College Program and the Pooled Bond Program. Again in fiscal year 2007 the Authority refunded bonds to defease outstanding debt for the 21<sup>st</sup> Century College Program. These refunding issuances have placed the proceeds of the new bonds in irrevocable trusts with escrow agents to provide for all future debt service on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included on the Authority's financial statements.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities," the difference between the reacquisition price and the net carrying amount of the bonds defeased with refunding debt is amortized as a component of Interest on Bonds over the remaining life of the refunded debt. However, the deferral amount for the Pooled Bond Program has been allocated to the participating institutions and is therefore not reflected in the Authority's financial statements. Therefore, Bonds Payable has been reduced by \$5,265,400 related to 21<sup>st</sup> Century College Program, to reflect the remaining deferral on debt defeasance at June 30, 2008.

The Authority issued one series of refunding bonds in fiscal year 2008. The proceeds of the refunding bonds were placed with an escrow agent to provide for all future debt service on the defeased bonds. Accordingly, the liability for the defeased bonds is not included on the Authority's financial statements. The following schedule reflects the refunding activity during the year.

### Refunding Bonds Issued During Fiscal Year 2008

| Program                 | Refunding Issue | Refunded Issue | Maturities<br>Defeased | Amount<br>Defeased   |
|-------------------------|-----------------|----------------|------------------------|----------------------|
| Pooled                  | 2007B           | 1997A          | 2008, 2017             | \$ 6,795,000         |
| Pooled                  | 2007B           | 1998A          | 2014-18                | 16,175,000           |
| Pooled                  | 2007B           | 2000A          | 2017-19                | 17,785,000           |
| Pooled                  | 2007B           | 2001A          | 2017-19                | 10,635,000           |
| Pooled                  | 2007B           | 2002A          | 2014-19                | 45,230,000           |
| Pooled                  | 2007B           | 2005A          | 2008-16                | 1,630,000            |
| Total Defeased, FY 2008 |                 |                |                        | <u>\$ 98,250,000</u> |

The issuance of the Authority's Series 2007B Pooled Program refunding bonds refunded the remaining outstanding maturities of the 1997A bonds and partially refunded five other series of the Authority's bonds as reflected on the above schedule. This defeasance resulted in an accounting loss of \$3,707,000. Total debt service payments over the next 12 years will be reduced by \$5,444,159 resulting in a present value savings of \$4,640,463 discounted at the rate of 4.208904 percent.

At June 30, 2008, \$221,470,000 of bonds outstanding are considered defeased for financial reporting purposes.

**F. Allocation Payable**

During fiscal year 2008, the General Assembly appropriated \$51,704,795 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 \$17,060,657 in equipment, relating to this appropriation during the fiscal year, leaving \$34,644,138 of this allocation outstanding at June 30, 2008. 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 \$63,798,830 of equipment relating to a prior years' appropriation by the General Assembly.

**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 21<sup>st</sup> 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 \$818,749,275. 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**

The Virginia College Building Authority is currently preparing to issue approximately \$275 million in Educational Facilities Revenue Bonds, Series 2008A, ("the Bonds") under the Public Higher Education Financing Program (the "Program"). The Authority will use the proceeds of the Bonds to acquire Institutional Notes from participating public institutions of higher education (the "Institutions") in the Commonwealth. Each participating Institution will, in turn, use the proceeds of its Institutional Note to finance capital projects which have been approved by the General Assembly. The 2008 Bonds will be the fourteenth series of bonds to be issued under the Program. The bonds are expected to be sold prior to February 2009.

**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 the 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 the 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 the 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.

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## **Supplementary Information**

**Virginia College Building Authority**  
**Detail of Long-Term Indebtedness**  
**June 30, 2008**  
(Dollars in Thousands)

**Detail of Long-Term Indebtedness by Series**

	Dated Date	Bond Program	True Interest Cost ("TIC")	Amount Issued	Institutional Notes Purchased	Outstanding July 1, 2007	Issued (Retired) During Year	Outstanding June 30, 2008 *	Original Maturity
Series 1996	12/01/96	21st Century	5.18%	53,160	-	2,650	(2,650)	-	08/01/16
Series 1997A	09/15/97	Pooled	5.05%	55,765	55,765	9,555	(9,555)	-	09/01/17
Series 1998	06/01/98	21st Century	4.85%	54,785	-	8,300	(2,645)	5,655	08/01/17
Series 1998A	10/01/98	Pooled	4.56%	50,735	50,735	28,520	(18,640)	9,880	09/01/18
Series 1999	06/01/99	21st Century/Equip.	4.44%	59,495	-	5,475	(820)	4,655	02/01/19
Series 1999A	10/15/99	Pooled	5.62%	71,200	71,200	9,390	(2,970)	6,420	09/01/19
Series 2000	06/01/00	21st Century/Equip.	5.49%	60,900	-	1,230	(600)	630	02/01/20
Series 2000A	11/01/00	Pooled	5.17%	83,010	83,010	42,675	(21,070)	21,605	09/01/20
Series 2001	05/01/01	21st Century/Equip.	4.40%	65,795	-	7,085	(755)	6,330	02/01/21
Series 2001A	10/01/01	Pooled	4.51%	69,365	69,365	53,395	(13,110)	40,285	09/01/26
Series 2002	05/15/02	21st Century/Equip.	4.55%	130,795	-	30,480	(3,265)	27,215	02/01/22
Series 2002A	10/15/02	Pooled	4.60%	134,945	134,945	120,120	(50,110)	70,010	09/01/27
Series 2003A	05/15/03	21st Century/Equip.	3.66%	140,250	-	99,895	(10,885)	89,010	02/01/23
Series 2003A	11/01/03	Pooled	4.22%	115,715	115,715	107,450	(4,055)	103,395	09/01/30
Series 2004A	07/01/04	21st Century/Equip.	4.13%	172,745	-	135,530	(12,445)	123,085	02/01/24
Series 2004A	10/01/04	Pooled	4.25%	112,935	112,935	108,420	(3,610)	104,810	09/01/35
Series 2004B Refunding	10/01/04	Pooled	3.75%	103,205	103,205	101,985	(240)	101,745	09/01/19
Series 2004B Refunding	12/01/04	21st Century	4.06%	61,395	-	60,180	(60)	60,120	02/01/20
Series 2005A	05/15/05	21st Century/Equip.	3.79%	115,785	-	91,785	(12,075)	79,710	02/01/25
Series 2005A	11/03/05	Pooled	4.27%	115,975	115,975	113,230	(5,485)	107,745	09/01/16
Series 2006A	05/15/06	21st Century/Equip.	3.72%	53,835	-	45,960	(10,695)	35,265	02/01/11
Series 2006BC	09/14/06	21st Century/Equip.	VAR	120,000	-	114,995	(3,760)	111,235	02/01/26
Series 2006A	11/30/06	Pooled	4.16%	156,130	156,130	156,130	(2,045)	154,085	09/01/28
Series 2007A Refunding	02/27/07	21st Century	4.08%	59,125	-	59,125	-	59,125	02/01/22
Series 2007A	10/31/07	Pooled	4.38%	216,905	216,905	-	216,905	216,905	09/01/30
Series 2007B	05/31/07	21st Century/Equip.	4.04%	132,095	-	132,095	(18,245)	113,850	02/01/27
Series 2007B Refunding	10/31/07	Pooled	4.05%	100,765	100,765	-	100,765	100,765	09/01/19
Series 2008A	06/12/08	21st Century/Equip.	3.93%	144,075	-	-	144,075	144,075	02/01/28
Total				<u>\$ 2,810,885</u>	<u>\$ 1,386,650</u>	<u>\$ 1,645,655</u>	<u>\$ 251,955</u>	<u>\$ 1,897,610</u>	

**Detail of Long-Term Indebtedness by Program**

	Amount Issued	Institutional Notes Purchased	Outstanding July 1, 2007	Issued (Retired) During Year	Outstanding June 30, 2008 *
21st Century College Program	\$ 936,545	\$ -	\$ 612,285	\$ 67,960	\$ 680,245
Pooled Bond Program	1,386,650	1,386,650	850,870	186,780	1,037,650
Equipment Program	487,690	-	182,500	(2,785)	179,715
Total	<u>\$ 2,810,885</u>	<u>\$ 1,386,650</u>	<u>\$ 1,645,655</u>	<u>\$ 251,955</u>	<u>\$ 1,897,610</u>

\* Excludes deferral on debt defeasance

**Virginia College Building Authority**  
**Schedule of Outstanding Bond Issues for Private Colleges and Universities**  
**June 30, 2008**  
**(Dollars in Thousands)**

College/University	Series	Dated Date	Yield (a)	Amount Originally Issued	Amount of Notes Purchased	Outstanding July 1, 2007	Issued (Retired) During Year	Outstanding June 30, 2008	Original Final Maturity
Hampden-Sydney College	1998	04/01/98	5.08%	13,340	13,340	9,295	(700)	8,595	09/01/18
Hampton University	1998	12/01/98	4.55%	10,745	10,745	5,250	(970)	4,280	04/01/18
	2000	02/15/00	5.90%	21,500	21,500	2,815	(885)	1,930	04/01/20
	2003	04/16/03	3.64%	16,670	16,670	11,345	(1,470)	9,875	04/01/14
	2005	04/29/05	4.16%	24,500	24,500	24,190	(500)	23,690	04/01/20
Marymount University	1998	11/01/98	5.08%	26,015	26,015	21,675	(895)	20,780	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	2006	08/09/06	5.03%	99,105	99,105	99,105	(8,805)	90,300	06/01/36
Roanoke College	2007	06/06/07	4.64%	20,430	20,430	20,430	(395)	20,035	06/30/37
Shenandoah University	2006	11/16/06	VAR	21,895	21,895	21,895	(300)	21,595	11/01/36
University of Richmond	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
	2004A	08/01/04	VAR	46,000	46,000	46,000	-	46,000	08/01/34
	2006	11/08/06	VAR	55,900	55,900	55,900	-	55,900	11/01/36
Washington & Lee University	1998	04/01/98	5.10%	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
	2006	08/10/06	4.26%	20,045	20,045	19,200	(1,535)	17,665	01/01/26
				<u>\$ 510,795</u>	<u>\$ 510,795</u>	<u>\$ 471,750</u>	<u>\$ (16,455)</u>	<u>\$ 455,295</u>	

(a) "Yield" refers to the NIC in most cases, to the TIC when available, and to the Arbitrage Yield in other cases.



# Commonwealth of Virginia

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

**Walter J. Kucharski, Auditor**

January 15, 2009

The Honorable Timothy M. Kaine  
Governor of Virginia

The Honorable M. Kirkland Cox  
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 major special revenue fund of the **Virginia College Building Authority** (Authority), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2008, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 Authority as of June 30, 2008, and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages one through five is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in

the United States of America. 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 Authority's financial statements. The Schedule 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 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, is 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 and Universities has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated January 15, 2009 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

AUDITOR OF PUBLIC ACCOUNTS

BEM/alh

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VIRGINIA COLLEGE BUILDING AUTHORITY  
Richmond, Virginia

BOARD MEMBERS  
As of June 30, 2008

William L. Nusbaum, Chairman

Heidi W. Abbott, Vice Chairman

Vinod B. Agarwal

John F. "Jack" Carter, II

Joseph S. Testa

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Elaine R. Wilde

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