VIRGINIA PUBLIC BUILDING AUTHORITY

FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2004

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VIRGINIA PUBLIC BUILDING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
AS OF JUNE 30, 2004

This section of the Virginia Public Building Authority's ("the Authority") annual financial report presents an analysis of the Authority's financial performance during the fiscal year that ended on June 30, 2004. This information should be considered in conjunction with the information contained in the financial statements.

Authority Activities and Highlights

Upon approval of the General Assembly of the Commonwealth, the Authority is authorized to issue bonds or notes to construct, improve, furnish, maintain, acquire, finance, or refinance certain public facilities for the use of the Commonwealth and its agencies and instrumentalities, and to finance or refinance reimbursements to localities or regional jail authorities for the Commonwealth's share of the costs of certain jail and juvenile detention projects. The Authority serves exclusively as a financing entity with the sole function of issuing and managing debt. Debt service for all bonds issued by the Authority is secured by appropriations from the Commonwealth.

The Authority issued $187 million in Public Facilities Revenue and Refunding Bonds, Series 2004A during the fiscal year ended June 30, 2004. The issuance of the refunding bonds resulted in a decrease of future debt service payments of $17,158,178.

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.

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."

Statement of Net Assets
(in millions)

	2004	2003
Current assets	$ 10	$ 70
Current liabilities	58	68
Noncurrent liabilities	832	894
Total liabilities	890	962
Net assets	$ (880)	$ (892)

The Authority's net assets increased by 1% or $12 million in 2004. The increase is due to the refunding of bonds during the year. Net assets maintain a deficit balance because the Authority includes the bonds payable liability in its financial statements without including the future appropriation expected from the Commonwealth because future appropriations are not considered available and do not constitute a legally binding commitment.

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).

Changes in Net Assets
(in millions)

	2004	2003
Revenues:		
Appropriations from the Commonwealth	$ 115	$ 113
Interest earnings	1	5
Total Revenues	116	118
Expenses:		
Interest on long-term debt	53	53
Disbursements for state and local projects	53	46
Total Expenses	106	99
Extraordinary Item	2	-
Change in net assets	12	19
Net assets July 1	(892)	(911)
Net assets June 30	$ (880)	$ (892)

The Authority's revenues decreased by 2% or $2 million compared to last year while expenses increased by 7% or $7 million. The decrease in revenue is largely due to the recordation of an original bond issuance premium in FY 03 that was not reflected in FY 04 (in FY 04, the issuance premium, because it exceeded 1% of par, has been deferred and will be amortized over the life of the related bonds). Also contributing to the revenue decrease was a decline in interest earnings. Both revenue decreases were offset somewhat by an increase in appropriations from the Commonwealth for debt service. The increase in expenses is mostly attributable to an increase in distributions for construction projects and reimbursements made to localities for various regional jail projects. In the current year, $53 million was disbursed for construction and regional jails compared to only $46 million in the prior year. The fluctuations in revenues and expenses are expected due to the nature of the Authority's operations.

Both statements report Governmental Activities backed by appropriations from the Commonwealth.

Fund Financial Statements

The fund financial statements provide detailed information about the Authority's major 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.

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 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 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 funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the 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.

Purpose of the Authority

The primary purpose of the Authority is to provide a vehicle for financing public facilities for the use of the Commonwealth and its agencies and instrumentalities, and to finance reimbursements of the Commonwealth's share of local or regional jails and juvenile detention facilities costs. 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 primarily from bond proceeds.

Debt Administration

As a financing entity, the sole 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. All bonds are secured by amounts to be appropriated by the General Assembly.

The following is a summary of changes in long-term debt of the Authority at June 30, 2004:

Bonds payable at July 1, 2003	$ 956,495,396
Bonds issued	187,105,000
Bonds defeased	(195,660,000)
Bonds retired	(70,900,000)
Amortized discount for fiscal year 2004	5,095,496
Amortized deferral on debt defeasance for fiscal year 2004	(12,870,199)
Bonds payable at June 30, 2004	$ 869,265,693

The Authority's outstanding bonds are rated as follows:

Moody's Investors Service (Moody's)	Aa1
Standard and Poor's Rating Service (S&P)	AA+
Fitch Ratings, Inc. (Fitch)	AA+

Since the Authority's bonds are backed by state appropriations, 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

On August 5, 2004, the authority issued $207,065,000 Series 2004B bonds to finance the acquisition, construction, improvement, rehabilitation, furnishing, and equipping of various public facilities for use by the Commonwealth of Virginia and its agencies; finance or refinance the Commonwealth's share of the costs of certain regional and local jail and juvenile detention projects; and pay costs of issuing the Series 2004B Bonds.

On August 26, 2004, the authority issued $39,260,000 Series 2004C bonds to refund all of certain lease revenue bonds secured by and payable from a lease agreement between the Commonwealth of Virginia and the Brunswick County Industrial Development Authority for the Brunswick Correctional Center, and pay the costs of issuing Series 2004C Bonds.

Financial Statements

VIRGINIA PUBLIC BUILDING AUTHORITY
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET
As of June 30, 2004

	Special Revenue Fund	Adjustments (Note 1D)	Statement of Net Assets
ASSETS			
Current assets:			
Cash and cash equivalents (Note 2A)	$ 10,036,271	$ -	$ 10,036,271
Interest receivable	10,074	-	10,074
Total current assets	10,046,345	-	10,046,345
Total assets	$ 10,046,345	-	10,046,345
LIABILITIES			
Current liabilities:			
Accounts payable	$ 44,723	-	44,723
Due to state institutions	1,563,841	-	1,563,841
Retainage payable	84,052	-	84,052
Accrued interest sold	908,489	-	908,489
Bonds payable (net of deferrals) (Notes 2B and 2C)	-	53,761,572	53,761,572
Premium on bonds sold	-	1,536,214	1,536,214
Total current liabilities	2,601,105	55,297,786	57,898,891
Noncurrent liabilities:			
Bonds payable (net of deferrals) (Note 2B and 2C)	-	815,504,121	815,504,121
Premium on bonds sold	-	17,026,375	17,026,375
Total noncurrent liabilities	-	832,530,496	832,530,496
Total liabilities	2,601,105	887,828,282	890,429,387
FUND BALANCE/NET ASSETS:			
Fund balance:			
Reserved	7,445,240	(7,445,240)	-
Total liabilities and fund balance	$ 10,046,345		
Net assets:			
Unrestricted		880,383,042	880,383,042
Total net assets (Note 2F)		$ 880,383,042	$ 880,383,042

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

VIRGINIA PUBLIC BUILDING AUTHORITY
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Fiscal Year Ended June 30, 2004

	Special Revenue Fund	Adjustments (Note 1D)	Statement of Activities
REVENUES:			
Interest on investments	$ 520,713	$ -	$ 520,713
Change in fair value of cash equivalents	(22,754)	-	(22,754)
Appropriations from the Commonwealth	115,219,583	-	115,219,583
Original issue premium	-	512,071	512,071
Total revenues	115,717,542	512,071	116,229,613
EXPENDITURES/EXPENSES:			
Current:			
Legal and financial services	193,327	-	193,327
Printing and electronic distributions	12,483	-	12,483
Capital outlay	4,377,523	-	4,377,523
Disbursements to instituitions	44,452,511	-	44,452,511
Disbursements to localities	4,067,210	-	4,067,210
Underwriter's discount	750,291	-	750,291
Debt service:			
Principal retirement	71,975,000	(71,975,000)	-
Interest and fiscal charges	43,244,808	9,330,764	52,575,572
Total expenditures/expenses	169,073,153	(62,644,236)	106,428,917
Excess (deficiency) of revenue over (under) expenditures	(53,355,611)	-	-
Other financing sources (uses):			
Payments to refunded bond escrow agent	(211,690,466)	211,690,466	-
Debt issuance	187,105,000	(187,105,000)	-
Bond premium	19,074,660	(19,074,660)	-
Total other financing sources (uses)	(5,510,806)	5,510,806	-
Special Item (Note 2E)	1,334,922	-	1,334,922
Deficiency of revenues and other sources under expenditures and other financing uses	(57,531,495)	57,531,495	-
Change in net assets		11,135,618	11,135,618
Fund Balance/Net Assets, July 1, 2003	64,976,735	(956,495,395)	(891,518,660)
Fund Balance/Net Assets, June 30, 2004 (Note 2F)	$ 7,445,240	$ (887,828,282)	$ (880,383,042)

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

Notes to the Financial Statements

VIRGINIA PUBLIC BUILDING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Public Building Authority ("the Authority") was created in 1981 by §2.2-2260 et seq., of the *Code of Virginia* for the purpose of acquiring, constructing and operating public buildings for the use of the Commonwealth of Virginia ("the Commonwealth") and its political subdivisions. The Authority is authorized to issue bonds or notes to construct, improve, furnish, maintain, acquire, finance, or refinance certain public facilities for the use of the Commonwealth, its agencies and instrumentalities and to finance or refinance reimbursements to localities or regional jail authorities for the Commonwealth's share of the costs of certain jail projects. The Authority is authorized to undertake a project only upon approval of the General Assembly of the Commonwealth.

In 1997 the Authority created the 1997 Master Indenture of Trust ("the 1997 Indenture"). The 1997 Indenture utilizes a single payment agreement to provide for debt service payments. Debt service payments are subject to General Assembly appropriation. In addition, the 1997 Indenture provides for the issuance of commercial paper bond anticipation notes.

Bonds issued prior to the 1997 indenture were issued under its 1988 Master Indenture of Trust ("the 1988 Indenture"). These bonds were also ultimately supported by an appropriation from the Commonwealth. The Authority no longer issues bonds under the 1988 Indenture.

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

B. 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 the GASB. The accompanying government-wide financial statements are presented using 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 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. The fund was established in accordance with the provisions of the Trust Agreement entered into with the trustee for each bond indenture.

D. 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.

E. 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 recorded 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.

2. DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

Cash and investments of the Authority are held by The Bank of New York, as trustee (successor to Signet Bank), under the 1997 and 1988 Indentures. Cash is defined as demand deposits, time deposits and certificates of deposit in accordance with §2.2-4401 of the *Code of Virginia*. Cash equivalents represent deposits and short-term investments with original maturities of less than three months. Short-term investments represent securities with maturities of more than three months but less than one year. Long-term investments have maturities of over a year.

In accordance with the Trust Subsidiary Act, §6.1-32.8 of the *Code of Virginia*, cash held by the trustee while awaiting investment or distribution is not used by an affiliate bank of the trustee in the conduct of its business unless the affiliate bank delivers securities to the trust department as collateral that is at least equal to the market value of the trust funds held on deposit in excess of amounts insured by federal deposit insurance.

The 1988 and 1997 Indentures authorize the trustee, on behalf of the Authority, to invest in legal investments for public sinking funds and other public funds as outlined in §2.2-4500 and §2.2-4501 of the *Code of Virginia* which include repurchase agreements, certificates of deposit, commercial paper, bankers' acceptances, United States Government and agency securities, and money market funds. All the investments of the Authority are held in the Authority's name and are categorized in Risk Category 1. Categorization under the provisions of GASB 3 is not required for money market funds and the SNAP^{sm} fund.

The Authority's cash and cash equivalents at June 30, 2004 are presented below.

Summary of Cash, Cash Equivalents and Investments
As of June 30, 2004

	Carrying Amount	Fair Value
Cash and cash equivalents:		
Cash	$ 49	$ 49
Money Market Funds [(1)]	6,167,614	6,167,614
State Non-Arbitrage Program ^{sm} [(2)]	2,533,686	2,533,686
U. S. Government Securities	1,334,922	1,334,922
Total cash and cash equivalents	$ 10,036,271	$ 10,036,271

(1) The Authority invests certain short-term cash balances held within its accounts in Nations Treasury Class Investor and Federated Auto Gov't Money Trust. These are open-ended mutual funds registered under the Investment Company Act of 1940. These funds maintain a policy of investing all their assets in U.S. Treasury obligations and repurchase agreements backed by those obligations.

(2) The Virginia State Non-Arbitrage Program^{sm} ("SNAP^{sm}") 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^{sm} is an external investment pool registered under the Investment Company Act of 1940.

B. Long-Term Debt

Changes in Long-Term Debt - The following is a summary of changes in long-term debt of the Authority for the year ended June 30, 2004.

Bonds payable at July 1, 2003	$ 956,495,396
Bonds issued	187,105,000
Bonds defeased	(194,585,000)
Bonds retired	(71,975,000)
Amortized discount	5,095,496
Amortized deferral on debt defeasance	(12,870,199)
Bonds payable at June 30, 2004	$ 869,265,693

Annual Requirements to Amortize Long-Term Debt:

Year Ending June 30	Principal	Interest	Total
2005	$ 61,025,000	$ 38,244,776	$ 99,269,776
2006	64,210,000	35,926,743	100,136,743
2007	69,295,000	33,440,307	102,735,307
2008	71,800,000	30,851,466	102,651,466
2009	74,440,000	28,166,626	102,606,626
2010-2014	330,905,000	95,416,053	426,321,053
2015-2019	193,030,000	31,923,947	224,953,947
2020-2024	44,455,000	3,082,875	47,537,875
Less:			
Unamortized discount	(15,918,701)	-	(15,918,701)
Deferral on debt defeasance	(23,975,606)	-	(23,975,606)
Total	$ 869,265,693	$ 297,052,793	$ 1,166,318,486

C. Defeasance of Debt

In March 2004, the Authority issued $187,105,000 State Building Revenue Refunding Bonds Series 2004A. A portion of the proceeds refunded $3,600,000 of Series 1994A bonds, $118,245,000 of Series 1995 bonds, and $72,740,000 of Series 1997A bonds. Bond proceeds of $211,690,466 were placed with an escrow agent to provide for the redemption of the bonds. An additional amount of $6,473,595 in excess interest earnings held by the Authority was also placed in escrow to complete the redemption. The redemption dates of the Series 1994A, Series 1995, and Series 1997A bonds are August 1, 2004, 2005, and 2007 respectively. The total debt service payments over the life of the bonds have been reduced by $17,158,178 resulting in an economic gain (savings) of $13,639,359 discounted at 2.991184%.

In prior years, the Authority defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments 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. At June 30, 2004, $245,495,000 of bonds outstanding is considered defeased for financial reporting purposes. The detail for those balances and the refinancing activities that resulted in the defeasance of the bonds is shown below:

Refunded State Building Revenue Bonds:	Refunded Amount:	Refunding Series:
Series 1994A (partial)	$54,510,000	1998A,2004A
Series 1995 (partial)	$118,245,000	2004A
Series 1997A (partial)	$72,740,000	2004A

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. Therefore, Bonds Payable, as reflected on the government-wide statements, has been reduced by $23,975,606 to reflect the remaining deferral on debt defeasance at June 30, 2004.

D. Arbitrage Rebate

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

Income earned on excess earnings is also subject to rebate. Rebate payments, if required, are due at least every five years over the life of the bonds. Some bonds of the Authority may be exempt from the rebate regulations if they meet statutory exceptions per the rebate requirements. The Authority may also elect, on or before the date of the bond issue, to pay a penalty in lieu of rebate if it does not meet certain expenditure tests. The Authority would retain any arbitrage earnings. The Authority, to date, has not elected penalty in lieu of rebate.

Rebate and penalty payments are calculated and paid by the Authority as required by law on bond issues that fall under the regulations and do not qualify for exceptions. An arbitrage rebate liability of $165,107 was computed for the Series

1998B bond, as of its 10-year installment computation date of June 11, 2003. Payment of this obligation was made to the Internal Revenue Service on August 10, 2003. A yield reduction payment of $929,728 was computed for the Series 1996A bond, and the Virginia Treasury Board made payment of this obligation to the Internal Revenue Service on January 15, 2004.

An additional computation that did not result in any liability was completed for the Series 1993A bonds on the 10-year installment computation date of July 15, 2003. The Series 1999A bonds met all exceptions and therefore, a 5-year calculation was not required at its anniversary date of May 20, 2004.

E. Special Item

During the year the Authority restructured four separate escrow accounts, in accordance with the escrow agreements, related refundings of the 1988 bonds, the 1995 bonds, and the 1997 bonds. Higher interest rates available on certain U.S. Treasury Obligations (State and Local Government Series - SLGS) made it possible for the Authority to replace lower interest rate SLGS with higher interest rate SLGS, thereby reducing the amount needed to satisfy the funding requirements for the escrow accounts. As a result $1,334,922 (net of related expenses) was returned to the Authority from the escrow accounts and will be used to reduce future debt service payments.

F. 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. Authority bonds are secured by General Assembly appropriations. Because future appropriations are not considered available and do not constitute a legally binding Commitment, the Authority ended the year with a net asset deficit of $880,383,042. The General Assembly has never failed to appropriate funds to the Authority for payment of debt service on the Authority's bonds.

G. Subsequent Events

On August 5, 2004, the authority issued $207,065,000 Series 2004B bonds to finance the acquisition construction, improvement, rehabilitation, furnishing and equipping of various public facilities for use by the Commonwealth of Virginia and its agencies, finance or refinance the Commonwealth's share of the costs of certain regional and local jail and juvenile detention projects, and pay costs of issuing Series 2004B Bonds.

On August 26, 2004, the authority issued $39,260,000 Series 2004C bonds to refund all of certain lease revenue bonds secured by and payable from a lease agreement between the Commonwealth of Virginia and the Brunswick County Industrial Development Authority for the Brunswick Correctional Center, and pay the costs of issuing Series 2004C Bonds.

H. 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.

Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

November 24, 2004

The Honorable Mark R. Warner
Governor of Virginia

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

Board of Directors
Virginia Public Building Authority

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the governmental activities and the special revenue major fund of the Virginia Public Building Authority, a component unit of the Commonwealth of Virginia, as of and for the year then ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Virginia Public Building Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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 opinion.

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 Public Building Authority as of June 30. 2004, 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 1 through 4 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 methods of measurement and presentation of required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also considered the internal control over financial reporting and performed tests of its compliance with certain provisions of laws, regulations, and contracts related to Virginia Public Building Authority and included the results in our report on the Virginia Department of the Treasury. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

AUDITOR OF PUBLIC ACCOUNTS

VIRGINIA PUBLIC BUILDING AUTHORITY
Richmond, Virginia

<u>BOARD MEMBERS</u>
As of June 30, 2004

Sara B. Williams, Chairman

Barbara O. Carraway, Vice Chairman

Priscilla Burbank

Scot N. Creech

Myron J. Mintz

<u>EX OFFICIO</u>

Jody M. Wagner, Secretary/Treasurer, State Treasurer

David Von Moll, State Comptroller