

VIRGINIA COLLEGE BUILDING AUTHORITY

FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2009



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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, 2009. 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 21st 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 \$291.6 million of bonds under this 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 are issued together as a single 21st Century College and Equipment Programs offering. During the year, the Authority issued \$381.6 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 21st 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)

	2009	2008
Current assets	\$ 434	\$ 386
Noncurrent assets	1,261	1,014
Total assets	1,695	1,400
Current liabilities	496	408
Noncurrent liabilities	2,348	1,811
Total liabilities	2,844	2,219
Net assets:		
Restricted	71	93
Unrestricted	(1,220)	(912)
Total net assets	\$ (1,149)	\$ (819)

Net assets decreased by \$330 million, or 40%, in fiscal year 2009 as compared to fiscal year 2008. The 21st Century College and Equipment Programs comprise the majority of the Authority's net assets. During the year, through these programs, the Authority spent \$449 million on disbursements to institutions and on bond interest expenses. Offsetting revenues were only \$119 million. While the Authority's total assets did increase by \$295 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 21st Century College and Equipment Program's total assets actually increased by \$31 million while related liabilities under the 21st Century College and Equipment Programs increased by \$361 million.

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

	2009	2008
Revenues:		
Appropriations from the Commonwealth	\$ 114	\$ 112
Other revenues	58	64
Total revenues	<u>172</u>	<u>176</u>
Expenses:		
Interest on long-term debt	93	94
Construction and equipment disbursements	407	142
Other	2	1
Total expenses	<u>502</u>	<u>237</u>
Decrease in net assets	(330)	(61)
Net assets July 1	<u>(819)</u>	<u>(758)</u>
Net assets June 30	<u><u>\$ (1,149)</u></u>	<u><u>\$ (819)</u></u>

The increase in expenditures (\$265 million, or 112%) is primarily due to a \$6 million decrease in disbursements to institutions for equipment allocation expenses, combined with an increase of \$270 million in disbursements for capital project activity.

Financial Analysis of the Authority's Funds

In the Special Revenue Fund, total assets increased by \$39 million, or 11%, in fiscal year 2009. This is primarily attributable to current period receipts (comprised of \$706.7 million in bond issuance proceeds, \$202.9 million in receipts for debt service, and \$5.1 million in investment revenues) exceeding current period expenses (comprised of \$654.9 million in disbursements to institutions, \$203.1 million in debt service expenses, and \$18.1 million in other expenses). Liabilities increased by \$46 million, or 113%. This is primarily due to higher year-end payables due to the institutions, which fluctuate 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, 7/1/08	\$ 675	\$ 180	\$ 1,037	\$ 1,892
Issued during year	381		292	673
Retired during year	(27)	(52)	(39)	(118)
Defeased during year	(13)	-		(13)
Outstanding, 6/30/09	<u>\$ 1,016</u>	<u>\$ 128</u>	<u>\$ 1,290</u>	<u>\$ 2,434</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 st 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 (21st 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

On October 8, 2009, the Virginia College Building Authority issued \$261,280,000 in Educational Facilities Revenue and Refunding Bonds (21st Century College and Equipment Programs), Series 2009DE. The issue was comprised of \$52,420,000 in bonds to finance the acquisition of equipment at institutions of higher education and \$208,860,000 to refund a portion of certain outstanding Educational Facilities Revenue Bonds.

On December 9, 2009, the Virginia College Building Authority issued \$235,945,000 in Educational Facilities Revenue Bonds (Public Higher Education Financing Program) Series 2009B (the "Bonds"). 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.

On December 2, 2009 the Virginia College Building Authority sold its Educational Facilities Revenue Bonds (21st Century and Equipment Programs) \$53,880,000 Series 2009 F-1 and

\$390,575,000 Series 2009 F-2 (Taxable Build America Bonds). The Series F-1 and F-2 bonds are expected to be issued on December 17, 2009. The proceeds of this bond issue will be used to pay the costs of capital projects authorized by the General Assembly under the 21st Century College and Equipment Programs.

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Financial Statements

VIRGINIA COLLEGE BUILDING AUTHORITY
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET
As of June 30, 2009

	Special Revenue Fund	Adjustments (Note 1F)	Statement of Net Assets
ASSETS			
Current assets:			
Cash and cash equivalents (Note 2A)	\$ 384,613,195	\$ -	\$ 384,613,195
Short-term notes receivable (Note 2B)	-	48,825,000	48,825,000
Interest receivable	232,663	-	232,663
Total current assets	<u>384,845,858</u>	<u>48,825,000</u>	<u>433,670,858</u>
Noncurrent assets:			
Restricted cash and cash equivalents (Note 2A)	32,097	-	32,097
Long-term notes receivable (Note 2B)	-	1,240,700,000	1,240,700,000
Restricted interest receivable	2	20,511,852	20,511,854
Total noncurrent assets	<u>32,099</u>	<u>1,261,211,852</u>	<u>1,261,243,951</u>
Total assets	<u><u>\$ 384,877,957</u></u>	<u><u>1,310,036,852</u></u>	<u><u>1,694,914,809</u></u>
LIABILITIES			
Current liabilities:			
Due to higher education institutions (Note 2D)	\$ 55,913,912	219,632,719	275,546,631
Allocation payable (Note 2G)	30,141,090	-	30,141,090
Interest payable	-	36,870,633	36,870,633
Bonds payable (net of deferral on debt defeasance) (Notes 2C, 2F)	-	141,483,700	141,483,700
Premium on bonds sold	-	4,087,618	4,087,618
Temporary Loans Payable (Note E)	-	7,907,399	7,907,399
Accounts payable	-	21,913	21,913
Total current liabilities	<u>86,055,002</u>	<u>410,003,982</u>	<u>496,058,984</u>
Noncurrent liabilities:			
Bonds payable (net of deferral on debt defeasance) (Notes 2C, 2F)	-	2,292,184,700	2,292,184,700
Premium on bonds sold	-	55,469,817	55,469,817
Total noncurrent liabilities	<u>-</u>	<u>2,347,654,517</u>	<u>2,347,654,517</u>
Total liabilities	<u>86,055,002</u>	<u>2,757,658,499</u>	<u>2,843,713,501</u>
FUND BALANCE/NET ASSETS:			
Fund Balance:			
Unreserved	298,822,955	(298,822,955)	-
Total liabilities and fund balance	<u><u>\$ 384,877,957</u></u>		
Net assets:			
Restricted for construction and equipment purchases		70,976,122	70,976,122
Restricted for debt service		32,099	32,099
Unrestricted		(1,219,806,913)	(1,219,806,913)
Total net assets (Note 2H)		<u><u>\$ (1,148,798,692)</u></u>	<u><u>\$ (1,148,798,692)</u></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, 2009

	Special Revenue Fund	Adjustments (Note 1F)	Statement of Activities
REVENUES:			
Interest on investments	\$ 5,094,802	\$ (56,152)	\$ 5,038,650
Interest on bonds	49,406,431	4,230,632	53,637,063
Receipt of note principal payments	39,741,287	(39,741,287)	-
Appropriations from the Commonwealth	113,800,316	-	113,800,316
Total revenues	208,042,836	(35,566,807)	172,476,029
EXPENDITURES/EXPENSES:			
Current:			
Legal and financial services	349,677	(166,375)	183,302
Bond rating fees	290,353	(123,450)	166,903
Printing and electronic distributions	14,971	(4,683)	10,288
Equipment allocation	50,823,802	7,907,399	58,731,201
Disbursement to higher education institutions	649,661,952	(301,045,537)	348,616,415
Payment to escrow agent	13,806,649	(13,806,649)	-
Underwriter's discount	3,326,752	(1,435,159)	1,891,593
Miscellaneous	305,916	(292,785)	13,131
Debt service:			
Principal retirement	118,740,000	(118,740,000)	-
Interest and fiscal charges	84,449,520	8,463,093	92,912,613
Total expenditures/expenses	921,769,592	(419,244,146)	502,525,446
Excess (deficiency) of revenues over (under) expenditures	(713,726,756)	-	-
Other financing sources (uses):			
Bond issuance	673,290,000	(673,290,000)	-
Bond premium	33,392,173	(33,392,173)	-
Total other financing sources (uses)	706,682,173	(706,682,173)	-
Excess of revenues and other financing sources over expenditures and other financing uses	(7,044,583)	7,044,583	-
Change in net assets	-	(330,049,417)	(330,049,417)
Fund Balance/Net Assets, July 1, 2008	305,867,538	(1,124,616,813)	(818,749,275)
Fund Balance/Net Assets, June 30, 2009 (Note 2H)	<u>\$ 298,822,955</u>	<u>\$ (1,447,621,647)</u>	<u>\$ (1,148,798,692)</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, 2009**

**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 for all 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, 2009 was \$532,530,000. (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, 2009, The Bank of New York Mellon, which currently serves as trustee for both Indentures, maintained \$384,508,307 in cash and cash equivalents for the Authority. The Authority also directly held cash equivalents of \$136,985, for a total invested balance of \$384,645,292.

At June 30, 2009, 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, 2009

|                                                 | Fair<br>Value         |
|-------------------------------------------------|-----------------------|
| Cash and cash equivalents:                      |                       |
| State Non-Arbitrage Program <sup>® (1)</sup>    | \$ 219,540,511        |
| Local Government Investment Pool <sup>(2)</sup> | 165,071,367           |
| Money Market Funds <sup>(3)</sup>               | 33,414                |
| Total cash and cash equivalents                 | <u>\$ 384,645,292</u> |

<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:

| <u>Year Ending June 30</u> | <u>Principal</u>        | <u>Interest</u>       | <u>Total</u>            |
|----------------------------|-------------------------|-----------------------|-------------------------|
| 2010                       | 48,825,000              | 59,248,048            | 108,073,048             |
| 2011                       | 55,020,000              | 56,914,815            | 111,934,815             |
| 2012                       | 61,845,000              | 54,143,517            | 115,988,517             |
| 2013                       | 64,480,000              | 51,043,633            | 115,523,633             |
| 2014                       | 67,330,000              | 47,866,242            | 115,196,242             |
| 2015-2019                  | 364,420,000             | 190,009,277           | 554,429,277             |
| 2020-2024                  | 338,855,000             | 105,652,501           | 444,507,501             |
| 2025-2029                  | 233,780,000             | 35,700,181            | 269,480,181             |
| 2030-2034                  | 37,905,000              | 8,359,962             | 46,264,962              |
| 2035-2039                  | 17,065,000              | 1,736,869             | 18,801,869              |
| Total                      | <u>\$ 1,289,525,000</u> | <u>\$ 610,675,045</u> | <u>\$ 1,900,200,045</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, 2009.

|                                        |                         |
|----------------------------------------|-------------------------|
| Bonds payable at July 1, 2008          | \$ 1,892,344,600        |
| Bonds issued                           | 673,290,000             |
| Bonds retired                          | (118,740,000)           |
| Bonds refunded                         | (12,965,000)            |
| Deferral on debt defeasance            | (781,000)               |
| Annual amortization of debt defeasance | 519,800                 |
| Bonds payable at June 30, 2009         | <u>\$ 2,433,668,400</u> |

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

| <u>Year Ending June 30</u>           | <u>Principal</u>        | <u>Interest</u>         | <u>Total</u>            |
|--------------------------------------|-------------------------|-------------------------|-------------------------|
| 2010                                 | \$ 142,140,000          | \$ 104,771,100          | \$ 246,911,100          |
| 2011                                 | 141,925,000             | 102,937,209             | 244,862,209             |
| 2012                                 | 140,010,000             | 96,244,350              | 236,254,350             |
| 2013                                 | 127,605,000             | 89,612,442              | 217,217,442             |
| 2014                                 | 133,300,000             | 83,656,644              | 216,956,644             |
| 2015 - 2019                          | 686,405,000             | 324,257,995             | 1,010,662,995           |
| 2020 - 2024                          | 617,745,000             | 174,112,830             | 791,857,830             |
| 2025 - 2029                          | 395,095,000             | 55,667,940              | 450,762,940             |
| 2030 - 2034                          | 37,905,000              | 8,359,963               | 46,264,963              |
| 2035 - 2039                          | 17,065,000              | 1,736,869               | 18,801,869              |
| Less: Deferral on debt<br>defeasance | <u>(5,526,600)</u>      | <u>-</u>                | <u>(5,526,600)</u>      |
| Total                                | <u>\$ 2,433,668,400</u> | <u>\$ 1,041,357,342</u> | <u>\$ 3,475,025,742</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, 2009 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. Temporary Loan Payable**

During fiscal year 2009, the issuance of bonds to finance the purchase of equipment under the 21<sup>st</sup> Century College and Equipment Program was deferred until fiscal year 2010. In order to meet the short-term needs of the Authority until the bonds could be issued, the Authority obtained a temporary loan from the Commonwealth in the amount of \$7,907,399 at June 30, 2009. Proceeds from the loan were used to reimburse institutions for expenses incurred in accordance with the existing appropriations and allocations. The 2009DE 21<sup>st</sup> Century College and Equipment bonds were sold in September 2009 and closed in October 2009. The loan was repaid in its entirety when the bonds closed.

#### **F. Defeasance of Debt**

From time to time, when interest rates indicate that it would be favorable to do so, the Authority has issued refunding bonds to defease outstanding bonds. These refundings 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 \$5,526,600 related to 21<sup>st</sup> Century College Program, to reflect the remaining deferral on debt defeasance at June 30, 2009.

The Authority issued one series of refunding bonds in fiscal year 2009. The following schedule reflects the refunding activity during the year.

##### **Refunding Bonds Issued During Fiscal Year 2009**

| Program                  | Refunding Issue | Refunded Issue | Maturities<br>Defeased | Amount<br>Defeased   |
|--------------------------|-----------------|----------------|------------------------|----------------------|
| 21 <sup>st</sup> Century | 2009C           | 1999           | 2010-13                | \$ 3,805,000         |
| 21 <sup>st</sup> Century | 2009C           | 2001           | 2011-15                | 4,710,000            |
| 21 <sup>st</sup> Century | 2009C           | 2002A          | 2015                   | 4,450,000            |
| Total Defeased, FY 2009  |                 |                |                        | <u>\$ 12,965,000</u> |

The issuance of the Authority's Series 2009C 21<sup>st</sup> Century Program refunding bonds refunded three series of the Authorities bonds as reflected on the above schedule. This defeasance resulted in an accounting loss of \$781,000. Total debt service payments over the next 6 years will be reduced by \$464,148 resulting in a present value savings of \$458,610 discounted at the rate of 4.082215 percent.

At June 30, 2009, \$199,240,000 of bonds outstanding are considered defeased for financial reporting purposes.

#### **G. Allocation Payable**

During fiscal year 2009, the General Assembly allocated \$58,049,457 in Virginia College Building Authority bond proceeds to finance the purchase of equipment at public institutions of higher education. The Authority is committed by this to reimburse institutions of higher education for the cost of equipment from its cash and investments. Institutions purchased and obtained reimbursement for \$15,801,526 in equipment, relating to this appropriation during the fiscal year, leaving \$42,247,931 of this allocation outstanding at June 30, 2009. 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 \$35,297,671 of equipment relating to a prior years' appropriation by the General Assembly.

#### **H. 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 \$1,148,798,692. The General Assembly has never failed to appropriate funds to the Authority for payment of debt service on the Authority's bonds.

#### **I. Subsequent Events**

On October 8, 2009, the Virginia College Building Authority issued \$261,280,000 in Educational Facilities Revenue and Refunding Bonds (21<sup>st</sup> Century College and Equipment Programs), Series 2009DE. The issue was comprised of \$52,420,000 in bonds to finance the acquisition of equipment at institutions of higher education and \$208,860,000 to refund a portion of certain outstanding Educational Facilities Revenue Bonds.

On December 9, 2009, the Virginia College Building Authority issued \$235,945,000 in Educational Facilities Revenue Bonds (Public Higher Education Financing Program ) Series 2009B (the "Bonds"). 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.

On December 2, 2009 the Virginia College Building Authority sold its Educational Facilities Revenue Bonds (21<sup>st</sup> Century and Equipment Programs) \$53,880,000 Series 2009 F-1 and

\$390,575,000 Series 2009 F-2 (Taxable Build America Bonds). The Series F-1 and F-2 bonds are expected to be issued on December 17, 2009. The proceeds of this bond issue will be used to pay the costs of capital projects authorized by the General Assembly under the 21<sup>st</sup> Century College and Equipment Programs.

**J. 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.



## **Supplementary Information**

**Virginia College Building Authority**  
**Detail of Long-Term Indebtedness**  
**June 30, 2009**  
**(Dollars in Thousands)**

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

|                        | Dated<br>Date | Bond<br>Program     | True Interest<br>Cost ("TIC") | Amount<br>Issued    | Institutional<br>Notes<br>Purchased | Outstanding<br>July 1,<br>2008 | Issued<br>(Retired)<br>During<br>Year | Outstanding<br>June 30,<br>2009 * | Original<br>Maturity |
|------------------------|---------------|---------------------|-------------------------------|---------------------|-------------------------------------|--------------------------------|---------------------------------------|-----------------------------------|----------------------|
| Series 1998            | 06/01/98      | 21st Century        | 4.85%                         | 54,785              | -                                   | 5,655                          | (2,765)                               | 2,890                             | 08/01/17             |
| Series 1998A           | 10/01/98      | Pooled              | 4.56%                         | 50,735              | 50,735                              | 9,880                          | (2,570)                               | 7,310                             | 09/01/18             |
| Series 1999            | 06/01/99      | 21st Century/Equip. | 4.44%                         | 59,495              | -                                   | 4,655                          | (4,655)                               | -                                 | 02/01/19             |
| Series 1999A           | 10/15/99      | Pooled              | 5.62%                         | 71,200              | 71,200                              | 6,420                          | (3,135)                               | 3,285                             | 09/01/19             |
| Series 2000            | 06/01/00      | 21st Century/Equip. | 5.49%                         | 60,900              | -                                   | 630                            | (630)                                 | -                                 | 02/01/20             |
| Series 2000A           | 11/01/00      | Pooled              | 5.17%                         | 83,010              | 83,010                              | 21,605                         | (3,465)                               | 18,140                            | 09/01/20             |
| Series 2001            | 05/01/01      | 21st Century/Equip. | 4.40%                         | 65,795              | -                                   | 6,330                          | (5,505)                               | 825                               | 02/01/21             |
| Series 2001A           | 10/01/01      | Pooled              | 4.51%                         | 69,365              | 69,365                              | 40,285                         | (2,575)                               | 37,710                            | 09/01/26             |
| Series 2002            | 05/15/02      | 21st Century/Equip. | 4.55%                         | 130,795             | -                                   | 27,215                         | (7,845)                               | 19,370                            | 02/01/22             |
| Series 2002A           | 10/15/02      | Pooled              | 4.60%                         | 134,945             | 134,945                             | 70,010                         | (5,135)                               | 64,875                            | 09/01/27             |
| Series 2003A           | 05/15/03      | 21st Century/Equip. | 3.66%                         | 140,250             | -                                   | 89,010                         | (4,165)                               | 84,845                            | 02/01/23             |
| Series 2003A           | 11/01/03      | Pooled              | 4.22%                         | 115,715             | 115,715                             | 103,395                        | (4,255)                               | 99,140                            | 09/01/30             |
| Series 2004A           | 07/01/04      | 21st Century/Equip. | 4.13%                         | 172,745             | -                                   | 123,085                        | (13,070)                              | 110,015                           | 02/01/24             |
| Series 2004A           | 10/01/04      | Pooled              | 4.25%                         | 112,935             | 112,935                             | 104,810                        | (3,715)                               | 101,095                           | 09/01/35             |
| Series 2004B Refunding | 10/01/04      | Pooled              | 3.75%                         | 103,205             | 103,205                             | 101,745                        | (255)                                 | 101,490                           | 09/01/19             |
| Series 2004B Refunding | 12/01/04      | 21st Century        | 4.06%                         | 61,395              | -                                   | 60,120                         | (2,700)                               | 57,420                            | 02/01/20             |
| Series 2005A           | 05/15/05      | 21st Century/Equip. | 3.79%                         | 115,785             | -                                   | 79,710                         | (12,675)                              | 67,035                            | 02/01/25             |
| Series 2005A           | 11/03/05      | Pooled              | 4.27%                         | 115,975             | 115,975                             | 107,745                        | (3,860)                               | 103,885                           | 09/01/16             |
| Series 2006A           | 05/15/06      | 21st Century/Equip. | 3.72%                         | 53,835              | -                                   | 35,265                         | (11,185)                              | 24,080                            | 02/01/11             |
| Series 2006BC          | 09/14/06      | 21st Century/Equip. | VAR                           | 120,000             | -                                   | 111,235                        | -                                     | 111,235                           | 02/01/26             |
| Series 2006A           | 11/30/06      | Pooled              | 4.16%                         | 156,130             | 156,130                             | 154,085                        | (3,975)                               | 150,110                           | 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                        | (3,860)                               | 213,045                           | 09/01/30             |
| Series 2007B           | 05/31/07      | 21st Century/Equip. | 4.04%                         | 132,095             | -                                   | 113,850                        | (17,070)                              | 96,780                            | 02/01/27             |
| Series 2007B Refunding | 10/31/07      | Pooled              | 4.05%                         | 100,765             | 100,765                             | 100,765                        | (2,970)                               | 97,795                            | 09/01/19             |
| Series 2008A           | 06/12/08      | 21st Century/Equip. | 3.93%                         | 144,075             | -                                   | 144,075                        | (9,670)                               | 134,405                           | 02/01/28             |
| Series 2009A           | 01/21/09      | Pooled              | 4.19%                         | 291,645             | 291,645                             | -                              | 291,645                               | 291,645                           | 09/01/38             |
| Series 2009A           | 04/28/09      | 21st Century        | 4.30%                         | 284,020             | -                                   | -                              | 284,020                               | 284,020                           | 02/01/29             |
| Series 2009B           | 04/28/09      | 21st Century        | 5.04%                         | 84,680              | -                                   | -                              | 84,680                                | 84,680                            | 02/01/18             |
| Series 2009C Refunding | 04/28/09      | 21st Century        | 2.45%                         | 12,945              | -                                   | -                              | 12,945                                | 12,945                            | 02/01/15             |
| Total                  |               |                     |                               | <u>\$ 3,375,250</u> | <u>\$ 1,622,530</u>                 | <u>\$ 1,897,610</u>            | <u>\$ 541,585</u>                     | <u>\$ 2,439,195</u>               |                      |

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

|                              | Amount<br>Issued    | Institutional<br>Notes<br>Purchased | Outstanding<br>July 1,<br>2008 | Issued<br>(Retired)<br>During<br>Year | Outstanding<br>June 30,<br>2009 * |
|------------------------------|---------------------|-------------------------------------|--------------------------------|---------------------------------------|-----------------------------------|
| 21st Century College Program | \$ 1,265,030        | \$ -                                | \$ 680,245                     | \$ 341,540                            | \$ 1,021,785                      |
| Pooled Bond Program          | 1,622,530           | 1,622,530                           | 1,037,650                      | 251,875                               | 1,289,525                         |
| Equipment Program            | 487,690             | -                                   | 179,715                        | (51,830)                              | 127,885                           |
| Total                        | <u>\$ 3,375,250</u> | <u>\$ 1,622,530</u>                 | <u>\$ 1,897,610</u>            | <u>\$ 541,585</u>                     | <u>\$ 2,439,195</u>               |

\* Excludes deferral on debt defeasance



**Virginia College Building Authority**  
**Schedule of Outstanding Bond Issues for Private Colleges and Universities**  
**June 30, 2009**  
**(Dollars in Thousands)**

| College/University          | Series | Dated<br>Date | Yield (a) | Amount<br>Originally<br>Issued | Amount<br>of Notes<br>Purchased | Outstanding<br>July 1,<br>2008 | Issued<br>(Retired)<br>During<br>Year | Outstanding<br>June 30,<br>2009 | Original<br>Final<br>Maturity |
|-----------------------------|--------|---------------|-----------|--------------------------------|---------------------------------|--------------------------------|---------------------------------------|---------------------------------|-------------------------------|
| Hampden-Sydney College      | 1998   | 04/01/98      | 5.08%     | 13,340                         | 13,340                          | 8,595                          | (730)                                 | 7,865                           | 09/01/18                      |
| Hampton University          | 1998   | 12/01/98      | 4.55%     | 10,745                         | 10,745                          | 4,280                          | (345)                                 | 3,935                           | 04/01/18                      |
|                             | 2000   | 02/15/00      | 5.90%     | 21,500                         | 21,500                          | 1,930                          | (930)                                 | 1,000                           | 04/01/20                      |
|                             | 2003   | 04/16/03      | 3.64%     | 16,670                         | 16,670                          | 9,875                          | (1,510)                               | 8,365                           | 04/01/14                      |
|                             | 2005   | 04/29/05      | 4.16%     | 24,500                         | 24,500                          | 23,690                         | (515)                                 | 23,175                          | 04/01/20                      |
| Marymount University        | 1998   | 11/01/98      | 5.08%     | 26,015                         | 26,015                          | 20,780                         | (940)                                 | 19,840                          | 07/01/28                      |
|                             | 2009   | 03/04/09      | VAR       | 40,000                         | 40,000                          | -                              | 40,000                                | 40,000                          | 03/01/39                      |
| 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                          | 90,300                         | (430)                                 | 89,870                          | 06/01/36                      |
| Roanoke College             | 2007   | 06/06/07      | 4.64%     | 20,430                         | 20,430                          | 20,035                         | (395)                                 | 19,640                          | 06/30/37                      |
| Shenandoah University       | 2006   | 11/16/06      | VAR       | 21,895                         | 21,895                          | 21,595                         | (320)                                 | 21,275                          | 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                      |
|                             | 2009A  | 02/26/09      | VAR       | 45,085                         | 45,085                          | -                              | 45,085                                | 45,085                          | 02/26/39                      |
|                             | 2009B  | 02/26/09      | VAR       | 29,615                         | 29,615                          | -                              | 29,615                                | 29,615                          | 02/26/39                      |
| 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                          | 17,665                         | (1,735)                               | 15,930                          | 01/01/26                      |
|                             |        |               |           | <u>\$ 625,495</u>              | <u>\$ 625,495</u>               | <u>\$ 455,295</u>              | <u>\$ 77,235</u>                      | <u>\$ 532,530</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**

December 14, 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** (the Authority), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2009, 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, 2009, 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 six 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 December 14, 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

WJK/alh



VIRGINIA COLLEGE BUILDING AUTHORITY  
Richmond, Virginia

BOARD MEMBERS  
As of June 30, 2009

William L. Nusbaum, Chairman

John F. “Jack” Carter, II, Vice Chairman

Vinod B. Agarwal

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