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October 10, 1998

The Honorable James S. Gilmore, III
Governor of Virginia

The Honorable Richard J. Holland
Chairman, Joint Legislative Audit
And Review Commission

Board of Directors
Virginia College Building Authority

INDEPENDENT AUDITOR'S REPORT

We have audited the balance sheet of the **Virginia College Building Authority** as of June 30, 1998, and the related statement of revenues, expenditures and changes in fund balance, statement of revenues, expenses and changes in retained earnings, and the statement of cash flows for the year then ended. These financial statements are the responsibility of the 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 generally accepted auditing standards. 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 financial position of the Virginia College Building Authority as of June 30, 1998, and the results of its operations and cash flows for the year then ended, in conformity with generally accepted accounting principles.

Sincerely,

Walter J. Kucharski
Auditor of Public Accounts

JBS:jld
jld:32

VIRGINIA COLLEGE BUILDING AUTHORITY
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
As of June 30, 1998

ASSETS AND OTHER DEBITS	Governmental Fund Types			Account Group	Total
	General	Debt Service	Enterprise	General Long-Term Debt	(Memorandum Only)
Current assets:					
Cash and cash equivalents (Note 2)	$53,854,731	$ 86,297	$ 64,232,187	$ -	$ 118,173,215
Interest receivable	219,793	295	320,130	-	540,218
Total current assets	54,074,524	86,592	64,552,317	-	118,713,433
Restricted assets:					
Cash and cash equivalents (Note 2)	-	76,486	175,543	-	252,029
Short-term lease receivable (Note 3)	-	-	27,210,000	-	27,210,000
Long-term lease receivable (Note 3)	-	-	83,045,000	-	83,045,000
Short-term notes receivable (Note 3)	-	-	1,320,000	-	1,320,000
Long-term notes receivable (Note 3)	-	-	54,445,000	-	54,445,000
Interest receivable	-	212	2,632,680	-	2,632,892
Discount on Bonds	-	-	565,026	-	565,026
Total restricted assets	-	76,698	169,393,249	-	169,469,947
Other debits:					
Amount provided for retirement of general long-term debt	-	-	-	4,366	4,366
Amount to be provided for retirement of general long-term debt	-	-	-	107,360,634	107,360,634
Total other debits	-	-	-	107,365,000	107,365,000
Total assets and other debits	$54,074,524	$ 163,290	$233,945,566	$ 107,365,000	$ 395,548,380
LIABILITIES AND FUND EQUITY					
Liabilities:					
Current liabilities:					
Due to higher education institutions	$ 4,760,830	$ -	$ 38,995,669	$ -	$ 43,756,499
Interest payable	-	-	2,491,655	-	2,491,655
Accrued interest sold	-	72,120	147,711	-	219,831
Premium on bonds payable	-	-	30,790	-	30,790
Bonds payable (Note 4)	-	-	28,530,000	-	28,530,000
Allocation payable (Note 5)	-	-	25,289,503	-	25,289,503
Total current liabilities	4,760,830	72,120	95,485,328	-	100,318,278
Long-term liability:					
Premium on bonds payable	-	-	33,356	-	33,356
Bonds payable (Note 4)	-	-	137,490,000	107,365,000	244,855,000
Total long-term liabilities	-	-	137,523,356	107,365,000	244,888,356
Total liabilities	4,760,830	72,120	233,008,684	107,365,000	345,206,634
Fund equity:					
Retained earnings	-	-	936,882	-	936,882
Fund balance:					
Unreserved - designated	-	4,578	-	-	4,578
Unreserved - undesignated	49,313,694	86,592	-	-	49,400,286
Total fund equity	49,313,694	91,170	936,882	-	50,341,746
Total liabilities and fund equity	$54,074,524	$ 163,290	$233,945,566	$ 107,365,000	$ 395,548,380

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

VIRGINIA COLLEGE BUILDING AUTHORITY
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
ALL GOVERNMENTAL FUND TYPES
For the Year Ended June 30, 1998

	General	Debt Service	Total (Memorandum Only)
Revenues:			
Interest on investments	$ 2,008,024	$ 8,868	$ 2,016,892
Appropriations from the Commonwealth	-	3,825,671	3,825,671
Total revenues	2,008,024	3,834,539	5,842,563
Expenditures:			
Debt service:			
Principal retirement	-	15,580,000	15,580,000
Interest and fiscal charges	-	3,252,087	3,252,087
Current:			
Financial services	359,718	2,497	362,215
Bond rating fees	-	15,226	15,226
Advertising costs	-	1,595	1,595
Disbursement to higher education institutions	49,584,234	-	49,584,234
Total expenditures	49,943,952	18,851,405	68,795,357
Excess (deficiency) of revenues over expenditures	(47,935,928)	(15,016,866)	(62,952,794)
Other financing sources (uses):			
Proceeds from the sale of bond anticipation notes	15,000,000	-	15,000,000
Proceeds from the sale of bonds	55,004,471	104,580	55,109,051
Transfer among funds	(15,001,027)	15,001,027	-
Total other financing sources (uses)	55,003,444	15,105,607	70,109,051
Excess of revenue and other financing sources over expenditures and other uses	7,067,516	88,741	7,156,257
Fund balance, July 1, 1997	42,246,178	2,429	42,248,607
Fund balance, June 30, 1998	$49,313,694	$ 91,170	$ 49,404,864

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

VIRGINIA COLLEGE BUILDING AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
ENTERPRISE FUND
For the Year Ended June 30, 1998

Revenues:	
Interest on investments	$1,938,066
Interest on bonds	1,970,622
Lease income	3,822,638
Original issue premium	273,414
Other	12,407
Total revenues	8,017,147
Expenses:	
Interest on bonds	5,786,199
Legal and financial services	94,413
Printing services	15,419
Travel	2,886
Bond rating fees	64,800
Equipment allocation	774,994
Original issue discount	22,016
Underwriters' discount	401,320
Other	12,125
Total expenses	7,174,172
Operating transfers:	
Transfer to General Fund of the Commonwealth	46,800
Net income	796,175
Retained earnings, July 1, 1997	140,707
Retained earnings, June 30, 1998	$ 936,882

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

VIRGINIA COLLEGE BUILDING AUTHORITY
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
For the Year Ended June 30, 1998

Cash flows from operating activities:	
Interest on cash equivalents	$ 2,272,087
Payments to vendors for goods and services	(177,518)
Operating transfers	(46,800)
Other revenues	12,407
Other expenses	(12,125)
Net cash provided by operating activities	2,048,051
Cash flows from capital and related financing activities:	
Payments on leased equipment	24,833,157
Bond proceeds	93,925,052
Purchase of equipment	(39,151,036)
Payment of principal on bonds	(21,490,000)
Payment of interest on bonds	(4,637,112)
Receipt of interest on bonds	1,096,685
Accrued interest sold	147,711
Payments to institutions	(17,266,503)
Net cash used for capital and related financing activities	37,457,954
Cash flows from investing activities:	
Purchase of investments	
Proceeds from maturity of investment	139,972
Interest on investment	5,028
Net cash used for investing activities	145,000
Net increase in cash and cash equivalents	39,651,005
Cash and cash equivalents July 1, 1997	24,756,725
Cash and cash equivalents June 30, 1998	$ 64,407,730
Reconciliation of operating income to net cash provided by operating activities:	
Net income	$ 796,175
Adjustments to reconcile operating income to net cash provided by operating activities:	
Interest on leases	(3,343,157)
Interest received on bonds	(1,096,685)
Interest paid on bonds	4,489,401
Equipment allocation expense	774,994
Interest on investments	(5,028)
Original issue premium	(273,414)
Amortization of premium	(30,790)
Underwriters' discount	401,320
Original issue discount	22,016
Increase in notes receivable	(55,765,000)
Increase in interest receivable (leases)	(479,481)
Increase in interest receivable (cash equivalents)	(158,123)
Increase in interest receivable (bonds)	(873,937)
Increase in interest payable	1,323,965
Increase in accrued interest sold	3,623
Increase in payments due to higher education institutions	38,995,669
Payments to institutions	17,266,503
Net cash provided by operating activities	$ 2,048,051

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

VIRGINIA COLLEGE BUILDING AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

AS OF JUNE 30, 1998

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 and (ii) a program of purchasing instructional and research equipment for public institutions of higher education within 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 or refinancings are not obligations of the Commonwealth, but are limited obligations of the Authority payable solely from loan payments made by the institutions. This indebtedness, therefore, is not included in the financial statements. Total debt outstanding under this program at June 30, 1998 was $237,215,000.

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

B. Basis of Accounting

The governmental fund types are reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they are measurable and available to finance current expenditures; and expenditures are recognized when incurred.

The enterprise fund is presented on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when they are earned and expenditures are recognized when they are incurred. The cash basis of accounting is used during the year and reports are prepared on the accrual basis and the modified accrual basis at the end of the fiscal year by the Authority.

C. Fund Accounting

The accounts of the Authority are organized on the basis of funds and accounts groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Authority resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent. The individual funds are grouped, in the financial statements in this report, into two fund types as discussed below.

Governmental Funds:

General Fund—The General Fund accounts for all financial resources except those required to be accounted for in another fund. For the Authority, this includes the receipt and disbursement of bond proceeds issued under the 21st Century College Program.

Debt Service Fund—The Debt Service Fund accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. Debt service funds consist of bond funds and issuance expense funds. The funds were established in accordance with the provisions of the Master Indenture of Trust Agreement entered into with Bank of New York for the 21st Century College Program revenue bonds issued by the Authority.

Enterprise Fund:

The Enterprise Fund accounts for transactions related to resources received and used for financing self-supporting activities of the Authority. Operations are accounted for in a manner similar to a private business enterprise. Included in this fund are the Authority's Equipment Leasing Program and the Authority's Pooled Bond Program.

D. Account Group

The General Long-Term Debt Account Group is used to establish accounting control and accountability for the unmatured principal of general long-term debt. Bonds payable reported in the General Long-Term Debt Account Group consists of unmatured principal on bonds issued by the Authority under the 21st Century College Program.

E. Total Columns

Total columns on the financial statements are captioned "Total Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

F. Bond Issuance Costs, Premiums, and Discounts

Costs associated with issuing debt are expensed in the year incurred. The original issue premium or discount, for each bond issuance, is also expensed in the year incurred unless it exceeds 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. CASH AND INVESTMENTS

Certain deposits and investments of the Authority are held by The Bank of New York and Crestar Bank as trustees. Other funds of the Authority are invested in the State Treasurer's Local Government Investment Pool. Cash is defined as demand deposits, time deposits and certificates of deposit in accordance with Section 2.1-329 of the Code of Virginia. Cash equivalents are defined as investments with an original maturity of less than three months.

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

Under a Master Indenture of Trust dated March 1, 1994, Crestar Bank, as trustee, is authorized to invest in the following instruments: government obligations; government certificates; bonds, notes and other evidences of indebtedness of the Commonwealth, any locality of the Commonwealth, or any agency of the United States of America; savings accounts, time deposits, certificates of deposit or other interest bearing accounts of any bank or other financial institution that is approved for the deposit of funds of the Commonwealth that are secured in accordance with Section 2.1-329 of the Code of Virginia; money market funds permitted by Section 2.1-328 of the Code of Virginia; units in any pool or pools of investments created under the Government Non-Arbitrage Investment Act; commercial paper permitted by Section 2.1-328.1 of the Code of Virginia; and bankers acceptances permitted by Section 2.1-328.3 of the Code of Virginia. At June 30, 1998, Crestar Bank held $25,250,536 in cash and cash equivalents for the Authority.

Under a Master Indenture of Trust dated December 1, 1996, The Bank of New York, successor to Signet Bank as trustee, is authorized to invest in the following investments in addition to those noted above: bonds, notes and other obligations issued or guaranteed by the United States government; bonds, notes and other evidences of indebtedness of any state of the United States of America, or any locality of any state of the United States of America that meet the requirements of Code of Virginia Sections 2.1-327 and 2.1-328A.3; and investments made pursuant to the Investment of Public Funds and Local Government Investment Pool Act. At June 30, 1998, The Bank of New York maintained $87,503,334 in cash and cash equivalents for the Authority.

Details of the Authority's investments are presented below. At June 30, 1998, the Authority's investments were held in the Local Government Investment Pool, the State Non-Arbitrage Program, or other money market funds which are not categorized by credit risk since they are not evidenced by securities that exist in physical or book entry form.

	Carrying Value	Market Value
Cash and cash equivalents:		
State Non-Arbitrage Program	$ 103,901,431	$ 103,901,431
Local Government Investment Pool	14,271,784	14,271,784
Other money market funds	252,029	252,029
Total cash and cash equivalents	$ 118,425,244	$ 118,425,244

3. LEASES AND NOTES RECEIVABLE

Under the Authority's Equipment Leasing Program, lease payments made by the public institutions of higher education under the terms of lease agreements between the Authority and the institutions provide for the payment of debt service on the Equipment Leasing Bonds. 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 lease and note payments due from the institutions is as follows:

Year Ending June 30,	Principal	Interest	Total
1999	$ 28,530,000	$ 6,907,390	$ 35,437,390
2000	26,385,000	6,212,894	32,597,894
2001	28,945,000	4,980,234	33,925,234
2002	24,670,000	3,761,694	28,431,694
2003	11,375,000	2,712,655	14,087,655
2004-2018	46,115,000	18,860,832	64,975,832
Total	$ 166,020,000	$ 43,435,699	$ 209,455,699

4. LONG-TERM INDEBTEDNESS

On June 11, 1998, the Authority issued $54,785,000 of its Educational Facilities Revenue Bonds, Series 1998, to finance capital projects at various higher educational institutions through the 21st Century College Program. Debt service payments on these bonds will be derived from Commonwealth appropriations.

On May 20, 1998, the Authority issued $38,875,000 in Educational Facilities Revenue Bonds, Series 1998, to finance the acquisition of equipment at public institutions of higher education and to pay associated issuance costs.

On October 8, 1997, the Authority issued $55,765,000 of its Educational Facilities Revenue Bonds, Series 1997A, to acquire Institutional Notes of various public higher education institutions. The institutions in turn will use the proceeds of the Notes to finance capital projects. Debt service will be payable by the institutions in accordance with the terms of the Institutional Notes.

On May 29, 1997, the Authority issued $38,905,000 in Educational Facilities Revenue Bonds, Series 1997, to finance the acquisition of equipment at public institutions of higher education and to pay associated issuance costs.

On December 13, 1996, the Authority issued $53,160,000 of its Educational Facilities Revenue Bonds, Series 1996, to finance capital projects at various higher educational institutions through the 21st Century College Program. Debt service payments on these bonds will be derived from Commonwealth appropriations.

On May 30, 1996 the Authority issued $25,150,000 in Educational Facilities Revenue Bonds, Series 1996, to finance the acquisition of equipment at public institutions of higher education and to pay associated issuance costs.

On May 31, 1995, the Authority issued $24,680,000 in Educational Facilities Revenue Bonds, Series 1995, to finance the acquisition of equipment at public institutions of higher education and to pay associated issuance costs.

On March 31, 1994, the Authority issued $20,040,000 in Educational Facilities Revenue Bonds, Series 1994, to finance the acquisition of equipment at public institutions of higher education and to pay certain costs of issuance.

Annual Requirements to Amortize Long-Term Debt

The following schedule provides the annual debt service requirements on the Authority's debt outstanding at June 30, 1998.

Enterprise Fund

Year Ending June 30,	Principal	Interest	Total
1999	$ 28,530,000	$ 6,998,532	$ 35,528,532
2000	26,385,000	6,212,894	32,597,894
2001	28,945,000	4,980,234	33,925,234
2002	24,670,000	3,761,694	28,431,694
2003	11,375,000	2,712,655	14,087,655
2004-2018	46,115,000	18,860,833	64,975,833
Total	$ 166,020,000	$ 43,526,841	$ 209,546,841

General Long-Term Debt Group

Year Ending June 30,	Principal	Interest	Total
1999	$ 1,715,000	$ 4,359,215	$ 6,074,215
2000	3,655,000	5,097,363	8,752,363
2001	3,830,000	4,924,450	8,754,450
2002	4,005,000	4,751,346	8,756,346
2003	4,180,000	4,574,756	8,754,756
2004-2018	89,980,000	37,002,111	126,982,111
Total	$ 107,365,000	$ 60,709,240	$ 168,074,240

Changes in Long-Term Debt

	Enterprise Fund	General Long-Term Debt Account Group
Bonds payable at July 1, 1997	$ 92,870,000	$ 53,160,000
Bonds issued	94,640,000	54,785,000
Bonds redeemed	(21,490,000)	(580,000)
Bonds payable at June 30, 1998	$ 166,020,000	$ 107,365,000

5. ALLOCATION PAYABLE

During fiscal year 1998, the General Assembly appropriated $39,679,994 for the purchase of equipment at public institutions of higher education. The Authority is committed by this appropriation to pay the equipment costs from its cash and investments. Institutions purchased and obtained reimbursement for $14,360,491 in equipment, relating to this appropriation, during the fiscal year, leaving $25,289,503 of this allocation outstanding at June 30, 1998.

In addition, the institutions purchased and obtained reimbursement for $24,790,545 of equipment relating to a prior year's appropriation by the General Assembly.

6. DUE TO HIGHER EDUCATION INSTITUTIONS

During fiscal year 1998, the Authority implemented its new pooled bond program. Bonds were issued under this program and the proceeds of these bonds were used to purchase Institutional Notes from various higher education institutions. 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, 1998 in the enterprise fund are reflected as “Due to higher education institutions.” Amounts reflected as “Due to higher education institutions” in the General Fund represent normal year-end payables to institutions as a result of on-going operations.

7. SUBSEQUENT EVENTS

In October 1998, the Authority issued $50,735,000 of its Educational Facilities Revenue Bonds, Series 1998A, to acquire Institutional Notes of various public higher education institutions to finance certain approved capital projects.

8. SURETY BOND

Ms. Susan F. Dewey, Treasurer of Virginia and Treasurer of the Authority at June 30, 1998, was covered under a Faithful Performance of Duty Bond in the amount of $500,000 with the Fidelity and Deposit Company of Maryland as surety.

Certain employees of the State Treasury are responsible for maintaining the accounting records of the Authority. Such employees, as well as parties acting on behalf of the Authority, such as Authority board members, were covered by a Faithful Performance Duty Bond administered by the Commonwealth of Virginia's Department of General Services, Division of Risk Management with liability limits of $500,000 for each occurrence.

9. YEAR 2000 READINESS

Many existing computer programs use only two digits to identify a year in the date field. These programs were designed and developed without considering the impact of the upcoming change of the century. If not corrected, these programs could fail or create additional problems. The Authority recognizes the need to ensure that its operations will not be adversely impacted by the Year 2000 software failures.

The Authority does not have any internal critical systems. In addition, management has received assurance from the financial institutions used by the Authority that Year 2000 compliant systems have been implemented or will be implemented prior to the Year 2000.

VIRGINIA COLLEGE BUILDING AUTHORITY
Richmond, Virginia

BOARD MEMBERS

As of June 30, 1998

Stephen Hartwell, Chairman

Susan F. Dewey, Treasurer

William Allen
William E. Landsidle
Mary Morris
Danna Nottingham

Scott Patterson
Diane L. Powell
Allen B. Rider, III
William Robertson