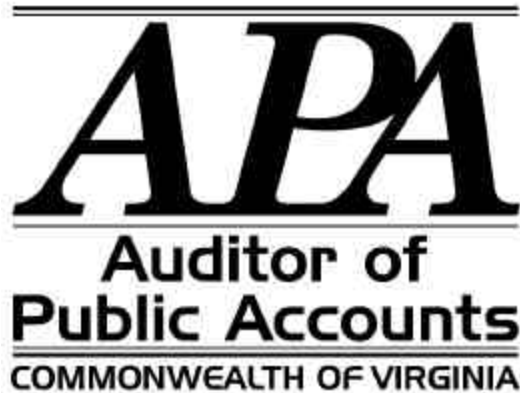


**VIRGINIA COLLEGE BUILDING AUTHORITY
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2002**



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February 21,2003

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Kevin G. Miller.
Chairman, Joint Legislative Audit
and Review Commission

Board of Directors
Virginia College Building Authority

We have audited the accounts and records of the **Virginia College Building Authority**, as of and for the year ended June 30, 2002, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and the special revenue major fund of the Virginia College Building Authority, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2002, which collectively comprise the basic financial statements of the Authority as listed in the table of contents. 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the special revenue major fund of the Virginia College Building Authority as of June 30, 2002, 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.

As described in Note 1, the Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of June 30, 2002.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Virginia College Building Authority's basic financial statements. The 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 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statement taken as a whole. The Schedule of Outstanding Bond Issues for Private Colleges have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

AUDITOR OF PUBLIC ACCOUNTS

LAM:whb
whb:51

MANAGEMENT'S DISCUSSION AND ANALYSIS

VIRGINIA COLLEGE BUILDING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2002

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, 2002. This information should be considered in conjunction with the information contained in the financial statements, which follow this section.

Authority Activities and Highlights

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

Under the Pooled Bond Program, bonds of the Authority are secured by notes of participating institutions of higher education to which the general revenues of the college or university have been pledged. During the year, the Authority issued \$69.4 million of Bonds under the Program.

The 21st Century Program and the Equipment Program were established in 1996 and 1986, respectively, and provide financing for state-supported institutions of higher education. The 21st Century Program provides funding for capital projects designated by the General Assembly. The Equipment Program provides funding for educational equipment. Bonds for both programs are payable from amounts to be appropriated by the General Assembly, and in recent years have been issued together as a single 21st Century College and Equipment Programs offering. During the fiscal year, the Authority issued the aggregate amount of \$130.8 million for these programs.

The Authority is also authorized to issue conduit revenue bonds and notes to finance educational projects through loans to private, non-profit institutions of higher education within the Commonwealth. Since these financings are not obligations of the Commonwealth, they are not included in these financial statements. However, for informational purposes only, a Schedule of Outstanding Bond Issues for Private Colleges and Universities is included with Supplemental Information in 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 – primarily the 21st Century College and Equipment Programs. Also included are the Authority's Equipment Leasing Program and Pooled Bond Program.

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.

- Governmental Funds Financial Statements – These 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 fund financial statements focus on near-term inflows and outflows of spendable resources. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the Authority's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Authority.

Because the focus of 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.

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the combined government-wide and 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)

	<u>2002</u>
Current assets	\$ 172
Noncurrent assets	<u>307</u>
Total assets	<u>479</u>
Current liabilities	128
Noncurrent liabilities	<u>612</u>
Total liabilities	<u>740</u>
Net assets:	
Restricted	105
Unrestricted	<u>(365)</u>
Total net assets	<u><u>\$ (260)</u></u>

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

	<u>2002</u>
Revenues	\$ 61
Expenditures	<u>106</u>
Decrease in Net Assets	(45)
Net assets 7/1/01	<u>(215)</u>
Net assets 6/30/02	<u><u>\$ (260)</u></u>

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 below summarizes bond issuance activity during the year under each program.

Summary of Authority Bond Obligations
(in Millions)

	Outstanding July 1, 2001	Issued During Year	Retired During Year	Outstanding June 30, 2002
Equipment Leasing Program	\$ 32	\$ -	\$ (23)	\$ 9
21 st Century Program - Capital	147	83	(6)	224
21 st Century Program – Equipment ¹	111	48	(28)	131
Pooled Bond Program	<u>250</u>	<u>69</u>	<u>(8)</u>	<u>311</u>
Total	<u>\$ 540</u>	<u>\$ 200</u>	<u>\$ (65)</u>	<u>\$ 675</u>

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

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

	<u>Moody's</u>	<u>S&P</u>	<u>Fitch</u>
Equipment Leasing Program	Aa2	AA+	AA
21 st Century Program	Aa1	AA+	AA+
Pooled Bond Program	Aa1	AA	AA+

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

Future Impact to Financial Position

On August 6, 2002, the Authority closed the Virginia College Building Authority Educational Facilities Revenue Bonds (University of Richmond Project) \$7,445,000 Series 2002B, which is not a financial obligation of the Commonwealth.

On October 23, 2002, the Authority sold \$134,945,000 of its Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 2002A under its Pooled Bond Program. The proceeds of these bonds will be used to purchase institutional notes from higher education institutions. The institutions will in turn use the proceeds of the notes to finance capital projects. The closing for the Series 2002A bonds took place on November 6, 2002.

FINANCIAL STATEMENTS

VIRGINIA COLLEGE BUILDING AUTHORITY
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET
As of June 30, 2002

	Special Revenue Fund	Adjustments (Notes 1F and 2F)	Statement of Net Assets
ASSETS			
Current assets:			
Cash and cash equivalents (Note 2A)	\$ 152,360,982	\$ -	\$ 152,360,982
Short-term lease receivable (Note 2B)	-	9,165,000	9,165,000
Short-term notes receivable (Note 2B)	-	10,180,000	10,180,000
Interest receivable	295,194	-	295,194
Total current assets	152,656,176	19,345,000	172,001,176
Noncurrent assets:			
Restricted cash and cash equivalents (Note 2A)	597,433	-	597,433
Long-term notes receivable (Note 2B)	-	301,105,000	301,105,000
Discount on bonds	-	447,618	447,618
Restricted interest receivable	601	5,292,537	5,293,138
Total noncurrent assets	598,034	306,845,155	307,443,189
Total assets	\$ 153,254,210	326,190,155	479,444,365
LIABILITIES			
Current liabilities:			
Due to higher education institutions	\$ 2,355,961	45,515,489	47,871,450
Allocation payable (Note 2D)	3,020,486	-	3,020,486
Interest payable	-	10,502,161	10,502,161
Accrued interest sold	251,661	-	251,661
Bonds payable (Note 2C)	-	65,960,000	65,960,000
Premium on bonds sold	-	140,583	140,583
Total current liabilities	5,628,108	122,118,233	127,746,341
Noncurrent liabilities:			
Bonds payable (Note 2C)	-	609,380,000	609,380,000
Premium on bonds sold	-	2,612,500	2,612,500
Total noncurrent liabilities	-	611,992,500	611,992,500
Total liabilities	5,628,108	734,110,733	739,738,841
FUND BALANCES/NET ASSETS:			
Fund Balances:			
Unreserved	147,626,102	(147,626,102)	-
Total liabilities and fund balances	\$ 153,254,210		
Net Assets:			
Restricted for construction and equipment purchases		104,169,312	104,169,312
Restricted for Debt Service		812,130	812,130
Unrestricted		(365,275,918)	(365,275,918)
Total Net Assets (Note 2I)		\$ (260,294,476)	\$ (260,294,476)

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

VIRGINIA COLLEGE BUILDING AUTHORITY
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Fiscal Year Ended June 30, 2002

	Special Revenue Fund	Adjustments (Notes 1F and 2F)	Statement of Activities
REVENUES:			
Interest on investments	\$ 2,869,781	\$ (1,942,790)	\$ 926,991
Interest on bonds	6,571,054	6,728,450	13,299,504
Lease income	-	845,616	845,616
Receipt of note principal payments	8,250,000	(8,250,000)	-
Appropriations from the Commonwealth	69,787,343	(23,888,407)	45,898,936
Total revenues	87,478,178	(26,507,131)	60,971,047
EXPENDITURES:			
Current:			
Legal and financial services	581,181	(69,388)	511,793
Bond rating fees	75,100	(39,800)	35,300
Printing and electronic distributions	6,138	(3,043)	3,095
Equipment allocation	48,600,523	-	48,600,523
Disbursement to higher education institutions	123,505,476	(99,235,646)	24,269,830
Miscellaneous	163,283	(45,554)	117,729
Debt service:			
Principal retirement	64,820,000	(64,820,000)	-
Interest and fiscal charges	22,606,780	9,897,585	32,504,365
Total expenditures	260,358,481	(154,315,846)	106,042,635
Excess (deficiency) of revenue over expenditures	(172,880,303)	127,808,715	(45,071,588)
Other financing sources (uses):			
Proceeds from the sale of bonds	203,617,858	(203,617,858)	-
Change in Net Assets	30,737,555	(75,809,143)	(45,071,588)
Fund Balance/Net Assets, July 1, 2001	116,888,547	(332,111,435)	(215,222,888)
Fund Balance/Net Assets, June 30, 2002 (Note 2I)	\$ 147,626,102	\$ (407,920,578)	\$ (260,294,476)

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

NOTES TO FINANCIAL STATEMENTS

VIRGINIA COLLEGE BUILDING AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

AS OF JUNE 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

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

indebtedness, therefore, is not included in the financial statements. Total debt outstanding under this program at June 30, 2002 was \$368,905,000. (Detailed information for this program is presented on page 21 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 fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available to fund current operations. Expenditures are recognized when the related fund liability is incurred, except for principal and interest on long-term debt which is recognized when due.

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

C. Fund Accounting

The financial statements in this report are discussed as follows:

Governmental Fund Types:

Special Revenue Fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. The Special Revenue Fund consists of bond proceeds, bond funds and issuance expense funds. Included are funds established in accordance with the provisions of the 1996 Indenture with The Bank of New York for the 21st Century College Program and, since their consolidation in 1999, the Equipment Program revenue bonds issued by the Authority. Also included are the outstanding bonds issued under the Authority's Equipment Leasing Program under the 1994 Indenture and the Authority's Pooled Bond Program.

D. Bond Issuance Costs, Premiums, and Discounts

Costs associated with issuing debt are expensed in the year incurred. The original issue premium or discount, for each bond issuance, is also expensed in the year incurred unless it exceeds 1 percent of the amount of the bonds issued. In that case, the original issue premium or discount is deferred and amortized, on a straight-line basis, over the life of the outstanding debt.

E. Budget to Actual Statement

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

F. Adjustments (see Note 2F for a more detailed explanation)

The adjustments column represents the recording of long-term 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 long-term liabilities. Long-term liabilities, including bonds payable, accounts payable and amounts due to institutions, are not due and payable in the current period and, therefore, are not reported in the funds.

The amortized Cost of Issuance expenses are reported in the statement of activities and not as expenditures in governmental funds since they do not require the use of current financial resources. However, those issuance expenses which are less than 1 percent of the amount of the bonds issued are expensed in the year incurred and reported in the fund statements.

G. GASB Statement No. 34 Implementation

The Authority has implemented GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. The primary impact of the implementation of this statement is a change in the presentation format of the financial statements; the addition of government-wide financial information using the economic resources measurement focus and accrual basis of accounting; the presentation of Management’s Discussion and Analysis as required supplementary information; and certain note disclosures.

2. DETAILED NOTES

A. Cash and Investments

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

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

Under a Master Indenture of Trust dated March 1, 1994, SunTrust Bank, successor to Crestar Bank as trustee, is authorized to invest in the following instruments: government obligations; government certificates; bonds, notes and other evidences of indebtedness of the Commonwealth, any locality of the Commonwealth, or any agency of the United States of America; savings accounts, time deposits, certificates of deposit or other interest bearing accounts of any bank or other financial institution that is approved for the deposit of funds of the Commonwealth that are secured in accordance with Section 22-4401 of the Code of Virginia; money market funds permitted by Section 2.2-4501 of the Code of Virginia; units in any pool or pools of investments created under the Government Non-Arbitrage Investment Act; commercial paper permitted by Section 2.2-4502 of the Code of Virginia; and bankers acceptances permitted by Section 2.2-4504 of the Code of Virginia. At June 30, 2002, SunTrust Bank held \$10,843 in cash and investments for the Authority.

Under a Master Indenture of Trust dated December 1, 1996, The Bank of New York, successor to Signet Bank as trustee, and under a Master Indenture of Trust dated September 1, 1997, The Bank of New York 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 2.2-4500 and 2.2-4501A.3; and investments made pursuant to the Investment of Public Funds and Local Government Investment Pool Act. At June 30, 2002, The Bank of New York maintained \$152,853,362 in cash and investments for the Authority.

At June 30, 2002, the Authority's investments were held in the Local Government Investment Pool, the State Non-Arbitrage Programsm, or other money market funds which are not categorized by credit risk since they are not evidenced by securities that exist in physical or book entry form. Details of the Authority's investments are presented below.

	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and cash equivalents:		
State Non-Arbitrage Program ^{sm(1)}	\$ 152,266,772	\$152,266,772
Local Government Investment Pool ⁽²⁾	94,210	94,210
Other money market funds ⁽³⁾	<u>597,433</u>	<u>597,433</u>
Total cash and cash equivalents	<u>\$ 152,958,415</u>	<u>\$152,958,415</u>

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

⁽²⁾ The Local Government Investment Pool (LGIP) enables governmental entities to maximize their return on investments by providing for a State administered fund where monies can be

commingled for investment purposes in order to realize the economies of large-scale investing and professional funds management. The LGIP is not registered with the Securities and Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner consistent with the SEC's Rule 2a7.

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

B. Leases and Notes Receivable

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

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 19,345,000	\$ 15,285,219	\$ 34,630,219
2004	13,295,000	14,592,936	27,887,936
2005	13,780,000	14,058,912	27,838,912
2006	14,260,000	13,484,544	27,744,544
2007	14,805,000	12,855,071	27,660,071
2008-2012	74,855,000	53,814,226	128,669,226
2013-2017	93,330,000	32,412,900	125,742,900
2018-2022	70,385,000	8,398,704	78,783,704
2023-2027	<u>6,395,000</u>	<u>842,875</u>	<u>7,237,875</u>
Total	<u>\$ 320,450,000</u>	<u>\$ 165,745,387</u>	<u>\$ 486,195,387</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, 2002.

Bonds payable at July 1, 2001	\$ 540,000,000
Bonds issued	200,160,000
Bonds retired	<u>(64,820,000)</u>
Bonds payable at June 30, 2002	<u>\$ 675,340,000</u>

Annual Requirements to Amortize Long-Term Debt:

Year Ending June 30	Principal	Interest	Total
2003	\$ 65,960,000	\$ 30,826,911	\$ 96,786,911
2004	61,675,000	29,636,340	91,311,340
2005	55,360,000	26,678,871	82,038,871
2006	34,005,000	23,944,890	57,949,890
2007	35,405,000	22,464,900	57,869,900
2008-2012	133,775,000	92,164,070	225,939,070
2013-2017	168,440,000	54,568,839	223,008,839
2018-2022	114,325,000	14,191,229	128,516,229
2023-2027	<u>6,395,000</u>	<u>842,875</u>	<u>7,237,875</u>
Total	<u>\$ 675,340,000</u>	<u>\$ 295,318,925</u>	<u>\$ 970,658,925</u>

D. Allocation Payable

During fiscal year 2002, the General Assembly appropriated \$49,847,100 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 \$23,884,989 in equipment, relating to this appropriation during the fiscal year, leaving \$25,962,111 of this allocation outstanding at June 30, 2002. 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 \$26,972,974 of equipment relating to a prior year's appropriation by the General Assembly.

E. Due to Higher Education Institutions

Bonds were issued under the Pooled Bond Program and the proceeds of these bonds were used to purchase institutional notes from various higher education institutions. These institutions in turn will use the proceeds of the notes to finance capital projects. Therefore, at June 30, 2002 the unspent portion of the note proceeds still held by the trustee and normal year-end payables to institutions as a result of on-going operations in the Special Revenue Fund are reflected as "due to higher education institutions."

F. Reconciliation of Government-wide and Fund Financial Statements

- a. Explanation of certain differences between the special revenue fund column and government-wide statement of net assets column.

Total fund balances – special revenue funds \$147,626,102

Assets related to the issuance of long-term debt are
not available to pay for current period expenditures
and, therefore, are not reported in the funds

Leases receivable	9,165,000
Notes receivable	311,285,000
Interest receivable	5,292,537

Long-term liabilities and related assets (discounts)	
and liabilities (interest and premiums) are not due	
and payable in the current period and, therefore,	
are not reported in the funds:	
Discount on bonds sold	447,618
Interest payable	(10,502,161)
Premium on bonds sold	(2,753,083)
Bonds payable	(675,340,000)

Other long-term payables (Due to higher education institutions) are not due and payable in the current period and, therefore, are not reported in the funds	<u>(45,515,489)</u>
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Net assets of governmental activities	<u><u>\$(260,294,476)</u></u>
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- b. Explanation of certain differences between the special revenue fund column in the statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

Net change in fund balances –special revenue funds	\$30,737,555
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds

Interest income	4,785,660
Lease income	845,616

Governmental funds report certain transactions for bond proceeds provided to the higher ed institutions as revenues and expenditures. However, in the statement of activities these transactions result in assets and liabilities for amounts due from and due to the institutions, respectively

Receipt of note principal payments	(8,250,000)
Appropriations from the Commonwealth	(23,888,407)
Disbursements to higher education institutions	99,235,646
Issuance cost	157,785

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Proceeds from the sale of bonds	(203,617,858)
Principal retirement	64,820,000

Some expenses reported in the statement of activities do not require the use of current resources and, therefore, are not reported as expenditures in the governmental funds	<u>(9,897,585)</u>
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Change in net assets of governmental activities	<u><u>\$(45,071,588)</u></u>
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G. Subsequent Events

On August 6, 2002, the Authority closed the Virginia College Building Authority Educational Facilities Revenue Bonds (University of Richmond Project) \$7,445,000 Series 2002B, which is not a financial obligation of the Commonwealth.

On October 23, 2002, the Authority sold \$134,945,000 of its Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 2002A under its Pooled Bond Program. The proceeds of these bonds will be used to purchase institutional notes from higher education institutions. The institutions will in turn use the proceeds of the notes to finance capital projects. The closing for the Series 2002A bonds took place on November 6, 2002.

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.

I. Deficit Net Assets

Generally accepted accounting principles direct that government funds recognize revenues in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Under the 21st Century College and Equipment Program, 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 \$260,294,476. The General Assembly has never failed to appropriate funds to the Authority for payment of debt service on the Authority's bonds

SUPPLEMENTARY INFORMATION

VIRGINIA COLLEGE BUILDING AUTHORITY
SUPPLEMENTARY INFORMATION
DETAIL OF LONG-TERM INDEBTEDNESS
June 30, 2002
(Dollars in Thousands)

Detail of Long-Term Indebtedness by Series

	Dated Date	Bond Program	True Interest Cost ("TIC")	Amount Issued	Institutional Notes Purchased	Outstanding July 1, 2001	Issued (Retired) During Year	Outstanding June 30, 2002	Original Maturity
Series 1996	05/01/96	ELP	4.56%	\$ 25,150	\$ -	\$ 5,510	\$ (5,510)	\$ -	08/01/01
Series 1996	12/01/96	21st Century	5.18%	53,160	-	47,170	(1,985)	45,185	08/01/16
Series 1997	05/01/97	ELP	4.63%	38,905	-	8,285	(8,285)	-	02/01/02
Series 1997A	09/15/97	Pooled	5.05%	55,765	55,765	50,450	(2,125)	48,325	09/01/17
Series 1998	05/01/98	ELP	4.34%	38,875	-	17,915	(8,750)	9,165	02/01/03
Series 1998	06/01/98	21st Century	4.85%	54,785	-	50,995	(2,020)	48,975	08/01/17
Series 1998A	10/01/98	Pooled	4.56%	50,735	50,735	46,975	(1,975)	45,000	09/01/18
Series 1999	06/01/99	21st Century/Equip.	4.44%	59,495	-	42,530	(8,765)	33,765	02/01/19
Series 1999A	10/15/99	Pooled	5.62%	71,200	71,200	69,735	(2,235)	67,500	09/01/19
Series 2000	06/01/00	21st Century/Equip.	5.49%	60,900	-	51,630	(9,075)	42,555	02/01/20
Series 2000A	11/01/00	Pooled	5.17%	83,010	83,010	83,010	(1,915)	81,095	09/01/20
Series 2001	05/01/01	21st Century/Equip.	4.40%	65,795	-	65,795	(12,180)	53,615	02/01/21
Series 2001A	10/01/01	Pooled	4.51%	69,365	69,365	-	69,365	69,365	09/01/26
Series 2002	05/15/02	21st Century/Equip.	4.55%	130,795	-	-	130,795	130,795	02/01/22
Total				\$ 857,935	\$ 330,075	\$ 540,000	\$ 135,340	\$ 675,340	

Detail of Long-Term Indebtedness by Program

	Amount Issued	Institutional Notes Purchased	Outstanding July 1, 2001	Issued (Retired) During Year	Outstanding June 30, 2002
Equipment Leasing Program (ELP)	\$ 102,930	\$ -	\$ 31,710	\$ (22,545)	\$ 9,165
21st Century College Program	241,885	-	147,615	76,865	224,480
Pooled Bond Program	330,075	330,075	250,170	61,115	311,285
Equipment Program	183,045	-	110,505	19,905	130,410
Total	\$ 857,935	\$ 330,075	\$ 540,000	\$ 135,340	\$ 675,340

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

June 30, 2002

(Dollars in Thousands)

College/University	Series	Dated Date	Yield (a)	Amount Originally Issued	Amount of Notes Purchased	Outstanding July 1, 2001	Issued (Retired) During Year	Outstanding June 30, 2002	Original Final Maturity
Hampden-Sydney College	1992	01/15/92	6.49%	\$ 10,840	\$ 10,840	\$ 325	\$ (325)	\$ -	09/01/16
	1998	04/01/98	5.08%	13,340	13,340	12,530	(200)	12,330	09/01/18
Hampton University	1992	04/01/92	6.71%	6,660	6,660	435	(435)	-	04/01/08
	1993	05/15/93	5.85%	22,640	22,640	18,465	(1,010)	17,455	04/01/14
	1998	12/01/98	4.55%	10,745	10,745	9,855	(320)	9,535	04/01/18
	2000	02/15/00	5.90%	21,500	21,500	20,970	(655)	20,315	04/01/20
Marymount University	1992	07/01/92	7.11%	16,880	16,880	640	(310)	330	07/01/22
	1998	11/01/98	5.08%	26,015	26,015	25,600	(350)	25,250	07/01/28
Randolph Macon College	1998	04/01/98	4.59%	9,830	9,830	9,830	-	9,830	03/01/13
Regent University	2001	06/15/01	5.38%	65,170	65,170	-	65,170	65,170	10/01/31
Roanoke College	1992	10/15/92	6.67%	5,190	5,190	3,785	(220)	3,565	10/15/12
Shenandoah University	1999	12/22/99	VAR	9,700	9,700	9,700	(9,700)	-	10/01/29
	2002	05/23/02	VAR	17,445	17,445	-	17,445	17,445	05/01/32
University of Richmond	1992	10/15/92	6.16%	16,125	16,125	16,125	(8,770)	7,355	11/01/12
	1994	06/01/94	VAR	17,000	17,000	17,000	-	17,000	11/01/19
	1996	08/07/96	VAR	22,500	22,500	22,500	-	22,500	11/01/26
	1999	11/01/99	VAR	15,400	15,400	15,400	-	15,400	11/01/22
	2002A(b)	03/01/02	4.47%	22,170	22,170	-	22,170	22,170	03/01/32
Washington & Lee University	1990A	01/15/90	7.09%	5,945	5,945	1,745	(545)	1,200	01/01/04
	1992	01/15/92	6.44%	8,390	8,390	330	(105)	225	01/01/12
	1994	06/01/94	5.97%	40,500	40,500	7,015	(390)	6,625	01/01/24
	1998	04/01/98	5.09%	52,205	52,205	52,205	-	52,205	01/01/31
	2001	06/01/01	5.35%	43,000	43,000	-	43,000	43,000	01/01/34
				\$ 479,190	\$ 479,190	\$ 244,455	\$ 124,450	\$ 368,905	

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

(b) \$7,445,000 Series 2002B were sold with this issue and have a delayed delivery date. The 2002B Bonds will be dated August 1, 2002 and will be delivered on August 6, 2002.

(c) Beginning balance has been restated to reflect the defeasance of bonds in 1998 which had not previously been reported on this schedule.

VIRGINIA COLLEGE BUILDING AUTHORITY
Richmond, Virginia

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As of June 30, 2002

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