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June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying financial statements have been prepared in conformance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB).

B. Reporting Entity

For financial reporting purposes, the Commonwealth of Virginia's (the "Commonwealth's") reporting entity consists of (1) the primary government, (2) component unit organizations for which the primary government is financially accountable (blended component units), and (3) other component unit organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and they are financially accountable to the primary government (discrete component units). The funds of all agencies, boards, commissions, foundations, and authorities that have been identified as part of the primary government or a component unit have been included. GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* (GASBS No. 39) requires the inclusion of numerous organizations that raise and hold funds for the direct benefit of the primary government.

Section 2100 of the GASB *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification) describes the criteria for determining which organizations, functions, and activities should be considered part of the Commonwealth for financial reporting purposes. The basic criteria include appointing a voting majority of an organization's governing body, and the Commonwealth's ability to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Commonwealth.

(1) Primary Government – A primary government consists of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, and departments are, for financial reporting purposes, part of the primary government.

(2) Blended Component Units – Though legally separate entities, these component units are, in substance, part of the primary government's operations. The blended component unit serves or benefits the primary government almost exclusively. Financial information from these units is combined with that of the primary government. Blended component units are:

Pocahontas Parkway Association (Nonmajor Enterprise Fund) – The Association, a private, non-stock, nonprofit corporation was created to develop, construct, and provide financing for the Route 895 Connector Project (project). The Association is a blended component unit of the Department of Transportation (Primary Government) because it is fiscally dependent on the primary government and provides services entirely to the benefit of the Commonwealth. During the fiscal year, the Association sold the assets and obligations of the project (see Note 29).

Virginia Public Building Authority (VPBA) (Nonmajor Governmental Funds) – The Authority was created as a body politic and corporate and is fiscally independent. A government instrumentality, the Authority finances the acquisition and construction of buildings for the use of the Commonwealth and other approved purposes. The Governor appoints the seven-member board, and the primary government is able to impose its will on the Authority. The Auditor of Public Accounts audits the Authority, and a separate report is issued from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218.

(3) Discrete Component Units – Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These discrete component units serve or benefit those outside of the primary government.

GASBS No. 39 generally requires any organization that raises and holds economic resources for the direct benefit of the reporting entity to be reported as a component unit, even if the reporting entity is not financially accountable for the organization. The entities are included in the Commonwealth's reporting entity as nonprofit charitable organizations and exist solely to support the Commonwealth's higher education institutions, museums, and the Library of Virginia. The higher education institution nonprofit organizations are included in the applicable higher education institution's column in the accompanying financial statements. The museum foundations, and the Library of Virginia Foundation, which are discretely presented, are more fully described later in this footnote. The Virginia Horse Center Foundation, a component unit of the Virginia Equine Center (Center) (Nonmajor Component Unit), is included in the Center's column in the accompanying financial statements. In all instances where separate disclosure of these nonprofit organizations is required in the accompanying footnotes, the entities' totals are aggregated and disclosed as "Foundations." Discretely presented component units are:

Higher Education Institutions – The Commonwealth's higher education institutions are granted broad corporate powers by State statutes. The Governor appoints the members of each institution's Board of Trustees. In addition to the annual appropriations to support the institutions' operations, the State provides funding for, and construction of, major academic plant facilities for the institutions. Therefore, there is a financial benefit/burden to the primary government. The bonds issued to finance the construction of these facilities are obligations of the State. The major higher education institutions are: University of Virginia, including the University of Virginia Hospital and the University of Virginia's College at Wise; Virginia Polytechnic Institute and State University; and Virginia Commonwealth University, including the Virginia Commonwealth University Health System Authority. The nonmajor Higher Education Institutions are: the College of William & Mary, including Richard Bland College and the Virginia Institute of Marine Science; Virginia Military Institute; Virginia State University; Norfolk State University; University of Mary Washington; James Madison University; Radford University; Old Dominion University; George Mason University; Virginia Community College System; Christopher Newport University; and Longwood University. The Southwest Virginia Higher Education Center, the Roanoke Higher Education Authority, the Institute for Advanced Learning and Research and the Southern Virginia Higher Education Center are also included as nonmajor higher education institutions. The colleges and universities are funded through State appropriations, tuition, Federal grants, and private donations and grants. As noted previously, certain Foundations are considered component units of the higher education institutions, and are included in the accompanying financial statements as well as the higher education institutions' individually published financial statements. The Auditor of Public Accounts (APA) does not audit component units of the higher education institutions, including Foundations, but relies on the reports issued by other auditors to render his opinion.

The APA audits the colleges and universities, and individual reports are issued under separate cover. Complete financial statements for each institution may be obtained from their respective administrative offices. The addresses for these institutions may be obtained from the Virginia Department of Accounts, 101 North 14th Street, Richmond, Virginia 23219.

Virginia Housing Development Authority (VHDA) (Major) – The Authority was created as a political subdivision and instrumentality of the Commonwealth and is granted both politic and corporate powers by the *Code of Virginia*. The Governor appoints a majority of the Authority's Board members and the remainder of the Board members are ex-officio. The Commonwealth may make grants to the Authority including, but not limited to, reserve funds, which is a potential financial benefit/burden to the primary government. The State is not legally obligated by the debt of the Authority. The Authority was created in the public interest to provide investment in and stimulate construction of low to moderate income housing which benefits the citizens of the Commonwealth. The administrative offices of the Authority are located at 601 South Belvidere Street, Richmond, Virginia 23220. KPMG, LLP audited the Authority, and a separate report is available.

Virginia Public School Authority (VPSA) (Major) – The Authority was created as a public body corporate, and an agency and instrumentality of the Commonwealth to finance capital projects of city and county school boards. The Governor appoints the board members, who serve at his pleasure. Therefore, the primary government is able to impose its will on the Authority. The Auditor of Public Accounts audits the Authority, and a separate report is issued from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218.

Virginia Economic Development Partnership (VEDP) (Nonmajor) – The Partnership was created as a body corporate and operates to encourage, stimulate, and support the development and expansion of commerce in the Commonwealth. The Governor appoints the 15-member board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 901 East Byrd Street, Post Office Box 798, Richmond, Virginia 23218-0798. The Auditor of Public Accounts audits the Partnership, and a separate report is issued.

Virginia Outdoors Foundation (Nonmajor) – The Foundation was created as a body politic and is administratively assigned to the

Department of Conservation and Recreation (Primary Government) and charged with promoting preservation through the acceptance of donated conservation easements and raising funds for the purchase of preservation land. The Governor appoints the seven-member Board of Trustees, and the primary government can impose its will on the Foundation. The administrative offices of the Foundation are located at 101 North 14th Street, 17th Floor, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Foundation as part of the Department of Conservation and Recreation and discloses its existence in that report.

Virginia Port Authority (VPA) (Nonmajor) – The Authority was established as a corporate body and operates to serve the citizens and promote commerce through the harbors and ports of Virginia. The Governor appoints a majority of the 12-member board, and the primary government is able to impose its will on the Authority. There is also a financial benefit/burden to the primary government. The administrative offices of the Authority are located at 600 World Trade Center, Norfolk, Virginia 23510. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia Resources Authority (VRA) (Nonmajor) – The Authority was created as a statewide public body corporate political subdivision of the Commonwealth to provide financing of infrastructure projects for water supply, wastewater, storm water, solid waste treatment, airports, public safety, brownfields remediation and redevelopment, and recycling. The Governor appoints the 11-member board and the Executive Director of the Authority. The primary government is able to impose its will on the Authority, and there is a financial benefit/burden to the primary government. The Commonwealth does not guarantee any bonds issued by the Virginia Resources Authority. The administrative offices of the Authority are located at 707 East Main Street, Suite 1350, Richmond, Virginia 23219. Goodman and Company, LLP audited the Authority, and a separate report is available.

Virginia Tourism Authority (Nonmajor) – The Authority was created as a public body corporate and as a political subdivision of the Commonwealth. The Authority encourages, stimulates, and promotes tourism and film production industries of the Commonwealth. The Governor appoints all of the board members, and there is a financial benefit/burden to the primary government. The administrative offices are located at 901 East Byrd Street, 19th Floor, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia Tobacco Settlement Foundation (Nonmajor) – The Foundation was created as a body corporate and as a political subdivision of the Commonwealth. The Foundation was established to determine the appropriate recipients of monies in the Virginia Tobacco Settlement Fund and to distribute monies in this fund for such efforts as restricting the use of tobacco products by minors and the enforcement of laws restricting the distribution of tobacco products to minors. The Governor appoints the majority of the board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 701 East Franklin Street, 5th Floor, Richmond, Virginia, 23219. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Tobacco Indemnification and Community Revitalization Commission (Nonmajor) – The Commission was created as a body corporate and as a political subdivision of the Commonwealth. The Commission was established to determine the appropriate recipients of the monies in the Tobacco Indemnification and Community Revitalization Fund. This fund is to provide payments to tobacco farmers as compensation for the adverse economic effects resulting from loss of investment in specialized tobacco equipment and barns, and lost tobacco production opportunities. It also provides monies to revitalize tobacco dependent communities. The Governor appoints the majority of the board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 701 East Franklin Street, Suite 501, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Commission, and a separate report is issued.

Hampton Roads Sanitation District Commission (Nonmajor) – The Commission was established as a political subdivision of the Commonwealth and a government instrumentality. The Commission, which is the governing Board of the District, was granted corporate powers by the *Code of Virginia*. The Governor appoints the Commission members, who serve at his pleasure. Therefore, the primary government is able to impose its will on the Commission. The Commonwealth is not obligated by the debt of the Commission. The Commission was established to benefit the inhabitants of the District and operates a sewage system for 17 localities in the Chesapeake Bay area. The address for the administrative offices of the Commission is 1436 Air Rail Ave, Post Office Box 5915, Virginia Beach, Virginia 23471. KPMG, LLP, audited the Commission, and a separate report is available.

Virginia Biotechnology Research Park Authority (Nonmajor) – The Authority is a legally separate, political subdivision of the Commonwealth created by the General Assembly to assist in the development of a biotechnology research park. The Governor appoints the board members of the Authority, and there is a potential financial benefit/burden to the primary government. The administrative offices of the Authority are located at 800 East Leigh Street, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Small Business Financing Authority (SBFA) (Nonmajor) – The Virginia Small Business Financing Act of 1984 (Chapter 28, Title 9, *Code of Virginia*) established the Authority as a public body corporate and a political subdivision of the Commonwealth. The Governor appoints the 11-member board, and the primary government is able to impose its will on the Authority. The Authority was created to assist small businesses in the Commonwealth in obtaining financing for new businesses or the expansion of existing businesses. The Authority can provide financial assistance to small businesses by providing loans, guarantees, insurance, and other assistance, thereby encouraging the investment of private capital in small businesses in the Commonwealth. The Authority can loan money to local governments as defined by the *Code of Virginia* for economic development purposes. The Authority also guarantees loans made to small businesses by banks. The administrative offices of the Authority are located at 707 East Main Street, Suite 300, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia Schools for the Deaf and Blind Foundation (Nonmajor) – The Foundation operates as a non-private educational and fundraising organization solely in connection with, and exclusively for the benefit of the Virginia School for the Deaf and Blind at Staunton (Primary Government) and the Virginia School for the Deaf, Blind and Multi-Disabled at Hampton (Primary Government), and within the jurisdiction and management of the Virginia Board of Education. The Foundation uses a December 31 calendar year end. The administrative offices of the Foundation are located at the Virginia Department of Education, 101 North 14th Street, Richmond, Virginia, 23219. The Auditor of Public Accounts audits the Foundation along with the audit of the Department of Education, and a separate report is issued.

Science Museum of Virginia Foundation (Nonmajor) – The Foundation is a non-stock, non-profit corporation established to implement and fund programs, projects, and operations that are authorized and approved by the Trustees of the Science Museum of Virginia (Primary Government). The administrative offices of the Foundation are located at the Science Museum of Virginia, 2500 W. Broad Street, Richmond, Virginia 23220. Cherry, Bekaert, & Holland, LLP, audits the Foundation, and a separate report is issued.

Virginia Museum of Fine Arts Foundation (Nonmajor) **–** The Foundation operates as a non-profit corporation under the laws of Virginia to fund exhibitions, programs, and capital asset expansion to ensure that the Virginia Museum of Fine Arts (Primary Government) has the space and resources for art to help improve the quality of life for many. The administrative offices of the Foundation are located at 2800 Grove Avenue, Richmond, Virginia 23221. KPMG, LLP, audits the Foundation and a separate report is issued.

A. L. Philpott Manufacturing Extension Partnership (Nonmajor) – The Partnership has the mission to foster economic growth by enhancing the competitiveness of Virginia's manufacturers. The Partnership provides manufacturing firms with fee-based technology consulting services, access to business modernization resources, and support for interfirm collaboration. Further, the Partnership provides direct assistance to increase sales, decrease costs, and improve quality, productivity, and competitiveness. The Partnership has a 23-member Board of Trustees. The Board consists of the presidents of two public four-year institutions of higher education; three community college presidents; the director of Virginia's Center for Innovative Technology; Virginia's Secretary of Commerce and Trade; and fifteen citizen members, representing manufacturing industries, appointed by the Governor. There is also a financial benefit/burden to the primary government. The administrative office is located at Patrick Henry Community College, 645 Patriot Avenue, Post Office Box 5311, Martinsville, Virginia 24115. The Auditor of Public Accounts audits the Partnership, and a separate report is issued.

Virginia Equine Center Foundation (Nonmajor) – The Foundation was created as a body politic and corporate, and operates the Virginia Equine Center (Center) for the benefit of the equine and tourism industries. In 1994, the Commonwealth began making grant payments to the Foundation to keep the Center from falling into default on its debt. The Governor appoints a majority of the 11-member board, and there is a financial benefit/burden to the primary government. As previously noted, the Center includes the Virginia Horse Center Foundation as part of its report, pursuant to GASBS No. 39. The address for the administrative offices of the Foundation is Post Office Box 1051, Lexington, Virginia 24450. The accounting firm of Raetz and Hawkins, P.C. audits the Foundation, and a separate report is available.

Certified Nursing Facility Education Initiative (Nonmajor) – The Initiative was created as a nonprofit corporation by the *Code of Virginia* to assist the Department of Medical Assistance Services (DMAS) (Primary Government). The Initiative provides early on-site training and assistance to certified nursing facilities to improve quality of care and life to certified nursing facility residents. The address for the administrative offices of the Initiative is Post Office Box 465, Orange, Virginia 22960. Cole & King, LLC, CPA's audits the Initiative. As of November 1, 2005, the Initiative has ceased operations. Any residual assets will be distributed in fiscal year 2007.

Assistive Technology Loan Fund Authority – The Authority was created as a political subdivision and public body corporate by the *Code of Virginia*. The Governor appoints the board of directors as directed by the *Code*. The Authority manages a fund to provide loans to individuals to acquire assistive technology, other equipment, or other authorized purposes designed to help disabled individuals become more independent. The administrative offices are located at 1602 Rolling Hills Drive, Suite 106, Richmond, Virginia 23229. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia Land Conservation Foundation (Nonmajor) – The Foundation was created as a body politic and corporate to serve the Department of Conservation and Recreation (Primary Government) by acquiring interests in preservation land and providing grants to other entities to acquire interests in preservation land. The Governor appoints the 18-member board, and the primary government can impose its will on the Foundation. The administrative offices of the Foundation are located at 203 Governor Street, Suite 402, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Foundation as part of the Department of Conservation and Recreation and discloses its existence in that report.

Virginia Arts Foundation (Nonmajor) – The Foundation was created as a body politic and corporate to serve the Virginia Commission for the Arts (Primary Government) by promoting the arts in the Commonwealth. The Governor appoints the Board of Trustees for the Virginia Commission for the Arts, which also serves as the Board for the Virginia Arts Foundation. The Director of the Virginia Commission for the Arts serves as the Board chairman. In addition, the primary government can impose its will on the Foundation. The administrative offices of the Foundation are located at 223 Governor Street, Richmond, VA 23219. The Auditor of Public Accounts audits the foundation as part of the Virginia Commission for the Arts.

Library of Virginia Foundation (Nonmajor) – The Foundation was created as a private, nonprofit 501 (c) (3) corporation supporting the Library of Virginia. The Foundation was established in 1984 upon receipt of a major bequest. The articles of incorporation stipulate that the Foundation shall at all times be operated solely in connection with, and exclusively for the benefit of the Virginia State Library. The Foundation is governed by a separate Board of Directors and promotes and supports the Library of Virginia in all activities. Yount, Hyde & Barbour, PC, audits the Foundation, and a separate report is issued.

Innovative Technology Authority (ITA) (Nonmajor) – The Authority is granted corporate powers by the *Code of Virginia*. The Authority serves to facilitate the marketing, organization, and development of scientific research and technology by the State's institutions of higher education and private industry in the Commonwealth. The Governor appoints the 16-member board, and there is a financial benefit/burden to the primary government. The Authority's combined financial statements include the accounts of the Center for Innovative Technology (CIT) after elimination of all significant intercompany balances and transactions. CIT is a nonstock, not-for-profit corporation, which acts as the operating arm of the Authority. The address for the administrative offices of the Authority is CIT Building, Suite 600, 2214 Rock Hill Road, Herndon, Virginia 20170. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia College Building Authority (VCBA) (Nonmajor) – The Authority was created as a public body corporate, a political subdivision, and an agency and instrumentality of the Commonwealth. The Governor appoints a majority of the board and members serve at his pleasure. Therefore, the primary government is able to impose its will on the Authority. The Authority finances certain capital projects and equipment purchases of State-supported colleges and universities. The Auditor of Public Accounts audits the Authority, and a separate report is issued from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218.

Only the activity of the Authority that relates to the financing of capital projects and equipment purchases by State-supported colleges and universities is included in the financial statements. The Authority assists private institutions of higher education in the financing and refinancing of a broad range of facilities. The Authority is authorized to issue obligations and lend the proceeds to private institutions; however, such financings or refinancings are not obligations of the Primary Government nor the Authority, but are payable solely from the revenues pledged by the respective private institution. This indebtedness, totaling $385.1 million, is not included in the financial statements.

(4) Related Organizations – Organizations for which a primary government appoints a majority of the Board, but is not financially accountable, are related organizations. Related organizations are:

Tobacco Settlement Financing Corporation – The Corporation was created by the Tobacco Settlement Financing Corporation Act, Chapters 482 and 488 of the Acts of the General Assembly of the Commonwealth of Virginia (Commonwealth) during the 2002 General Assembly Session. The Corporation is a public body corporate entity and an independent instrumentality of the Commonwealth, managed by a six-member board, including the State Treasurer. The Corporation purchased fifty percent of the future tobacco settlement revenue belonging to the Tobacco Indemnification and Community Revitalization Commission, a discrete component unit of the Commonwealth. The Commonwealth's tobacco revenue was not securitized. The administrative offices of the Corporation are located at 101 N. 14th Street, 3rd Floor P.O. Box 1879 Richmond, Virginia 23218-1879. Goodman and Company, LLP audited the Corporation, and a separate report is available.

Virginia Recreational Facilities Authority – The Authority was created as a political subdivision and instrumentality of the Commonwealth and given separate corporate powers by the *Code of Virginia*. The Governor appoints the 13-member board of directors. The Authority operates educational programs, tourism, and commerce in the Roanoke Valley. The address for the administrative offices of the Authority is 3900 Rutrough Road, Roanoke, Virginia 24014. Foti, Flynn, Lowen and Company audited the Authority, and a separate report is available.

Miller School of Albemarle – The School was created through the will of Samuel Miller of Lynchburg to provide a quality education for poor and orphaned children in central Virginia. Initially, the Commonwealth was charged with oversight of the Miller Trust Fund, which supported the School. The Governor appoints 5 of the 22 members of the board. The administrative offices of the School are located at 1000 Samuel Miller Loop, Charlottesville, Virginia 22903. Joseph J. Saunders, III, CPA, Inc. audited the School, and a separate report is available.

Jamestown-Yorktown Educational Trust – The Trust was created as a nonprofit corporation by the *Code of Virginia* to assist the Jamestown-Yorktown Foundation (Foundation). The Trust Board consists of six members selected from the Foundation's Board of Trustees. Several Commonwealth officials serve as ex-officio members of the Foundation's Board, and the Governor appoints twelve members. The Trust operates the Jamestown Settlement and Yorktown Victory Centers' gift shops and café, oversees investments, and sponsors events. The address for the administrative offices of the Trust is Post Office Box 3605, Williamsburg, Virginia 23187. Goodman and Company, LLP, audited the Trust, and a separate report is available.

Virginia Birth-Related Neurological Injury Compensation Program – The Program was created to provide a no-fault alternative for birth-related neurological injuries. The Governor appoints the 7-member board. The administrative offices of the Program are located at 9100 Arboretum Parkway Suite 365, Richmond, Virginia 23236. Cherry, Bekaert, & Holland audited the Program, and a separate report is available.

Chesapeake Bay Bridge and Tunnel Commission – The Commission was created to establish policy and administer operations of the Chesapeake Bay Bridge Tunnel District. Any of the 11 members of the Commission appointed or reappointed on or after July 1, 1998, shall be appointed by the Governor, subject to confirmation by each house of the General Assembly. The administrative offices of the Commission are located at Post Office Box 111, 32386 Lankford Highway, Cape Charles, Virginia 23310. KPMG, LLP, audited the Commission, and a separate report is available.

C. Government-wide and Fund Financial Statements

The government-wide financial statements, the Statement of Net Assets and the Statement of Activities, report information on all nonfiduciary activities of the primary government and component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Also, the primary government activity is reported separately from the legally separate component units for which the Commonwealth is financially accountable.

The Statement of Activities demonstrates the degree to which direct expenses of a specific function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. In addition, to the extent that indirect costs are allocated to the various functions, the program expenses will include both direct and indirect costs. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit, as well as investment income generated by operations. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Taxes and other items properly excluded from program revenues are reported as general revenues.

Net assets are restricted when constraints are placed on them that are imposed by external parties or constitutional provisions. Designations solely imposed by the Commonwealth's management are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, the Commonwealth's policy is to use the restricted resources first. Some institutions of higher education may follow a different policy.

Separate financial statements are provided for governmental funds, proprietary funds, fiduciary funds, and component units. However, fiduciary funds are not included in the government-wide statements. Major governmental funds, enterprise funds, and component units are reported as separate columns in the fund financial statements, with nonmajor funds being aggregated into a single column.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Primary Government considers revenues to be available if they are collected within 60 days of the end of the current fiscal year (or one year for Medicaid). Significant revenues subject to accrual include Federal grants and income and sales taxes. Income tax revenues for tax underpayments are only recognized to the extent of the Primary Government's estimated refunds for tax overpayments received. Revenues that the Primary Government earns by incurring obligations are recognized in the same period as when the obligations are recognized.

Expenditures generally are recorded when a liability is incurred, as under full accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when the payment is due.

The Primary Government reports the following major governmental funds:

General Fund – Accounts for the transactions related to resources received and used for those services traditionally provided by a State government, which are not accounted for in any other fund. These services include general government, legislative and judicial activities, public safety, health and mental health programs, resources and economic development, licensing and regulation, and primary and secondary education.

Commonwealth Transportation Special Revenue Fund – Accounts for the revenues and expenditures associated with highway operations, maintenance, construction, and other transportation related activities. Funding for these programs is received from highway user taxes, fees, and funds received from the Federal government.

Federal Trust Special Revenue Fund – Accounts for all federal dollars received by the Commonwealth except those received by the Commonwealth Transportation Fund the Unemployment Compensation Fund, and institutions of higher education.

Literary Fund Special Revenue Fund – Accounts for revenues from fines, forfeitures, and proceeds from unclaimed property used primarily to support public education in the Commonwealth. This fund provides low interest loans to school divisions for construction, renovations, and expansion of school buildings.

Proprietary Funds, Fiduciary Funds, and Component Units Financial Statements – The financial statements of the proprietary funds, fiduciary funds, and component units are reported using the economic resources measurement focus and the full accrual basis of accounting. As with the government-wide statements, revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds have no measurement focus since they only report assets and liabilities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating.

GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, provides governments two options for reporting their enterprise funds (including component units reporting as business-type activities). All enterprise funds reported herein, with the exception of the State Lottery (Major Enterprise Fund), the Pocahontas Parkway (Nonmajor Enterprise Fund), Mental Health Local Funds (Nonmajor Enterprise Fund), the Library of Virginia (Nonmajor Enterprise Fund), the Virginia Port Authority (Nonmajor Component Unit), the A. L. Philpott Manufacturing Extension Partnership (Nonmajor Component Unit), the Virginia Equine Center (Nonmajor Component Unit), the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University – Major), the Roanoke Higher Education Authority (Nonmajor Component Unit), and the Innovative Technology Authority (Nonmajor Component Unit) apply all applicable GASB pronouncements and all FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. The State Lottery (Major Enterprise Fund), the Pocahontas Parkway (Nonmajor Enterprise Fund), Mental Health Local Funds (Nonmajor Enterprise Fund), the Library of Virginia (Nonmajor Enterprise Fund), the Virginia Port Authority (Nonmajor Component Unit), the A. L. Philpott Manufacturing Extension Partnership (Nonmajor Component Unit), the Virginia Equine Center (Nonmajor Component Unit), the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University – Major), the Roanoke Higher Education Authority (Nonmajor Component Unit), and the Innovative Technology Authority (Nonmajor Component Unit) apply all of these pronouncements, and also apply all FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

Foundations' (Component Units) financial statements are prepared using the economic resources measurement focus and the full accrual basis of accounting. The financial statements are prepared under FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. FASB rather than GASB pronouncements are followed. In some instances, activities of the Foundations (Component Units) are reported separately within the footnotes because of the different reporting standards. Also, some Foundations (Component Units) have a calendar rather than a fiscal year end. Foundations (Component Units) with a calendar year-end are included in these financial statements for the year ending December 31, 2005.

The Primary Government reports the following major enterprise funds:

State Lottery Fund – Accounts for all receipts and expenses of the State Lottery.

Virginia College Savings Plan Fund – Administers the Virginia Prepaid Education Program.

Unemployment Compensation Fund – Accounts for receipts from employers and expenses incurred to provide benefits to eligible unemployed workers.

Additionally, the Primary Government reports the following fund types:

Governmental Fund Types:

Special Revenue Funds – Account for transactions related to resources received and used for restricted or specific purposes.

Debt Service Funds – Account for transactions related to resources retained and used for the payment of interest and principal on long-term obligations.

Capital Project Funds – Account for transactions related to resources received and used for the acquisition, construction, or improvement of capital facilities not reported in the other governmental or proprietary funds. The primary resource for these funds is the proceeds of bond issues and energy performance contracts. Principal uses are for construction and improvement of State office buildings, correctional and mental health facilities, and parks.

Permanent Funds – Account for transactions of the Commonwealth Health Research Fund and the Mental Health Endowment Funds whose principal must be maintained intact and whose income is used to benefit the Commonwealth's citizens and mental health patients.

Proprietary Fund Types:

Enterprise Funds – Account for transactions related to resources received and used for financing self-supporting activities of the Primary Government that offer products and services on a user-charge basis to external users.

Internal Service Funds – Account for transactions related to the financing and sale of goods or services provided by the agencies of the Primary Government to other agencies and institutions of the Commonwealth. Activities include the provision of information technology, manufacturing activities, insurance programs, fleet services, facilities and property management, and engineering services.

Fiduciary Fund Types:

Private Purpose Trust Funds – Account for transactions of all other trust arrangements in which the principal and income benefit individuals, private organizations, or other governments. These trusts include those for escheat property, educational savings plans, and others.

Pension and Other Employee Benefit Trust Funds – Account for transactions of the Commonwealth administered retirement systems and other employment benefits.

Investment Trust Fund – Accounts for the external portion of the Local Government Investment Pool that is sponsored by the Commonwealth.

Agency Funds – Account for amounts held in trust by the Primary Government for others. Agency funds include those funds established to account for the collection of taxes and fees for distribution to localities and other states, employee benefits, deposits of insurance carriers, child support collections and other miscellaneous accounts.

E. Budgetary Process

Budgetary amounts shown in the Required Supplementary Information and Combining and Individual Fund Statements Sections represent the total of the original budgeted amounts and all supplemental appropriations. The Commonwealth's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be reappropriated for expenditure in the following fiscal year. The Governor, as required by the *Code of Virginia,* submits a budget composed of all proposed expenditures for the State, and of estimated revenues and borrowing for a biennium, to the General Assembly. Budgets are adopted for the General and Special Revenue Funds, except for the Literary (major) – Special Revenue Fund. Formal budgetary integration is not employed for the Capital Projects (nonmajor), Debt Service (nonmajor), Permanent Funds (nonmajor), and the Literary – Special Revenue (major) because effective budgetary control is alternatively achieved through the General Fund and the remaining Special Revenue Funds.

The budget is prepared on a biennial basis; however, the budgets of the General and Special Revenue Funds contain separate appropriations for each year within the biennial budget, as approved by the General Assembly and signed into law by the Governor. For management control purposes, the budget is controlled at the program level. The Governor may transfer an appropriation within a State agency or from one State agency to another, provided that total fund appropriations, as contained within the budget, are not exceeded. Increases in General Fund appropriations must be approved by the General Assembly.

Appropriations for programs funded from Special Revenue Funds may allow expenditures in excess of the original appropriations to the extent that revenues of the funds exceed original budget estimates and such additional expenditures are approved by the Governor through supplemental appropriations.

F. Cash, Cash Equivalents, and Investments

Cash

In order to maximize the Commonwealth's earning potential, the majority of the Primary Government's cash balances are pooled together in the general account for investment purposes. The amounts required for operations are liquidated as needed. Since all amounts not required for operations are held in investment securities, it is possible that the cash balances could be negative due to timing differences in liquidating the investments.

As of June 30, 2006, the General Fund had a negative cash balance of $4.1 billion. In order to properly reflect the general account position, this negative cash balance has been eliminated in the accompanying statements and offset against the Primary Government's cash equivalents and investments (see Note 6).

Cash Equivalents

Cash equivalents are investments with an original maturity of 90 days or less.

Investments

Investments are principally comprised of monies held by component units, Pension and Other Employee Benefit Trust Funds, and monies held by the State Treasurer in both the general account and other fiduciary accounts.

Governmental and proprietary funds, both primary government and component units, report investments in money market and in the Commonwealth sponsored investment pools at amortized cost. All other investments are reported at fair value, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Investments administered by the Virginia Retirement System (VRS) are reported at fair value. The cost of investments sold is the average cost of the aggregate holding of the specific investment sold. Investments in affiliated organizations are accounted for on the equity method of accounting and the VRS' share of their earnings (losses) for the period is included in investment income using the equity method.

Investments of higher education institutions (Component Units) are reported at fair value, except for money market investments and investments in the Commonwealth sponsored investment pools, which are reported at amortized cost.

Derivatives

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes (see Note 6).

G. Receivables

Receivables in the governmental funds consist primarily of the accrual of taxes, as well as Federal receivables of the Primary Government's Medicaid program. Receivables in the Proprietary Funds consist primarily of tuition contributions receivable. Receivables of Fiduciary Funds are primarily the accrual of member and employer contributions in the Pension and Other Employee Benefit Trust Funds and the accrual of local sales taxes in the Agency Funds. Receivables of the Component Units consist primarily of mortgage receivables, loans receivable, patient receivables, and student receivables. Receivables are recorded net of allowances for doubtful accounts (see Note 7).

H. Contributions Receivable, Net

Contributions Receivable reported by the foundations (Component Units) represents pledges or unconditional promises to give that have been discounted (see Note 8).

I. Internal Balances

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities (see Note 9).

J. Inventory

Inventories consist of materials and supplies and are reported as expenditures when consumed. These assets are offset by a fund balance reserve that indicates they are not available for spending. Inventories exceeding $1 million of the General and the Special Revenue Funds are maintained at cost using the first-in, first-out (FIFO) methodology, except for the following:

- Department of State Police (VSP)
- Virginia Department of Transportation (VDOT)
- Department of Health (VDH)
- Department for the Blind and Vision Impaired (DBVI)

VSP inventories are recorded in the General (major) and Other Special Revenue (nonmajor) Funds using the average cost methodology and are maintained at cost. VDOT inventories are recorded in the Commonwealth Transportation Fund (major) using the FIFO and average cost methodologies and are maintained at either cost or average cost. VDH inventories are recorded in the General (major), Health and Social Services Special Revenue (nonmajor), Other Special Revenue (nonmajor), and Federal Trust (major) Funds. These inventories are maintained at cost based on either FIFO or the average cost methodology. DBVI inventories are maintained at cost or average cost based on the FIFO methodology and are recorded in the General (major) and Health and Social Services Special Revenue (nonmajor) Funds.

Inventories maintained by Correctional Enterprises (Internal Service Fund) are stated at the lower of cost or market using FIFO. Inventories maintained by the Virginia Museum of Fine Arts (Nonmajor Enterprise Fund), the Science Museum of Virginia (Nonmajor Enterprise Fund), the Consolidated Laboratory (Nonmajor Enterprise Fund) and the Library of Virginia (Nonmajor Enterprise Fund) are stated at cost using FIFO. Inventories maintained by the Internal Service Funds except for Correctional Enterprises are stated at cost using FIFO.

The Department of Alcoholic Beverage Control (Nonmajor Enterprise Fund) and the Virginia Industries for the Blind (Nonmajor Enterprise Fund) maintains inventories at cost using the average cost methodology.

Institutions of higher education (Component Units) use several methods for inventory valuations, including cost using FIFO, the lower of cost or market using FIFO, or weighted average methods. Inventories maintained by the Virginia Equine Center Foundation (Nonmajor Component Unit) are stated at the lower of cost or market using FIFO. Inventories maintained by the Virginia Port Authority (Nonmajor Component Unit) are reported using the moving average cost methodology. The The Virginia Housing Development Authority (Major Component Unit) maintains inventories at the lower of cost or fair value.

K. Prepaid Items

Prepaid assets for rent, insurance, and similar items are recognized when purchased and expensed when used.

L. Interfund Loans Receivable/Payable

Loans Receivable/Payable represents working capital advances from one fund to another (see Note 9).

M. Other Assets

Other Assets include those balances of a miscellaneous nature that are not specifically classified elsewhere (see Note 10).

N. Capital Assets

Capital assets of governmental funds are recorded as expenditures at the time of purchase and capitalized in the governmental activities column of the Government-wide Statement of Net Assets.

Capital assets of the other funds and component units are capitalized in the fund in which they are utilized. All depreciable capital assets are depreciated on the straight-line basis over their useful lives (see Note 12).

Capital assets are stated at historical cost or, in some instances, estimated historical cost. Donated capital assets are stated at fair market value at the time of donation. The Primary Government capitalizes all equipment that has a cost or value greater than $50,000 and expected useful life of greater than two years. The Primary Government capitalizes all property, plant, and infrastructure that have a cost or value greater than $100,000 and an expected useful life of greater than two years. Selected agencies and institutions of higher education utilize a capitalization limit lower or higher than the Primary Government's established thresholds for various reasons. Accordingly, reported capital assets may include some items that cost less than those thresholds. Infrastructure, including highways, bridges, and rights-of-way, is capitalized using the historical approach and includes any assets acquired prior to fiscal year 1980.

The Primary Government's capitalization policy regarding works of art/historical treasures is that capitalization is encouraged, but not required, for works of art/historical treasures that meet the following conditions:

- The collection is held for public exhibition, education, or research in furtherance of public service, rather than financial gain;
- The collection is protected, kept unencumbered, cared for and preserved; and,
- The collection is subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for the collection.

The Primary Government capitalizes construction-in-progress when project expenditures exceed $100,000. Interest incurred during construction is not capitalized in governmental funds. Interest incurred during the construction of proprietary fund assets is included in the capitalized value of the asset. Expenditures are classified as construction-in-progress if:

(1) they extend the asset life, improve productivity, or improve the quality of service; and

(2) they fall into the planning, acquisition, construction, improvement, renovation, repair, replacement, relocation or demolition phase of the asset life.

The estimated lives of capital assets are as follows:

	Years
Buildings	15–50
Equipment	2–20
Infrastructure	5–50

Selected institutions of higher education may utilize estimated lives and policies that differ from the above for various reasons.

O. Accounts Payable

Accounts payable represent amounts, including salaries and wages, owed for goods and services received prior to year-end. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* accounts payable also include payments for nonexchange transactions that met eligibility requirements prior to year-end (see Note 20).

P. Unearned and Deferred Revenue

Unearned revenue represents monies received or revenues accrued but not earned as of June 30, 2006. Deferred revenue represents revenues accrued but not available to finance expenditures of the current fiscal period. The majority of unearned revenue is reported by higher education institutions (Component Unit), where it is primarily composed of revenue for student tuition accrued in advance of the semester and advance payments on grants and contracts. In the General Fund (major), deferred revenue represents receivables that will be collected after August 31, 2006. In the Special Revenue Funds, unearned revenue is composed primarily of Federal grant money received but not spent. In the Enterprise Funds, a majority of unearned revenue represents on-line ticket monies received by the State Lottery (major) for which corresponding drawings have not been held and unearned revenues of Consolidated Laboratory (nonmajor). In the Internal Service Funds, it represents primarily unearned premiums for the Risk Management Fund and prepaid rent and work orders for the Property Management Fund. Additionally, in the Virginia Information Technologies Agency Internal Service Fund unearned revenue relates to the transfer and purchase of assets for transition agencies and advanced customer receipts. Unearned revenues in the other component units consist primarily of the deferral of fees related to various activities.

Q. Deferred Taxes

Deferred taxes represent the deferral of income taxes withheld or received for the period January through June 2006. This amount is the estimate to be refunded (overpayments by taxpayers) reduced by the estimate to be received (underpayments from taxpayers) that will be finalized when income tax returns are filed in subsequent years. Individual income tax estimated overpayments total $753,502,333 and estimated underpayments total $342,182,606. This results in deferred taxes of $411,319,727. Corporate income tax estimated overpayments total $34,617,424 and estimated underpayments total $58,491,612. When underpayments exceed overpayments, revenue on the fund statements is only recognized to the extent of estimated overpayments. Since underpayments exceed overpayments for corporate income taxes, the deferred tax amount is zero for the fiscal year.

R. Obligations Under Securities Lending Program

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions,* liabilities resulting from these transactions have been recorded as obligations under securities lending transactions.

S. Other Liabilities

Other liabilities represent amounts owed for various governmental and proprietary activities. Some of these amounts will be paid shortly after fiscal year-end (see Note 21).

Short-term debt results from borrowings from anticipation notes, lines of credit, and similar loans with parties external to the Primary Government. The Primary Government's policy is to disclose activity related to short-term borrowings occurring during the fiscal year. Any short-term debt balances outstanding at June 30 are reported as Other Liabilities. For fiscal year 2006, the Primary Government's agencies did not participate in short-term borrowings with external parties. Higher Education Institutions' Foundations (Component Units) have lines of credit outstanding as of year-end that amount to approximately $71.4 million. Also, the University of Virginia (Major Component Unit) reports $26.0 million of commercial paper that provides bridge financing for capital projects.

T. Claims Payable

Claims payable, reported in the proprietary funds of the primary government, represent both health and liability insurance claims payable at June 30, 2006. This includes both actual claims submitted, as well as actuarially determined claims incurred but not reported. Claims relating to the Primary Government's liability insurance programs are reported in the Risk Management – Internal Service Fund, and the Risk Management – Nonmajor Enterprise Fund. Also, health insurance claims are reported in the Health Care – Internal Service Fund and the Local Choice Health Care – Nonmajor Enterprise Fund (see Note 19.A. and 19.B.).

U. Long-term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities column. The governmental fund statements reflect the portion of long-term liabilities that will be paid from expendable resources. The proprietary fund statements and discrete component unit statements reflect total long-term liabilities and distinguish between those portions payable within one year and those payable in future years (see Note 22).

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bond. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Expenditures for principal and interest payments for governmental fund general obligation bonds and revenue bonds are recognized in the Debt Service Fund (nonmajor) when due. In these fund statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures (see Note 22).

V. Reserved Fund Balances

Reserved fund balances indicate that portion of fund balance that is not available to fund operations or is legally segregated for specific future use. Fund balance reservations are not specifically denoted in instances where the nature of the fund dictates the entire amount is reserved.

W. Unreserved, Designated Fund Balances

Designations of fund balance, as shown in Note 4, are established to reflect tentative plans for future utilization of current financial resources. It is the policy of the Primary Government to designate the portion of fund balance set aside by the General Assembly through the Appropriation Act to fund tentative but approved future plans. Unexpended appropriations approved by the Governor to be used to fund expenditures of the ensuing fiscal year are also reflected through a designation of fund balance. It is the policy of the Primary Government to limit such designations in the event that their accumulation and presentation would cause a negative unreserved, undesignated fund balance to occur.

X. Unreserved, Undesignated Fund Balances

The unreserved, undesignated basis of budgeting fund balance is the amount of fund balance remaining from operations of the current and prior years, net of amounts established as reserved and designated fund balance described in Notes 1.V. and 1.W. above.

Y. Cash Management Improvement Act

Included in "Due to Other Governments" is the Commonwealth's Cash Management Improvement Act (CMIA) interest liability to the Federal government, which is calculated in accordance with the interest calculation and exchange provisions of the Federal Cash Management Improvement Act of 1990. The Commonwealth's interest liability is subject to review and final confirmation by the Financial Management Service (FMS) of the U.S. Treasury. The payment is to be made on or before March 1, 2007. Payment will be made from a sum sufficient appropriation authorized for this purpose by the Appropriation Act. The CMIA interest rate of exchange is based by law on the annualized average earnings rate of 13-week Treasury Bills.

Z. Interest, Dividends, Rents, and Other Investment Income

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, all investment income is reported in this line item. Since this amount includes changes in the fair value of investments, the amount reported may be negative. In addition, the amount reported also includes rent payments received on properties owned by the Commonwealth.

AA. Intrafund Eliminations

Eliminations have been incorporated into the report to eliminate intrafund transactions within the related fund type. These eliminations prevent overstatement of financial activity.

BB. Interfund Activity

Generally, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions.

In the fund financial statements, transfers represent flows of assets without equivalent flows of assets in return or a requirement for repayment. In addition, transfers are recorded when a fund receiving revenue provides it to a different fund that expends the resources.

2. RESTATEMENT OF BEGINNING BALANCES

The government-wide beginning balance restatements resulted from the following:

- Governmental Activities have been restated primarily for the correction of prior year errors regarding the understatement of capital assets. Additional restatements are due to the General fund and Nonmajor Special Revenue Funds as explained below.

- Component Units have been restated for various reasons as explained below.

The various individual fund amounts have been restated due to the following:

- The General Fund restatement is due to a prior year error related to the understatement of amounts due to other governments.

- The Nonmajor Special Revenue funds were restated due to a change in reporting classification. The previously reported Special Revenue Dedicated was combined with Special Revenue Other and from this combination, a new Special Revenue classification – Special Revenue Health and Social Services – was extracted. Additionally, the Special Revenue Health and Social Services Fund was restated due to prior year errors related to an overstatement of assets.

- The Investment Trust Fund has been restated due to a reporting change with the State Non-Arbitrage Program. Since the Commonwealth does not control the daily investment activities nor bear fiduciary responsibility for these amounts, this fund is no longer reported in the accompanying financial statements (see note 16). Additionally, LGIP was restated because the Assistive Technology Loan Fund Authority was reported as a related organization in fiscal year 2005 and as a discrete component unit in fiscal year 2006.

- The University of Virginia amount has been restated primarily due to prior year errors related to receivables. In addition, there was a prior year error in the elimination entries of intrafund activity among the University and their foundations.

- Nonmajor Higher Education Institution amounts have been restated for various reasons. The College of William and Mary has been restated primarily due to the correction of errors related to capital assets and the implementation of GASBS No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Radford University has been restated to adjust accumulated depreciation on capital assets for a change in depreciation method, to recognize prepaid expenses not previously recognized, and to correct errors related to capital assets and the foundation amounts. George Mason University has been restated due to their foundation's fifty percent interest in a perpetual trust that had not previously been recognized. The Virginia College Building Authority has been restated due to an understatement of payables.

- Nonmajor Component Units have been restated because the Assistive Technology Loan Fund Authority was reported as a related organization in fiscal year 2005 and as a discrete component unit in fiscal year 2006.

- Agency Funds have been restated due to the correction of a prior year error related to the understatement of cash and amounts due to the other funds.

Beginning Balance Restatement

(Dollars in Thousands)

	Balance as of June 30, 2005	Correction of Prior Year Errors	Change in Reporting	Balance June 30, 2005 as restated
Government-wide Activities:				
Primary Government:				
Governmental Activities	$ 13,922,984	$ 302,240	$ -	$ 14,225,224
Business-type Activities	419,276	-	-	419,276
Total Primary Government	$ 14,342,260	$ 302,240	$ -	$ 14,644,500
Component Units	$ 14,216,814	$ (9,498)	$ 21,375	$ 14,228,691
Major Governmental Funds:				
General	$ 1,229,025	$ (4,179)	$ -	$ 1,224,846
Special Revenue Funds:				
Commonwealth Transportation	1,361,744	-	-	1,361,744
Federal Trust	62,282	-	-	62,282
Literary	319,212	-	-	319,212
Nonmajor Governmental Funds:				
Special Revenue Funds:				
Health and Social Services Fund	211,361	(3,032)	(92,897)	115,432
Other Special Revenue Fund	410,043	-	92,897	502,940
Total Special Revenue	621,404	(3,032)	-	618,372
Debt Service Funds:				
Primary Government	75,520	-	-	75,520
Virginia Public Building Authority	55	-	-	55
Total Debt Service	75,575	-	-	75,575
Capital Project Funds:				
Primary Government	72,777	-	-	72,777
Virginia Public Building Authority	(33,345)	-	-	(33,345)
Total Capital Projects	39,432	-	-	39,432
Permanent Funds:				
Commonwealth Health Research Fund	28,263	-	-	28,263
Mental Health Endowment Funds	248	-	-	248
Total Permanent Funds	28,511	-	-	28,511
Total Nonmajor Governmental Funds	764,922	(3,032)	-	761,890
Total Governmental Funds	$ 3,737,185	$ (7,211)	$ -	$ 3,729,974

Beginning Balance Restatement
Fiduciary Funds

(Dollars in Thousands)

	Balance as of June 30, 2005	Change in Reporting	Balance June 30, 2005 as restated
Private Purpose Funds	$ 11,752,859	$ -	$ 11,752,859
Pension and Other Employee Benefit Trust Funds	$ 44,125,783	$ -	$ 44,125,783
Investment Trust Fund:			
Local Government Investment Pool (LGIP)	$ 2,308,999	$ (10,322)	$ 2,298,677
State Non-Arbitrage Pool (SNAP)	1,526,708	(1,526,708)	-
SNAP Individual Investment Accounts	404,072	(404,072)	-
Total Investment Trust Fund	$ 4,239,779	$ (1,941,102)	$ 2,298,677

Beginning Balance Restatement
Component Units

(Dollars in Thousands)

	Balance as of June 30, 2005	Correction of Prior Year Errors	Change in Reporting	Balance June 30, 2005 as restated
Major Component Units				
Virginia Housing Development Authority	$ 1,669,155	$ -	$ -	$ 1,669,155
Virginia Public School Authority	15,128	-	-	15,128
University of Virginia	4,864,823	(5,231)	-	4,859,592
Virginia Polytechnic Institute and State University	1,117,946	-	-	1,117,946
Virginia Commonwealth University	1,217,253	-	-	1,217,253
Nonmajor Component Units				
Virginia Economic Development Partnership	271	-	-	271
Virginia Outdoors Foundation	10,017	-	-	10,017
Virginia Port Authority	344,375	-	-	344,375
Virginia Resources Authority	974,948	-	-	974,948
Virginia Tourism Authority	2,079	-	-	2,079
Virginia Tobacco Settlement Foundation	6,971	-	-	6,971
Tobacco Indemnification and Community Revitalization Commission	473,796	-	-	473,796
Hampton Roads Sanitation District Commission	358,933	-	-	358,933
Virginia Biotechnology Research Park Authority	11,396	-	-	11,396
Virginia Small Business Financing Authority	30,684	-	-	30,684
Virginia School for the Deaf and Blind Foundation	2,733	-	-	2,733
Science Museum of Virginia Foundation	13,071	-	-	13,071
Virginia Museum of Fine Arts Foundation	190,592	-	-	190,592
A. L. Philpott Manufacturing Extension Partnership	1,171	-	-	1,171
Virginia Equine Center Foundation	2,057	-	-	2,057
Certified Nursing Facility Education Initiative	60	-	-	60
Assistive Technology Loan Fund Authority	-	-	11,972	11,972
Virginia Land Conservation Foundation	14,005	-	-	14,005
Virginia Arts Foundation	379	-	-	379
Library of Virginia Foundation	4,402	-	-	4,402
College of William and Mary	763,835	(6,877)	(762)	756,196
Virginia Military Institute	389,217	-	-	389,217
Virginia State University	94,506	-	-	94,506
Norfolk State University	60,718	-	-	60,718
University of Mary Washington	107,810	-	-	107,810
James Madison University	329,717	-	-	329,717
Radford University	157,563	2,169	10,165	169,897
Old Dominion University	341,602	-	-	341,602
George Mason University	346,014	9,801	-	355,815
Virginia Community College System	516,425	-	-	516,425
Christopher Newport University	125,943	-	-	125,943
Longwood University	153,919	-	-	153,919
Southwest Virginia Higher Education Center	9,817	-	-	9,817
Roanoke Higher Education Authority	15,384	-	-	15,384
Innovative Technology Authority	23,218	-	-	23,218
Institute for Advanced Learning and Research	4,294	-	-	4,294
Virginia College Building Authority	(549,413)	(9,360)	-	(558,773)
			-	
Total Nonmajor Component Units	5,332,509	(4,267)	21,375	5,349,617
Total Component Units	$ 14,216,814	$ (9,498)	$ 21,375	$ 14,228,691

Beginning Balance Restatement
Agency Funds

(Dollars in Thousands)

	Balance as of July 1, 2005	Correction of Prior Year Error	Balance as of July 1, 2005 as restated
Agency Funds			
Funds for the Collection of Taxes and Fees	$ 215,274	$ -	$ 215,274
Employee Benefits Fund	4,295	-	4,295
Contractor Deposits Fund	28,478	-	28,478
Deposits of Insurance Carriers Fund	409,122	-	409,122
Inmate and Ward Fund	7,238	-	7,238
Child Support Collections Fund	8,276	3,766	12,042
Mental Health Patient Trust Fund	2,368	-	2,368
Mental Health Non-patient Trust Fund	22	-	22
Comptroller's Debt Setoff Fund	821	-	821
Unclaimed Property of Other States	3,125	-	3,125
Legal Settlement Fund	1,554	-	1,554
Consumer Services Fund	756	-	756
Department of State Police Fund	1,138	-	1,138
Aviation Fund	170	-	170
Virginia School for the Deaf and Blind Fund	29	-	29
Woodrow Wilson Rehabilitation Center Fund	6	-	6
Dog and Cat Sterilization Fund	2	-	2
Commuter Rail Fund	14,010	-	14,010
Environmental Quality Fund	1,656	-	1,656
Total Agency Funds	$ 698,340	$ 3,766	$ 702,106

3. DEFICIT FUND BALANCES / NET ASSETS

The State Lottery (Major Enterprise Fund) and Department of Alcoholic Beverage Control (Nonmajor Enterprise Fund) ended the year with deficit net assets of $2.7 million and $7.6 million respectively. This was solely attributable to the net pension obligation resulting from GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. Since the Commonwealth is the employer, the agencies do not report this liability in their individually published financial statements.

The Virginia College Savings Plan (Major Enterprise Fund) ended the year with a deficit net assets balance of $26.8 million, which is attributable to the projected unfunded actuarial liability calculated by the Plan's actuary. While the Plan remains in a deficit position, there was significant improvement over the prior year deficit, which was reduced from $60.2 million to the current $26.8 million. This improvement is primarily attributable to the actual returns on the Plan's investments exceeding the assumed rate of return by a substantial margin and to increases in the actuarial reserve from new contract sales. The Board remains committed to eliminating the deficit over time and will continue to work closely with the actuary and investment consultant to enhance investment performance and add to the actuarial reserve whenever possible.

The eVA Procurement System (Nonmajor Enterprise Fund) ended the year with a deficit net assets balance of $1.04 million. This is attributable to a deficit in beginning net assets, expenses exceeding revenues and the net pension obligation resulting from GASB Statement No. 27, as previously explained.

The Library of Virginia (Nonmajor Enterprise Fund) ended the year with a deficit net assets balance of $60,000. This is attributable to start-up costs and other operating expenses exceeding revenues.

The Property Management Fund (Internal Service Fund) ended the year with a deficit net assets balance of $6.4 million. This deficit was the result of the purchase of a leasehold interest in a state-owned building.

The Risk Management Fund (Internal Service Fund) ended the year with a deficit net assets balance of $221.3 million. The deficit was the result of estimated claims payable exceeding the available equity in the fund. Claims are paid on a pay-as-you-go basis. To the extent that claims exceed current resources, they will ultimately become a liability of the fund from which the claim originated.

The Virginia Public Building Authority Capital Projects Fund (Nonmajor Governmental Fund) ended the year with a deficit fund balance of $76.7 million. The Authority issues bonds based on estimated expenditures for approved capital projects. This deficit occurred because expenditures were incurred prior to year-end, but will not be paid until fiscal year 2007 when additional bonds are issued.

The Virginia College Building Authority (Nonmajor Component Unit) ended the year with a deficit net asset balance of $667.3 million. This deficit occurs because the Authority issues 21st Century and Equipment bonds subject to future appropriations from the General Fund of the Commonwealth without any other security.

4. GENERAL FUND ANALYSIS – BASIS OF BUDGETING

The following schedule represents reservations and designations of General Fund balance on the basis of budgeting. The designated amounts differ from those presented in the General Fund Preliminary (Unaudited) Annual Report dated August 15, 2006, due to the effects of changes in tax estimates provided by the Department of Taxation.

Reservations and Designations of Fund Balance
General Fund, Basis of Budgeting
June 30, 2006

(Dollars in Thousands)

Reserved Fund Balance:		
Revenue Stabilization Reserve Fund	$ 1,064,665	
Unexpended Lottery Proceeds	20,873	
Total Reserved Fund Balance		1,085,538
Unreserved Fund Balance:		
Designated:		
Amount Required for Reappropriation of 2006 Unexpended Balances:		
Mandatory Reappropriations	134,382	
Discretionary Reappropriations	31,304	
Capital Outlay	125,810	
Amount Required by Special Session 1, Chapter 2	1,238,243	
Virginia Water Quality Improvement Fund - Part A	14,701	
Virginia Water Quality Improvement Fund - Part B	3,478	
Natural Disaster Sum Sufficient	19,747	
Revenue Stabilization Fund Contribution	184,318	
Amount Required by Item C-319.10, Chapter 3, 2006 Acts of Assembly	2,500	
Land Preservation Tax Credits	50,000	
Total Designated Fund Balance		1,804,483
Fund Balance, June 30, 2006		$ 2,890,021

5. REVENUE STABILIZATION FUND

In accordance with Article X, Section 8 of the *Constitution of Virginia*, the amount estimated as required for deposit to the Revenue Stabilization Fund must be appropriated for that purpose by the General Assembly. Management has designated $184.3 million for deposit into the Fund during fiscal year 2008. This amount designated for deposit is allowed under the provisions of Article X, Section 8 of the *Constitution of Virginia*.

The *Constitution* requires a deposit based on growth in income and retail sales tax revenue and allows revenue growth from increases in tax rates or the repeal of exemptions to be excluded, in whole or part, from the deposit calculation for up to six years. The calculated minimum mandatory deposit (excludes all revenue increases from tax reform including those derived from estimates) is $213.4 million and the calculated maximum mandatory deposit (includes all revenue increases from tax reform) is $244.4 million. In fiscal year 2005 the mandatory Revenue Stabilization Fund calculated minimum deposit was $354 million; however, the General Assembly appropriated $402.2 million, creating a $48.2 million prepayment. In fiscal year 2006, $19.1 million was transferred from the Revenue Stabilization Fund to the General Fund once the maximum certified balance was reached. The activity in 2006 resulted in a net prepayment of $29.1 million; therefore, the fiscal year 2006 deposit designation of $184.3 million is $29.1 million lower than the calculated minimum mandatory deposit.

Section 2.2-1829(b) of the *Code of Virginia* requires an additional deposit into the Fund when specific criteria have been met. No designation is required since the specified criteria were not met for fiscal year 2006.

The Revenue Stabilization Fund has principal and interest on deposit of $1.1 billion reserved as a part of General Fund balance which equals the maximum amount allowed for fiscal year 2006. The amount on deposit cannot exceed ten percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years. The maximum amount allowed is $1.1 billion and $1.2 billion for fiscal year 2006 and fiscal year 2007, respectively.

6. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Governmental Accounting Standards Board (GASB) issued Statement No. 40, *Deposit and Investment Risk Disclosures*, which modifies previous disclosure requirements related to investment risk, and is effective for reporting periods beginning after June 15, 2004. Required investment risk disclosures address credit risk, including custodial credit risk, concentrations of credit risk, interest rate risk, and foreign currency risk. The Commonwealth implemented this new accounting standard for the fiscal year ended June 30, 2005.

At June 30, 2006, the carrying amount of cash for the primary government was $3,137,502,364 and the bank balance was $306,158,622. The carrying amount of cash for the component units was $1,127,348,397 and the bank balance was $205,968,930. Cash equivalents are investments with an original maturity of 90 days or less. Cash and cash equivalents for Foundations (Component Units) totaled $200,899,704 as of year-end. A portion of this amount and some balances during the year exceeded Federal Deposit Insurance Corporation (FDIC) insurance coverage. Foundation Investments are disclosed at Interest Rate Risk section in this note.

The deposits of the primary government and the component units, excluding Foundations (Component Units), are secured in accordance with the provisions of the Virginia Security for Public Deposits Act, Section 2.2-4400 of the *Code of Virginia.* The Act requires any public depository that receives or holds public deposits to pledge collateral to the Treasury Board to cover public deposits in excess of Federal deposit insurance. The required collateral percentage is determined by the Treasury Board and ranges from 50 percent to 100 percent of public deposits in the case of a bank and 100 percent to 110 percent for a savings institution.

Securities pledged by banks and savings institutions, under the Act, are held by an approved escrow agent for the Treasury Board. In the event a depository bank defaults or becomes insolvent, the Treasury Board first assesses the collateral of the defaulting or insolvent institution and then assesses the collateral pledged by other public depositories on a statutory based ratio to the extent necessary to satisfy the assessment against the defaulting bank. The collateral pledged by all banks is sufficient to cover the uncollateralized public deposits of any single bank. Upon default or insolvency of a savings institution, the Treasury Board assesses the institution the amount of public funds on deposit in excess of FDIC insurance. The State Treasurer liquidates the necessary pledged collateral of the institution to reimburse public depositors to the extent of the institution's deposit liability to them. As a result, these deposits are considered insured.

Certain deposits are held by trustees in accordance with the Trust Subsidiary Act, Section 6.1–32.8 et seq. of the *Code of Virginia*. The Act requires that cash held by trustees while awaiting investment or distribution is not to be used by an affiliate bank of the trustee in the conduct of its business unless the affiliate bank delivers securities to the trust department as collateral that is at least equal to the fair value of the trust funds held on deposit in excess of amounts insured by the FDIC.

The Commonwealth is authorized, in accordance with the guidelines set forth in Section 2.2-4500 et seq. of the *Code of Virginia,* to invest in the following:

- U.S. Treasury and agency securities
- Corporate debt securities of domestic corporations
- Asset–backed securities
- Mortgage–backed securities
- AAA rated obligations of foreign governments
- Bankers' acceptances and bank notes
- Negotiable certificates of deposit
- Repurchase agreements
- Money market funds

Permitted investments include agency mortgage-backed securities, reported as U.S. Treasury and agency securities, and asset-backed securities, reported as corporate notes, which by definition usually expose the investor to prepayment risk.

Prepayment risk, or the prepayment option granted the borrower, can create uncertainty concerning cash flows, can affect the price of the security causing negative convexity, and can expose the investor to reinvestment risk. Similarly, many agency and corporate securities are callable after some predetermined date at a predetermined price. The call options in regular agency debentures and some corporate securities can be open ended and may significantly impact cash flows, security pricing, and reinvestment risks of these securities.

Certain investments held in trust by the Treasurer of Virginia in accordance with bond indentures and resolutions may have more restrictive investment policies. Investment policies of institutions of higher education (Component Units) are established by the institutions' governing boards.

The Board of Trustees of the Virginia Retirement System (VRS) (Primary Government) has full power to invest and reinvest the trust funds in accordance with Section 51.1–124.30 of the *Code of Virginia,* as amended. This section requires the Board to discharge its duties solely in the interest of the beneficiaries and to invest the assets with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Board must also diversify such investments so as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so. The VRS does not have investment policies that place specific restrictions on investments related to custodial risk, interest rate risk, credit risk, or foreign currency risk. The VRS investment portfolio is intended to be managed through diversification and prudent judgment, rather than through specific policy restrictions.

The information presented for the external investment pool was obtained from audited financial statements. Copies of the Local Government Investment Pool (LGIP) report may be obtained by writing the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218. Participation in this pool is voluntary.

Custodial Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Commonwealth may not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Policies related to credit risk pertaining to the Commonwealth securities lending program are found in the securities lending section of this note.

As of June 30, 2006, the primary government had $512,596,051 of cash equivalents and investments that were exposed to custodial risk as uninsured and uncollateralized. The VRS had $506,206,000 of this amount that consisted of various types of debt and equity securities that were held by counterparties' trust departments or agents, but not in the VRS' name. Investments held by broker-dealers under securities loan for U.S. Government and Agency Securities represented $203,094,398 and U.S. Treasury and Agency Securities represented $191,657,000 of the total. The remainder was for various types of debt and equity securities. The component units had $33,986,222 of cash equivalents and investments that were exposed to custodial risk as uninsured and uncollateralized. Mutual and Money Market Funds represented $15,420,417 and Fixed Income and Commingled Funds represented $10,032,279 of the total and the remainder was for various types of debt and equity securities.

As of June 30, 2006, the investments of the Pension and Other Employee Benefit Trust Funds were approximately 62 percent of the primary government investments, and 99 percent of those that were exposed to custodial risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Commonwealth has elected the Segmented Time Distribution method of disclosure.

The State Treasurer guidelines restrictions limit the following maximum durations for any single security of the following investment types:

Security Type	Maximum Duration
Corporate Security	15 years
Asset-Backed Securities	5 years
Sovereign Government Obligations (excluding U.S.)	5 years
Negotiable Certificates of Deposit and Negotiable Bank Notes	5 years

The State Treasurer guidelines further describe target durations for the overall General Account portfolio of 1.6 years, with a 2.3 year maximum and a 0.4 year minimum duration.

The VRS manages the risk within the portfolio using the effective duration or option-adjusted methodology. It is widely used in the management of fixed income portfolios in that it quantifies, to a much greater degree, the risk of interest rate changes. The methodology takes into account optionality on bonds and scales the risk of price changes on bonds depending upon the degree of change in rates and the slope of the yield curve.

At June 30, 2006, the Commonwealth had the following investments and maturities:

Primary Government Investments
(Dollars in Thousands)

Investment Type	Fair Value	Investment Maturities (in years) Less Than 1	1-5	6-10	More Than 10
Debt Securities					
U. S. Treasury and Agency Securities	$ 3,692,785	$ 1,922,828	$ 1,389,618	$ 243,242	$ 137,097
Corporate Notes	3,579,991	1,240,980	1,902,485	271,189	165,337
Corporate Bonds	2,310,499	1,518,779	486,732	190,299	114,689
Commercial Paper	3,898,616	3,898,616	-	-	-
Negotiable Certificates of Deposit	2,435,554	2,435,550	4	-	-
Non-negotiable Certificates of Deposit	81,254	80,955	299	-	-
Repurchase Agreements	3,227,412	3,227,412	-	-	-
Municipal Securities	79,615	7,251	29,819	15,272	27,273
Asset Backed Securities	1,894,570	1,210,978	369,240	144,867	169,485
Agency Mortgage Backed	3,342,817	639,610	1,638,500	712,275	352,432
Mutual and Money Market Funds (Include SNAP)	536,524	536,443	81	-	-
The Boston Company Pooled Employee Trust Fund	1,321,106	1,321,106	-	-	-
Guaranteed Investment Contracts	192,442	-	192,442	-	-
Fixed Income and Commingled Funds	2,200,875	217,242	544,345	1,439,288	-
Deposits with the U.S. Treasury for Unemployment Compensation	720,544	720,544	-	-	-
Investments held by broker-dealers under securities loans					
U. S. Government and Agency Securities	2,367,551	45,703	1,347,716	598,637	375,495
Corporate Notes	169,578	10,369	106,465	37,327	15,417
Corporate Bonds	56,368	11,829	41,076	3,463	-
Other	877,707	189,232	371,731	206,621	110,123
Total	$ 32,985,808	$ 19,235,427	$ 8,420,553	$ 3,862,480	$ 1,467,348

Component Unit Investments
(Dollars in Thousands)

Investment Type	Fair Value	Investment Maturities (in years) Less Than 1	1-5	6-10	More Than 10
Debt Securities					
U. S. Treasury and Agency Securities	$ 433,463	$ 270,024	$ 143,624	$ 3,782	$ 16,033
Corporate Notes	100,552	58,219	18,840	6,379	17,114
Corporate Bonds	16,609	3,901	6,661	1,039	5,008
Commercial Paper	629,782	629,782	-	-	-
Banker's Acceptance	670	670	-	-	-
Negotiable Certificates of Deposit	9,512	4,512	5,000	-	-
Non-negotiable Certificates of Deposit	22,572	22,412	160	-	-
Repurchase Agreements	354,967	342,558	6,881	-	5,528
Municipal Securities	3,061,998	39,867	109,911	85,484	2,826,736
Asset Backed Securities	171,927	17,082	30,922	1,163	122,760
Agency Mortgage Backed	116,041	29,833	15,677	12,858	57,673
Mutual and Money Market Funds (Include SNAP)	669,193	639,458	4,663	23,292	1,780
Guaranteed Investment Contracts	283,051	-	19,230	2,166	261,655
Fixed Income and Commingled Funds	10,032	-	10,032	-	-
Other	204,634	132,672	8,127	25,053	38,782
Total	$ 6,085,003	$ 2,190,990	$ 379,728	$ 161,216	$ 3,353,069

Foundation Investments
(Dollars in Thousands)

Investment Type	Fair Value
U.S. Treasury and Agency Securities	$ 764,006
Common & Preferred Stocks	1,889,439
Corporate Notes	23,287
Corporate Bonds	101,462
Commercial Paper	11,206
Negotiable Certificates of Deposit	6,869
Municipal Securities	205,435
Asset Backed Securities	1,584
Agency Mortgage Backed	2,243
Mutual and Money Market Funds	650,139
Bankers' Acceptance	481
Real Estate	188,026
Index Funds	107,438
Hedge Funds	1,740,428
Investment in Grantor Trust	296,228
Partnerships and Other Joint Ventures	118,838
Others	272,321
Total	$ 6,379,430

Note: Foundations represent FASB reporting entities defined in Note 1.B. A portion of these amounts are reported at cost rather than fair value because fair value was not available or readily determinable.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State Treasurer of the Commonwealth places emphasis on securities of high credit quality and marketability. At the time of purchase, the following limitations are in place:

- Bankers acceptances: P-1, Moody's and A-1, S&P
- Negotiable CDs and bank notes:
  - maturities of one year or less: P-1, Moody's and A-1, S&P
  - maturities over one year: Aa, Moody's and AA, S&P
- Commercial paper: P-1, Moody's and A-1, S&P
- Corporate Notes and Bonds and Busted Convertibles: A or better by two nationally recognized rating agencies, one of whom must be Moody's or S&P. However, each external investment manager may invest up to 10% of their portfolio in any rating level of Baa/BBB rated bonds which, at a minimum, must be rated investment grade by two nationally recognized rating agencies (one of which must be either Moody's or S&P). In addition, all Baa/BBB rated securities purchased in the portfolio must be considered "investment grade" by Lehman Brothers as related to inclusion in the appropriate Lehman index. Busted convertibles must be liquidated prior to conversion to equity. Also, to avoid holding the equity-like securities, busted convertibles must be sold when they reach 105 percent of their bond value.
- Taxable Municipal Bonds: A or better by two nationally recognized rating agencies, one of whom must be Moody's or S&P
- Asset-backed securities: AAA or better by two nationally recognized rating agencies, one of whom must be Moody's or S&P
- Dollar denominated obligations of sovereign governments: Aaa, Moody's and AAA, S&P
- Commercial Mortgage-Backed Securities (CMBS), Collateralized Mortgage Obligations (CMOs), and Planned Amortization Classes (PACs): AAA or better by two nationally recognized rating agencies, one of whom must be Moody's or S&P

The following tables present the credit ratings for the majority of the investments of the primary government and component units as of June 30, 2006. The ratings presented below are using Standard & Poor's (S&P) and Moody's Investors Service (Moody's) rating scales. Within the primary government, the investments presented in the table represented 82.34 percent of the total debt securities, 11.2 percent of which were invested in obligations guaranteed by the U.S. Government. Within the component units, the investments presented in the table represented 91.08 percent of the total debt securities, 44.21 percent of which were invested in unrated Municipal Securities.

Credit risk for derivative instruments held by the Commonwealth results from counterparty risk assumed by the Commonwealth. This is essentially the risk that the borrower will be unable to meet its obligation. Information regarding the Commonwealth's credit risk related to derivatives is found in the Derivative Financial Instruments note.

Policies related to credit risk pertaining to the Commonwealth's securities lending program are found in the Securities Lending note.

Credit Rating - Primary Government
(Dollars in Thousands)

Investment	Amount	Rating Agency	Rating	Percent of Portfolio
U. S. Treasury and Agency Securities	$ 3,692,785		N/A	11.20%
Agency Mortgage Backed	2,817,828		Unrated	8.54%
Commercial Paper	2,487,410	Standard & Poor's	A-1	7.54%
Negotiable Certificates of Deposit	2,435,554		N/A	7.38%
Investments held by broker-dealers under securities loans (U.S. Government and Agency Securities)	2,360,775		Unrated	7.16%
Repurchase Agreements	1,867,139	Standard & Poor's	A-1	5.66%
Commercial Paper	1,411,206	Moody's	P-1	4.28%
The Boston Company Pooled Employee Trust Fund	1,321,106	Moody's	Aa3	4.01%
Asset Backed Securities	1,271,264	Moody's	Aaa	3.85%
Repurchase Agreements	1,175,251	Moody's	P-1	3.56%
Fixed Income and Commingled Funds	1,108,761	Moody's	A1	3.36%
Deposits with the U.S. Treasury for Unemployment Compensation	720,544		Unrated	2.18%
Corporate Notes	608,127	Standard & Poor's	A	1.84%
Corporate Notes	601,293	Standard & Poor's	AA	1.82%
Fixed Income and Commingled Funds	518,401	Moody's	Aa1	1.57%
Other Debt Securities	507,800	Moody's	Aaa	1.54%
Agency Mortgage Backed	495,276	Standard & Poor's	AAA	1.50%
Asset Backed Securities	486,959	Standard & Poor's	AAA	1.48%
Mutual and Money Market Funds (Include SNAP)	483,396	Standard & Poor's	AAA	1.47%
Corporate Bonds	459,576		Unrated	1.39%
Corporate Bonds	332,599	Moody's	Aaa	1.01%

Credit Rating - Component Unit
(Dollars in Thousands)

Investment	Amount	Rating Agency	Rating	Percent of Portfolio
Municipal Securities	$ 2,690,437		Unrated	44.21%
Commercial Paper	481,467	Moody's	P-1	7.91%
U. S. Treasury and Agency Securities	433,463		N/A	7.12%
Mutual and Money Market Funds (Include SNAP)	426,786	Standard & Poor's	AAA	7.01%
Repurchase Agreements	305,467	Moody's	P-1	5.02%
Guaranteed Investment Contracts	282,400		Unrated	4.64%
Municipal Securities	240,476	Standard & Poor's	AAA	3.95%
Mutual and Money Market Funds (Include SNAP)	219,584		Unrated	3.61%
Asset Backed Securities	149,829	Moody's	Aaa	2.46%
Other Debt Securities	87,428	Moody's	Aaa	1.44%
Other Debt Securities	80,873	Standard & Poor's	A-1	1.33%
Commercial Paper	79,997	Moody's	Aaa	1.31%
Corporate Notes	65,370	Moody's	Aaa	1.07%

Concentration of Credit Risk

Concentration of credit risk is related to the risk of loss that may be attributed to the magnitude of a government's investment in a single issuer.

It is the State Treasurer's policy that each portfolio will be diversified with no more than 5 percent of the value of the fund invested in the securities of any single issuer. This limitation shall not apply to the U.S. Government, or Agency thereof, or U.S. Government sponsored corporation securities and fully insured and/or collateralized certificates of deposit.

The VRS investment guidelines for each specific portfolio also limit investments in any corporate entity to no more than 5 percent of the market value of the account for both the internally and externally managed portfolios. There is no concentration of investments in any one organization that represents 5 percent or more of plan net assets available for benefits.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversly impact the fair value of an investment. All investments exposed to foreign currency risk were part of the VRS portfolio at June 30, 2006.

The VRS' currency risk exposures, or exchange rate risk, primarily exists in the international and global equity investment holdings. From time to time, the VRS' external managers may hedge their portfolios' foreign currency exposures with currency forward contracts. This will depend upon their views about a specific foreign currency relative to the U.S. dollar. The VRS' exposure to foreign currency risk is highlighted in the following table.

Currency Exposures by Asset Class

(Dollars in Thousands)

Currency	Cash & Cash Equivalents	Equity	Corporate Bonds	Private Equity	Real Estate	Total
Euro Currency Unit	$ 3,855	$ 2,732,539	$ 10,693	$ 385,647	$ -	$ 3,132,734
British Pound Sterling	10,608	1,868,194	-	76,250	661	1,955,713
Japanese Yen	24,788	1,569,603	-	-	(5,930)	1,588,461
Australian Dollar	108	1,149,845	6,186	-	-	1,156,139
Canadian Dollar	1,637	814,125	396	-	-	816,158
Norwegian Krone	323	462,048	-	-	-	462,371
Swiss Franc	1,163	347,391	-	-	-	348,554
Hong Kong Dollar	1,628	311,125	-	-	439	313,192
South Korean Won	1,087	287,449	-	-	-	288,536
New Taiwan Dollar	6,455	208,772	-	-	-	215,227
Brazil Real	707	201,574	-	-	-	202,281
Indian Rupee	5,347	90,894	-	-	-	96,241
S African Comm Rand	429	95,253	-	-	-	95,682
New Turkish Lira	38	94,953	-	-	-	94,991
Singapore Dollar	570	94,395	-	-	-	94,965
Malaysian Ringgit	344	55,001	-	-	-	55,345
Danish Krone	2	38,612	-	-	-	38,614
Mexican New Peso	1,139	35,015	-	-	-	36,154
Egyptian Pound	104	28,475	-	-	-	28,579
Russian Rubel (New)	1	21,003	-	-	-	21,004
Philippines Peso	92	17,548	-	-	-	17,640
Polish Zloty	83	17,021	-	-	-	17,104
Thailand Baht	15	15,590	-	-	-	15,605
Indonesian Rupian	-	15,158	-	-	-	15,158
Israeli Shekel	1,298	12,763	-	-	-	14,061
Turkish Lira	7,189	-	-	-	-	7,189
Nigeria Naira	-	7,182	-	-	-	7,182
Slovenia Tolar	-	5,964	-	-	-	5,964
Pakistan Rupee	-	3,607	-	-	-	3,607
Colombian Peso	-	666	-	-	-	666
Peruvian Nuevo Sol	-	213	-	-	-	213
Iceland Kronur	-	187	-	-	-	187
Jordan Dinar	-	136	-	-	-	136
Morocco Dirham	-	127	-	-	-	127
Venezuela Bolivar	-	27	-	-	-	27
Argentina Peso	-	(23,310)	-	-	-	(23,310)
Chinese Yuan Renminbi	-	(27,274)	-	-	-	(27,274)
Hungarian Forint	194	(27,760)	-	-	-	(27,566)
Czech Koruna	56	(31,981)	-	-	-	(31,925)
Chilean Peso	-	(40,876)	-	-	-	(40,876)
Swedish Krona	321	(187,104)	-	22,890	-	(163,893)
New Zealand Dollar	94	(246,177)	-	-	-	(246,083)
Total	$ 69,675	$ 10,017,973	$ 17,275	$ 484,787	$ (4,830)	$ 10,584,880

Securities Lending

The State Treasury's securities lending program is managed by Dresdner Bank, AG New York Branch, under a contract dated March 31, 2006. Prior to this date, the securities lending program was managed by JPMorgan Chase Bank, N.A. The enabling legislation for the securities lending program is Section 2.2-4506 of Chapter 45 Investment of Public Funds of the *Code of Virginia*, as amended. No violations of legal or contractual provisions were noted during the year. The general account participated in a securities lending program for the entire year.

All securities lending loans are on an open-ended or one-day basis and may be terminated by Treasury with a 24-hour notice. Per the contract with Dresdner Bank, AG New York Branch, all cash reinvestment securities attributable to loans made on the Commonwealth's behalf shall be maintained by Dresdner Bank, AG New York Branch, and Treasury cannot pledge or sell such collateral absent a default.

The State Treasury's contract with Dresdner Bank, AG New York Branch provides for loss indemnification against Insolvency Default in respect of Lending Transactions and in the case of Reverse Transactions as defined in the applicable Agency Securities Lending and Repurchase Agreement. Additionally, Dresdner Bank, AG New York Branch is liable for any losses experienced from reinvestment of cash collateral in investments not authorized by the provisions of the investment guidelines for the Commonwealth of Virginia agreed upon by both parties and made a part of the Agency Securities Lending and Repurchase Agreement. There were no losses resulting from default during the reporting period, or recoveries of prior period losses during this reporting period.

When securities are loaned, the collateral received is at least 100 percent of fair value of the securities loaned and must be maintained at 100 percent or greater. There are no stated restrictions on the amount of securities that may be loaned, but the basic composition of the general account portfolio effectively caps the maximum percentage of the portfolio that may be loaned. During the past fiscal year, approximately 22 percent of the general account securities were on loan.

During the past year, a combination of U.S. Treasury, Agency, Agency mortgage and corporate securities have been loaned, with the majority of the loaned securities being U.S. Government securities. Collateral received included a combination of cash and non-cash securities, with the non-cash collateral being U.S. Government securities. At June 30, 2006 all collateral received was in the form of cash.

Securities loaned for the general account as of June 30, 2006, had a carrying value of $2,250,835,851 and a fair value of $2,251,733,036. The fair value of the collateral received was $2,285,540,951 providing for coverage of 101.5 percent. As a result, the State Treasury assumes no credit risk.

Current cash investment guidelines allow for a maximum weighted-average portfolio maturity of up to 60 days. At June 30, 2006, the cash reinvestment portfolio had a weighted average maturity of 26 days. Treasury's current cash reinvestment guidelines allow for investment in Government securities, AAA rated sovereign governments, asset backed securities, commercial paper and corporate notes, negotiable certificates of deposit, liquid master notes and promissory notes, bank notes, repurchase agreements collateralized by U.S. Treasury and Agency issues, and registered money market funds. At June 30, 2006, the majority of the cash reinvestments were in asset backed and corporate floating rate securities and tri-party repurchase agreements.

Under authorization of the Board, the VRS lends its fixed income and equity securities to various broker-dealers on a temporary basis. This program is administered through an agreement with the VRS' custodial agent bank. All security loan agreements are collateralized by cash, securities, or irrevocable letter of credit issued by major banks, and have a market value equal to at least 102 percent of the market value for domestic securities and 105 percent for international securities. Securities received as collateral cannot be pledged or sold by the VRS unless the borrower defaults. Contracts require the lending agents to indemnify the VRS if the borrowers fail to return the securities lent and related distributions, and if the collateral is inadequate to replace the securities lent. All securities loans can be terminated on demand by either the VRS or the borrowers. The majority of loans are open loans – meaning the rebate is set daily. This results in a maturity of one or two days on average, although securities are often on loan for longer periods. The maturity of loans generally does not match the maturity of collateral investments, which averages 88 days. At year-end, the VRS has no credit risk exposure to borrowers because the amounts it owes the borrowers exceed the amounts the borrowers owe it. The market value of securities on loan at June 30, 2006 was $4,335,714,000. The June 30, 2006 balance was composed of U.S. Government and agency securities of $2,366,847,000, corporate and other bonds of $225,695,000 and common and preferred stocks of $1,743,172,000.

The value of collateral (cash and non-cash) at June 30, 2006 was $4,421,712,000.

Securities on loan are included with investments on the statement of net assets. The invested cash collateral is included in the statement of net assets as an asset and corresponding liability.

As authorized by Section 2.2–4506 of the *Code of Virginia*, the Virginia Lottery, through its master custodian, JP Morgan Chase Bank, N. A., N.Y., and Dresdner Bank AG, N.Y., lends securities to various security brokers and lenders on a temporary basis for a fee. Up to 100 percent of the securities may be available for loan. Prior to or simultaneously with the Transfer of Securities to a counterparty, the Bank shall obtain collateral on the Lottery's behalf. The principal amount of cash Collateral and the Market Value (at the time of delivery by the counterparty) of Collateral in the form of Securities shall, in each case, be no less than 100 percent of the aggregate Market Value of the

Transferred Securities or the principal amount of such cash Collateral.

At June 30, 2006, the fair value of investment account securities on loan was $357,702,757 secured by $364,542,244 in cash deposits.

Derivative Financial Instruments

They include futures, forwards, options, or swap contracts. Some traditional securities, such as structured notes, can have derivative-like characteristics. In this case, the return may be linked to one or more indexes and asset-backed securities such as collateralized mortgage obligations (CMO), which are sensitive to changes in interest rates and prepayments. Futures, forwards, options, and swaps are generally not recorded on the financial statements, whereas structured notes and asset-backed investments generally are recorded.

The VRS is a party, both directly and indirectly, to various derivative financial investments that may or may not appear on the financial statements that are used in the normal course of business to enhance returns on investments and manage risk exposure to changes in value resulting from fluctuations in market conditions. These investments may involve, to varying degrees, elements of credit and market risk in excess of amounts recognized on the financial statements. Credit risk is the possibility that loss may occur from failure of a counterparty to perform according to the terms of the contract. Market risk arises from adverse changes in market prices, interest rates and foreign exchange rates that may result in a decrease in the market value of a financial investment or an increase in its funding cost, or both.

In addition to exposure from directly held derivative financial instruments, the VRS may have indirect exposure to risk through its ownership interests in commingled investment funds that use, hold, or write derivative financial instruments. Indirect exposure may also arise from stock lending programs in which the commingled funds participate. Such programs usually reinvest a portion of their cash collateral holdings in derivative instruments. The VRS' pro rata share of the contractual or notional amounts of outstanding derivative transactions in commingled investment funds and their related security lending programs approximated $237,369,000 at June 30, 2006.

The Virginia Housing Development Authority (Authority) (major) manages its interest risk on a portion of loan commitments through short sales of investment securities. These transactions meet the requirements for hedge accounting as all hedged items are specifically identified, probable of occurring, and highly correlated to the hedging instrument. The gain or loss from hedging transactions is recorded as an unamortized premium or discount and recognized as an adjustment to yield over the remaining life of the loan. The Authority periodically assesses correlation in order to determine the ongoing appropriateness of hedge accounting. During the year ended June 30, 2006, the Authority experienced a net gain of $1,243,157 from hedging transactions settled during the year. At June 30, 2006, no short sales were outstanding. The Authority's policy is to make adjustments to interest rates of loans related to such hedging transactions to reflect the losses or gains on such hedging transactions.

The University of Virginia (major) from time to time may use, through its investments and through investments in pooled funds, a variety of derivative securities including futures, options, and forward foreign currency contracts. These financial instruments are used to modify market risk exposure. Futures contracts and options on futures contracts are traded on organized exchanges and require collateral or margin in the form of cash or marketable securities. The net change in the futures contract value, if any, is settled with a cash transaction on a daily basis. Holders of futures contracts look to the exchange for performance under the contract and not the entity holding the offsetting futures position. Accordingly, the amount of risk due to non-performance of counterparties to the futures contracts is minimal. Foreign exchange contracts are used to protect the University's portfolio against fluctuations in the values of foreign currencies. The credit risk of forward currency contracts traded over-the-counter lies with the counterparty. Asset swap contracts are privately negotiated agreements between two participants to exchange the return stream derived from their assets to each other without exchanging underlying assets. The University uses asset swaps to gain exposure to certain market sectors in lieu of direct investment. The credit risk lies with the intermediary who arranges the asset swap. The University had no direct exposure to derivative instruments at June 30, 2006.

Forward, Futures, and Options Contracts

Forward contracts are contracts to purchase or sell, and futures contracts are contracts to deliver or receive financial instruments, foreign currencies or commodities at a specified future date and at a specified price or yield. Futures contracts are traded on organized exchanges (exchange-traded) and require initial margin (collateral) in the form of cash or marketable securities. The net change in the futures contract value is settled daily in cash with the exchanges. Holders of futures contracts look to the exchange for performance under the contract and not to the entity holding the offsetting futures position. Accordingly, the amount at risk posed by nonperformance of counterparties to futures contracts is minimal. In contrast, forward contracts traded over-the-counter are generally negotiated between two counterparties. They are subject to credit risks resulting from nonperformance of one of the counterparties and to market risks resulting from adverse fluctuations in market prices, interest rates, and foreign exchange rates.

Options may be either exchange-traded or negotiated directly between two counterparties over-the-counter. Options grant the holder the right, but not the obligation, to purchase or sell a financial instrument at a specified price and within a specified period of time from the 'writer' of the option. As a purchaser of options, the VRS typically pays a premium at the outset. The premium is reflected as an asset on the financial statements. The VRS then retains the right but not the obligation to exercise the option and purchase the underlying financial instrument. Should the option not be exercised, it expires worthless and the premium is recorded as a loss. A writer of options assumes the obligation to deliver or receive the underlying financial instrument on exercise of the option. Certain option contracts may involve cash settlements based on specified indexes such as stock indexes. As a writer of options, the VRS receives a premium at the outset. The premium is reflected as a liability on the financial statements and the VRS bears the risk of an unfavorable change in the price of the financial instrument underlying the option.

Forward, futures, and options contracts provide the VRS with the opportunity to build passive benchmark positions, manage portfolio duration in relation to various benchmarks, adjust portfolio yield curve exposure, and gain market exposure to various indexes in a more efficient way and at lower transaction costs. Credit risks depend on whether the contracts are exchange-traded or are exercised over-the-counter. Market risks arise from adverse changes in market prices, interest rates, and foreign exchange rates. At June 30, 2006, the VRS had purchased S & P, Russell Index, Treasury bonds and notes and global indices futures and options with a notional value of $5,462,482,000 and sold Treasury bonds and notes and global indices futures and options with a notional value of $638,208,000. At June 30, 2006, the VRS had pledged as collateral U.S. Treasury and U.S. Government Agency securities with a total market value of $158,222,000 as the margin requirement for futures contracts.

In addition to unsettled purchases and sales, accounts receivable and accounts payable for security transactions at June 30, 2006, included receivables for deposits with brokers for securities sold short of $1,142,069,000 and payables for securities sold short and not covered with market values of $1,152,007,000.

Foreign Exchange Contracts

Foreign exchange contracts include forward, futures, and options contracts. They involve either the exchange of specific amounts of two currencies or the delivery of a fixed amount of a currency at a future date and specified exchange rate. Forward and futures contracts settle three or more business days from the contract date. Forward contracts are negotiated over-the-counter between two counterparties, while futures contracts are exchange-traded. Foreign currency options, which are either negotiated between two counterparties or are exchange-traded, grant the buyer the right, but not the obligation, to purchase or sell at a specified price, a stated amount of an underlying currency at a future date. At June 30, 2006, the VRS had sold foreign currency contracts with a notional value of $7,157,688,000 and had purchased foreign currency contracts with a notional value of $7,160,565,000.

Foreign exchange contracts are used by the VRS to effect settlements and to protect the base currency ($US) value of portfolio assets denominated in foreign currencies against fluctuations in the exchange rates of those currencies. The credit risk of currency contracts that are exchange-traded lies with the clearinghouse of the exchange where the contracts are traded. The credit risk of currency contracts traded over-the-counter lies with the counterparty, and exposure is usually equal to the unrealized profit on in-the-money contracts. The market risk in foreign currency contracts is related to adverse movements in currency exchange rates.

Swap Agreements

Swaps are negotiated contracts between two counter parties for the exchange of payments at certain intervals over a predetermined time frame. The payments are based on a notional principal amount and calculated using either fixed or floating interest rates or total returns from certain instruments or indices. During fiscal year 2006, the VRS entered into interest rate and total return swaps with a total notional value of $1,226,074,000. Swaps are used to manage risk and enhance returns. To reduce the risk of counterparty non-performance, the VRS generally requires collateral on any material gains from these transactions.

7. RECEIVABLES

The following schedule (dollars in thousands) details the accounts, loans, taxes, and other receivables presented in the major funds, aggregated nonmajor funds by type, internal service funds, fiduciary funds, major component units, and aggregated nonmajor component units, as of June 30, 2006:

	Accounts Receivable	Loans Receivable	Interest Receivable	Taxes Receivable	Prepaid Tuition Contributions Receivable
Primary Government:					
General	$ 597,122	$ -	$ 322,672	$ 1,451,965	$ -
Major Special Revenue Funds:					
Commonwealth Transportation	169,468	40,020	-	56,489	-
Federal Trust	353,476	55	-	-	-
Literary	193,083	346,801	-	-	-
Nonmajor Governmental Funds	153,783	2	23	190	-
Major Enterprise Funds:					
State Lottery	43,895	-	-	-	-
Virginia College Savings Plan	3,877	-	3,029	-	308,817
Unemployment Compensation	117,775	-	-	-	-
Nonmajor Enterprise Funds	26,191	-	-	-	-
Internal Service Funds	13,528	-	-	-	-
Private Purpose	-	130	792	-	-
Pension and Other Employee Benefit Trust (1)	115,209	-	141,595	-	-
Investment Trust Fund	-	-	10,403	-	-
Agency Funds	251	-	-	122,761	-
Total Primary Government (2)	$ 1,787,658	$ 387,008	$ 478,514	$ 1,631,405	$ 308,817
Discrete Component Units:					
Virginia Housing Development Authority	$ -	$ 118,187	$ 2,301	$ -	$ -
Virginia Public School Authority	-	-	43,540	-	-
University of Virginia	163,595	37,170	-	-	-
Virginia Polytechnic Institute and State University	44,701	30,845	1,168	-	-
Virginia Commonwealth University	312,867	27,368	-	-	-
Nonmajor Component Units	124,572	1,957,720	33,617	6,279	-
Total Component Units	$ 645,735	$ 2,171,290	$ 80,626	$ 6,279	$ -

Note (1): Other Pension and Other Employee Benefit Trust receivables consist primarily of $80,705 (dollars in thousands) of other individual receivables arising from month-end rebalancing items.

Note (2): Fiduciary net receivables in the amount of $2,317,450 (dollars in thousands) are not included in the Government-wide Statement of Net Assets.

8. CONTRIBUTIONS RECEIVABLE, NET

The following schedule details the contributions receivable for Foundations[1] included with the major component units, and aggregated nonmajor component units, as of June 30, 2006:

(Dollars in Thousands)

	Due in Less Than One Year	Due Between One and Five Years	Due in More Than Five Years	Subtotal	Present Value Discount (2)	Allowance for Doubtful Accounts	Contributions Receivable, Net
Discrete Component Units:							
University of Virginia	$ 19,301	$ 66,932	$ 11,385	$ 97,618	$ (12,469)	$ (6,996)	$ 78,153
Virginia Polytechnic Institute & State University	17,289	38,678	8,011	63,978	(7,315)	(2,128)	54,535
Virginia Commonwealth University	7,907	23,183	3,262	34,352	(4,280)	(198)	29,874
Nonmajor Component Units	52,816	74,152	42,224	169,192	(20,808)	(10,704)	137,680
Total Component Units	$ 97,313	$ 202,945	$ 64,882	$ 365,140	$ (44,872)	$ (20,026)	$ 300,242

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.

Note (2): The discount rate used to determine present value ranges from 1.13 percent to 8.0 percent.

Security Transactions	Other Receivables	Allowance for Doubtful Accounts	Net Accounts Receivable	Amounts to be Collected Greater than One Year
$ -	$ -	$ (1,291,630)	$ 1,080,129	$ 17,235
-	-	(486)	265,491	46,877
-	-	(7,893)	345,638	7
-	-	(172,857)	367,027	317,559
-	-	(79,495)	74,503	862
-	-	-	43,895	-
-	-	-	315,723	237,617
-	-	(20,361)	97,414	-
-	-	(13)	26,178	-
-	-	(13)	13,515	-
-	-	-	922	-
1,842,223	84,086	-	2,183,113	-
-	-	-	10,403	-
-	-	-	123,012	-
$ 1,842,223	$ 84,086	$ (1,572,748)	$ 4,946,963	$ 620,157
$ -	$ -	$ -	$ 120,488	$ 115,031
-	-	-	43,540	43,540
-	35,735	(43,146)	193,354	65,051
-	423	(2,391)	74,746	34,528
-	23,561	(215,367)	148,429	20,668
-	65,503	(8,262)	2,179,429	1,954,677
$ -	$ 125,222	$ (269,166)	$ 2,759,986	$ 2,233,495

9. INTERFUND ASSETS/LIABILITIES

Due from/to Other Funds

Due from Other Funds are amounts to be received from one fund by another fund for goods sold or services rendered. Due to Other Funds are amounts owed by one fund to another fund for goods purchased or services obtained.

Included in the category Due from Other Funds are *"Due from Other Funds and Primary Government," "Due from Internal Parties (Governmental Funds and Business-type Activities)," "Due from External Parties (Fiduciary Funds),"* and *"Due from Component Units."* Included in the category Due to Other Funds are *"Due to Other Funds and Primary Government," "Due to Internal Parties (Governmental Funds and Business-type Activities)," "Due to External Parties (Fiduciary Funds),"* and *"Due to Component Units."* The following schedule shows the Due from/to Other Funds as of June 30, 2006.

Schedule of Due from/to Other Funds
June 30, 2006

(Dollars in Thousands)

Due From	Amount	Due To	Amount
Primary Government		**Primary Government**	
General Fund	$ 9,391	Major Special Revenue Funds:	
		Federal Trust	$ 1,281
		Major Enterprise Funds:	
		State Lottery	931
		Nonmajor Enterprise Funds	7,015
		Internal Service Funds	164
Major Special Revenue Funds:			
Commonwealth Transportation	1,803	Internal Service Funds	1,803
Nonmajor Governmental Funds	10,857	Major Special Revenue Funds:	
		Commonwealth Transportation	7,122
		Federal Trust	3,441
		Major Enterprise Funds:	
		Unemployment Compensation	294
Major Enterprise Funds:			
Unemployment Compensation	479	General Fund	242
		Major Special Revenue Funds:	
		Commonwealth Transportation	61
		Federal Trust	91
		Nonmajor Governmental Funds	54
		Major Enterprise Funds:	
		State Lottery	8
		Nonmajor Enterprise Funds	13
		Internal Service Funds	10
Internal Service Funds	32,800	General Fund	14,474
		Major Special Revenue Funds:	
		Commonwealth Transportation	10,730
		Federal Trust	3,450
		Nonmajor Governmental Funds	3,530
		Nonmajor Enterprise Funds	503
		Internal Service Funds	113
Total Primary Government	55,330	Total Primary Government	55,330

Continued on next page

Schedule of Due from/to Other Funds
June 30, 2006
(continued)

(Dollars in Thousands)

Due From		Amount	Due To		Amount
Component Units			**Component Units**		
University of Virginia	$	9,360	Nonmajor Component Units	$	9,360
Virginia Polytechnic Institute & State University		8,448	**Primary Government**		
			Nonmajor Governmental Funds		811
			Component Units		
			Nonmajor Component Units		7,637
Virginia Commonwealth University		9,171	**Primary Government**		
			Nonmajor Governmental Funds		2,069
			Component Units		
			Nonmajor Component Units		7,102
Nonmajor Component Units		24,967	**Primary Government**		
			Nonmajor Governmental Funds		7,326
			Component Units		
			Nonmajor Component Units		17,641
Total Component Units		51,946	Total Component Units/Primary Government		51,946
Total	$	107,276	Total	$	107,276

Schedule of Due from/to Internal/External Parties
June 30, 2006

(Dollars in Thousands)

Due From		Amount	Due To		Amount
Primary Government			**Primary Government**		
General Fund	$	8	Investment Trust	$	8
Major Special Revenue Funds:					
Federal Trust		3,470	Agency		3,470
Nonmajor Governmental Funds		30	Agency		30
Pension and Other Employee Benefit Trust		15,632	Pension and Other Employee Benefit Trust		15,632
Agency		3	Nonmajor Governmental Funds		3
Total Primary Government	$	19,143	Total Primary Government	$	19,143

Interfund Receivables/Payables

Interfund Receivables/Payables are loans made by one fund to another.

The following schedule shows the Interfund Receivables/Payables for the Primary Government as of June 30, 2006. There were no Interfund Receivables/Payables for the Component Units as of June 30, 2006.

Interfund Receivables/Payables
June 30, 2006

(Dollars in Thousands)

Receivable From:	Amount	Payable To:	Amount
Primary Government		**Primary Government**	
Nonmajor Governmental Funds	$ 118,689	Major Special Revenue Funds:	
		Federal Trust	$ 2,224
		Major Enterprise Funds:	
		State Lottery Department	8,000
		Nonmajor Governmental Funds	48,780
		Nonmajor Enterprise Funds	46,458
		Internal Service	13,227
Total	$ 118,689	**Total**	$ 118,689

Loans Receivable/Payable Between Primary Government and Component Units

The $0.3 million in Loans Payable to Component Unit represents loans from the Science Museum Foundation (Component Unit) to Special Revenue – Other.

The Virginia Polytechnic Institute and State University (Major Component Unit) loan of $6.9 million, the Norfolk State University (Nonmajor Component Unit) loan of $1.0 million, the University of Mary Washington (Nonmajor Component Unit) loan of $0.7 million, the Virginia Community College System (Nonmajor Component Unit) loan of $0.2 million, and the Christopher Newport University loan of $0.2 million were to cover the June 30th payroll processed prior to year-end. The Virginia Commonwealth University (Major Component Unit) loan of $1.5 million and the Virginia College Building Authority (Nonmajor Component Unit) loan of $14.0 million were used to fund programs until bonds were issued. The George Mason University (Nonmajor Component Unit) loan of $8 million and the Virginia Community College System (Nonmajor Component Unit) loan of $0.4 million were used to advance fund federally-funded grant programs.

The $170.5 million in Loans Receivable from Primary Government represents loans from the VPSA to the Literary Fund. The VPSA makes grants to local school divisions to finance the purchase of educational technology equipment. The VPSA makes these grants using the proceeds of notes issued for that purpose which will be repaid from appropriations to be made by the Virginia General Assembly from the Literary Fund.

10. OTHER ASSETS

The following table summarizes Other Assets as of June 30, 2006:

(Dollars in Thousands)

	Cash and Travel Advances	Unamortized Bond Issuance Expense	Other Assets	Total Other Assets
Primary Government:				
General	$ 1,156	$ -	$ -	$ 1,156
Major Special Revenue Funds:				
Commonwealth Transportation	20,720	-	-	20,720
Federal Trust	2,739	-	-	2,739
Nonmajor Governmental Funds	727	-	278	1,005
Major Enterprise Funds:				
State Lottery	1	-	-	1
Nonmajor Enterprise Funds	166	-	318	484
Internal Service Funds	1,015	-	-	1,015
Agency Funds (1)	-	-	3,060	3,060
Total Primary Government (2)	$ 26,524	$ -	$ 3,656	$ 30,180
Discrete Component Units:				
Virginia Housing Development Authority	$ -	$ -	$ 6,081	$ 6,081
University of Virginia	-	224	52,744	52,968
Virginia Polytechnic Institute and State University	-	373	4,650	5,023
Virginia Commonwealth University	376	6,408	12,308	19,092
Nonmajor Component Units	3,374	9,481	13,430	26,285
Total Component Units	$ 3,750	$ 16,486	$ 89,213	$ 109,449

Note (1): Other Assets of the Agency Funds is comprised primarily of items associated with unclaimed property reciprocal transfers with other states.

Note (2): Other Fiduciary assets in the amount of $3,060 (dollars in thousands) are not included in the Government-wide Statement of Net Assets.

11. RESTRICTED ASSETS

Restricted assets represent monies or other resources that must be used for specific legal or contractual requirements. The Virginia Housing Development Authority (Major Component Unit) reported restricted assets totaling $6.8 billion (of which $8.7 million is reported as Depreciable Capital Assets, net). The Virginia Public School Authority (Major Component Unit) reported restricted assets of $97.6 million. Both Major Component Unit's assets are restricted for debt service under a bond indenture agreement or other agreements. The Virginia Port Authority (Nonmajor Component Unit) reported restricted assets of $107.7 million. Of this amount $35.7 million is assets placed in an escrow account for construction projects, $39.7 million for debt service under a bond indenture agreement, $1.4 million for securities lending transactions, and $30.9 million reserved as part of the Port Facility Revenue Bond requirement. The Virginia Resources Authority (Nonmajor Component Unit) reported restricted assets of $504.6 million. Of this amount $499.2 million is restricted for loans to local governments, bond indentures, or federal and state regulations for various revolving funds. $5.4 million is restricted for the Operating Reserve Fund for the newly structured Virginia Pooled Financing Program. The Tobacco Indemnification and Community Revitalization Commission (Nonmajor Component Unit) reported restricted assets of $375.1 million to be used for financial aid to tobacco growers and to foster community economic growth. The Higher Education Institutions (Component Units) reported restricted assets totaling approximately $3.1 billion primarily for endowment and other contractual obligations. Included in this amount is approximately $2.4 billion of Foundations' restricted assets. The two museum foundations, the Virginia Museum of Fine Arts Foundation (Nonmajor Component Unit) and the Science Museum of Virginia Foundation (Nonmajor Component Unit) had restricted assets of $199.8 million and $11.5 million, respectively, primarily for donor-imposed restricted endowments. The remaining $16.8 million is spread among the Virginia Outdoors Foundation (Nonmajor Component Unit) Hampton Roads Sanitation District Commission (Nonmajor Component Unit), the Virginia Equine Center (Nonmajor Component Unit), the Small Business Financing Authority (Nonmajor Component Unit) and the Library of Virginia Foundation (Nonmajor Component Unit).

12. CAPITAL ASSETS

The following schedule presents the changes in the Capital Assets:

Schedule of Changes in Capital Assets

Governmental Activities

(Dollars in Thousands)

	Balance July 1, as restated	Increases	Decreases	Balance June 30
Nondepreciable Capital Assets:				
Land	$ 1,580,965	$ 224,094	$ (48,159)	$ 1,756,900
Construction in Progress	2,742,896	1,418,395	(1,289,068)	2,872,223
Total Nondepreciable Capital Assets	4,323,861	1,642,489	(1,337,227)	4,629,123
Depreciable Capital Assets:				
Buildings	2,201,538	67,963	(18,915)	2,250,586
Equipment	598,884	89,139	(30,178)	657,845
Infrastructure	17,844,274	1,328,365	(293,250)	18,879,389
Total Capital Assets being Depreciated	20,644,696	1,485,467	(342,343)	21,787,820
Less Accumulated Depreciation for:				
Buildings	784,613	57,902	(12,618)	829,897
Equipment	339,589	49,738	(24,934)	364,393
Infrastructure	8,704,389	436,996	(36,990)	9,104,395
Total Accumulated Depreciation	9,828,591	544,636	(74,542)	10,298,685
Total Depreciable Capital Assets, Net	10,816,105	940,831	(267,801)	11,489,135
Total Capital Assets, Net	$ 15,139,966	$ 2,583,320	$ (1,605,028)	$ 16,118,258

Note: Beginning balances have been restated by $309,451 (dollars in thousands) due to prior year errors, as discussed in Note 2.

Depreciation Expense Charged to Functions of the Primary Government
June 30, 2006

(Dollars in Thousands)

Governmental Activities:		
General Government	$	9,979
Education		6,431
Transportation		455,217
Resources and Economic Development		7,804
Individual and Family Services		10,448
Administration of Justice		32,595
Capital Assets held by the Internal Service Funds are charged to various functions		22,162
Total	$	544,636

Schedule of Changes in Capital Assets

Business-type Activities

(Dollars in Thousands)

	Balance July 1,	Increases	Decreases	Balance June 30
Nondepreciable Capital Assets:				
Land	$ 16,412	$ -	$ (14,435)	$ 1,977
Construction in Progress	5,892	361	(5,892)	361
Total Nondepreciable Capital Assets	22,304	361	(20,327)	2,338
Depreciable Capital Assets:				
Buildings	17,065	-	-	17,065
Equipment	75,649	13,735	(3,018)	86,366
Infrastructure	314,737	-	(314,736)	1
Total Capital Assets being Depreciated	407,451	13,735	(317,754)	103,432
Less Accumulated Depreciation for:				
Buildings	9,921	349	-	10,270
Equipment	50,550	8,780	(2,119)	57,211
Infrastructure	29,844	10,552	(40,395)	1
Total Accumulated Depreciation	90,315	19,681	(42,514)	67,482
Total Depreciable Capital Assets, Net	317,136	(5,946)	(275,240)	35,950
Total Capital Assets, Net	$ 339,440	$ (5,585)	$ (295,567)	$ 38,288

Schedule of Changes in Capital Assets

Component Units

(Dollars in Thousands)

	Balance July 1, as restated	Increases	Decreases	Subtotal June 30	Foundations (1)	Total June 30
Nondepreciable Capital Assets:						
Land	$ 364,179	$ 34,014	$ (16,516)	$ 381,677	$ 132,972	$ 514,649
Construction in Progress	1,092,353	878,567	(838,362)	1,132,558	90,850	1,223,408
Inexhaustible Works of Art / Historical Treasures	71,029	370	-	71,399	13,112	84,511
Livestock	761	46	-	807	2,430	3,237
Total Nondepreciable Capital Assets	1,528,322	912,997	(854,878)	1,586,441	239,364	1,825,805
Depreciable Capital Assets:						
Buildings	5,336,040	644,957	(26,890)	5,954,107	581,164	6,535,271
Infrastructure	1,526,454	121,600	(23)	1,648,031	2	1,648,033
Equipment	2,012,042	301,537	(99,411)	2,214,168	94,565	2,308,733
Improvements Other Than Buildings	301,976	26,620	(244)	328,352	34,207	362,559
Library Books	580,410	31,714	(4,118)	608,006	-	608,006
Total Capital Assets being Depreciated	9,756,922	1,126,428	(130,686)	10,752,664	709,938	11,462,602
Less Accumulated Depreciation for:						
Buildings	2,031,950	168,511	(14,198)	2,186,263	122,059	2,308,322
Infrastructure	819,042	48,122	(54)	867,110	2	867,112
Equipment	1,279,859	176,466	(88,492)	1,367,833	62,084	1,429,917
Improvements Other Than Buildings	145,319	14,188	(237)	159,270	13,850	173,120
Library Books	464,665	27,852	(4,076)	488,441	-	488,441
Total Accumulated Depreciation	4,740,835	435,139	(107,057)	5,068,917	197,995	5,266,912
Total Depreciable Capital Assets, Net	5,016,087	691,289	(23,629)	5,683,747	511,943	6,195,690
Total Capital Assets, Net	$ 6,544,409	$ 1,604,286	$ (878,507)	$ 7,270,188	$ 751,307	$ 8,021,495

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.

Beginning balances have been restated due to reclassifications and corrections of prior year errors. The following schedule is a summary of the restatement amounts.

Capital Asset Restatement - Component Units

(Dollars in Thousands)

	Balance July 1 Increase/(Decrease)
Nondepreciable Capital Assets:	
Construction in Progress	$ (12,355)
Inexhaustible Works of Art	5
Total Nondepreciable Capital Assets	(12,350)
Depreciable Capital Assets:	
Buildings	10,396
Infrastructure	156
Equipment	1,647
Library Books	3,665
Total Capital Assets being Depreciated	15,864
Less Accumulated Depreciation for:	
Buildings	(9,430)
Infrastructure	(576)
Equipment	5,200
Improvements Other Than Buildings	76
Library Books	3,665
Total Accumulated Depreciation	(1,065)
Total Depreciable Capital Assets, Net	16,929
Total Capital Assets, Net	$ 4,579

13. RETIREMENT AND PENSION SYSTEMS

A separately issued financial report that includes financial statements and required supplemental information for each of the individual plans discussed below is publicly available. Copies may be obtained by writing to Virginia Retirement System, P. O. Box 2500, Richmond, Virginia 23218-2500.

A. Plan Description

The Virginia Retirement System (VRS), a mixed agent and cost-sharing multiple-employer retirement plan, provides defined benefit pension plan coverage for Commonwealth employees, teachers, political subdivision employees, and other qualifying employees. The assets accumulated by the plan may legally be used to pay all benefits provided by the plan to any of the plan members or beneficiaries. At June 30, 2006, the VRS had 804 contributing employers. The State Police Officers' Retirement System (SPORS), the Judicial Retirement System (JRS), and the Virginia Law Officers' Retirement System (VaLORS) are single-employer defined benefit retirement plans. The SPORS provides retirement benefits to Virginia state police officers, the JRS provides retirement benefits to the Commonwealth's judiciary, and the VaLORS provides benefits to law enforcement and correctional officers other than state police officers. All retirement systems are administered by the VRS, an independent agency of the Commonwealth.

Benefit provisions and all other requirements are established by Title 51.1 of the *Code of Virginia*. All full-time, salaried, permanent employees of the Commonwealth, with the exception of certain full–time faculty and administrative staff of higher education institutions and eligible employees of the Commonwealth's teaching hospitals who have the option not to participate in the VRS, must participate in the VRS, SPORS, JRS, or VaLORS. Benefits vest after five years of service.

Employees are eligible for an unreduced retirement benefit at age 65 with five years of service (age 60 for participating law enforcement officers) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years of service for participating law enforcement officers). Employees may retire with a reduced benefit at age 50 with at least ten years of credited service or at age 55 (age 50 for participating law enforcement officers) with at least five years of credited service.

Annual retirement benefits are payable monthly for life in an amount equal to 1.7 percent of their average final salary (AFS) for each year of credited service. AFS is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. Members of the SPORS and VaLORS may receive a monthly benefit supplement if they retire prior to age 65. Members of VaLORS hired before July 1, 2001, were allowed to make a one-time election to increase the multiplier from 1.7 percent to 2.0 percent instead of receiving the supplement. Members of VaLORS hired after June 30, 2001, have their benefit computed using the 2.0 percent multiplier and are not eligible for the supplement. Members of the JRS receive weighted years of creditable service for each year of actual service under JRS. The VRS, SPORS, VaLORS, and JRS also provide death and disability benefits. These benefit provisions and all other requirements are established by State statute.

B. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the pension and other employee benefit trust funds are prepared using the economic resources measurement focus and the accrual basis of accounting. Employee and employer contributions are recognized when due, pursuant to formal commitments, as well as statutory or contractual requirements. Investment income is recognized as earned by the pension plans. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Method Used to Value Investment

Investments are reported at fair value as determined by the VRS master custodian, Mellon Trust, from its Global Pricing System. This system assigns a price source, based on asset type and the vendor pricing products to which the master custodian subscribes, for every security held immediately following its acquisition. Prices supplied by these sources are monitored on a daily basis by the master custodian.

The pricing sources utilized by the master custodian provide daily prices for equity securities, corporate, government and mortgage-backed fixed income securities, private placement securities, futures and options on futures, open-ended funds, and foreign exchange rates. Depending on the vendor, collateralized mortgage obligations, adjustable rate mortgages, and asset-backed securities are priced either daily, weekly or twice a month, and at month end. Municipal fixed income securities and options on Treasury/Government National Mortgage Association securities are priced at month end.

When a pricing source is unable to provide a price, quotes are sought from major investment brokers and market-making dealers or internal calculations are applied if feasible. As a last resort, the master custodian will contact investment managers for a price. The master custodian prices commingled funds, partnerships, and real estate assets from statements received from the funds, partnerships, or investment managers.

The retirement plans have no concentrations of investments in any one organization that represent 5 percent or more of plan net assets available for benefits.

C. Funding Policy

Employer and employee contributions are required by Title 51.1 of the *Code of Virginia.* The Commonwealth pays the 5 percent of employees' annual salaries that employees are required to contribute to the retirement system.

The annual required contributions for the current year were determined during the actuarial valuations conducted as of June 30, 2003. Employer contributions by the Commonwealth to VRS, SPORS, VaLORS, and JRS were 3.91 percent, 16.49 percent, 16.99 percent, and 30.55 percent, respectively, of covered payrolls.

D. Annual Pension Cost and Net Pension Obligation

The following table (dollars in thousands) shows the Commonwealth's annual pension cost and net pension obligation to the VRS, SPORS, JRS, and VaLORS for the current and prior years.

	VRS			SPORS		
	2006	2005	2004	2006	2005	2004
Annual required contribution	$ 166,975	$ 156,313	$ 156,192	$ 27,939	$ 25,891	$ 23,031
Interest on net pension obligation	46,853	43,427	39,209	5,259	4,326	3,266
Adjustment to annual required contribution	(42,825)	(39,694)	(34,269)	(4,807)	(3,945)	(2,854)
Annual pension cost	171,003	160,046	161,132	28,391	26,272	23,443
Contributions made	(124,789)	(117,225)	(108,412)	(15,258)	(14,475)	(10,328)
Increase in net pension obligation	46,214	42,821	52,720	13,133	11,797	13,115
Net pension obligation, beginning of year	585,661	542,840	490,120	65,738	53,941	40,826
Net pension obligation, end of year	$ 631,875	$ 585,661	$ 542,840	$ 78,871	$ 65,738	$ 53,941
Percentage of annual pension cost contributed	73.0%	73.2%	67.3%	53.7%	55.1%	44.1%

	JRS			VaLORS		
	2006	2005	2004	2006	2005	2004
Annual required contribution	$ 27,048	$ 24,943	$ 23,114	$ 90,011	$ 84,353	$ 79,569
Interest on net pension obligation	3,476	2,683	2,029	13,782	10,997	7,801
Adjustment to annual required contribution	(3,177)	(2,452)	(1,773)	(12,597)	(10,052)	(6,818)
Annual pension cost	27,347	25,174	23,370	91,196	85,298	80,552
Contributions made	(16,206)	(15,269)	(15,190)	(52,610)	(50,495)	(40,596)
Increase in net pension obligation	11,141	9,905	8,180	38,586	34,803	39,956
Net pension obligation, beginning of year	43,444	33,539	25,359	172,270	137,467	97,511
Net pension obligation, end of year	$ 54,585	$ 43,444	$ 33,539	$ 210,856	$ 172,270	$ 137,467
Percentage of annual pension cost contributed	59.3%	60.7%	65.0%	57.7%	59.2%	50.4%

The VRS pension liability for the Virginia Economic Development Partnership (VEDP) (Component Unit), the Virginia Tourism Authority (VTA) (Component Unit), and the Virginia Outdoors Foundation (VOF) (Component Unit) are reported in the financial statements. However, since the Commonwealth is not considered the employer for VEDP, VTA, or VOF, the Commonwealth's net pension obligation shown above at the end of the year does not include VEDP's pension liability of $1.5 million, VTA's pension liability of $381,903, or VOF's pension liability of $6,994.

The most recent actuarial valuations were conducted as of June 30, 2005. The valuations were prepared using the entry age normal cost method. The actuarial assumptions included (a) 7.50 percent investment rate of return, per year compounded annually; (b) projected salary increases ranging from 3.75 percent to 5.60 percent, including a 2.50 percent inflation component; and (c) 2.50 percent per year COLA. Valuation techniques were applied to smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining closed amortization period at June 30, 2006, was 21 years or less.

E. Defined Contribution Plan for Political Appointees

Officers appointed by the Governor, officers elected by popular vote or the General Assembly, and executive branch chief deputies and confidential assistants may participate in the Deferred Contribution Plan for Political Appointees, rather than the VRS. This optional retirement plan is authorized by the *Code of Virginia* and offered through the Great West Company. This is a defined contribution plan where the retirement benefits are based upon the Commonwealth's (3.91 percent) and the employee's (5.0 percent) contributions, plus interest and dividends. The Commonwealth pays the required employee contributions. During the year ended June 30, 2006, the total contributions to this plan were $781,769.

The summary of significant accounting policies for the plan is in accordance with those discussed in Section B.

F. Defined Contribution Plan for Public School Superintendents

The Public School Superintendent Plan is a defined contribution pension plan that provides optional postemployment benefits for school superintendents. This plan is authorized by the *Code of Virginia*. The Board of Trustees of the VRS manages the investments of the Fund as custodian. School Boards may elect to offer this plan as an option to the standard VRS plan that is available for School Board members. Contributions are provided by the School Board for credit to the member. At June 30, 2006, there was one participant in this plan.

G. Virginia Supplemental Retirement Plan

The Virginia Supplemental Retirement Plan is a defined contribution pension plan established by the Department of Education to provide an optional postemployment benefit plan for turnaround specialists in the public school system. This plan is utilized as an incentive to attract highly skilled teachers for participating public schools pursuant to the *Code of Virginia* by Title 51.1-617. The Board of Trustees of the VRS manages the investments of the Fund as custodian. School Boards may elect to offer this plan as an option to the standard VRS plan that is available for School Board members. Contributions are provided by the School Boards for credit to the members. At June 30, 2006, there were three participants in this plan.

H. Higher Education Fund (Component Unit)

The Commonwealth's colleges and universities participate in the VRS, a mixed agent and cost-sharing multiple-employer retirement plan. The VRS issues a separate stand-alone report that is publicly available as previously discussed.

In addition, full-time faculty and certain administrative staff of the Commonwealth's colleges and universities may participate in an optional retirement annuity program, rather than the VRS. Optional Retirement Plans are authorized by the *Code of Virginia* and provide retirement and death benefits. The optional retirement annuity programs are offered through Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) Insurance Companies, Variable Annuity Life Insurance Company (VALIC), Fidelity Investments, Inc., Great West Life, Inc., T. Rowe Price, Inc., and Vanguard. Overall, these are defined contribution programs where the retirement benefits received are based upon the Commonwealth's (5.4 percent) and employees' (5.0 percent) contributions, plus interest and dividends. The Commonwealth pays the required employee contributions. During the year ended June 30, 2006, the total contributions to these plans were:

TIAA-CREF	$	81,412,022
VALIC		2,450,996
Fidelity Investments		35,846,604
Great West Life		82,825
T. Rowe Price		174
Vanguard		2,070,577
Total	$	121,863,198

The Virginia Commonwealth University Health System Authority (Authority) (a blended component unit of the Virginia Commonwealth University – Major) contributes to the VRS. The VRS issues a separate stand-alone report that is publicly available as previously discussed. Effective July 1, 1997, the Authority established the Virginia Commonwealth University Health System Authority Defined Contribution Plan (the Plan). All employees, excluding house staff, working at least 20 hours per week in a benefit eligible position are eligible to participate in the Plan. Per the Plan document as approved by the Authority's Board of Directors, the Authority contributes up to 10.0 percent of the participant's salary to the Plan not to exceed the lesser of (a) the amount in accordance with Internal Revenue Code 415(d), or (b) 100 percent of the participant's compensation for such limitation year. Total contributions for the year ended June 30, 2006, were approximately $10,062,000. The Authority has the right at anytime, and without the consent of any party, to terminate the Plan in its entirety. The Authority's Board of Directors must approve any changes to the provisions of the Plan, including the contribution requirements, in writing. The Authority has also established the Virginia Commonwealth University Health System Authority Health Care Providers Defined Contribution Plan (the HCP Plan). All persons hired as a health care provider on or after July 1, 1993, and prior to July 1, 1997, and working at least 35 hours of service per week were eligible to participate in the HCP Plan. At June 30, 2006, there were six actively employed participants in the HCP Plan. Total contributions to the HCP Plan for the year ended June 30, 2006, were approximately $29,900.

Previously, the Medical College of Virginia Associated Physicians (MCVAP) (a Component Unit of the Authority) sponsored the MCVAP 403(b) Retirement Fund (the 403(b) Plan), a defined contribution plan which covered substantially all non-medical employees of MCVAP. As of January 1, 2002, no additional contributions were made to this Plan.

MCVAP also sponsors the MCVAP 401(a) Retirement Plan (the 401(a) Plan), a noncontributory, defined contribution plan which covers substantially all benefit eligible clinical providers of MCVAP. Contributions to the 401(a) Plan, as determined annually at the discretion of the Board of Directors were approximately $6,211,000 for the year ended June 30, 2006.

MCVAP also sponsors the VCUHS 401(a) Retirement Plan a defined contribution plan which covers all non-medical employees of MCVP and the VCUHS 457(b) Retirement Plan, a salary reduction plan that represents employee contributions. These plans became effective on January 1, 2002, and replaced the MCVAP 403 (b) plan for all non-medical staff. The contributions to the VCUHS 401(a) for the period ended June 30, 2006, were approximately $2,212,000.

VA Premier (a Component Unit of the Authority) adopted a 401(k) plan sponsored by Prudential Mutual Fund Management, Inc. Employees may enter into the plan on the first day of the month coinciding with or following the date on which the employee begins employment. There is no minimum service or age requirement to be in the 401(k) plan. Employees may contribute 1 percent to 15 percent of their compensation. VA Premier will match 50 percent of the employees' contributions up to 4 percent of the employees' compensation. Matching will occur based on the bi-weekly pay periods. In addition, VA Premier contributes 3 percent of the employee's compensation after each bi-weekly payroll effective when the employee begins employment. Employees are fully vested after four years of service in which the employees have at least 1,000 hours of service each year. The total expense to VA Premier in fiscal year 2006 was approximately $430,000.

Effective January 1, 1997, James Madison University (nonmajor) established a Supplemental Retirement Plan for tenured faculty members. The plan was designed to provide flexibility in the allocation of faculty positions. The plan is a qualified plan within the meaning of section 401(c) of the Internal Revenue Code of 1986 (the Code) and is a governmental plan within the meaning of section 414(d) of the Code. Since it is a governmental plan, the plan is not subject to the Employee Retirement Income Security Act of 1974 as amended. Since inception, 117 faculty members have elected to enroll in the plan. As of June 30, 2006, 39 participants remain, including five new participants who retired under this plan during fiscal year 2006. In order to satisfy IRS requirements, a trust fund has been established as means to make the payments to the plan participants. The University prepaid the entire fiscal year 2007-plan contribution of $831,143 in 2006.

The Innovative Technology Authority (nonmajor) has a defined contribution retirement plan covering substantially all employees. Under the plan, contributions are fixed at a percentage of each employee's compensation to pay premiums for individual retirement annuity contracts written by TIAA-CREF. Pension contributions for the plan totaled $397,589 in fiscal year 2006.

I. Other Component Units

Note 1.B. outlines the component units included in the Commonwealth's reporting entity. The Virginia Historic Preservation Foundation (Blended - Primary Government), the Virginia Public Building Authority (Blended - Primary Government), the Virginia Public School Authority (major), the Virginia College Building Authority (nonmajor), the Virginia State Parks Foundation (Blended - Primary Government), and the Virginia Schools for the Deaf and Blind Foundation (nonmajor) have no employees. The Virginia Economic Development Partnership, the Small Business Financing Authority, the Hampton Roads Sanitation District Commission, the Virginia Biotechnology Research Park Authority, the A. L. Philpott Manufacturing Extension Partnership, the Virginia Tourism Authority, the Tobacco Indemnification and Community Revitalization Commission, the Virginia Tobacco Settlement Foundation, the Virginia Land Conservation Foundation, the Virginia Arts Foundation, and the Library of Virginia Foundation (all nonmajor) contribute solely to the VRS, a mixed agent and cost-sharing multiple-employer retirement plan. The VRS issues a separate stand-alone report that is publicly available as previously discussed.

Full-time employees of the Virginia Housing Development Authority (major) participate in a defined contribution employees' retirement savings plan administered by the Authority. This is a noncontributory plan where the Authority incurs employment retirement savings expense equal to 8.0 percent of full-time employees' compensation. Total retirement savings expense under this plan was $1,539,534 in fiscal year 2006.

The Virginia Outdoors Foundation (nonmajor) contributes to the VRS. The Foundation also maintains a simple defined contribution plan and provides an employer contribution to all eligible employees of 2 percent of their salary. Employees can contribute to the plan up to the IRS limit, but the Foundation offers no matching.

The Virginia Port Authority (nonmajor) contributes to the VRS. The Authority also sponsors two single-employer noncontributory defined benefit pension plans. The Virginia Port Authority Pension Plans are administered by the Authority and provide retirement, disability, and death benefits to plan members and beneficiaries. Benefit provisions and obligations are established and may be amended by the Board of Commissioners of the Authority. The plan was restated October 1, 2001, to ensure compliance with additional regulations.

The components of annual pension cost and prepaid pension obligation for the first single-employer noncontributory defined benefit pension plan are as follows:

Trend Information	2006	2005	2004
Service cost - benefits earned during the year	$ 1,801,800	$ 1,642,100	$ 1,156,600
Interest cost on projected benefit obligation	2,903,200	2,653,000	2,260,700
Expected return on assets	(3,213,200)	(2,972,100)	(2,675,000)
Net amortization and deferral	709,500	643,600	151,300
Annual pension cost	2,201,300	1,966,600	893,600
Contributions made	(4,216,500)	(1,104,900)	(1,299,000)
Increase in prepaid pension obligation	(2,015,200)	861,700	(405,400)
Prepaid pension obligation, beginning of year	(7,306,100)	(8,167,800)	(7,762,400)
Prepaid pension obligation, end of year	$ (9,321,300)	$ (7,306,100)	$ (8,167,800)

The annual pension cost for the current year was determined as part of the October 1, 2005, actuarial valuation using the aggregate actuarial cost method, which does not identify and separately amortize unfunded actuarial liabilities. The discount rate used in determining the actuarial present value of projected benefit obligation was 6.75 percent in fiscal year 2006, 6.75 percent in fiscal year 2005, and 7.50 percent in fiscal year 2004. The expected long-term rate of return on assets used in determining net periodic pension cost was 8.00 percent.

The following table sets forth the plan's funded status and the related amounts recorded in the Authority's balance sheets at June 30, 2006, 2005, and 2004.

Trend Information

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
2006	$ 2,201,300	192 %	$ (9,321,300)
2005	$ 1,966,600	56 %	$ (7,306,100)
2004	$ 893,600	145 %	$ (8,167,800)

In November 2001, the second plan was amended to provide benefits to sworn police officers that more closely resemble the new retirement benefits provided to members of the Virginia Law Enforcement Officers Retirement System. The effect of those changes is included in the accompanying pension data.

The components of annual pension cost and prepaid pension obligation for the second single-employer noncontributory defined benefit pension plan are as follows:

Trend Information	2006	2005	2004
Service cost - benefits earned during the year	$ 514,545	$ 329,902	$ 348,524
Interest cost on projected benefit obligation	223,047	157,419	138,803
Expected return on assets	(165,669)	(107,220)	(167,011)
Net amortization and deferral	191,195	83,198	183,283
Annual pension cost	763,118	463,299	503,599
Contributions made	(896,505)	(506,915)	(149,822)
Additional minimum liability	(126,285)	945,384	(435,518)
Increase in pension obligation	(259,672)	901,768	(81,741)
Pension obligation, beginning of year	1,403,785	502,017	583,758
Pension obligation, end of year	$ 1,144,113	$ 1,403,785	$ 502,017

The annual pension cost for the current year was determined as part of the August 2006 actuarial valuation using the aggregate actuarial cost method, which does not identify and separately amortize unfunded actuarial liabilities. Actual value of assets was determined using market value. The discount rate used in determining the actuarial present value of the projected benefit obligation was 6.25 percent in 2006, 5.25 percent in 2005, and 6.25 percent in 2004. The expected long-term rate of return on assets used in determining net periodic pension cost was 8.00 percent.

The following table sets forth the plan's funded status and the related amounts recorded in the Authority's balance sheets at June 30, 2006, 2005, and 2004.

Trend Information

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
2006	$ 763,118	117 %	$ 1,144,113
2005	$ 463,299	109 %	$ 1,403,785
2004	$ 503,599	30 %	$ 502,017

The Authority also sponsors two noncontributory supplemental plans covering certain key employees. The plans had assets of $2,199,929 and an accrued liability of $3,800,744. Contributions to the plans were $427,000 for the year ended June 30, 2006.

As of January 1, 2005, the Virginia Resources Authority began mandatory participation for all new employees and optional participation for then-current employees who chose to enroll in the VRS. The Authority continues to sponsor a retirement savings plan for the employees noted above who elected to defer participation in the VRS, whereby 12 percent of eligible employees' salary is contributed on an annual basis. For the year ended June 30, 2006, VRS retirement expense was $59,100 and total retirement savings expense was $77,203, a portion of which is reimbursed.

The Virginia Equine Center Foundation has a defined contribution plan which covers all full-time employees of the Foundation who have one year of service and are age 21 or older. The plan is subject to the provisions of the Employee Retirement Income Security Act of 1974. Contributions to the plan are discretionary and the Foundation will determine the amount to contribute to the plan each year. No contributions were made on behalf of the employees for the fiscal year ended June 30, 2006.

The Assistive Technology Loan Fund Authority sponsors a Simple Employee Plan (SEP) for all of its employees. The Authority contributes 5 percent of each employee's wages, which is paid into their account managed by American Funds each pay period.

Employees of the Virginia Museum of Fine Arts Foundation who are age 21 or older are eligible to participate in the Employee's Savings Plan (the Plan) a 401(k) defined contribution profit sharing plan. Under the Plan, the Foundation may make a discretionary contribution. For the plan years ended June 30, 2006 and 2005, the Foundation contributed 7 percent of employees' gross income to the Plan. In addition, contributions made by an employee up to 4 percent of the employee's gross income are matched 50 percent by the Foundation. Employees may contribute up to 100 percent of gross income each year as long as it is within the IRS limitation. Contributions paid to the Plan by the Foundation on behalf of its employees were $64,874 and $66,950 for the fiscal years ended June 30, 2006 and 2005, respectively.

14. OTHER EMPLOYMENT BENEFITS

In addition to the pension plans, the Commonwealth participates in three other employment benefit plans, Group Life Insurance, Retiree Health Insurance Credit, and Virginia Sickness and Disability Program, which are administered by the Virginia Retirement System (VRS). The VRS administers a fourth other employment benefit plan, the Volunteer Firefighters' and Rescue Squad Workers' Fund, in which the Commonwealth does not participate, but may provide funding. The significant accounting policies for all four plans are the same as those described in Note 13 for pension plans. A separately issued financial report that includes financial statements for Group Life Insurance, Retiree Health Insurance Credit, and Virginia Sickness and Disability Program is publicly available. Copies may be obtained by writing to Virginia Retirement System, P. O. Box 2500, Richmond, Virginia 23218-2500.

Group Life Insurance

The Group Life Insurance Plan provides life insurance benefits for Commonwealth employees, teachers, employees of political subdivisions participating in the VRS, State police officers, judges, and other qualifying employees. In fiscal year 2006 there were approximately 348,419 Commonwealth employees and 117,409 retirees in the program.

As part of this plan, the Commonwealth provides life insurance benefits for retired employees in accordance with Title 51.1 of the *Code of Virginia*. To be eligible, the employee must have retired or terminated employment after age 50 and have had at least ten years of service (including five years of continuous service) or at age 55 and have had five years of continuous service (age 50 for participating law enforcement officers, firefighters of political subdivisions, and judges) or retired because of disability. At retirement or termination, natural death coverage starts to reduce by 25 percent each year until coverage reaches 25 percent of its value at retirement or termination.

Postemployment life insurance benefits are advance funded on an actuarially determined basis using the aggregate cost actuarial method. Rates were determined in a June 30, 2003, actuarial valuation using the same actuarial assumptions used for determining pension plan contribution rates. The modified market value of plan assets was used for valuation purposes. Retirees are not required to contribute to the group life plan. The Commonwealth's actuarially required contribution rate for the current year was 1.14 percent of payroll. This contribution covers premiums for active employees and actual death claims for retirees.

The accrued liabilities for postemployment death benefits actuarially determined through an actuarial valuation performed as of June 30, 2005, were $1,672.4 million. The actuarial value of the program's assets available for benefits on that date was $746.3 million, leaving a present value of future contributions of $926.1 million.

Retiree Health Insurance Credit

The Retiree Health Insurance Credit Plan provides health insurance credits against the monthly health insurance premiums for retired Commonwealth employees, State police officers, and judges with at least 15 years of creditable service on the current disbursement basis. Benefit provisions and eligibility requirements are established by Title 51.1-1400 of the *Code of Virginia*. Approximately 72,387 Commonwealth retirees were receiving health insurance credits at June 30, 2006.

The monthly credit amounts to $4.00 per year of service not to exceed a maximum allowance of $120.00. The contribution rate was determined as part of the June 30, 2003, actuarial valuation that determined the pension plan contribution rates. The Commonwealth's actuarially required contribution rate for "full funding" and "pay-as-you-go" would have been 1.79 and 1.19 percent of payroll, respectively, for the current year; however, contributions were paid at 1.04 percent of payroll. The Commonwealth recognized Retiree Health Insurance Credit expenses of $72.5 million during the fiscal year ended June 30, 2006.

Virginia Sickness and Disability Program

The Virginia Retirement System (VRS) administers the Virginia Sickness and Disability Program (VSDP) to provide income protection for absences due to sickness or disability from the first day on the job. After a seven calendar-day waiting period following the first incident of disability, eligible employees receive short-term disability benefits ranging from 60 to 100 percent of compensation up to a maximum of 125 work days, based upon months of Commonwealth service. After a 180 calendar-day waiting period (125 work days of short-term disability), eligible employees receive long-term disability benefits equal to 60 percent of compensation until they return to work, until age 65 (age 60 for State police officers), or until death.

The VSDP was established on January 1, 1999, for all full-time, classified Commonwealth employees, including State police officers and other State law enforcement and corrections officers, hired on or after January 1, 1999. Part-time, classified employees who work at least 20 hours a week on a salaried basis and who accrue leave are also covered. Eligible Commonwealth employees and State police officers of the Commonwealth employed prior to January 1, 1999, had the option to elect to participate in the VSDP or to remain in the Commonwealth's existing disability retirement and sick leave program (see Notes 13 and 18). Eligible employees enrolled in the VSDP are not eligible for disability retirement benefits under VRS, the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers Retirement System (VaLORS).

Faculty of Virginia institutions of higher education hired or appointed on or after January 1, 1999, who elected the VRS as their retirement plan, must make an irrevocable election to participate in the VSDP or in the institution's disability program. If there is no institution program, the faculty is covered under this program.

All Commonwealth agencies are required to contribute to the cost of providing long-term disability benefits. Initial contribution requirements to fund the program were determined by the VRS actuary based on an estimate of the amount of the liability for disability benefits that would transfer from the VRS and SPORS to the VSDP for the anticipated new participants in the VSDP. This contribution requirement was 1.65 percent of payroll for Commonwealth employees, State police officers and VaLORS employees during the fiscal year. The Commonwealth recognized long-term disability expenses of $27.3 million during the fiscal year. As of June 30, 2006, there were approximately 70,026 participants.

Volunteer Firefighters' and Rescue Squad Workers' Fund

Volunteer firefighters and rescue squad workers may participate in an optional postemployment benefit plan. This optional plan is authorized by the *Code of Virginia*. The Board of Trustees of the VRS manages the investments of the Fund as custodian. Members of the plan contribute $30 per quarter. The Commonwealth will contribute an amount determined by the Board and appropriated by the General Assembly, if such funds are appropriated, for a period not to exceed twenty years. For fiscal year 2006, $78,000 was appropriated. At June 30, 2006, there were 1,196 workers participating in the Fund.

15. DEFERRED COMPENSATION PLANS

The Commonwealth offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Virginia Retirement System (VRS) administers the deferred compensation plan, pursuant to the Government Employees Deferred Compensation Plan Act, Section 51.1, Chapter 6 et seq. of the *Code of Virginia*. The VRS contracts with private corporations or institutions subject to the standards set forth in the *Code* to provide investment products as well as any other goods and services related to the administration of the deferred compensation plan. The Department of Accounts is responsible for the accounting, reconciliation, and record keeping associated with State employees' enrollment, payment to the plan through payroll deductions, and timely transfer of withheld funds to the trustee designated by the VRS for investment. The plan provides a number of investment options and is designed so that each participant retains investment control of his/her individual account. The plan, available to all State employees, permits them to defer a portion of their salary until future years. The deferred compensation is held in trust for the exclusive benefit of plan participants and their beneficiaries and is not available to employees until termination, retirement, death, or unforeseeable emergency. Since the VRS has no fiduciary relationship with plan participants, plan assets of $864.3 million are not included in the financial statements.

In addition, the Commonwealth provides a cash match under Internal Revenue Code Section 401(a) for employees participating in the deferred compensation plan who have been employed at least one year. The match amount for an employee was established at 50 percent of the voluntary contributions to the deferred compensation plan. During the current fiscal year, the maximum match was $20 per pay period or $40 per month. The fair value of assets in the cash match savings plan at June 30, 2006, was $102.4 million, which is also excluded from the financial statements.

The Virginia Housing Development Authority (Major Component Unit) and the Virginia Resources Authority (Nonmajor Component Unit) have a deferred compensation plan available to all employees created in accordance with Internal Revenue Section 457. The Plan permits participants to defer a portion of their salary or wage until future years. The deferred compensation is not available to employees until termination, retirement, or death. The assets of the Plan are in an irrevocable trust with an external trustee and, accordingly, no assets or liabilities are reflected in the financial statements.

The Virginia Port Authority (VPA) (Nonmajor Component Unit) offers three deferred compensation plans and two matching savings plans under Internal Revenue Code Sections 457 and 401(a), respectively. Employees who maintain status under VRS are covered under the Deferred Compensation Plan administered by the VRS as discussed above. The VPA deferred compensation plan covers all employees hired after July 1, 1997, and those employees electing coverage under the Authority's deferred compensation plan. The VPA also offers a matching savings plan that covers substantially all employees. The matching savings plan requires the VPA to match contributions in an amount equal to 50 percent of the first 6 percent of the participant's base pay contributed to the plan. VPA's total contribution to the matching savings plan was $135,170 for the fiscal year ended June 30, 2006. Further, the right to modify, alter, amend, or terminate the deferred compensation plan and matching savings plan rests with the VPA Board of Commissioners.

The third deferred compensation plan and second matching savings plan covers substantially all nonunion employees with 90 days or more of service. The matching savings plan requires the VPA to match employee contributions in an amount equal to 50 percent of the first 3 percent of the participant's base pay contributed to the deferred compensation plan. VPA's total contribution to the matching savings plan was $300,442 for the fiscal year ended June 30, 2006.

The Hampton Road Sanitation District's (the District) Commission adopted a post-retirement health benefit for qualifying employees beginning after July 1, 2002. The program furnishes health and dental benefits for life for all employees with at least 15 years of service and who also qualify for an unreduced retirement benefit through the Virginia Retirement System. The program allows the retiree at their expense to cover their spouse and dependent under the District's health care provider. The District began funding the estimated prior service cost in a separate trust established for this purpose from the sale of land and additional designated revenue. For the year ended June 30, 2006, the estimated ongoing annual required contribution is approximately $750,000, and is funded through operations. The fair market value of the Trust as of June 30, 2006, was $9,209,000. The estimated unfunded actuarial accrued liability at June 30, 2005, the date of the most recent evaluation, was $14,716,000.

16. STATE NON-ARBITRAGE POOL

The Commonwealth sponsors the Virginia State Non-Arbitrage Program (SNAP) for use by the Commonwealth and local governments to invest bond proceeds. The Commonwealth's responsibility is limited to hiring service providers to manage SNAP. The investment manager and the custodian have the fiduciary responsibility for SNAP.

The SNAP Fund, a money market mutual fund registered with the Securities and Exchange Commission, is a series of the Commonwealth Cash Reserve Fund, Inc., a diversified, open-end management investment company (Corporation). Shares of the SNAP Fund are solely available to investors participating in the SNAP program. The Corporation's Board of Directors has overall responsibility for supervising the SNAP Fund's business and affairs, including the oversight of organizations providing investment advisory, administration, and distribution services to the SNAP Fund. PFM Asset Management LLC serves as the investment adviser of the SNAP Fund. The SNAP individual investment portfolios are the responsibility of the SNAP investment manager and the governments investing proceeds in the portfolios. These investments are held solely in the SNAP participants' names. Since the Commonwealth has no fiduciary relationship with local governmental entities participating in the plan, these assets of $2.1 billion are not included in the financial statements (see Note 2).

17. COMMITMENTS

A. Construction Projects

Highway Projects

At June 30, 2006, the Department of Transportation (Primary Government) had contractual commitments of approximately $1.4 billion for construction of various highway projects. Funding for these expenditures is expected to be provided as follows: (1) Federal Funds – approximately 32.4 percent or $464.8 million, (2) State Funds –

approximately 64.4 percent or $924.1 million, and (3) Proceeds from Bonds – approximately 3.2 percent or $45.6 million.

Mass Transit Projects

At June 30, 2006, the Department of Rail and Public Transportation (Primary Government) had contractual commitments of approximately $174.7 million for various public transportation and rail preservation projects. Funding of the future expenditures is expected to be as follows: (1) State Funds – approximately 76 percent or $133.0 million, and (2) Federal Funds – approximately 24 percent or $41.7 million.

Port Projects

At June 30, 2006, the Virginia Port Authority (Nonmajor Component Unit) was committed to construction contracts totaling $82.0 million.

Sanitation District Project

At June 30, 2006, the Hampton Roads Sanitation District Commission (Nonmajor Component Unit) was committed to construction programs totaling $24.1 million.

Equine Center

The Equine Center has been awarded a $994,000 grant by the United States Department of Agriculture, Rural Development for the construction of a therapeutic riding and community service facility. In connection with this and other projects, the Center has entered into construction and architectural service contracts aggregating $832,593. Through June 30, 2006, progress billings by contractors and architects against the contracts were $66,490.

Higher Education Institutions

Colleges and universities (Component Units) had contractual commitments as of June 30, 2006, of approximately $797.8 million primarily for construction contracts. Higher Education Foundations' commitments total approximately $16.7 million and are primarily for construction contracts.

B. Operating Leases

The Commonwealth has entered into numerous agreements to lease land, buildings, and equipment. Most of the operating leases contain the provision that the Commonwealth may renew the operating leases at the expiration date of the lease on a month–to–month basis. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases of a similar nature. Rental expense for the primary government under these operating leases for the year ended June 30, 2006, was $77.9 million for governmental activities (including Internal Service Funds) and $16.1 million for business-type activities. Rental expense for the discrete component units (excluding Foundations) for the year ended June 30, 2006, was $59.1 million. The Commonwealth has, as of June 30, 2006, the following minimum rental payments due under the above leases (dollars in thousands):

	Primary Government		
	Governmental Activities	Business-type Activities	Component Units (1)
2007	$ 54,397	$ 13,051	$ 43,142
2008	39,746	9,619	34,483
2009	28,986	7,072	27,959
2010	21,119	4,998	24,461
2011	15,615	2,354	14,957
2012-2016	28,067	1,966	39,398
2017-2021	3,956	-	9,440
2022-2026	316	-	52
2027-2031	76	-	-
2032-2036	19	-	-
2037-2041	19	-	-
Total	$ 192,316	$ 39,060	$ 193,892

Note (1): The above amounts exclude operating lease obligations of Foundations.

	Foundations (2)
2007	$ 973
2008	799
2009	605
2010	559
2011	443
Thereafter	4,847
Total	$ 8,226

Note (2): Foundations represent FASB reporting entities defined in Note 1.B. Rental expense for the year ended June 30, 2006, was approximately $1.4 million.

Lease agreements are for various terms and all leases contain nonappropriation clauses indicating that continuation of the lease is subject to funding by the General Assembly.

C. Investment Commitments – Virginia Retirement System

The Virginia Retirement System extends investment commitments in the normal course of business, which, at June 30, 2006, amounted to $4.8 billion.

D. Tobacco Grants

The Tobacco Indemnification and Community Revitalization Commission (Commission) (Nonmajor Component Unit) has $81.0 million in grant award commitments not reflected in these statements since eligibility requirements were not met as of June 30, 2006, in accordance with GASBS No. 33. The Commission awarded an additional $5.7 million in grants in July 2006 that are also not reflected in these statements.

The Virginia Tobacco Settlement Foundation (Nonmajor Component Unit) has $9.8 million in grant commitments and outstanding contracts not reflected in these statements since eligibility requirements were not met as of June 30, 2006, in accordance with GASBS No. 33.

18. ACCRUED LIABILITY FOR COMPENSATED ABSENCES

Employees accrue annual leave at a rate of four to nine hours semimonthly, depending on their length of service. The maximum leave accumulation is dependent upon years of service, but in no case may it exceed 432 hours. The maximum compensation for annual leave balances is also dependent upon years of service, but in no case may an employee be compensated for more than 336 hours.

All employees hired after January 1, 1999, are required to enroll in the Virginia Sickness and Disability Program (VSDP) (see Note 14). Under the VSDP, employees receive a specified number of sick and personal leave hours, depending on their length of service, and any balances at the end of the calendar year revert. Individuals employed at January 1, 1999, had the option of converting to the VSDP or remaining in the original sick leave plan. If converting, the employee's sick leave balance could be used to purchase retirement credits or be converted to disability credits. If an employee opted to remain in the original sick leave program, sick leave accrues at a rate of five hours semimonthly. Employees who leave State service after a minimum of five years employment receive the lesser of 25 percent of the value of their disability credits or accumulated sick leave at their current earnings rate or $5,000. All employees leaving State service are paid for accrued annual leave up to the maximum calendar year limit at their current earnings rate.

In conformance with Section C60 of GASB Codification, the monetary value of accumulated annual and sick leave and disability credits payable upon termination is included in the accompanying financial statements. In the government-wide statements, proprietary fund statements, and discrete component unit fund statements, amounts are segregated into two components – the amount due within one year and the amount due in more than one year. In the governmental fund statements, amounts to be paid from expendable resources are recognized as fund liabilities in the applicable governmental fund types as long-term liabilities and represent payments for separations that occurred prior to June 30. Amounts not payable from expendable resources are reflected in the governmental activities column in the Government-wide Statement of Net Assets (see Note 22). All amounts related to the fiduciary funds are recognized in those funds.

The liability at June 30, 2006, was computed using salary rates effective at that date, and represents vacation, compensatory and sick leave earned or disability credits held up to the allowable ceilings.

19. INSURANCE

A. Self-Insurance

The Commonwealth maintains two types of self-insurance plans. The first type of self-insurance is a health care plan administered by the Department of Human Resource Management for Commonwealth employees. The plan is accounted for in the Health Care – Internal Service Fund. Interfund premiums are accounted for as internal activity receipts from other funds. At June 30, 2006, $81.5 million is reported as the estimated claims payable for this fund, which is undiscounted as nearly all health care claims are current in nature. The estimated liability is based upon actual claims that have been submitted as well as actuarially determined claims incurred but not reported as described in Note 1.T. Changes in the balances of claims liabilities (dollars in thousands) during the current and prior fiscal years are as follows:

	Balance July 1,	Current Year Claims and Changes in Estimates	Claim Payments	Balance June 30, (1)
2005-2006	$ 77,717	$ 730,916	$ (727,159)	$ 81,474
2004-2005	$ 85,706	$ 661,590	$ (669,579)	$ 77,717

(1) Of the balance shown above, $81.5 million is due within one year.

The second type of plan, Risk Management, is administered by the Department of the Treasury, Division of Risk Management and the Department of Human Resource Management, Worker's Compensation Program. These plans are accounted for in the Risk Management - Internal Service Fund. The Department of Treasury administers risk management programs providing property, general (tort) liability, medical malpractice, automobile and surety bond exposures for the Commonwealth of Virginia as provided in Sections 2.2-1834 through 1838 and Section 2.2-1840 of the *Code of Virginia*. Established subject to the approval of the Governor, risk management plans provide state agencies with protection through purchased insurance, self insurance or a combination thereof. Interfund premiums for the fund are accounted for as internal activity receipts from other funds. The claims payable is an estimated liability based upon actual claims that have been submitted as well as actuarially determined claims incurred but not reported. At June 30, 2006, $272.1 million is reported as the estimated claims payable for the risk management plan. This amount is discounted to present value at a rate of 3 percent. Undiscounted claims payable at June 30, 2006, is $331.7 million. The estimated losses are based upon actual claims that have been submitted, as well as claims incurred but not reported. Changes in the balances of claims liabilities (dollars in thousands) during the current and prior fiscal years are as follows:

	Balance July 1,	Current Year Claims and Changes in Estimates	Claim Payments	Balance June 30, (1)
2005-2006	$ 243,257	$ 81,696	$ (52,825)	$ 272,128
2004-2005	$ 219,505	$ 83,164	$ (59,412)	$ 243,257

(1) Of the balance shown above, $51.5 million is due within one year.

For workers' compensation, the Commonwealth assumes the full risk of claims filed. For tort and automobile liability is assumed at a maximum of $2,000,000 per occurrence. Medical malpractice liability is assumed at the maximum per occurrence recovery limit stated in Section 8.01-581.15 of the *Code of Virginia* ($1,850,000 for the year ending June 30, 2006, increasing annually until 2008 when it will reach $2,000,000 per occurrence). Risk Management purchases commercial insurance to protect state-owned property with deductibles as stated in the insurance policies.

The Commonwealth has not had any insurance settlements exceed the coverage during the past three years.

The Virginia Port Authority (Nonmajor Component Unit) is partially self-insured for certain workers' compensation claims. The Authority maintains insurance coverage of $5,000,000 per claim, but is obligated to pay the first $1,000,000 of any individual's claims per incident. The Authority is also partially self-insured for employee health coverage. The Authority is responsible for actual claim costs up to $75,000 per individual per calendar year. Insurance coverage is maintained for claims in excess of the individual employee limit and for aggregate claims in excess of $4,071,501.

B. Public Entity Risk Pools

The Commonwealth administers two types of public entity risk pools for the benefit of local governmental units: health care and risk management insurance. The Local Choice Health Care plan was established to make comprehensive health care insurance available to localities and political subdivisions at affordable rates and with stable premiums. During the fiscal year, there were 233 local government units participating in the pool. This includes 28 school districts, 29 counties, 86 cities/towns, and 90 other subdivisions. This program is accounted for in the Local Choice Health Care Enterprise Fund (nonmajor).

The Department of Human Resource Management, under Section 2.2-1204 of the *Code of Virginia*, has the authority to design, set rates, and administer the Local Choice Health Care fund. The pool's standard contract period is one year. However, a member group may withdraw on the last day of any month with three month's written notice. Contributions are based on the current necessary contribution and the amortization of experience adjustments in the pool. At June 30, 2006, $16.6 million is reported as the actuarially determined estimated claims payable for this fund based on claims incurred but not reported.

The actuarial liability is determined for the membership pool in total and then adjusted for each locality based on individual historic and demographic data. If the pool's assets were to be exhausted, the program participants would share the responsibility for any liabilities or deficits.

The Department of Treasury, Division of Risk Management administers risk management programs for political subdivisions, constitutional officers and others in accordance with Section 2.2-1839 of the *Code of Virginia*. These risk programs are accounted for in the Risk Management Enterprise Fund (nonmajor). Established subject to approval of the Governor, risk management plans provide program members with liability protection and legal defense through purchased insurance, self-insurance or a combination thereof. Participation is voluntary and open to those identified in Section 2.2-1839. As of June 30, 2006, these programs served 542 members. The pool has a minimum membership period of one year. Membership can be canceled with thirty days notice, and members can withdraw from the plan at the end of the fiscal year. The risk management plans assume medical malpractice liability to the maximum per-occurrence limit stated in Section 8.01-581.15 of the *Code of Virginia* ($1,850,000 for the year ending June 30, 2006, increasing annually until 2008 when it will reach $2,000,000 per occurrence). The plans provide maximum limits of $1,000,000 per occurrence for other liability.

At June 30, 2006, $12.8 million is reported as estimated claims payable for these programs. This figure is actuarially determined for the fund in total and is reported at gross and does not reflect possible reimbursements for insurance recoveries.

The following schedule (dollars in thousands) shows the changes in claims liabilities for the past two fiscal years.

	Local Choice Health Care		Risk Management	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Unpaid Claims and Claim Adjustment Expenses at Beginning of Fiscal Year (1)	$ 16,212	$ 15,198	$ 10,467	$ 10,472
Incurred Claims and Claim Adjustment Expenses:				
Provision for Insured Events of the Current Fiscal Year	155,767	144,944	7,498	4,441
Changes in Provision for Insured Events of Prior Fiscal Years	-	-	(2,830)	(2,196)
Total Incurred Claims and Adjustment Expenses	155,767	144,944	4,668	2,245
Payments:				
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Fiscal Year	155,406	143,930	177	227
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Prior Fiscal Year	-	-	2,433	2,354
Total Payments	155,406	143,930	2,610	2,581
Change in Provision for Discounts	-	-	279	331
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Discounted) (2) (3)	$ 16,573	$ 16,212	$ 12,804	$ 10,467
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Undiscounted)	$ 16,573	$ 16,212	$ 13,597	$ 10,926

Note (1): Unpaid Claims and Claim Adjustment Expenses at Beginning of Fiscal Year for Risk Management excludes the amount for Commuter Rail due to reporting entity changes.

Note (2): The entire balance for Local Choice Health Care, $16,573 (dollars in thousands) is due within one year.

Note (3): Of the balance shown above for Risk Management, $4,413 (dollars in thousands) is due within one year.

20. ACCOUNTS PAYABLE

The following table (dollars in thousands) summarizes Accounts Payable as of June 30, 2006.

	Vendor	Salary/ Wage	Retainage	Other	Foundations (1)	Total
Primary Government:						
General	$ 148,759	$ 36,435	$ 194	$ -	$ -	$ 185,388
Major Special Revenue Funds:						
Commonwealth Transportation	170,997	13,168	20,677	-	-	204,842
Federal Trust	82,080	5,700	1,013	1	-	88,794
Literary	207	-	-	-	-	207
Nonmajor Governmental Funds	44,260	9,171	11,503	2	-	64,936
Major Enterprise Funds:						
State Lottery (2)	1,712	1,073	-	4,290	-	7,075
Virginia College Savings Plan (2)	69	72	-	1,133	-	1,274
Unemployment Compensation	-	97	-	1	-	98
Nonmajor Enterprise Funds	32,741	1,907	-	881	-	35,529
Internal Service Funds	50,075	2,189	-	-	-	52,264
Private Purpose	974	-	-	1	-	975
Pension and Other Employee Benefit Trust (3)	345	381	-	151,902	-	152,628
Agency Funds	1,687	-	9,515	-	-	11,202
Total Primary Government (4)	$ 533,906	$ 70,193	$ 42,902	$ 158,211	$ -	$ 805,212
Discrete Component Units:						
Virginia Housing Development Authority	$ 31,210	$ -	$ -	$ -	$ -	$ 31,210
Virginia Public School Authority	22	-	-	-	-	22
University of Virginia	58,628	35,536	10,599	69,904	34,091	208,758
Virginia Polytechnic Institute and State University	35,699	28,312	3,263	6,932	7,814	82,020
Virginia Commonwealth University	47,266	41,844	3,749	-	4,968	97,827
Nonmajor Component Units	131,036	67,954	15,712	5,964	16,042	236,708
Total Component Units	$ 303,861	$ 173,646	$ 33,323	$ 82,800	$ 62,915	$ 656,545

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.

Note (2): Other Accounts Payable for the State Lottery represents prizes payable. Other Accounts Payable for the Virginia College Savings Plan represents investment fees payable.

Note (3): Other Accounts Payable for the Pension and Other Employee Benefit Trust Fund consists of $142,269 (dollars in thousands) in investment payables associated with month-end rebalancing and $9,633 (dollars in thousands) in program benefit liabilities

Note (4): Fiduciary liabilities of $164,805 (dollars in thousands) are not included in the Government-wide Statement of Net Assets. In addition, Governmental Fund liabilities of $41,160 (dollars in thousands) are included in the Government-wide Statement of Net Assets, but excluded from the above amounts.

21. OTHER LIABILITIES

The following table (dollars in thousands) summarizes Other Liabilities as of June 30, 2006.

	Primary Government				
	General	Commonwealth Transportation	Federal Trust	Nonmajor Governmental Funds	State Lottery
Lottery Prizes Payable	$ -	$ -	$ -	$ -	$ 35,196
Due to Program Participants, Escrows, and Providers	-	-	-	-	-
Medicaid Payable	172,975	-	173,974	-	-
Family Access to Medical Insurance Security Payable	1,012	-	1,879	-	-
Tax Refunds Payable	250,758	-	-	-	-
Insurance Carrier Surety Deposit	-	-	-	-	-
Deposits Pending Distribution	2,702	3,155	21	292	-
Car Tax Refund Payable	273,895	-	-	-	-
Other Liabilities	-	-	-	2,109	-
Total Other Liabilities	$ 701,342	$ 3,155	$ 175,874	$ 2,401	$ 35,196

	Primary Government *(continued)*				
	Virginia College Savings Plan	Unemployment Compensation	Nonmajor Enterprise Funds	Internal Service Funds	Private Purpose Funds
Lottery Prizes Payable	$ -	$ -	$ -	$ -	$ -
Due to Program Participants, Escrows, and Providers	95	24,126	-	-	69
Medicaid Payable	-	-	-	-	-
Family Access to Medical Insurance Security Payable	-	-	-	-	-
Tax Refunds Payable	-	-	-	-	-
Insurance Carrier Surety Deposit	-	-	-	-	-
Deposits Pending Distribution	-	-	179	-	-
Car Tax Refund Payable	-	-	-	-	-
Other Liabilities	-	-	55	1,210	-
Total Other Liabilities	$ 95	$ 24,126	$ 234	$ 1,210	$ 69

(Continued on next page)

	Primary Government *(continued)*		
	Pension and Other Employee Benefit Trust Funds	**Agency Funds**	**Total Primary Government (1)**
Lottery Prizes Payable	$ -	$ -	$ 35,196
Due to Program Participants, Escrows, and Providers	-	23,405	47,695
Medicaid Payable	-	-	346,949
Family Access to Medical Insurance Security Payable	-	-	2,891
Tax Refunds Payable	-	-	250,758
Insurance Carrier Surety Deposit	-	400,451	400,451
Deposits Pending Distribution	-	32,833	39,182
Car Tax Refund Payable	-	-	273,895
Other Liabilities	3,759	1,860	8,993
Total Other Liabilities	$ 3,759	$ 458,549	$ 1,406,010

Note (1): Fiduciary liabilities of $462,377 (dollars in thousands) are not included in the Government-wide Statement of Net Assets. In addition, Governmental Fund liabilities of $470,989 (dollars in thousands) are included in the Government-wide Statement of Net Assets, but excluded from the above amounts.

	Component Units				
	Virginia Housing Development Authority	**Virginia Public School Authority**	**University of Virginia**	**Virginia Polytechnic Institute & State University**	**Virginia Commonwealth University**
Accrued Interest Payable	$ 73,401	$ 55,527	$ -	$ 448	$ 4,170
Other Liabilities	-	512	18,492	17,295	114,956
Deposits Pending Distribution	-	-	218,145	13,803	26,289
Short-term Debt	-	-	67,000	-	-
Grants Payable	-	-	-	-	-
Total Other Liabilities	$ 73,401	$ 56,039	$ 303,637	$ 31,546	$ 145,415

	Component Units	
	Nonmajor Component Units	**Total Component Units**
Accrued Interest Payable	$ 49,947	$ 183,493
Other Liabilities	43,223	194,478
Deposits Pending Distribution	18,285	276,522
Short-term Debt	30,433	97,433
Grants Payable	6,133	6,133
Total Other Liabilities	$ 148,021	$ 758,059

Medicaid Payable

Medicaid Payable represents services rendered but not billed by providers and potential liability resulting from cost reports not settled as of year-end. Providers subject to cost settlement are paid in the interim based on established per diem or diagnosis related group rates for services.

The Department of Medical Assistance Services (DMAS) estimates, based on past experience, the total amount of Medicaid claims that will be paid from the Medicaid program in the future which relate to services provided before year-end. At June 30, 2006, the estimated liability related to Medicaid claims totaled $346.9 million. Of this amount $172.9 million is reflected in the General Fund (major) and $174.0 million in the Federal Trust Special Revenue Fund (major).

Family Access to Medical Insurance Security Payable

DMAS estimates the total amount of claims that will be paid from the Family Access to Medical Insurance Security program in the future which relate to services provided before year-end. At June 30, 2006, the estimated liability related to claims totaled $2.9 million. Of this amount, $1.0 million is reflected in the General Fund (major) and $1.9 million in the Federal Trust Special Revenue Fund (major).

Tax Refunds Payable

Tax refunds payable represent refunds due on individual tax returns filed for the calendar year ended December 31, 2005, and on business tax returns filed for corporate fiscal years ending on or before June 30, 2006. The individual tax return filing deadline is May 1 of each year for the preceding calendar year. The corporate tax return filing deadline is the 15th day of the fourth month following the close of the corporate fiscal year.

Car Tax Refund Payable

During the year ended June 30, 1998, the General Assembly passed the Personal Property Tax Relief Act. Under the terms of this legislation, the Commonwealth assumed financial responsibility for a portion, ranging from 12.5 percent to 70.0 percent, of the personal property taxes assessed by localities.

During 2004, the General Assembly modified this legislation. Chapter 1 of Special Session 1 (2004) established a $950 million limit on the amount the state would appropriate for personal property tax relief, beginning for tax year 2006. It further established that each county, city, and town would receive a fixed percentage of the $950 million, with payments to begin on or after July 1, 2006 (fiscal year 2007). The accrued liability amount of $273.9 million reflects payments owed to localities as of June 30 and paid in July and August.

Short-term Debt

Various Higher Education Institutions' Foundations (Component Units) have lines of credit with banks. University of Virginia Foundations (Major Component Unit) report $41.0 million and Nonmajor Component Unit Foundations report $30.4 million. This short-term debt is for working capital, property acquisition, construction costs, and operating costs. The University of Virginia (Major Component Unit) has commercial paper of $26.0 million to provide bridge financing for capital projects.

The balance of Other Liabilities is spread among various other funds.

22. LONG–TERM LIABILITIES

Commonwealth bonds are issued pursuant to Section 9 of Article X of the *Constitution of Virginia*. Section 9(a) bonds have been issued to redeem previous debt obligations. Section 9(b) bonds have been authorized by the citizens of Virginia through bond referenda to finance capital projects. These bonds are retired through the use of State appropriations. Section 9(c) bonds are issued to finance capital projects which, when completed, will generate revenue to repay the debt. Section 9(a), 9(b), and 9(c) bonds are tax-supported general obligation bonds and are backed by the full faith, credit, and taxing power of the Commonwealth. No other long-term debt or obligations are backed by the full faith, credit, and taxing power of the Commonwealth.

Section 9(d) bonds are revenue bonds and are not backed by the full faith, credit and taxing power of the Commonwealth. These bonds are not general obligation bonds and are not deemed to constitute a legal liability of the Commonwealth. This debt may be supported by State appropriations in whole or in part, as in the case of certain debt of the VPA (Nonmajor Component Unit), VPBA (Primary Government), ITA (Nonmajor Component Unit), and VCBA (Nonmajor Component Unit). Other 9(d) revenue bonds are payable from general revenues of the component units, or from revenues of specific revenue-producing capital projects such as the teaching hospitals, dormitories, student centers, and dining halls at the various colleges and universities (Component Units). Additionally, the 9(d) Transportation Bonds (Primary Government) are payable solely from revenues or earnings, and other available sources of funds appropriated by the General Assembly.

Certain 9(d) bonds are considered, with 9(a), 9(b), and 9(c) bonds, to be tax-supported debt of the Commonwealth. Tax-supported debt includes all bond issues and short-term debt supported by tax revenues (net of sinking fund requirements), for which debt service payments are made or are ultimately pledged to be made from general governmental funds.

Other 9(d) revenue bonds are considered debt not supported by taxes. For this debt, the Commonwealth has no direct or indirect pledge of tax revenues. However, in some cases, the Commonwealth has made a moral obligation pledge. A government's moral obligation pledge provides a deficiency make-up for bondholders should underlying project revenues prove insufficient. The mechanics involve funding a debt service reserve fund when the bonds are issued. If a revenue deficiency exists, reserve fund monies are used to pay bondholders. The issuer then informs the legislative body requesting that it replenish the reserve fund before subsequent debt service is due. The legislative body may, but is not legally required to, replenish the reserve fund. These bonds are considered to be moral obligation debt.

The following schedule presents the total long–term liabilities of the Commonwealth, and the portion of these amounts which are due within one year, as reported on the Government-wide Statement of Net Assets.

Total Long-term Liabilities
June 30, 2006

(Dollars in Thousands)	**Balance At June 30**	**Amount Due Within One Year**
Primary Government:		
Governmental Activities:(1)		
General Obligation Bonds: (2)		
9(b) Transportation Facilities (3)	$ 29,660	$ 4,885
9(b) Public Facilities (3)	596,464	47,530
9(c) Parking Facilities (3)	9,939	1,070
9(c) Transportation Facilities (3)	80,435	10,809
Total General Obligation Bonds	716,498	64,294
Non-General Obligation Bonds - 9(d):		
Transportation Debt (3) (4)	1,939,666	153,355
Virginia Public Building Authority (3)	1,292,251	88,135
Total Non-General Obligation Bonds	3,231,917	241,490
Other Long-term Obligations:		
Pension Liability	709,835	-
Compensated Absences	328,799	201,406
Capital Lease Obligations	126,615	9,503
Regional Jail Financing Payable	13,375	1,682
Notes Payable	28,578	2,701
Installment Purchase Obligations	50,485	6,722
Industrial Development Authority Obligations	23,160	4,150
Economic Development Authority Obligations (3)	100,592	-
Other Liabilities	18,114	2,534
Total Other Long-term Obligations	1,399,553	228,698
Total Governmental Activities (3)	5,347,968	534,482
Business-type Activities: (1) (6)		
Other Long-term Obligations:		
Pension Liability	14,474	-
Compensated Absences	8,262	4,065
Installment Purchase Obligations	5,967	3,087
Tuition Benefits Payable	1,617,517	64,300
Lottery Prizes Payable	346,636	58,528
Total Other Long-term Obligations	1,992,856	129,980
Total Business-type Activities (3)	1,992,856	129,980
Total Primary Government	7,340,824	664,462

(Continued on next page)

Total Long-term Liabilities
June 30, 2006
(continued from previous page)

(Dollars in Thousands)	**Balance At June 30**	**Amount Due Within One Year**
Component Units:		
General Obligation Bonds: (2)		
Higher Education Fund - 9(c) Bonds (3)	325,969	29,781
Non-General Obligation Bonds:		
Higher Education Institutions - 9(d) (3) (6)	840,779	24,977
Virginia College Building Authority (3)	641,954	64,169
Innovative Technology Authority	7,935	790
Virginia Port Authority (3) (7)	392,337	18,074
Virginia Housing Development Authority (3) (8)	5,155,015	388,409
Virginia Resources Authority (3) (8)	1,381,859	49,880
Virginia Public School Authority (3) (6)	2,689,512	182,392
Hampton Roads Sanitation District Commission (6)	144,450	11,943
Virginia Equine Center Foundation (6)	15,320	560
Virginia Biotechnology Research Park Authority (3) (9)	64,332	3,158
Foundations (6) (10)	373,571	6,009
Total Non-General Obligation Bonds	11,707,064	750,361
Other Long-term Obligations:		
Pension Liability (5)	259,739	-
Compensated Absences	199,127	117,862
Capital Lease Obligations	59,532	4,833
Notes Payable (6)	908,394	94,183
Installment Purchase Obligations	137,788	22,474
Trust and Annuity Obligations (11)	31	31
Other Liabilities (6)	284,322	43,582
Total Other Long-term Obligations (Excluding Foundations)	1,848,933	282,965
Other Long-term Obligations (Foundations): (6) (10)		
Pension Liability	27,815	-
Compensated Absences	3,832	3,728
Capital Lease Obligations	232	110
Notes Payable	207,295	29,423
Installment Purchase Obligations	227	104
Trust and Annuity Obligations (11)	91,035	2,659
Other Liabilities	34,843	255
Total Other Long-term Obligations - Foundations	365,279	36,279
Total Other Long-term Obligations	2,214,212	319,244
Total Component Units	14,247,245	1,099,386
Total Long-term Liabilities	$ 21,588,069	$ 1,763,848

1. Pursuant to GASB Statement No. 34, governmental activities include Internal Service Funds. Business-type Activities are considered Enterprise Funds.
2. Total general obligation debt of the Commonwealth is $1,042.5 million.
3. Amounts are net of any unamortized discounts, premiums, and deferrals.
4. This debt includes $918.5 million that is not supported by taxes.
5. This includes pension obligations that do not relate to the Virginia Retirement System from Virginia Commonwealth University of $3.0 million and Virginia Port Authority of $4.9 million. It does not include pension obligations from fiduciary funds of $2.0 million.
6. This debt is not supported by taxes.
7. This debt includes $141.1 million that is not supported by taxes.
8. This debt is not supported by taxes; however, $498.3 million from VHDA and $704.5 million from VRA is considered moral obligation debt.
9. This debt includes $11.9 million that is not supported by taxes.
10. Foundations represent FASB reporting entities defined in Note 1.B.
11. These generally represent split-interest agreements that represent donor contributed assets with the requirement that an annual distribution be made to the donor or specified beneficiary. The annual distributions are usually for a fixed dollar amount or a fixed percentage of the trust's fair market value. The present value of these commitments is reported as Trust and Annuity Obligations.

Primary Government

Transportation Facilities Debt

Transportation Facilities Bonds include $29,659,923 of Section 9(b) general obligation bonds, $80,435,171 of Section 9(c) general obligation bonds and $1,021,172,044 of Section 9(d) revenue bonds. The Transportation Facilities Section 9(d) debt of $1,939,665,581 includes $918,493,537 of outstanding Commonwealth of Virginia Federal Highway Reimbursement Anticipation Notes in addition to the outstanding Section 9(d) revenue bonds. Principal and interest requirements for the current year totaled $237,312,981. The Section 9(b) Transportation Facilities bonds represent Powhite Refunding Bonds. The Section 9(c) Transportation Facilities Bonds were issued to fund the construction and improvement of the Omer L. Hirst - Adelard L. Brault Expressway and the George P. Coleman Bridge. The Section 9(d) Transportation Facilities Bonds were issued to fund the construction of State Route 28, U.S. Route 58, the Northern Virginia Transportation District Program, and the Oak Grove Connector (Chesapeake). The Commonwealth of Virginia Federal Highway Reimbursement Anticipation Notes were issued to finance various capital transportation projects throughout the Commonwealth. The interest rates for these bonds range from 2.00 percent to 7.25 percent and the issuance dates range from June 28, 1989, to May 11, 2006.

On September 28, 2005, the Commonwealth Transportation Board issued $250,000,000 of Section 9(d) Federal Highway Reimbursement Anticipation Notes, Series 2005. The Series 2005 notes were issued to finance various capital transportation projects throughout the Commonwealth. On March 15, 2006, the Commonwealth issued $36,415,000 of Section 9(c) Transportation Facilities Refunding Bonds, Series 2006A. The Series 2006A bonds were issued to advance refund outstanding Series 1996 bonds. On May 11, 2006, the Commonwealth Transportation Board issued $23,160,000 of Section 9(d) Transportation Revenue Refunding Bonds Series 2006A, $20,020,000 of Section 9(d) Transportation Revenue Refunding Bonds Series 2006B, and $63,460,000 of Section 9(d) Transportation Revenue Refunding Bonds Series 2006C. The Series 2006A bonds were issued to advance refund outstanding Series 1997A bonds. The Series 2006B bonds were issued to advance refund outstanding Series 1999A, Series 2001A, and Series 2002A bonds. The Series 2006C bonds were issued to advance refund outstanding Series 1999B and Series 2001B bonds.

The following schedules detail the annual funding requirements necessary to amortize Transportation Facilities 9(b) and 9(c) bonds and 9(d) debt:

9(b) TRANSPORTATION FACILITIES BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2007	$ 4,885,000	$ 1,357,750	$ 6,242,750
2008	5,130,000	1,113,500	6,243,500
2009	5,415,000	857,000	6,272,000
2010	5,715,000	586,250	6,301,250
2011	6,010,000	300,500	6,310,500
2012-2016	-	-	-
Less: Deferral on Debt Defeasance	(591,800)	-	(591,800)
Add: Unamortized Premium	3,096,723	-	3,096,723
Total	$ 29,659,923	$ 4,215,000	$ 33,874,923

9(c) TRANSPORTATION FACILITIES BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2007	$ 10,808,630	$ 3,232,719	$ 14,041,349
2008	10,829,756	2,870,913	13,700,669
2009	7,549,000	2,522,950	10,071,950
2010	4,585,000	2,346,350	6,931,350
2011	4,795,000	2,136,100	6,931,100
2012-2016	27,850,000	6,831,250	34,681,250
2017-2021	14,205,000	1,749,000	15,954,000
2022-2026	-	-	-
Less: Unamortized Discount	(1,101,705)	-	(1,101,705)
Deferral on Debt Defeasance	(1,993,600)	-	(1,993,600)
Add: Unamortized Premium	2,908,090	-	2,908,090
Total	$ 80,435,171	$ 21,689,282	$ 102,124,453

9(d) TRANSPORTATION FACILITIES DEBT
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2007	$ 153,355,000	$ 86,054,655	$ 239,409,655
2008	160,515,000	78,851,569	239,366,569
2009	165,550,000	71,216,607	236,766,607
2010	176,980,000	62,989,284	239,969,284
2011	185,715,000	54,080,544	239,795,544
2012-2016	570,045,000	171,000,856	741,045,856
2017-2021	302,569,776	65,906,963	368,476,739
2022-2026	125,054,195	15,113,044	140,167,239
2027-2031	13,395,276	156,000	13,551,276
2032-2036	1,724,420	-	1,724,420
Add: Accretion on Capital Appreciation Bonds	7,447,475	-	7,447,475
Less: Deferral on Debt Defeasance	(22,410,700)	-	(22,410,700)
Add: Unamortized Premium	99,725,139	-	99,725,139
Total	$ 1,939,665,581	$ 605,369,522	$ 2,545,035,103

Fairfax Economic Development Authority Obligations

In fiscal year 2006, the Fairfax County Economic Development Authority (EDA) issued Section 9(d) revenue bonds to pay for the Commonwealth's (VDOT) costs of the planning, design and construction of a transportation infrastructure and related public safety operations complex to be developed on the contiguous sites in the County commonly referred to as "Camp 30" for the joint use of VDOT and the County. The Commonwealth's obligation is set out in a payment agreement between Fairfax County EDA and the Commonwealth of Virginia, Department of Transportation, in which the Commonwealth agrees to make payments equal to the debt service from amounts appropriated by the General Assembly. The interest rates for these bonds range from 4.25 percent to 5.00 percent and the issue date was April 12, 2006. There were no current year principal and interest requirements. The following schedule details the annual funding requirements necessary to repay these bonds:

FAIRFAX COUNTY ECONOMIC DEVELOPMENT AUTHORITY
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2007	$ -	$ 5,065,538	$ 5,065,538
2008	3,190,000	4,640,187	7,830,187
2009	3,345,000	4,480,687	7,825,687
2010	3,515,000	4,313,437	7,828,437
2011	3,690,000	4,137,688	7,827,688
2012-2016	21,410,000	17,729,188	39,139,188
2017-2021	27,220,000	11,925,288	39,145,288
2022-2026	34,145,000	4,995,950	39,140,950
Add:			
Unamortized Premium	4,076,692	-	4,076,692
Total	$ 100,591,692	$ 57,287,963	$ 157,879,655

Public Facilities Bonds

Section 9(b) general obligation bonds consist of Public Facilities Bonds, Series 1993B, Series 1996, Series 1996 Refunding, Series 1997, Series 1998 Refunding, Series 1998, Series 1999A, Series 2002 Refunding, Series 2003A Refunding, Series 2004A, Series 2004B Refunding, Series 2005A and Series 2006A Refunding. All bonds were issued to fund construction projects for higher educational institutions, mental health, and/or park facilities. The Series 2003A bonds were issued to advance refund outstanding Series 1993A and B, Series 1994, and Series 1996 bonds. The Series 2004B bonds were issued to advance refund outstanding Series 1997, Series 1998, and Series 1999A bonds. The Series 2006A bonds were issued to advance refund outstanding Series 1996 bonds. Principal and interest requirements for the current year totaled $75,304,668. The interest rates for all bonds range from 2.0 percent to 5.65 percent and the issuance dates range from June 6, 1996, to March 15, 2006. The following schedule details the annual funding requirements necessary to repay these bonds:

9(b) PUBLIC FACILITIES BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2007	$ 47,530,000	$ 27,137,414	$ 74,667,414
2008	45,290,000	24,961,664	70,251,664
2009	47,220,000	22,887,176	70,107,176
2010	46,890,000	20,781,095	67,671,095
2011	46,595,000	18,575,495	65,170,495
2012-2016	197,865,000	60,029,267	257,894,267
2017-2021	87,620,000	24,485,288	112,105,288
2022-2026	52,330,000	5,287,725	57,617,725
Less:			
Deferral on			
Debt Defeasance	(10,246,000)	-	(10,246,000)
Add:			
Unamortized Premium	35,369,709	-	35,369,709
Total	$ 596,463,709	$ 204,145,124	$ 800,608,833

Parking Facilities Bonds

Section 9(c) general obligation bonds consist of Parking Facilities Bonds, Series 1996, 2002 Refunding, 2003A, 2004A and 2006A Refunding. The Series 1996 bonds were issued to fund the renovation of the Seventh and Marshall Street parking deck. The Series 2002 Refunding bonds were issued to advance refund outstanding Series 1996 and Series 1993 Refunding bonds. The Series 2004A bonds were issued to fund the renovation of the Ninth and Franklin Street parking deck. The Series 2006A Refunding bonds were issued to advance refund outstanding Series 1996 outstanding bonds. The interest rates for these bonds range from 2.5 percent to 5.7 percent and the issuance dates range from June 6, 1996, to March 15, 2006. Current year principal and interest requirements totaled $1,554,449.

The following schedule details the annual funding requirements necessary to repay these bonds:

9(c) PARKING FACILITIES BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2007	$ 1,070,042	$ 464,470	$ 1,534,512
2008	1,148,715	412,411	1,561,126
2009	1,000,426	356,776	1,357,202
2010	1,046,985	307,004	1,353,989
2011	1,068,102	254,655	1,322,757
2012-2016	1,385,000	884,500	2,269,500
2017-2021	1,605,000	521,250	2,126,250
2022-2026	1,170,000	108,950	1,278,950
Less:			
Deferral on			
Debt Defeasance	(313,100)	-	(313,100)
Add:			
Unamortized Premium	758,268	-	758,268
Total	$ 9,939,438	$ 3,310,016	$ 13,249,454

Virginia Public Building Authority

Virginia Public Building Authority (VPBA) Section 9(d) bonds consist of Series 1992B, 1995A, 1996A refunding, 1997A, 1998A refunding, 1998B, 1999A, 1999B, 2000A, 2001A, 2002A, 2003A refunding, 2004A refunding, 2004B, 2004C refunding, 2004D refunding, 2005A refunding, 2005B refunding, 2005C and 2005D.

All bonds were issued for the purpose of constructing, improving, furnishing, maintaining, and acquiring public buildings for the use of the Commonwealth and also to reimburse localities, regional jail authorities or other combination of localities under the Regional Jail Financing Program. The Series 2004C and 2005A bonds were issued to refinance certain capital lease obligations of the Commonwealth. The Series 2004D bonds were issued to advance refund outstanding Series 1997A, Series 1999B, and Series 2000A bonds. The Series 2005B bonds were issued to advance refund outstanding Series 1996A, Series 1998B, and Series 1999A bonds. The interest rates for all bonds range from 2.5 percent to 6.6 percent and the issuance dates range from August 1, 1992, to December 7, 2005. Current year principal and interest requirements totaled $127,568,434. The following schedule details the annual funding requirements necessary to repay these bonds:

9(d) VIRGINIA PUBLIC BUILDING AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2007	$ 88,135,000	$ 55,607,268	$ 143,742,268
2008	97,100,000	52,068,604	149,168,604
2009	102,320,000	48,163,228	150,483,228
2010	106,525,000	43,918,917	150,443,917
2011	103,310,000	39,406,968	142,716,968
2012-2016	454,250,000	126,887,448	581,137,448
2017-2021	208,705,000	46,573,143	255,278,143
2022-2026	114,160,000	11,084,256	125,244,256
Less:			
Unamortized Discount	(7,505,914)	-	(7,505,914)
Deferral on Debt Defeasance	(32,549,306)	-	(32,549,306)
Add:			
Unamortized Premium	57,800,759	-	57,800,759
Total	$ 1,292,250,539	$ 423,709,832	$ 1,715,960,371

Regional Jail Financing Program

The Regional Jail Financing Program of the Commonwealth of Virginia Treasury Board was created during the 1993 Session of the General Assembly to establish a method of reimbursing localities, regional jail authorities or other combination of localities for a portion of the capital and financing costs of a jail project, made pursuant to Sections 53.1-80, 53.1-81, or 53.1-82 of the *Code of Virginia.* The General Assembly, upon recommendation from the Department of Planning and Budget, may determine to reimburse localities for approved capital costs over time through a contractual Reimbursement Agreement between the localities or authority and the Treasury Board. The Board of Corrections determines the amount of reimbursable capital costs. If approved for reimbursement over time, the Treasury Board determines the amount of reimbursable financing costs and calculates the periodic reimbursement payments.

In 1996, the General Assembly adopted legislation that authorized funding of jail project reimbursements through bonds issued by the Virginia Public Building Authority (VPBA). As of June 30, 1998, all future jail reimbursements were approved for funding through the VPBA as opposed to the Treasury Board. All reimbursements, whether up front or over time, are subject to appropriation by the General Assembly.

The following schedule details the annual funding requirements necessary to repay these obligations:

REGIONAL JAILS FINANCING
Financial Obligations to Maturity

Calendar Year Obligations	*Capital Costs*	*Financing Costs*	*Total*
2007	$ 1,681,599	$ 951,891	$ 2,633,490
2008	1,712,928	919,166	2,632,094
2009	1,749,353	884,436	2,633,789
2010	1,785,867	847,421	2,633,288
2011	1,827,477	808,212	2,635,689
2012-2016	4,617,363	845,111	5,462,474
Total	$ 13,374,587	$ 5,256,237	$ 18,630,824

Industrial Development Authority Obligations

In fiscal year 2002, the Newport News Industrial Development Authority (IDA) issued Section 9(d) revenue bonds to pay a portion of the cost of construction and equipping of the Virginia Advanced Shipbuilding and Carrier Integration Center for use by the Newport News Shipbuilding and Dry Dock Company. The Commonwealth's obligation is set out in a payment agreement between Newport News IDA and the Treasury Board, in which the Treasury Board agrees to make payments equal to the debt service from amounts appropriated by the General Assembly. The interest rates for these bonds range from 2.75 percent to 5.03 percent and the issue date was July 27, 2000. Current year principal and interest requirements totaled $5,311,431. The following schedule details the annual funding requirements necessary to repay these bonds:

NEWPORT NEWS INDUSTRIAL DEVELOPMENT AUTHORITY
Debt Service Requriements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2007	$ 4,150,000	$ 1,144,390	$ 5,294,390
2008	4,370,000	920,545	5,290,545
2009	4,615,000	678,287	5,293,287
2010	4,875,000	417,313	5,292,313
2011	5,150,000	141,625	5,291,625
2012-2016	-	-	-
Total	$ 23,160,000	$ 3,302,160	$ 26,462,160

Component Units

Higher Education Institution Bonds

Higher Education Institution Bonds are comprised of both 9(c) general obligation bonds and 9(d) revenue bonds. Section 9(d) bonds are from several sources as shown on the following schedule (dollars in thousands):

College and university bonds backed by pledge of general revenue or revenue from specific revenue-producing capital projects	$	646,914
College and university debt backed exclusively by pledged revenues of an institution		193,865
Total Higher Education Institution 9(d) debt	$	840,779

The interest rates for these bonds range from 1.5 percent to 9.25 percent and the issuance dates range from June 30, 1979 to April 19, 2006. The following schedules detail the annual funding requirements necessary to amortize Higher Education Institution 9(c) and 9(d) bonds:

9(c) HIGHER EDUCATION INSTITUTION BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2007	$ 29,571,328	$ 15,610,092	$ 45,181,420
2008	31,281,529	14,300,001	45,581,530
2009	30,614,574	12,920,999	43,535,573
2010	29,748,015	11,614,990	41,363,005
2011	26,743,898	10,184,726	36,928,624
2012-2016	98,215,000	34,221,804	132,436,804
2017-2021	56,395,000	14,846,000	71,241,000
2022-2026	26,100,000	4,679,100	30,779,100
2027-2031	6,620,000	760,950	7,380,950
Less:			
Unamortized Discount	(694,455)	-	(694,455)
Deferral on Debt Defeasance	(11,119,000)	-	(11,119,000)
Add:			
Unamortized Premium	2,492,899	-	2,492,899
Total	$ 325,968,788	$ 119,138,662	$ 445,107,450

9(d) HIGHER EDUCATION INSTITUTION BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2007	$ 25,480,721	$ 34,515,374	$ 59,996,094
2008	26,074,067	34,781,820	60,855,887
2009	24,012,515	33,727,830	57,740,345
2010	23,476,067	32,791,750	56,267,817
2011	30,129,726	31,903,082	62,032,808
2012-2016	144,802,509	139,680,089	284,482,598
2017-2021	114,372,079	110,213,063	224,585,142
2022-2026	115,655,888	84,869,681	200,525,570
2027-2031	106,265,000	61,456,540	167,721,540
2032-2036	184,425,000	36,973,287	221,398,287
2037-2041	45,985,000	2,299,250	48,284,250
Less:			
Deferral on Debt Defeasance	(12,084,500)	-	(12,084,500)
Add:			
Unamortized Premium	12,185,709	-	12,185,709
Total	$ 840,779,781	$ 603,211,766	$ 1,443,991,547

9(d) VIRGINIA COLLEGE BUILDING AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2007	$ 62,250,000	$ 28,761,343	$ 91,011,343
2008	56,895,000	26,587,731	83,482,731
2009	52,230,000	23,932,144	76,162,144
2010	46,240,000	21,375,725	67,615,725
2011	36,890,000	19,264,487	56,154,487
2012-2016	142,940,000	73,664,568	216,604,568
2017-2021	145,670,000	36,355,638	182,025,638
2022-2026	68,840,000	6,370,090	75,210,090
Less:			
Deferral on Debt Defeasance	(4,248,000)	-	(4,248,000)
Add:			
Unamortized Premium	34,246,722	-	34,246,722
Total	$ 641,953,722	$ 236,311,726	$ 878,265,448

Various Higher Education Institutions' Foundations (Component Units) have bonds outstanding as of year-end. The purpose of a majority of these bonds is for construction, property acquisition, and defeasance of prior debt. Many principal and interest payments are to banks or industrial development authorities located throughout the Commonwealth. The following schedule details the future principal payments:

HIGHER EDUCATION INSTITUTIONS' FOUNDATIONS' BONDS (1)
Debt Service Requirements to Maturity

Maturity	*Principal*
2007	$ 6,010,481
2008	6,262,831
2009	6,288,179
2010	6,391,183
2011	42,061,107
Thereafter	276,557,903
Total	$ 343,571,684

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.

Innovative Technology Authority

The Innovative Technology Authority (ITA) has issued Taxable Lease Revenue Bonds, Series 1989, and Series 1997 refunding. The Series 1989 bonds were issued to cover a portion of the costs related to the construction of a software development center and office building. Series 1997 bonds were issued to advance refund $11.2 million of the outstanding 1989 bonds.

The 1989 bonds had an average interest rate of 10.3 percent and the 1997 bonds have an average interest rate of 7.4 percent. The bonds were issued on March 1, 1989, and May 1, 1997, respectively. The following schedule details the annual funding requirements necessary to amortize ITA bonds:

9(d) INNOVATIVE TECHNOLOGY AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2007	$ 790,000	$ 591,525	$ 1,381,525
2008	875,000	534,013	1,409,013
2009	855,000	470,051	1,325,051
2010	935,000	407,208	1,342,208
2011	1,015,000	336,896	1,351,896
2012-2016	3,465,000	530,912	3,995,912
Total	$ 7,935,000	$ 2,870,605	$ 10,805,605

Virginia Port Authority

The Virginia Port Authority (VPA) has issued Section 9(d) revenue bonds and notes pursuant to powers provided to its Board of Commissioners by the *Code of Virginia.* The interest rates for these bonds range from 3.0 percent to 6.0 percent and the issuance dates range from October 23, 1996, to April 16, 2006. Series 1998 bonds were issued to advance refund $71.0 million of the outstanding Series 1988 bonds. Series 2006A bonds were issued to advance refund $22.9 million of outstanding Series 1996 bonds The following schedule details the annual funding requirements necessary to amortize VPA bonds:

9(d) VIRGINIA PORT AUTHORITY DEBT
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2007	$ 17,715,000	$ 19,106,418	$ 36,821,418
2008	20,625,000	18,464,380	39,089,380
2009	20,640,000	17,389,644	38,029,644
2010	11,095,000	16,575,231	27,670,231
2011	11,650,000	16,013,881	27,663,881
2012-2016	67,620,000	70,345,950	137,965,950
2017-2021	72,155,000	51,491,627	123,646,627
2022-2026	91,375,000	30,408,070	121,783,070
2027-2031	63,540,000	7,811,313	71,351,313
2032-2036	9,580,000	659,250	10,239,250
Add:			
Unamortized Premium	6,711,767	-	6,711,767
Less:			
Deferral on			
Debt Defeasance	(369,981)	-	(369,981)
Total	$ 392,336,786	$ 248,265,764	$ 640,602,550

Virginia Housing Development Authority

The Virginia Housing Development Authority (VHDA) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 3.23 percent to 8.18 percent and the origination dates range from April 1, 1983, to May 23, 2006. The following schedule details the annual funding requirements necessary to amortize these bonds:

9(d) VIRGINIA HOUSING DEVELOPMENT AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2007	$ 388,408,673	$ 250,060,516	$ 638,469,189
2008	189,825,000	240,661,675	430,486,675
2009	218,320,000	232,527,458	450,847,458
2010	227,185,000	223,133,852	450,318,852
2011	219,370,000	213,190,604	432,560,604
2012-2016	1,010,765,000	917,067,228	1,927,832,228
2017-2021	885,210,000	667,989,551	1,553,199,551
2022-2026	752,305,000	447,499,515	1,199,804,515
2027-2031	558,378,993	265,298,338	823,677,331
2032-2036	456,065,883	123,963,572	580,029,455
2037-2041	143,175,000	43,772,198	186,947,198
2042-2046	99,920,000	11,170,344	111,090,344
2047-2051	-	-	-
Add:			
Unamortized			
Premium	6,897,100	-	6,897,100
Less:			
Unamortized			
Discount	(811,000)	-	(811,000)
Total	$ 5,155,014,649	$ 3,636,334,851	$ 8,791,349,500

Virginia Resources Authority

The Virginia Resources Authority (VRA) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 1.36 percent to 8.70 percent and the origination dates range from December 1, 1985, to June 8, 2006. The following schedule details the annual funding requirements necessary to amortize these bonds:

9(d) VIRGINIA RESOURCES AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2007	$ 49,880,000	$ 61,468,644	$ 111,348,644
2008	58,300,000	58,955,882	117,255,882
2009	59,530,000	56,608,609	116,138,609
2010	60,775,000	54,190,302	114,965,302
2011	75,480,000	51,642,202	127,122,202
2012-2016	360,115,000	205,116,759	565,231,759
2017-2021	308,645,000	128,011,592	436,656,592
2022-2026	238,340,000	64,092,461	302,432,461
2027-2031	119,477,870	28,641,230	148,119,100
2032-2036	86,060,000	11,033,145	97,093,145
2037-2041	1,690,000	40,750	1,730,750
Add:			
Unamortized			
Premium	42,392,398	-	42,392,398
Less:			
Unamortized			
Discounts			
and Issuance			
Expenses	(27,860,362)	-	(27,860,362)
Unaccreted			
Capital			
Appreciation			
Bonds	(50,966,036)	-	(50,966,036)
Total	$ 1,381,858,870	$ 719,801,576	$ 2,101,660,446

Virginia Public School Authority

The Virginia Public School Authority (VPSA) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 2.00 percent to 6.00 percent and the origination dates range from November 20,1997 to May 11, 2006. The following schedule details the annual funding requirements necessary to amortize these bonds:

9(d) VIRGINIA PUBLIC SCHOOL AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2007	$ 183,880,000	$ 127,988,303	$ 311,868,303
2008	181,125,000	118,986,923	300,111,923
2009	181,175,000	110,077,759	291,252,759
2010	176,490,000	101,066,925	277,556,925
2011	170,845,000	92,337,559	263,182,559
2012-2016	768,509,060	341,871,766	1,110,380,826
2017-2021	609,938,003	166,913,925	776,851,928
2022-2026	334,955,000	50,696,922	385,651,922
2027-2031	69,315,000	6,480,356	75,795,356
2032-2036	2,740,000	61,650	2,801,650
Less:			
Deferral on			
Debt Defeasance	(53,064,500)	-	(53,064,500)
Add:			
Unamortized Premium	63,604,241	-	63,604,241
Total	$ 2,689,511,804	$ 1,116,482,088	$ 3,805,993,892

Hampton Roads Sanitation District Commission

The Hampton Roads Sanitation District Commission issued bonds under a Master Trust Indenture and a Trust Agreement dated December 1, 1993, and March 1, 2003. The interest cost for these bonds ranges from 2.5 percent to 4.75 percent. The following schedule details the annual funding requirements necessary to amortize these bonds:

HAMPTON ROADS SANITATION DISTRICT COMMISSION
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2007	$ 11,943,000	$ 3,967,000	$ 15,910,000
2008	9,155,000	4,963,000	14,118,000
2009	10,239,000	4,796,000	15,035,000
2010	10,612,000	4,393,000	15,005,000
2011	11,133,000	3,929,000	15,062,000
2012-2016	61,081,000	12,797,000	73,878,000
2017-2021	18,876,000	4,631,000	23,507,000
2022-2026	9,891,000	1,826,000	11,717,000
2027-2031	1,520,000	77,000	1,597,000
Total	$ 144,450,000	$ 41,379,000	$ 185,829,000

Virginia Equine Center Foundation

The Virginia Equine Center Foundation issued Series 2001 IDA of Rockbridge County Virginia Horse Center Revenue Bonds. Coupon interest rates range from 6.875 percent to 6.9 percent.

VIRGINIA EQUINE CENTER FOUNDATION
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2007	$ 560,000	$ 1,050,162	$ 1,610,162
2008	600,000	1,011,665	1,611,665
2009	640,000	971,414	1,611,414
2010	680,000	928,467	1,608,467
2011	725,000	882,854	1,607,854
2012-2016	12,115,000	5,563,590	17,678,590
Total	$ 15,320,000	$ 10,408,152	$ 25,728,152

The above listed debt of the Virginia Equine Center Foundation is not an obligation of the Commonwealth, and neither the full faith and credit nor taxing power of the Commonwealth is pledged to the payment of this debt.

Virginia Biotechnology Research Park Authority

The Virginia Biotechnology Research Park Authority issued Series 1996, 1998, 1999A, 1999B, and 2001 Commonwealth of Virginia Lease Revenue bonds. Coupon interest rates range from 4.0 percent to 6.4 percent. The Series 1996 Virginia Biotechnology Research Park Authority Lease Revenue Bonds were refinanced with VPBA Series 2005A bonds on March 1, 2005.

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2007	$ 3,130,000	$ 3,160,999	$ 6,290,999
2008	3,280,000	3,014,630	6,294,630
2009	3,440,000	2,862,134	6,302,134
2010	3,610,000	2,698,507	6,308,507
2011	3,795,000	2,525,335	6,320,335
2012-2016	22,095,000	9,289,779	31,384,779
2017-2021	19,925,000	3,754,116	23,679,116
2022-2026	4,635,000	115,875	4,750,875
Add:			
Unamortized Premium	422,304	-	422,304
Total	$ 64,332,304	$ 27,421,375	$ 91,753,679

Total principal outstanding at June 30, 2006, on all Component Unit bonds amounted to $12.0 billion.

The following schedule summarizes the changes in long-term liabilities:

Schedule of Changes in Long-term Debt and Obligations (1) (2)

(Dollars in Thousands)

	Balance July 1, 2005	Issuances and Other Increases	Retirements and Other Decreases	Subtotal June 30, 2006
Primary Government				
Governmental Activities:				
Long-term Debt Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
General Obligation Bonds - 9(b) and 9(c):				
Public Facilities Bonds (3)	$ 520,655	$ 191,661	$ (115,852)	$ 596,464
Parking Facilities Bonds (3)	11,040	394	(1,495)	9,939
Transportation Facilities Bonds (3)	125,337	38,511	(53,753)	110,095
Total General Obligation Bonds	657,032	230,566	(171,100)	716,498
Long-term Debt / Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Debt:				
Non-General Obligation Bonds - 9(d)				
Transportation Facilities Bonds (3)	1,788,274	400,891	(249,499)	1,939,666
Virginia Public Building Authority Bonds (3)	1,142,070	233,158	(82,977)	1,292,251
Regional Jails Financing Payable	15,030	-	(1,655)	13,375
Industrial Development Authority Obligations	27,100	-	(3,940)	23,160
Economic Development Authority Obligations (3)	-	100,637	(45)	100,592
Installment Purchase Obligations	24,047	36,671	(10,233)	50,485
Notes Payable - Virginia Public Broadcasting Board	15,775	-	(2,290)	13,485
Notes Payable - Transportation	12,325	-	-	12,325
Notes Payable - Aviation	3,055	-	(287)	2,768
Obligations:				
Compensated Absences	313,896	23,254	(8,351)	328,799
Capital Lease Obligations	133,799	1,245	(8,429)	126,615
Pension Liability	621,969	87,866	-	709,835
Other	18,761	2,465	(3,112)	18,114
Total Long-term Debt / Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth	4,116,101	886,187	(370,818)	4,631,470
Total Governmental Activities	4,773,133	1,116,753	(541,918)	5,347,968
Business-type Activities:				
Long-term Debt / Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Debt:				
Non-General Obligation Bonds - 9(d)				
Pocahontas Parkway Association Bonds (3)	463,357	16,880	(480,237)	-
Installment Purchase Obligations	9,709	1,727	(5,469)	5,967
Obligations:				
Compensated Absences	7,859	4,012	(3,609)	8,262
Pension Liability	12,990	1,484	-	14,474
Lottery Prizes Payable	375,041	6,605	(35,010)	346,636
Tuition Benefits Payable	1,430,383	236,623	(49,489)	1,617,517
Total Business-type Activities	2,299,339	267,331	(573,814)	1,992,856
Total Primary Government	$ 7,072,472	$ 1,384,084	$ (1,115,732)	$ 7,340,824
Component Units				
Long-term Debt Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
General Obligation Bonds - Higher Education 9(c) (3)	$ 296,963	$ 63,726	$ (34,720)	$ 325,969
Long-term Debt / Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Debt:				
Bonds (3)	10,188,627	2,035,622	(890,756)	11,333,493
Installment Purchase Obligations (5)	97,219	63,517	(22,948)	137,788
Capital Lease Obligations	46,272	17,611	(4,351)	59,532
Notes Payable (6)	1,127,760	258,310	(477,676)	908,394
Obligations:				
Compensated Absences	187,489	142,149	(130,511)	199,127
Pension Liability	238,463	22,534	(1,258)	259,739
Trust and Annuity Obligations	31	-	-	31
Other	368,889	198,345	(282,912)	284,322
Total Component Units	$ 12,551,713	$ 2,801,814	$ (1,845,132)	$ 13,508,395

Foundations (4)	Balance June 30, 2006	Due Within One Year
$ -	$ 596,464	$ 47,530
-	9,939	1,070
-	110,095	15,694
-	716,498	64,294
-	1,939,666	153,355
-	1,292,251	88,135
-	13,375	1,682
-	23,160	4,150
-	100,592	-
-	50,485	6,722
-	13,485	2,415
-	12,325	-
-	2,768	286
-	328,799	201,406
-	126,615	9,503
-	709,835	-
-	18,114	2,534
-	4,631,470	470,188
-	5,347,968	534,482
-	-	-
-	5,967	3,087
-	8,262	4,065
-	14,474	-
-	346,636	58,528
-	1,617,517	64,300
-	1,992,856	129,980
$ -	$ 7,340,824	$ 664,462
$ -	$ 325,969	$ 29,781
373,571	11,707,064	750,361
227	138,015	22,578
232	59,764	4,943
207,295	1,115,689	123,606
3,832	202,959	121,590
27,815	287,554	-
91,035	91,066	2,690
34,843	319,165	43,837
$ 738,850	$ 14,247,245	$ 1,099,386

(1) Pursuant to GASB Statement No. 34, governmental activities include Internal Service Funds. Business-type Activities are considered Enterprise Funds.

(2) Payments on bonded debt that pertain to the Commonwealth's governmental activities are made through the debt service funds. Payments for installment purchases, compensated absences, capital leases, pension, and other obligations that pertain to the Commonwealth's governmental activities are made through the general and special revenue funds. Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for these funds are included as part of the total for governmental activities. Enterprise funds, or business-type activities, are self-supporting funds. Accordingly, long-term liabilities are paid from each respective fund.

(3) Amounts are net of any unamortized discounts, premiums, and deferrals.

(4) Foundations represent FASB reporting entities defined in Note 1.B.

(5) The beginning balance has been increased from the prior year to reflect reclassifications.

(6) The beginning balance has been decreased from the prior year to reflect reclassifications.

Bond Defeasance

Primary Government

In March 2006, the Commonwealth issued $102,965,000 General Obligation Refunding Bonds, Series 2006A Refunding, pursuant to Sections 9(b) and 9(c) of Article X of the *Constitution of Virginia*, with a true interest cost (TIC) of 3.69 percent to advance refund $107,640,000 of certain outstanding bonds. The bonds that were refunded include $3,520,000 of outstanding Higher Education Institution Refunding Bonds, Series 1996, $1,325,000 of Higher Education Institution Bonds, Series 1996, $4,980,000 of outstanding Public Facilities Bonds, Series 1996, $60,100,000 of outstanding Public Facilities Bonds, Series 1996, $4,560,000 of outstanding Transportation Refunding Bonds, Series 1996, $32,805,000 of outstanding Transportation Refunding bonds, Series 1996 and $350,000 of outstanding Parking Facilities Bonds, Series 1996. The net proceeds from the sale of the Refunding Bonds of $109,311,377 (after payment of underwriter's fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service and redemption premiums on the refunded bonds. The debt defeasance will reduce total debt service payments over the next 16 years by $10,585,391 resulting in an economic gain of $8,597,983 discounted at the rate of 3.708 percent.

On May 11, 2006, the Commonwealth Transportation Board issued $23,160,000 in Transportation Revenue Refunding Bonds Series 2006A, $20,020,000 in Transportation Revenue Refunding Bonds Series 2006B and $63,460,000 in Transportation Revenue Refunding Bonds Series 2006C with a true interest cost (TIC) of 4.56 percent. The bonds that were refunded with the Series 2006A Transportation Refunding Bonds were $23,830,000 of outstanding Transportation Revenue Bonds, Series 1997A. The bonds that were refunded with the Series 2006B Transportation Refunding Bonds include $4,460,000 of outstanding Transportation Revenue Bonds, Series 1999A, $7,710,000 of outstanding Transportation Revenue Bonds, Series 2001A, and $7,810,000 of outstanding Transportation Revenue Bonds, Series 2002A. The bonds that were refunded with the Series 2006C Transportation Refunding Bonds include $27,430,000 of outstanding Transportation Revenue Bonds, Series 1999B, and $36,660,000 of outstanding Transportation Revenue Bonds, Series 2001B. The net proceeds from the sale of the refunding portion of the bonds of $111,230,819 (after payment of underwriter's fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service and redemption premiums on the Refunded Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by $3,330,819. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt or the new debt, whichever is shorter. Total debt service payments over the next 20 years will be reduced by $6,019,308 resulting in an economic gain of $4,075,365 discounted at a rate of 4.35 percent.

Component Units

In July 2005, the University of Virginia issued $193,355,000 of Series 2005 General Revenue Pledge bonds with a true interest cost of 3.85 percent. The proceeds of the General Revenue Pledge bonds were used partly to refund $61,775,000 of Series 1998A General Revenue Pledge bonds, partly to finance all or a portion of the costs incurred in connection with the construction of new and renovation of existing University facilities, and partly for the prepayment of $84,963,000 of the outstanding principal amount of the University's Series 2003A and Series 2003B commercial paper notes. Total debt service payments over the next 18 years will be reduced by $4,395,470.24 resulting in a present value savings of $3,262,828.65 discounted at a rate of 4.01 percent. In accordance with 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.

GASB Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt*, provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of June 30, 2006, there were $626.9 million in bonds from the Primary Government that have been refunded and defeased in-substance from the governmental activities column by placing existing assets and the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments. In addition, there were $894.1 million in bonds outstanding considered defeased from the Component Units.

Arbitrage Rebate

The Tax Reform Act of 1986 requires that governmental entities issuing tax-exempt debt subsequent to August 1986 calculate and rebate arbitrage earnings to the Federal government. The U.S. Treasury has issued regulations on calculating the rebate amount and complying with the provisions of the Tax Reform Act of 1986. Governmental issuers must comply with the rebate regulations in order for their bonds to maintain tax-exempt status. The regulations require the excess of the aggregate amount earned on investments purchased with bond proceeds over the amount that would have been earned if the proceeds were invested at a rate equal to the bond yield, to be rebated to the Federal government. Income earned on excess earnings is also subject to rebate. Rebate liability, if any, must be paid every five years over the life of the bonds. Some bonds may be exempt from the rebate requirements if they qualify for certain regulatory exceptions. Governmental issuers may elect to pay a penalty in lieu of rebate. If the issuer meets one of the exceptions, the issuer retains any arbitrage earnings. Rebate and penalty payments are calculated and paid as required by law on bond issues that do not qualify for an exception.

Amounts remitted to the Federal government for rebate liability are generally paid from earnings derived from the issue. However, if all proceeds (including earnings) have been expended and depending on the type of issue, it may be necessary to use project revenues or general or non-general fund appropriations to satisfy any rebate liability.

Rebate liability on bonds of the Virginia Public School Authority (Major Component Unit) is payable from earnings on related bond funds and from local issuers whose local school bonds were purchased by the VPSA. During the year, $164,701 was paid to the Federal government for rebate on various VPSA School Financing Bonds.

Capital Leases

The Commonwealth leases buildings and equipment under various agreements that are accounted for as capital leases. The lease agreements are for various terms and all leases contain nonappropriation clauses indicating that continuation of the lease is subject to funding by the General Assembly.

Gross minimum lease payments, together with the present value of the net minimum lease payments as of June 30, 2006, are shown in the following table (dollars in thousands). There were no capital lease amounts associated with business-type activities.

	Governmental Activities	Component Units (1)
2007	$ 18,414	$ 7,344
2008	17,420	8,102
2009	16,503	7,756
2010	16,131	7,676
2011	15,829	6,990
2012-2016	71,800	25,315
2017-2021	29,407	9,447
2022-2026	4,751	4,710
2027-2031	-	4,784
2032-2036	-	966
Total Gross Minimum Lease Payments	190,255	83,090
Less: Amount Representing Executory Costs	9,495	7,628
Net Minimum Lease Payments	180,760	75,462
Less: Amount Representing Interest	54,145	15,930
Present Value of Net Minimum Lease Payments	$ 126,615	$ 59,532

Note (1): The above amounts exclude capital lease obligations of Foundations.

	Foundations (2)
2007	$ 110
2008	54
2009	50
2010	18
2011	-
Thereafter	-
Net Minimum Lease Payments	232
Less: Amount Representing Interest	-
Present Value of Net Minimum Lease Payments	$ 232

Note (2): Foundations represent FASB reporting entities defined in Note 1.B.

At June 30, 2006, assets purchased under capital leases were included in depreciable capital assets as follows (dollars in thousands). The amounts are net of accumulated depreciation where applicable. For a portion of these assets, ownership will pass to the Commonwealth at the end of the lease term.

	Buildings	Equipment	Total
Governmental Activities:			
Gross Capital Assets	$ 176,607	$ 592	$ 177,199
Less: Accumulated Depreciation	44,821	255	45,076
Total Governmental Activities	$ 131,786	$ 337	$ 132,123
Component Units:			
Gross Capital Assets	$ 66,706	$ 33,296	$ 100,002
Less: Accumulated Depreciation	10,025	15,762	25,787
Subtotal (excluding Foundations)	56,681	17,534	74,215
Foundations:			
Gross Capital Assets	-	545	545
Less: Accumulated Depreciation	-	226	226
Subtotal Foundations	-	319	319
Total Component Units	$ 56,681	$ 17,853	$ 74,534
Total Capital Lease Assets	$ 188,467	$ 18,190	$ 206,657

Notes Payable

Notes Payable consist of several items as shown in the following schedule (dollars shown in thousands):

Primary Government		
Transportation Note	$	12,325
Virginia Public Broadcasting Board Note		13,485
Aviation Note		2,768
Installment Notes		56,452
Total Primary Government		85,030
Component Units		
Virginia Public School Authority		170,385
Virginia Housing Development Authority		7,220
University of Virginia		68,598
Virginia Polytechnic Institute and State University		100,800
Virginia Commonwealth University		130,150
Nonmajor Component Units		431,241
Installment Notes		137,788
Subtotal (excluding Foundations)		1,046,182
Foundations:		
Notes Payable		207,295
Installment Notes		227
Subtotal - Foundations		207,522
Total Component Units		1,253,704
Total Notes Payable	$	1,338,734

The Transportation (Primary Government) Note listed above represents an interest free note payable to Fairfax County, Virginia, of $4,325,000 which was issued pursuant to the State Revenue Bond Act, Article 5, Title 33.1, *Code of Virginia* to pay for the acquisition and construction of the Omer L. Hirst - Adelard L. Brault Expressway. This note is to be repaid on December 1, 2008. Additionally, the Virginia Department of Transportation (Primary Government) entered into an interest free note payable to Chesterfield County, Virginia, of $8,000,000 for the repayment of the Powhite Parkway Extension Toll Road from surplus net revenues of the project prior to the retirement of all the bonds issued.

The Virginia Public Broadcasting Board (Primary Government) Note listed above represents a loan agreement entered into with the Harrisonburg Industrial Development Authority for $23,840,000. The purpose of the loan was to grant funds to Virginia's public television stations to assist with the cost of conversion to the Federal Communication Commission's new digital standard. The agreement was entered into February 27, 2001, and has a variable rate of interest. The General Assembly authorized these grants in Chapter 1073 of the 2000 Appropriation Act.

The Aviation Note listed above represents a loan agreement with the Virginia Resources Authority in the amount of $6,600,000. The purpose of the loan was to finance and refinance grants-in-aid made to The Peninsula Airport Commission to provide funding for capital improvements at the Newport News/Williamsburg International Airport. The principal amount shall be paid semi-annually with the final payment due in 2017.

The Virginia Public School Authority (Major Component Unit) notes of $170,385,000 are for the School Equipment Financing Notes Educational Technology program. The note proceeds were used to make grants to school divisions for the purchase of educational technology equipment. The notes will be repaid from appropriations to be made by the Virginia General Assembly from the Literary Fund (Major Special Revenue Fund).

The Virginia Housing Development Authority (Major Component Unit) notes of $7,220,000 are for the Federal Home Loan Bank program. The proceeds along with bond proceeds are used to make mortgage loans.

An additional amount of $730,789,000 is comprised primarily of Higher Education (Component Unit) promissory notes with the Virginia College Building Authority (Nonmajor Component Unit) to finance the construction of various higher education facilities. The principal amount net of unamortized accruals is $722,480,978. Interest rates range from 2.5 percent to 5.7 percent and shall be paid semi-annually. The final principal payment is due in 2035. The Virginia Equine Center (Nonmajor Component Unit) has a note payable in the amount of $24,000 for a Chevrolet Tahoe to be used as a company car. The interest rate is 1.9 percent and the note is due in 2009. The Virginia Biotechnology Research Park Authority has a note payable in the amount of $436,600 used to purchase two pieces of land.

The Higher Education Institutions (Component Units) also have notes payable. The University of Virginia (Major Component Unit) has notes payable of $2,026,216 which are three to five year notes for equipment and other working capital expenses at an interest rate of 3.0 percent to 6.0 percent. The College of William and Mary (Nonmajor Component Unit) has notes payable of $3,453,976 with SunTrust Bank to partially finance the multi-year implementation of a new administrative and financial system. This first note matures in 2008 and has an interest rate of 5.82 percent. The second note has an interest rate of 3.75 percent and matures in 2011. Virginia State University (Nonmajor Component Unit) has a note payable of $2,270,685, which is the result of a loan agreement with the U.S. Department of Housing and Urban Development to repair seven dormitories. The loan is to be repaid over 30 years at 3.0 percent interest per annum, and is secured by a lien on the net revenues from the ownership, operation, and use of the seven dormitories under repair. Norfolk State University (Nonmajor Component Unit) has a note payable of $95,781, which is the result of an agreement with the City of Norfolk to purchase the Brambleton Center. The loan is payable in six full scholarships each year varying from $4,593 to $13,308 with the final amount due in 2019

Various Foundations (Component Units) have notes outstanding as of year-end. The purpose of a majority of these notes is for property acquisition, working capital, and refinancing. Most of these notes are with banks. Future principal payments as of June 30, 2006, are shown in the following table (dollars in thousands).

Foundations' Notes Payable (Component Units) (1)
June 30, 2006

Maturity	Principal
2007	$ 30,010
2008	25,861
2009	25,211
2010	15,003
2011	13,695
Thereafter	97,515
Total	$ 207,295

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.

Installment purchase obligations have been entered into by agencies and institutions of the Commonwealth. These agreements, other than those in the component units and certain institutions of higher education, contain nonappropriation clauses indicating that continuation of the installment purchase obligations is subject to funding by the General Assembly. Installment purchase obligations represent $194,240,009 of the total outstanding debt of the Commonwealth. The Foundations (Component Units) had installment purchase obligations totaling $227,038 as of year-end. Presented in the following tables are repayment schedules for installment purchase obligations.

Installment Purchase Obligations - Governmental Funds
June 30, 2006

Maturity	Principal	Interest	Total
2007	$ 6,720,663	$ 1,463,609	$ 8,184,272
2008	4,062,858	2,293,536	6,356,394
2009	4,795,184	1,617,035	6,412,219
2010	4,935,825	1,276,442	6,212,267
2011	3,785,730	1,096,003	4,881,733
2012-2016	9,496,761	3,050,942	12,547,703
2017-2021	8,493,870	1,369,513	9,863,383
2022-2026	2,834,280	333,805	3,168,085
2027-2031	601,317	227,778	829,095
2032-2036	648,221	202,222	850,443
2037-2041	705,166	174,673	879,839
2042-2046	752,963	144,703	897,666
2047-2051	2,651,813	230,726	2,882,539
Total	$ 50,484,651	$ 13,480,987	$ 63,965,638

Installment Purchase Obligations - Business-type Activities
June 30, 2006

Maturity	Principal	Interest	Total
2007	$ 3,087,566	$ 144,077	$ 3,231,643
2008	1,053,513	78,285	1,131,798
2009	862,006	47,410	909,416
2010	776,891	20,579	797,470
2011	186,944	1,963	188,907
Total	$ 5,966,920	$ 292,314	$ 6,259,234

Installment Purchase Obligations - Component Units (1)
June 30, 2006

Maturity	Principal	Interest	Total
2007	$ 22,473,573	$ 4,852,848	$ 27,326,421
2008	21,679,878	4,159,736	25,839,614
2009	17,406,737	3,940,370	21,347,107
2010	16,877,958	4,218,257	21,096,215
2011	7,808,879	2,286,818	10,095,697
2012-2016	33,757,038	7,118,825	40,875,863
2017-2021	17,378,976	1,933,402	19,312,378
2022-2026	405,399	25,906	431,305
Total	$ 137,788,438	$ 28,536,162	$ 166,324,600

Note (1): The above amounts exclude capital lease obligations of Foundations.

Installment Purchase Obligations - Foundations (2)
June 30, 2006

Maturity	*Principal*
2007	$ 103,986
2008	102,668
2009	20,384
2010	-
Thereafter	-
Total	$ 227,038

Note (2): Foundations represent FASB reporting entities defined in Note 1.B.

Lottery Prizes Payable

Lottery prizes are paid in 20, 25, 26, or 30 installments. The first installment is paid on the day the prize is claimed. The subsequent annual payments are funded with U.S. Treasury STRIPS purchased by the Virginia Lottery. For Life prizes payable represent estimated prizes payable monthly, quarterly or annually for the life of the winner based on life expectancy tables from the Virginia Bureau of Insurance, and funded with a pool of U.S. Treasury STRIPS.

Lottery prizes payable represent the future annual prize payments valued at cost plus accrued interest (present value of securities held to maturity) of the investment securities funding the payments.

Lottery prizes payable for the fiscal year ended June 30, 2006, are shown in the following table:

	Lottery	For Life	Total
Due within one year	$ 56,433,040	$ 2,095,244	$ 58,528,284
Due in subsequent years	260,129,623	27,978,535	288,108,158
Total (present value)	316,562,663	30,073,779	346,636,442
Add:			
Interest to Maturity	100,037,337	26,984,221	127,021,558
Lottery Prizes Payable at Maturity	$ 416,600,000	$ 57,058,000	$ 473,658,000

Tuition Benefits Payable

The Virginia College Savings Plan administers the Virginia Prepaid Education Program (VPEP). VPEP offers contracts which, for actuarially determined amounts, provide for guaranteed full future tuition payments at State higher education institutions. The contract provisions also allow the benefits to be used for private or out-of-state institutions at a prorated amount based upon the amounts charged by the State's higher education institutions.

At June 30, 2006, tuition benefits payable of $1.6 billion have been recorded for the VPEP program on the balance sheet for the actuarially determined present value of future obligations anticipated for payment of benefits and administrative expenses for the VPEP program. In addition, a receivable in the amount of $308.8 million has been recorded to reflect the actuarially determined present value of future payments anticipated from contract holders.

23. OTHER REVENUE

The following table (dollars in thousands) summarizes Other Revenue for the fiscal year ended June 30, 2006.

	Assessments and Receipts for Support of Special Services	Fines, Forfeitures, Court Fees, Penalties, and Escheats	Receipts from Cities Counties, and Towns	Private Gifts, Grants, and Contracts	Sales of Property
Primary Government:					
General	$ 318	$ 140,486	$ 9,999	$ -	$ 5,031
Major Special Revenue Funds:					
Commonwealth Transportation	19,022	9,408	74,649	5,952	3,359
Federal Trust	-	40	-	-	376
Literary	-	61,697	-	-	-
Nonmajor Governmental Funds	83,738	54,950	68,177	9,385	23,263
Nonmajor Enterprise Funds	-	12,592	-	-	-
Private Purpose	-	-	-	-	-
Pension and Other Employee Benefit Trust	-	-	-	-	-
Total Primary Government	$ 103,078	$ 279,173	$ 152,825	$ 15,337	$ 32,029

	Tobacco Master Settlement	Taxes	Other (1)	Smart Tag Revenue	Total Other Revenue (2)
Primary Government:					
General	$ 47,852	$ -	$ 77,110	$ -	$ 280,796
Major Special Revenue Funds:					
Commonwealth Transportation	-	-	48,410	9,723	170,523
Federal Trust	-	-	97,560	-	97,976
Literary	-	-	84,996	-	146,693
Nonmajor Governmental Funds	-	-	112,787	-	352,300
Nonmajor Enterprise Funds	-	12,159	1,853	-	26,604
Private Purpose	-	-	10	-	10
Pension and Other Employee Benefit Trust	-	-	185	-	185
Total Primary Government	$ 47,852	$ 12,159	$ 422,911	$ 9,723	$ 1,075,087

Note (1): $15,638 (dollars in thousands) of the $48,410 (dollars in thousands) Other Revenue recorded for Commonwealth Transportation Fund is for the sale of the Pocahontas Parkway, a one-time transaction.

Note (2): $85,000 (dollars in thousands) of the total amount recorded for the Literary Fund is related to unclaimed property.

24. PRIZES AND CLAIMS

The following table summarizes Prizes and Claims Expense for the fiscal year ended June 30, 2006.

(Dollars in Thousands)

	Insurance Claims	Lottery Prize Expense	Total Prizes and Claims
Proprietary Funds:			
Major Enterprise Funds:			
State Lottery	$ -	$ 759,518	$ 759,518
Unemployment Compensation	338,624	-	338,624
Nonmajor Enterprise Funds	157,179	-	157,179
Total Enterprise Funds	$ 495,803	$ 759,518	$ 1,255,321
Internal Service Funds	$ 800,026	$ -	$ 800,026

25. DEPRECIATION AND AMORTIZATION

The following table summarizes Depreciation and Amortization Expense for the fiscal year ended June 30, 2006.

(Dollars in Thousands)

	Depreciation	Amortization	Total Depreciation and Amortization
Proprietary Funds:			
Major Enterprise Funds:			
State Lottery	$ 4,814	$ -	$ 4,814
Virginia College Savings Plan	52	-	52
Nonmajor Enterprise Funds	14,815	489	15,304
Total Enterprise Funds	$ 19,681	$ 489	$ 20,170
Internal Service Funds	$ 22,162	$ -	$ 22,162

26. OTHER EXPENSES

The following table summarizes Other Expenses for the fiscal year ended June 30, 2006.

(Dollars in Thousands)

	Grants and Distributions to Localities	Expendable Equipment/ Improvements	Other (2)	Total Other Expenses (1)
Proprietary Funds:				
Major Enterprise Funds:				
Virginia College Savings Plan	$ -	$ 71	$ -	$ 71
Nonmajor Enterprise Funds	62	1,860	345	2,267
Total Enterprise Funds	$ 62	$ 1,931	$ 345	$ 2,338
Internal Service Funds	$ 1,337	$ 31,759	$ 14,638	$ 47,734
Private Purpose	$ -	$ -	$ 1,015	$ 1,015
Pension and Other Employee Benefit Trust	-	-	492	492
	$ 1,399	$ 33,690	$ 16,490	$ 51,579

Note (1): Fiduciary expenses of $1,507 (dollars in thousands) are not included in the Government-wide Statement of Activities.
Note (2): $5,640 (dollars in thousands) relates to the purchase of a lease hold interest in the Property Management Internal Service Fund. Additionally, $8,558 (dollars in thousands) can be attributed to expenses related to closing cases in the Risk Management Internal Service Fund.

27. OTHER NON-OPERATING REVENUE/EXPENSES

The following table summarizes Other Non-Operating Revenue/Expenses for the fiscal year ended June 30, 2006.

(Dollars in Thousands)

	Gain (Loss) on Sale of Capital Assets	Expenses for Securities Lending Transactions	Other (1)	Total Other Non-Operating Revenue/ Expenses
Proprietary Funds:				
Major Enterprise Funds:				
State Lottery	$ -	$ (2,029)	$ 507	$ (1,522)
Virginia College Savings Plan	-	(325)	-	(325)
Nonmajor Enterprise Funds	(31)	(1,127)	730	(428)
Total Enterprise Funds	$ (31)	$ (3,481)	$ 1,237	$ (2,275)
Internal Service Funds	$ (262)	$ (1,798)	$ 4,788	$ 2,728

Note (1): $4,588 (dollars in thousands) is related to revenues associated with asset transfers in the Virginia Information Technologies Agency Internal Service Fund.

28. TRANSFERS

The following table summarizes Transfers In and Transfers Out for the fiscal year ended June 30, 2006 (dollars in thousands).

	Transfers In (Reported In):				
Transfers Out (Reported In):	**General**	**Commonwealth Transportation**	**Federal Trust**	**Literary Fund**	**Nonmajor Governmental Funds**
Primary Government					
General	$ -	$ 206,027	$ -	$ -	$ 442,670
Major Special Revenue Funds:					
Commonwealth Transportation	44,862	-	246	-	255,300
Federal Trust	336	4,164	-	-	1,873
Nonmajor Governmental Funds	42,881	1,431	3,094	-	5,382
Major Enterprise Funds:					
State Lottery	454,932	-	-	14,033	-
Virginia College Savings Plan	141	-	-	-	-
Unemployment Compensation	-	-	5,500	-	-
Nonmajor Enterprise Funds	105,144	-	-	16	1,005
Internal Service Funds	656	-	-	-	1,000
Total Primary Government	$ 648,952	$ 211,622	$ 8,840	$ 14,049	$ 707,230

Transfers are used to (1) move revenues from the fund that the *Code of Virginia* or budget requires to collect them to the fund that the *Code of Virginia* or budget requires to expend them; (2) move receipts restricted for debt service from the funds holding the resources to the debt service fund as principal and interest payments become due; (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; and (4) to reimburse the General Fund for expenses incurred on behalf of nongeneral funds.

During the fiscal year, the following significant transfers were made that do not occur on a routine basis or are inconsistent with the activities of the fund making the transfer.

- Various non-general funds transferred approximately $22.3 million to the General Fund as required by Chapter 2, 2006 Acts of Assembly.
- The Department of Motor Vehicles transferred certain fees of approximately $10.2 million to the General Fund as required by Chapter 2, 2006 Acts of Assembly.
- Various non-general funds transferred approximately $9.7 million to the General Fund resulting from reduced retirement and post-employment benefit contribution disbursements appropriated by Chapter 2, 2006 Acts of Assembly.

Nonmajor Enterprise Funds	Internal Service Funds	Total Primary Government
$ -	$ 5,272	$ 653,969
-	283	300,691
34	265	6,672
25	3	52,816
-	-	468,965
-	-	141
-	-	5,500
-	-	106,165
-	-	1,656
$ 59	$ 5,823	$ 1,596,575

29. SPECIAL ITEMS

Pocahontas Parkway Association (Primary Government)

Special items are significant transactions or other events that are either unusual in nature or infrequent in occurrence and within management's control. During the fiscal year, Transurban (895) LLC (Transurban) purchased the assets of the Pocahontas Parkway Association (the Association), primarily the rights and obligations to manage, operate, maintain and collect tolls on the Pocahontas Parkway (Route 895, Richmond region), for a period of 99 years. Transurban paid an amount sufficient to defease all outstanding debts. The transaction generated a gain of $164.2 million that had the effect of reducing the accumulated net asset deficit to zero. As a result of this transaction, the Association will be dissolved during fiscal year 2007.

Small Business Financing Authority (Component Unit)

The General Assembly authorized the transfer of assets from the Small Business Financing Authority (Authority) to the Virginia Community Capital bank. This asset transfer was intended to be a targeted source of lending and investment to facilitate economic growth to distressed communities within the Commonwealth. They transferred the asset in November 2005.

30. ON-BEHALF PAYMENTS

Higher Education Institutions (Component Units) recognized various foundation and association on-behalf payments for fringe benefits and salaries during fiscal year 2006 totaling $1,116,591. This activity was recorded as Program Revenue – Operating Grants and Contributions in the amount of $1,077,841; and Program Revenue – Charges for Services in the amount of $38,750, with corresponding expenditures.

31. ENDOWMENTS

Donor restricted endowments reside primarily within the higher education institutions. The net appreciation available for expenditure is $827,156,746, and of this amount, $825,109,615 is reported as restricted net assets and $2,047,131 is reported as unrestricted net assets. The *Code of Virginia* authorizes acceptance of donations. The governing boards of these entities and the donor agreements determine whether net appreciation can be spent and the accepted spending rate. These policies are entity specific and vary with each institution.

32. CASH FLOWS – ADDITIONAL DETAILED INFORMATION

The following table (dollars in thousands) summarizes specific cash flows for the fiscal year ended June 30, 2006.

	State Lottery	Virginia College Savings Plan	Unemployment Compensation
Cash Flows Resulting from:			
Payments for Prizes, Claims, and Loss Control:			
Lottery Prizes	$ (813,385)	$ -	$ -
Claims and Loss Control	-	-	(335,098)
Total	$ (813,385)	$ -	$ (335,098)
Other Operating Revenues:			
Other Operating Revenue	$ -	$ -	$ -
Total	$ -	$ -	$ -
Other Operating Expenses:			
Payments for Contractual Services	$ (34,678)	$ (3,640)	$ -
Other Operating Expenses (1)	-	-	-
Total	$ (34,678)	$ (3,640)	$ -
Other Noncapital Financing Receipt Activities:			
Advances/Contributions from the Commonwealth	$ 8,000	$ -	$ -
Receipts from Taxes	-	-	-
Other Noncapital Financing Receipt Activities	1,034	-	-
Total	$ 9,034	$ -	$ -
Other Noncapital Financing Disbursement Activities:			
Repayments of Advances/Contributions from the Commonwealth	$ (15,000)	$ -	$ -
Other Noncapital Financing Disbursement Activities	-	-	-
Total	$ (15,000)	$ -	$ -
Other Capital and Related Financing Receipt Activities:			
Other Capital and Related Financing Receipt Activities	$ -	$ -	$ -
Total	$ -	$ -	$ -
Other Capital and Related Financing			
Disbursments for Capital Expenditures	$ -	$ -	$ -
Total	$ -	$ -	$ -

Note (1): $8,558 (dollars in thousands) can be attributed to disbursements related to closing cases in the Risk Management Internal Service Fund.

Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
$ -	$ (813,385)	$ -
(154,497)	(489,595)	(772,205)
$ (154,497)	$ (1,302,980)	$ (772,205)
$ 4,755	$ 4,755	$ 2
$ 4,755	$ 4,755	$ 2
$ (40,330)	$ (78,648)	$ (158,023)
(35)	(35)	(9,297)
$ (40,365)	$ (78,683)	$ (167,320)
$ 39,090	$ 47,090	$ 5,640
133,758	133,758	-
1,156	2,190	165
$ 174,004	$ 183,038	$ 5,805
$ (31,765)	$ (46,765)	$ -
(8,282)	(8,282)	-
$ (40,047)	$ (55,047)	$ -
$ 336	$ 336	$ 298
$ 336	$ 336	$ 298
$ -	$ -	$ (632)
$ -	$ -	$ (632)

33. TOBACCO SETTLEMENT AND SECURITIZATION

On November 23, 1998, 46 states' Attorneys General and the major tobacco companies signed a proposed settlement that reimburses states for smoking-related medical expenses paid through Medicaid and other health care programs. Virginia could receive approximately $4.1 billion over the next 25 years. The settlement was approved in a Consent Decree in December 1998. On March 29, 1999, the General Assembly enacted a law approving the establishment of the Virginia Tobacco Indemnification and Community Revitalization Commission (Commission), in compliance with the Consent Decree, to help communities in Virginia hurt by the decline of tobacco.

The Commission was established for the purposes of determining the appropriate recipients of monies in the Tobacco Indemnification and Community Revitalization Fund. The monies are to be used to provide payments to tobacco farmers as compensation for the tobacco equipment and barns and lost tobacco production opportunities associated with a decline in quota. The monies are also to be used to revitalize tobacco dependent communities.

The General Assembly also created The Virginia Tobacco Settlement Foundation (Foundation). The purpose of the Foundation is to determine the appropriate recipients of monies in the Virginia Tobacco Settlement Fund. The Foundation will also be responsible for distributing monies for the purposes provided in the legislation. Disbursements can be made to assist in financing efforts to restrict the use of tobacco products by minors, through educational and awareness programs describing the health effects of tobacco use on minors, and laws restricting the distribution of tobacco products to minors. The Virginia Tobacco Indemnification and Community Revitalization Commission and the Virginia Tobacco Settlement Foundation are included in the Comprehensive Annual Financial Report as governmental component units.

Additionally, the General Assembly created two special non-reverting funds. The Tobacco Settlement monies will be deposited to these funds and the General Fund. Fifty percent of the Settlement monies will be deposited into the Tobacco Indemnification and Community Revitalization Fund. Ten percent of the Settlement monies will be deposited into the Virginia Tobacco Settlement Fund. The remaining 40 percent will be deposited to the General Fund.

In May 2005, pursuant to a Purchase and Sale Agreement with the Commonwealth, acting as an agent on behalf of the Tobacco Indemnification and Community Revitalization Commission (Commission), the Commonwealth sold to the Tobacco Settlement Financing Corporation (Corporation) 25 percent of its future right, title and interest in the Tobacco Settlement Revenues (TSRs). Specifically, these rights include half of the 50 percent share of the TSRs received by the Commission starting May 15, 2005, and in perpetuity under the Master Settlement Agreement.

Consideration paid by the Corporation to the Commission for TSRs consisted of a cash amount deposited into an endowment to fund the long-term spending plan approved by the Commission. The bonds of the Corporation are asset-backed instruments secured solely by the TSRs, and the Corporation's right to receive TSRs is expected to produce funding for its obligations.

The Commission is a discrete component unit of the Commonwealth and the Corporation is disclosed as a related organization.

34. PUBLIC-PRIVATE PARTNERSHIP

The Department of Taxation (Department) entered into a partnership agreement with CGI AMS (formerly the American Management Systems, Inc. or AMS) in July 1998. The result of this contract is that CGI AMS and Department staff have created a dynamic environment that has made it easier for taxpayers to understand and comply with Virginia's tax requirements. A unique feature of the partnership is that the contract costs are limited to additional revenue benefits realized by the Department from enhancements developed through the partnership. As of June 30, 2004, sufficient revenue benefits were generated to fully fund the total contract cost. As of June 30, 2006, the Department has paid CGI AMS $167.0 million towards the $170.7 million contract cost.

35. CONTINGENCIES

A. Grants and Contracts

The Commonwealth has received Federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable Federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a Federal audit may become a liability of the Commonwealth.

Institutions of higher education (Component Units) and other State agencies are required to comply with various Federal regulations issued by the Office of Management and Budget, if such agencies are recipients of Federal grants, contracts, or other sponsored agreements. Failure to comply with certain requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. It is believed that the ultimate disallowance pertaining to these regulations, if any, will be immaterial to the overall financial condition of the Commonwealth.

The U.S. Department of Health and Human Services (DHHS) Office of the Inspector General conducted a review and indicated that the Commonwealth's Statewide Indirect Cost Allocation Plan rates have allowed over-recoveries in the Internal Service Funds. The U.S. DHHS has reviewed and approved the 2007 cost allocation plan, which is based on state fiscal year 2005 data.

The Commonwealth believes this liability has the potential to total $1,020,519 as of June 30, 2006.

Virginia's combined overpayment and underpayment food stamp error rate for federal fiscal year 2005 was 5.79 percent. The national average combined error rate was 5.84 percent. There is a two year liability system in place, which was effective with Federal fiscal year 2003. Under this system, a liability amount is established when, for the second or subsequent consecutive fiscal year, USDA determines that there is a 95 percent statistical probability that a State's payment error rate exceeds 105 percent of the national performance measure. Virginia fell within this tolerance level for 2005 and therefore 2005 does not count as a first year of potential liability for our state. However, as of June 30, 2006, there is an outstanding liability of $634,033. This liability resulted from a USDA review of reinvestment expenditures made in accordance with reinvestment agreements for federal fiscal years 1994-1996. The Department of Social Services (DSS) has submitted a plan to reinvest in the Food Stamp program and is awaiting USDA's approval.

B. Litigation

The Commonwealth is named as a party in legal proceedings and investigations that occur in the normal course of governmental operations, some involving substantial amounts. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the Commonwealth in respect to the various proceedings; however, it is believed that any ultimate liability resulting from these suits or investigations will not have a material, adverse effect on the financial condition of the Commonwealth.

The Department of Alcoholic Beverage Control (ABC) is named as a party in several legal proceedings. It is not possible at the present time to estimate ultimate outcome or liability, if any, of ABC in respect to the various proceedings; however, it is believed that any ultimate liability resulting from these suits will not have a material, adverse effect on the financial condition of ABC.

C. Subject to Appropriation

Both the primary government and the discretely presented component units enter into agreements and issue debt secured solely by future appropriations from the General Fund of the Commonwealth. The primary government has leases and other agreements of such debt of $1.5 billion. The discretely presented component units have such debt of $694.4 million.

D. Bailment Inventory

The Department of Alcoholic Beverage Control (ABC) houses and controls bailment inventory in the warehouse and is therefore responsible for the exercise of reasonable care to preserve the inventory until it is purchased by ABC or returned to the supplier. ABC uses the bailment system for payment of merchandise for resale. ABC initiates payments to the vendors based on shipments from the ABC warehouse to the retail stores, rather than receipt of invoice from the vendor. At June 30, 2006, the bailment inventory was valued at $32,736,294.

E. Pocahontas Parkway

On June 29, 2006, Transurban (895) LLC (Transurban) purchased the assets of the Pocahontas Parkway Association (the Association), primarily the rights and obligations to manage, operate, maintain and collect tolls on the Pocahontas Parkway (Route 895, Richmond region), for a period of 99 years.

The Amended and Restated Comprehensive Agreement between Virginia Department of Transportation (VDOT) and Transurban (895) LLC (Transurban) provides that VDOT may terminate the agreement at any time after the 40th anniversary of the agreement date when VDOT determines that such action is in the best interests of the Commonwealth.

If VDOT elects to exercise this right, it must repay to Transurban out-of-pocket and allocable costs incurred by Transurban as a direct result of the termination, plus an amount equal to the greater of (1) the fair market value of Transurban's interests as determined by an independent appraiser, taking into account projected cash flows and costs for the remainder of the agreement's term had it not been terminated, or (2) the sum of Transurban's outstanding debt and interest, any prepayment penalties, and an amount that would cause the project to yield a 10.5 percent rate of return as of the termination date.

36. SUBSEQUENT EVENTS

Primary Government

On July 1, 2006, the Virginia Information Technologies Agency (VITA) entered into an Information Technology (IT) Infrastructure Partnership with Northrop Grumman. Under this public-private partnership, Northrop Grumman assumed responsibility for service delivery of the Commonwealth's IT infrastructure needs under the supervision of VITA. As part of the restructuring, approximately 550 VITA employees transferred employment to Northrop Grumman. VITA will make payments to Northrop Grumman totaling $1.9 billion over the next ten fiscal years.

In August 2006, the Virginia Public Building Authority issued $135,000,000 in Public Facilities Revenue Bonds, Series 2006A to finance or refinance the acquisition, construction, improvement, rehabilitation, furnishing, and equipping of various public facilities for use by the Commonwealth and its agencies or the Commonwealth's share of various regional and local jails and juvenile detention facility projects.

In November 2006, the Commonwealth issued \$206,635,000 in General Obligation Bonds, Series 2006B to fund capital projects for educational facilities, parks and recreational facilities of the Commonwealth, and various institutions of higher education.

In November 2006, the Virginia Public Building Authority issued \$215,065,000 in Public Facilities Revenue Bonds, Series 2006B finance or refinance the acquisition, construction, improvement, rehabilitation, furnishing, and equipping of various public facilities for use by the Commonwealth and its agencies or the Commonwealth's share of various regional and local jails and juvenile detention facility projects

Component Units

Subsequent to June 30, 2006, and through August 22, 2006, the Virginia Resource Authority closed three loans totaling \$6,843,401.

Subsequent to June 30, 2006, the Virginia Biotechnology Research Park Authority will undertake the Biotech Eight project through a joint venture with the Virginia Biotechnology Research Partnership Authority and private development interests as a limited liability corporation. The Biotech Eight LLC will be a for-profit development entity that the Virginia Biotechnology Research Park will have a 40 percent equity interest in. The Research Park will contribute land and cash and will also enter into a management agreement for property management and leasing. The private sector partners will arrange for construction and permanent funding of the project, on the strength of their equity contributions and personal guarantees. The total cost of the project is expected to be in excess of \$22 million and the building will be available for occupancy in the second quarter of 2007.

In July 2006, the Virginia Housing Development Authority issued Commonwealth Mortgage Bonds, Series 2006D, 2006E and 2006F totaling \$650,000,000.

In July 2006, the Virginia Museum of Fine Arts Foundation's Real Estate Foundation sold land with a carrying amount of approximately \$1,300,000 for sales proceeds of \$1,300,000.

In September 2006, the Virginia College Building Authority issued \$120,000,000 of its Variable Rate Educational Facilities Revenue Bonds, (21st Century and Equipment Programs), Series 2006B and 2006C. The proceeds of the Series 2006B and 2006C Bonds will be used to finance certain capital projects and acquire equipment at public institutions of higher education in the Commonwealth of Virginia.

In October 2006, the Virginia Housing Development Authority redeemed \$23,665,000 in Commonwealth Mortgage Bonds.

In October 2006, the Virginia Port Authority issued \$90,000,000 of Terminal Revenue Bonds, Series 2006. The proceeds of the bonds will be used to finance certain facilities to be located at Norfolk International Terminals.

In November 2006, the Virginia Public School Authority issued \$240,955,000 of School Financing Bonds (1997 Resolution) Series 2006B to purchase certain general obligation local school bonds to finance capital projects for public schools.

In November 2006, the Virginia College Building Authority issued \$150,700,000 in Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 2006A. These bond proceeds will be used to finance certain capital projects at public institutions of higher education in the Commonwealth of Virginia.