VIRGINIA COLLEGE BUILDING AUTHORITY

FINANCIAL STATEMENTS (UNAUDITED)

FOR THE YEAR ENDING JUNE 30, 2006

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Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

This section of the annual financial report of the Virginia College Building Authority ("the Authority") presents an analysis of the Authority's financial performance during the fiscal year that ended on June 30, 2006. This information should be considered in conjunction with the information contained in the financial statements, which follow this section.

Authority Activities and Highlights

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

Under the Pooled Bond Program, bonds of the Authority are secured by notes of participating institutions of higher education to which the general revenues of the college or university have been pledged. During the year, the Authority issued $116 million of bonds under this Program.

The 21st Century Program and the Equipment Program were established in 1996 and 1986, respectively, and provide financing for state-supported institutions of higher education. The 21st Century Program provides funding for capital projects designated by the General Assembly. The Equipment Program provides funding for educational equipment. Bonds for both programs are payable from amounts to be appropriated by the General Assembly, and are issued together as a single 21st Century College and Equipment Programs offering. During the year, the Authority issued $54 million of bonds under this Program.

The Authority is also authorized to issue conduit revenue bonds and notes to finance educational projects through loans to private, non-profit institutions of higher education within the Commonwealth. Since these financings are not obligations of the Commonwealth, they are not included in these financial statements. However, for informational purposes only, a Schedule of Outstanding Bond Issues for Private Colleges and Universities is included on page 23 of this report.

Overview of the Financial Statements

This discussion and analysis is an introduction to the Authority's basic financial statements, which are comprised of two components: 1) combined government-wide and fund financial statements and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities are two basic financial statements that report information about the Authority as a whole. The data is reported using the accrual basis of accounting, and provides insight as to whether or not the Authority's total financial position has improved as a result of the current year's activities.

The Statement of Net Assets presents all of the Authority's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases and decreases in net assets measure whether the Authority's financial position is improving or deteriorating.

The Statement of Activities presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. receipt or payments on long-term debt obligations).

Both statements report Governmental activities. The financial information in this section is related to Authority programs backed by appropriations from the Commonwealth and by note obligations from institutions of higher education. This includes the Authority's 21st Century College and Equipment Programs and Pooled Bond Program.

Fund Financial Statements

The fund financial statements provide detailed information about the major individual funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Authority uses to keep track of specific sources of funding and spending for a particular purpose.

All of the Authority's activity is reported in Governmental Funds Financial Statements. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental funds financial statements focus on near-term inflows and outflows of spendable resources. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the Authority's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Authority.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are presented in the adjustment column in each of the financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements.

Government-wide Financial Analysis of the Authority

The primary purpose of the Authority is to provide a vehicle for financing capital and equipment needs for state supported institutions of higher education. The Department of the Treasury provides staff support for the Authority. Consequently, the only operating costs are those attributable to its financing programs, which are paid from bond proceeds. The Authority owns no capital assets.

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

	2006	2005
Current assets	$ 210	$ 282
Noncurrent assets	707	619
Total assets	917	901
Current liabilities	279	239
Noncurrent liabilities	1,273	1,194
Total liabilities	1,552	1,433
Net assets:		
Restricted	18	119
Unrestricted	(653)	(651)
Total net assets	$ (635)	$ (532)

Net assets for the Authority decreased by $103 million, or 19%, in fiscal year 2006 as compared to fiscal year 2005. This change is primarily attributable to the 21st Century College and Equipment Program, which comprises the majority of the net assets held by the Authority. During the year, this Program saw an increase in spending as institutions stepped up construction and related reimbursement requests, with total Program expenses climbing to $188 million. Offsetting revenues amounted to only $85 million. Assets held at the end of fiscal year 2005 were disbursed during the year, and since the Authority did not issue any new construction bonds for this Program, the result was a decrease in net assets. The Authority did issue new 21st Century bonds of $53.8 million for the equipment program during the year. These funds did not result in an increase to net assets since they approximately equaled principal payments the authority made during the year on existing outstanding bonds.

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

	2006	2005
Revenues:		
Appropriations from the Commonwealth	$ 81	$ 88
Other revenues	48	40
Total revenues	129	128
Expenditures:		
Interest on long-term debt	73	61
Construction and equipment disbursements	159	131
Total expenditures	232	192
Decrease in net assets	(103)	(64)
Net assets July 1	(532)	(468)
Net assets June 30	$ (635)	$ (532)

Financial Analysis of the Authority’s Funds

The change in net assets on a fund basis did not vary significantly from the government-wide activity presented above. Fund balance declined by $100 million as expenditures outpaced revenues. The majority of this decrease was due to an increase in reimbursements to institutions without a corresponding increase in available resources.

Debt Administration

As a financing entity, the whole business of the Authority is debt administration. The Authority issues bonds to finance capital projects approved by the General Assembly of the Commonwealth of Virginia. Depending on the program, certain bonds are secured by obligations of the recipient institutions of higher education; other bonds are secured by amounts to be appropriated by the General Assembly. The table on page 5 summarizes bond issuance activity during the year under each program.

Summary of Authority Bond Obligations
(in millions)

	21st Century Program - Capital		21st Century Program - Equipment		Pooled Bond Program		Total	
Outstanding, 7/1/05	$	487	$	120	$	632	$	1,239
Issued during year		-		54		116		170
Retired during year		(21)		(33)		(23)		(77)
Outstanding, 6/30/06	$	466	$	141	$	725	$	1,332

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

Virginia College Building Authority Bond Ratings

	Moody's	S&P	Fitch
21st Century College and Equipment Programs	Aa1	AA+	AA+
Pooled Bond Program	Aa1	AA	AA+

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

Future Impact to Financial Position

On September 14, 2006 the Authority sold $120,000,000 of its Variable Rate Educational Facilities Revenue Bonds, (21st Century and Equipment Programs), Series 2006 BC. The proceeds of the Series 2006 BC will be used to finance capital projects and acquire equipment at public institutions of higher education.

In November 2006 the Authority is expected to issue $153,635,000 in Pooled Bonds. These bonds proceeds will be used to purchase institutional notes and the institutions will use the note proceeds to finance various construction projects. The bonds are expected to close on or about November 30, 2006.

Financial Statements

VIRGINIA COLLEGE BUILDING AUTHORITY

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET

As of June 30, 2006

	Special Revenue Fund	Adjustments (Note 1F)	Statement of Net Assets
ASSETS			
Current assets:			
Cash and cash equivalents (Note 2A)	$ 165,707,165	$ 14,015,623	$ 179,722,788
Short-term notes receivable (Note 2B)	-	29,900,000	29,900,000
Interest receivable	754,309	-	754,309
Total current assets	166,461,474	43,915,623	210,377,097
Noncurrent assets:			
Restricted cash and cash equivalents (Note 2A)	296,768	-	296,768
Long-term notes receivable (Note 2B)	-	694,740,000	694,740,000
Discount on bonds	-	172,196	172,196
Restricted interest receivable	674	11,596,845	11,597,519
Total noncurrent assets	297,442	706,509,041	706,806,483
Total assets	$ 166,758,916	750,424,664	917,183,580
LIABILITIES			
Current liabilities:			
Due to higher education institutions (Note 2E)	$ 11,491,006	124,975,495	136,466,501
Allocation payable (Note 2F)	11,615,292	-	11,615,292
Interest payable	-	23,096,154	23,096,154
Bonds payable (net of deferral on debt defeasance) (Notes 2C, 2D)	-	91,766,500	91,766,500
Premium on bonds sold	-	2,302,461	2,302,461
Temporary Loans Payable	-	14,015,623	14,015,623
Accounts payable	-	15,718	15,718
Total current liabilities	23,106,298	256,171,951	279,278,249
Noncurrent liabilities:			
Bonds payable (net of deferral on debt defeasance) (Notes 2C, 2D)	-	1,240,580,500	1,240,580,500
Premium on bonds sold	-	31,944,261	31,944,261
Total noncurrent liabilities	-	1,272,524,761	1,272,524,761
Total liabilities	23,106,298	1,528,696,712	1,551,803,010
FUND BALANCE/NET ASSETS:			
Fund Balance:			
Unreserved	143,652,618	(143,652,618)	-
Total liabilities and fund balance	$ 166,758,916		
Net assets:			
Restricted for construction and equipment purchases		18,270,590	18,270,590
Restricted for debt service		360,043	360,043
Unrestricted		(653,250,063)	(653,250,063)
Total net assets (Note 2G)		$ (634,619,430)	$ (634,619,430)

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

VIRGINIA COLLEGE BUILDING AUTHORITY
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Fiscal Year Ended June 30, 2006

	Special Revenue Fund	Adjustments (Note 1F)	Statement of Activities
REVENUES:			
Interest on investments	$ 9,563,251	$ (4,443,023)	$ 5,120,228
Interest on bonds	29,870,868	13,073,194	42,944,062
Receipt of note principal payments	23,523,275	(23,523,275)	-
Appropriations from the Commonwealth	80,982,722	-	80,982,722
Total revenues	143,940,116	(14,893,104)	129,047,012
EXPENDITURES/EXPENSES:			
Current:			
Legal and financial services	283,162	(205,112)	78,050
Bond rating fees	118,165	(75,115)	43,050
Printing and electronic distributions	14,432	(6,672)	7,760
Equipment allocation	63,442,992	-	63,442,992
Disbursement to higher education institutions	228,963,887	(134,026,188)	94,937,699
Underwriter's discount	223,764	(181,088)	42,676
Miscellaneous	11,135	(9,626)	1,509
Debt service:			
Principal retirement	76,990,000	(76,990,000)	-
Interest and fiscal charges	59,076,755	13,513,255	72,590,010
Total expenditures/expenses	429,124,292	(197,980,546)	231,143,746
Excess (deficiency) of revenues over (under) expenditures	(285,184,176)	-	-
Other financing sources (uses):			
Bond issuance	169,810,000	(169,810,000)	-
Bond premium	8,334,415	(8,334,415)	-
Total other financing sources (uses)	178,144,415	(178,144,415)	-
Excess of revenues and other financing sources over expenditures and other financing uses	(107,039,761)	107,039,761	-
Change in net assets	-	(102,096,734)	(102,096,734)
Fund Balance/Net Assets, July 1, 2005	250,692,379	(783,215,075)	(532,522,696)
Fund Balance/Net Assets, June 30, 2006 (Note 2G)	$ 143,652,618	$ (778,272,048)	$ (634,619,430)

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

Notes to the Financial Statements

VIRGINIA COLLEGE BUILDING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
AS OF JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

Pursuant to the Educational Facilities Authority Act, Chapter 3.3 of Title 23, *Code of Virginia*, the Authority is authorized to issue revenue bonds and notes and to use the proceeds thereof to finance educational facilities projects through loans to private, non-profit institutions of higher education within the Commonwealth. Such financings are not obligations of the Commonwealth, but are limited obligations of the Authority payable solely from loan payments made by the private, non-profit institutions of higher education. This indebtedness, therefore, is not included in the financial statements. Total debt outstanding under this program at June 30, 2006 was $385,105,000. (Detailed information for this program is presented on page 23 in the Supplementary Information section following the Notes to the Financial Statements.)

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

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

B. Measurement Focus and Basis of Accounting

The accompanying financial statements are presented using the accounting principles generally accepted in the United States of America as prescribed by GASB. The government-wide statements use the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when they are earned and expenditures are recognized when the related liability is incurred, regardless of the timing of related cash flows.

The accompanying governmental funds financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available to fund current operations. Expenditures are recognized when the related fund liability is incurred, except for principal and interest on long-term debt which is recognized when due.

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

C. Fund Accounting

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

D. Bond Issuance Costs, Premiums, and Discounts

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

E. Budget to Actual Statement

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

F. Adjustments

The adjustments column represents the recording of bonds payable liabilities on the Statement of Net Assets and the related effect of these transactions on the Statement of Activities. Governmental fund statements do not reflect bonds payable. The non-current portion of bonds payable includes those payments that are not due and payable in the current period.

2. DETAILED NOTES

A. Cash and Cash Equivalents

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

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

Under a Master Indenture of Trust dated December 1, 1996, and under a Master Indenture of Trust dated September 1, 1997, the trustee is authorized to invest in the following investments in addition to those noted above: bonds, notes and other obligations issued or guaranteed by the United States government; bonds, notes and other evidences of indebtedness of any state of the United States of America or any locality of any state of the United States of America that meet the requirements of *Code* Sections 2.2-4500 and 2.2-4501A.3; and investments made pursuant to the Investment of Public Funds and Local Government Investment Pool Act. At June 30, 2006, The Bank of New York, which currently serves as trustee for both Indentures, maintained \$165,894,337 in cash and cash equivalents for the Authority. The Authority also directly held cash equivalents of \$109,596, for a total invested balance of \$166,003,933.

At June 30, 2006, the Authority's investments were held in the Local Government Investment Pool, the State Non-Arbitrage Program^{sm}, and other money market funds. All investments of the Authority are rated AAA by Standard and Poor's. Details of the Authority's investments are presented on the following page.

Summary of Cash and Cash Equivalents
As of June 30, 2006

	Fair Value
Cash and cash equivalents:	
State Non-Arbitrage Program sm (1)	$ 124,989,488
Local Government Investment Pool (2)	40,825,548
Money Market Funds (3)	188,897
Total cash and cash equivalents	$ 166,003,933

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

(2) The Local Government Investment Pool (LGIP) enables governmental entities to maximize their return on investments by providing for a State administered fund where monies can be commingled for investment purposes in order to realize the economies of large-scale investing and professional funds management. The LGIP is not registered with the SEC as an investment company, but maintains a policy to operate in a manner consistent with the SEC's Rule 2a7.

(3) The Authority invests certain short-term cash balances held within its accounts in Federated Auto Government Money Trust. This is an open-ended mutual fund registered under the Investment Company Act of 1940. This fund maintains a policy of investing all their assets in U.S. Treasury obligations and repurchase agreements backed by those obligations.

B. Notes Receivable

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

Year Ending June 30	Principal	Interest	Total
2007	29,900,000	34,177,853	64,077,853
2008	30,595,000	32,882,289	63,477,289
2009	31,765,000	31,509,386	63,274,386
2010	32,735,000	30,064,015	62,799,015
2011	34,235,000	28,493,851	62,728,851
2012 - 2016	194,625,000	114,961,585	309,586,585
2017 - 2021	217,820,000	62,738,349	280,558,349
2022 - 2026	130,755,000	18,995,801	149,750,801
2027 - 2031	16,305,000	2,969,047	19,274,047
2032 - 2036	5,905,000	726,869	6,631,869
Total	$ 724,640,000	$ 357,519,045	$ 1,082,159,045

C. Long-Term Indebtedness

Changes in Long-Term Debt - The following is a summary of changes in long-term debt of the Authority for the year ended June 30, 2006.

Bonds payable at July 1, 2005	$ 1,239,143,500
Bonds issued	169,810,000
Bonds retired	(76,990,000)
Annual Amortization of debt defeasance	383,500
Bonds payable at June 30, 2006	$ 1,332,347,000

Annual Requirements to Amortize Long-Term Debt:

Year Ending June 30	Principal	Interest	Total
2007	$ 92,150,000	$ 62,939,196	$ 155,089,196
2008	87,490,000	59,470,020	146,960,020
2009	83,995,000	55,441,530	139,436,530
2010	78,975,000	51,439,740	130,414,740
2011	71,125,000	47,758,339	118,883,339
2012 - 2016	337,565,000	188,626,152	526,191,152
2017 - 2021	363,490,000	99,093,986	462,583,986
2022 - 2026	199,595,000	25,365,891	224,960,891
2027 - 2031	16,305,000	2,969,047	19,274,047
2032 - 2036	5,905,000	726,868	6,631,868
			-
Deferral on debt defeasance	(4,248,000)		(4,248,000)
Total	$ 1,332,347,000	$ 593,830,770	$ 1,926,177,770

D. Due to Higher Education Institutions

Bonds were issued under the Pooled Bond Program and the proceeds of these bonds were used to purchase institutional notes from various public institutions of higher education. These institutions in turn will use the proceeds of the notes to finance capital projects. Therefore, the unspent portion of the note proceeds still held by the trustee at June 30, 2006 in the Special Revenue Fund is reflected as “due to higher education institutions” in the government-wide statements. Amounts reflected as “due to higher education institutions” in the fund financial statements represent normal year-end payables to institutions as a result of on-going operations.

E. Temporary Loan Payable

During fiscal year 2006, construction bonds for the 21st College and Equipment Program were not issued. The Authority determined that it would be prudent to wait to issue the next series of bonds for this program for a variety of market-related reasons. In order to meet the short-term needs of the Authority until the bonds could be issued, the Authority obtained a temporary loan from the Commonwealth in the amount of $14,015,623. Proceeds from the loan were used to reimburse institutions for expenses incurred in accordance with existing appropriations and allocations. The loan was repaid in its entirety in September 2006 when the 2006 BC 21st Century College and Equipment Programs bonds were sold.

F. Defeasance of Debt

Last fiscal year the Authority, for the first time, had the opportunity to issue refunding bonds to defease outstanding debt for both the 21st Century College Program and the Pooled Bond Program. This refunding has placed the proceeds of the new bonds in irrevocable trusts with escrow agents to provide for all future debt service on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included on the Authority's financial statements.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities," the difference between the reacquisition price and the net carrying amount of the bonds defeased with refunding debt is amortized as a component of Interest on Bonds over the remaining life of the refunded debt. However, the deferral amount for the Pooled Bond Program has been allocated to the participating institutions and is therefore not reflected in the Authority's financial statements. Therefore, Bonds Payable has been reduced by $4,248,000 to reflect the remaining deferral on debt defeasance at June 30, 2006.

The Authority issued two series of refunding bonds in fiscal year 2005. The proceeds of the refunding bonds were placed with an escrow agent to provide for all future debt service on the defeased bonds. Accordingly, the liability for the defeased bonds is not included on the Authority's financial statements.

At June 30, 2006, $163,045,000 of bonds outstanding are considered defeased for financial reporting purposes.

G. Allocation Payable

During fiscal year 2006, the General Assembly appropriated $56,169,843 for the purchase of equipment at public institutions of higher education. The Authority is committed by this appropriation to pay the equipment costs from its cash and investments. Institutions purchased and obtained reimbursement for $15,776,517 in equipment, relating to this appropriation during the fiscal year, leaving $40,393,326 of this allocation outstanding at June 30, 2006. A portion of this allocation payable is presented in the Special Revenue Fund, which represents the amount that is currently due and payable.

In addition, the institutions purchased and obtained reimbursement for $39,512,767 of equipment relating to a prior year's appropriation by the General Assembly.

H. Deficit Net Assets

Generally accepted accounting principles direct that governmental funds recognize revenues in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Under the 21st Century College and Equipment Programs, bonds issued under the Master Indenture of Trust dated December 1, 1996 are secured by General Assembly appropriations through a payment agreement between the Authority and the Treasury Board. Because future appropriations are not considered available and do not constitute a legally binding commitment, the Authority ended the year with a fund deficit of $634,619,430. The General Assembly has never failed to appropriate funds to the Authority for payment of debt service on the Authority's bonds.

I. Subsequent Events

On September 14, 2006 the Authority sold $120,000,000 of its Variable Rate Educational Facilities Revenue Bonds, (21st Century and Equipment Programs), Series 2006BC. The proceeds of the Series 2006BC will be used to finance capital projects and acquire equipment at public institutions of higher education.

In November 2006 the Authority is expected to issue $153,635,000 in Pooled Bonds. These bonds proceeds will be used to purchase institutional notes and the institutions will use the note proceeds to finance various construction projects. The bonds are expected to close on or about November 30, 2006.

J. Risk Management

The Authority is exposed to various risks of loss related to torts; theft or, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Department of Treasury participates in insurance plans maintained by the Commonwealth of Virginia on behalf of the Authority. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The Department of Treasury pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

Supplementary Information

Virginia College Building Authority
Detail of Long-Term Indebtedness
June 30, 2006
(Dollars in Thousands)

Detail of Long-Term Indebtedness by Series

	Dated Date	Bond Program	True Interest Cost ("TIC")	Amount Issued	Institutional Notes Purchased	Outstanding July 1, 2005	Issued (Retired) During Year	Outstanding June 30, 2006 *	Original Maturity
Series 1996	12/01/96	21st Century	5.18%	53,160	-	7,535	(2,375)	5,160	08/01/16
Series 1997A	09/15/97	Pooled	5.05%	55,765	55,765	14,710	(2,520)	12,190	09/01/17
Series 1998	06/01/98	21st Century	4.85%	54,785	-	21,640	(2,415)	19,225	08/01/17
Series 1998A	10/01/98	Pooled	4.56%	50,735	50,735	33,170	(2,280)	30,890	09/01/18
Series 1999	06/01/99	21st Century/Equip.	4.44%	59,495	-	14,230	(755)	13,475	02/01/19
Series 1999A	10/15/99	Pooled	5.62%	71,200	71,200	14,940	(2,705)	12,235	09/01/19
Series 2000	06/01/00	21st Century/Equip.	5.49%	60,900	-	2,340	(540)	1,800	02/01/20
Series 2000A	11/01/00	Pooled	5.17%	83,010	83,010	48,775	(2,980)	45,795	09/01/20
Series 2001	05/01/01	21st Century/Equip.	4.40%	65,795	-	15,845	(700)	15,145	02/01/21
Series 2001A	10/01/01	Pooled	4.51%	69,365	69,365	61,005	(3,775)	57,230	09/01/26
Series 2002	05/15/02	21st Century/Equip.	4.55%	130,795	-	95,110	(12,960)	82,150	02/01/22
Series 2002A	10/15/02	Pooled	4.60%	134,945	134,945	129,225	(4,450)	124,775	09/01/27
Series 2003A	05/15/03	21st Century/Equip.	3.66%	140,250	-	120,135	(9,875)	110,260	02/01/23
Series 2003A	11/01/03	Pooled	4.22%	115,715	115,715	114,230	(2,825)	111,405	09/01/30
Series 2004A	07/01/04	21st Century/Equip.	4.13%	172,745	-	158,670	(11,285)	147,385	02/01/24
Series 2004A	10/01/04	Pooled	4.25%	112,935	112,935	112,935	(1,010)	111,925	09/01/35
Series 2004B Refunding	10/01/04	Pooled	3.75%	103,205	103,205	103,205	(985)	102,220	09/01/19
Series 2004B Refunding	12/01/04	21st Century	4.06%	61,395	-	60,290	(55)	60,235	02/01/20
Series 2005A	05/15/05	21st Century/Equip.	3.79%	115,785	-	115,785	(12,500)	103,285	02/01/25
Series 2005A	11/03/05	Pooled	4.27%	115,975	115,975	-	115,975	115,975	09/01/16
Series 2006A	05/15/06	21st Century/Equip.	3.72%	53,835	-	-	53,835	53,835	02/01/11
Total				$ 1,881,790	$ 912,850	$ 1,243,775	$ 92,820	$ 1,336,595	

Detail of Long-Term Indebtedness by Program

	Amount Issued	Institutional Notes Purchased	Outstanding July 1, 2005	Issued (Retired) During Year	Outstanding June 30, 2006 *
21st Century College Program	$ 612,320	$ -	$ 491,015	$ (20,560)	$ 470,455
Pooled Bond Program	912,850	912,850	632,195	92,445	724,640
Equipment Program	356,620	-	120,565	20,935	141,500
Total	$ 1,881,790	$ 912,850	$ 1,243,775	$ 92,820	$ 1,336,595

* Excludes deferral on debt defeasance

Virginia College Building Authority
Schedule of Outstanding Bond Issues for Private Colleges and Universities
June 30, 2006
(Dollars in Thousands)

College/University	Series	Dated Date	Yield (a)	Amount Originally Issued	Amount of Notes Purchased	Outstanding July 1, 2005	Issued (Retired) During Year	Outstanding June 30, 2006	Original Final Maturity
Hampden-Sydney College	1998	04/01/98	5.08%	13,340	13,340	10,595	(635)	9,960	09/01/18
Hampton University	1998	12/01/98	4.55%	10,745	10,745	7,065	(890)	6,175	04/01/18
	2000	02/15/00	5.90%	21,500	21,500	4,455	(800)	3,655	04/01/20
	2003	04/16/03	3.64%	16,670	16,670	14,140	(1,360)	12,780	04/01/14
	2005	04/29/05	4.16%	24,500	24,500	24,500	(195)	24,305	04/01/20
Marymount University	1998	11/01/98	5.08%	26,015	26,015	23,355	(820)	22,535	07/01/28
Randolph Macon College	1998	04/01/98	4.59%	9,830	9,830	9,830	-	9,830	03/01/13
Regent University	2001	06/15/01	5.38%	65,170	65,170	65,170	-	65,170	10/01/31
Roanoke College	1992	10/15/92	6.67%	5,190	5,190	-	-	-	10/15/12
Shenandoah University	2002	05/23/02	VAR	17,445	17,445	17,445	(285)	17,160	05/01/32
University of Richmond	1994	06/01/94	VAR	17,000	17,000	-	-	-	11/01/19
	1996	08/07/96	VAR	22,500	22,500	22,500	-	22,500	11/01/26
	1999	11/01/99	VAR	15,400	15,400	15,400	-	15,400	11/01/22
	2002A	03/01/02	4.47%	22,170	22,170	22,170	-	22,170	03/01/32
	2002B	08/01/02	4.47%	7,445	7,445	7,445	-	7,445	03/01/32
	2004A	08/01/04	VAR	46,000	46,000	46,000	-	46,000	08/01/34
Washington & Lee University	1994	06/01/94	5.97%	40,500	40,500	5,305	(490)	4,815	01/01/24
	1998	04/01/98	5.09%	52,205	52,205	52,205	-	52,205	01/01/31
	2001	06/01/01	5.35%	43,000	43,000	43,000	-	43,000	01/01/34
				$ 476,625	$ 476,625	$ 390,580	$ (5,475)	$ 385,105	

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

VIRGINIA COLLEGE BUILDING AUTHORITY
Richmond, Virginia

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