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# Notes to the Financial Statements

June 30, 2007

## 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* (GASB Statement 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 (part of Primary Government) because it is fiscally dependent on the primary government and provides services entirely to the benefit of the Commonwealth. On June 29, 2006, Transurban LLC purchased the assets of the Association, primarily the rights and obligations to manage, operate, maintain and collect tolls on the Pocahontas Parkway (Route 895) for a period of 99 years. The Association was formally dissolved and terminated by the State Corporation Commission on July 26, 2006. The only transaction related to the Association shown in the financial statements for 2007 is the transfer of its remaining cash of \$877,879 to Transurban LLC.

**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.

GASB Statement 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. 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. Institutions reported Operating Appropriations from the Primary Government of approximately \$1.79 billion and reported Program Revenue – Capital Grants and Contributions of approximately \$761.5 million from the primary government. 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, the Southern Virginia Higher Education Center, and the New College Institute 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 previously noted, 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 the Roanoke Higher Education Authority, the Institute for Advanced Learning and Research, and the 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 political and corporate powers by the *Code of Virginia*. The Governor appoints a majority of the Authority's Board members and the remaining 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 (part of 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 900 South Main Street, Blacksburg, Virginia 24060. 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 1111 East Main Street, Suite 1920, Richmond, Virginia 23219. PBGH, 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 Foundation, 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 Partnership 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 (part of Primary Government) and the Virginia School for the Deaf, Blind and Multi-Disabled at Hampton (part of 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 (part of 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.

**Belmont Bay Science Center Foundation** (Nonmajor) – The Foundation is a non-stock, nonprofit corporation formed under the *Code of Virginia* for the purpose of implementing and funding those programs, projects and operations to educate the students about science that are authorized and approved by the Trustees of the Science Museum of Virginia. Resources for the Foundation's activities are primarily provided by charitable contributions and investment income. The administrative offices of the Foundation are located at 2500 West Broad Street, Richmond, Virginia 23220. Cherry, Bekaert, & Holland, LLP, audits the Foundation, and a separate report is issued.

**Danville Science Center, Inc.** (Nonmajor) – The Foundation is nonprofit corporation formed for the purpose of implementing and funding those programs, projects and operations which are authorized and approved by the Trustees of the Science Museum of Virginia. The administrative offices of the Foundation are located at 677 Craghead Street, Danville, Virginia 24541. Goodman and Company, 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 (part of 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 Horse Center Foundation** (Nonmajor) – Prior to February 16, 2007, the Virginia Horse Center (Center) was operated by the Virginia Equine Center Foundation. Due to legislative changes, the Virginia Equine Center Foundation was abolished, and all assets and liabilities were transferred to the Virginia Horse Center Foundation (Foundation). As of February 16, 2007, the Foundation operates the Center for the benefit of the equine and tourism industries. The

Foundation remains a discrete component unit of the Commonwealth due to the limited ability of the Foundation to incur additional debt without the Commonwealth's approval. In addition, the Governor appoints one member of the Foundation's Board of Directors, and this member must approve any changes to the Foundation's by-laws or conveyance of property. The address for the administrative offices of the Foundation is 487 Maury River Road, Lexington, Virginia 24450. The accounting firm of Raetz and Hawkins, P.C., audits the Foundation, and a separate report is issued.

**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) (part of 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 ceased operations. All residual assets were distributed in fiscal year 2007.

**Assistive Technology Loan Fund Authority** (Nonmajor) – 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 107, Richmond, Virginia 23229. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

**Virginia National Defense Industrial Authority** (Nonmajor) – The Authority was created as a public body corporate and as a political subdivision of the Commonwealth. The Authority fosters and promotes business, technology, transportation, education, economic development and other efforts in support of the mission, execution, and transformation of the United States military and national defense activities located in the Commonwealth. The Governor appoints a majority of the 16 member board, 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 Coalfield Coalition Authority** (Nonmajor) – The Authority was created as a body corporate and as a political subdivision of the Commonwealth. Its goals are to build a diverse, prosperous, self-reliant and globally competitive economy in Virginia's coalfield region through regional cooperation. The Governor appoints the 11-member Board as directed by the *Code of Virginia*. The administrative offices of the Authority are located at Post Office Box 548, Lebanon, Virginia 24266. The Authority is audited by Bostic, Tucker and Company, P.C., and a separate report is available.

**Virginia Land Conservation Foundation** (Nonmajor) – The Foundation was created as a body politic and corporate to serve the Department of Conservation and Recreation (part of 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 (part of 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 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. The administrative offices of the Foundation are located at 800 East Broad Street, Richmond,

Virginia 23219. 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 State-supported colleges and universities reported revenue from the Authority of \$95.7 million as Program Revenue Capital Grants and Contributions for the 21<sup>st</sup> Century Program and \$71.9 million as Program Revenue Operating Grants and Contributions for equipment. 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 \$471.7 million, is not included in the financial statements.

- (4) **Related Organizations** – Organizations for which the 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 all of the future tobacco settlement revenue allocated to the Tobacco Indemnification and Community Revitalization Commission, a discrete component unit of the Commonwealth. Neither the Commonwealth's nor the Virginia Tobacco Settlement Foundation's (Component Unit) tobacco revenue was securitized. The administrative offices of the Corporation are located at 101 N. 14th Street, 3rd Floor P.O. Box 1879 Richmond, Virginia 23218-1879. PBGH, LLP audited the Authority, 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.

**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, LLP, 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, and 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 Virginia Port Authority (Nonmajor Component Unit), the A. L. Philpott Manufacturing Extension Partnership (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 Virginia Port Authority (Nonmajor Component Unit), the A. L. Philpott Manufacturing Extension Partnership (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, 2006. Significant intrafund activity/balances between each higher education institution and their foundations have been eliminated. However, Old Dominion University (Nonmajor Component Unit) reported the following intrafund balances that could not be eliminated because of differing year-ends: institution assets of \$74.1 million and liabilities of

\$75.0 million, and foundation assets of \$59.0 million and liabilities of \$75.6 million.

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, the Prescription Monitoring 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 and Schedules 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, 2007, the General Fund had a negative cash balance of \$5.0 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.

Inventories maintained by the Department of Alcoholic Beverage Control (Nonmajor Enterprise Fund) are stated at average cost using FIFO.

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 Horse 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 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:

	<u>Years</u>
Buildings	10-75
Equipment	2-50
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 21).

**P. Unearned and Deferred Revenue**

Unearned revenue represents monies received or revenues accrued but not earned as of June 30, 2007. 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, 2007. In the Special

Revenue Funds, unearned revenue is composed primarily of a settlement from an OxyContin lawsuit in Special Revenue – Other. 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 2007. 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 \$668,994,200 and estimated underpayments total \$425,692,386. This results in deferred taxes of \$243,301,814.

Corporate income tax estimated overpayments total \$12,746,923 and estimated underpayments total \$55,924,315. 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 22).

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. For fiscal year 2007, the Primary Government's agencies did not participate in short-term borrowings with external parties.

Higher Education Institutions' Foundations (Component Units) have short-term debt outstanding as of year-end that amount to approximately \$40.9 million. Also, the University of Virginia (Major Component Unit) reports \$64.2 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, 2007. 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 Notes 20.A. and 20.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 23).

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 23).

**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, 2008. 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 the movement of resources between funds. For example, transfers are recorded when a fund receives revenue and subsequently disburses the resources to another fund for expenditure.

## 2. RESTATEMENT OF BEGINNING BALANCES

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

- Governmental Activities have been restated for the following: a correction of prior year errors regarding the understatement of capital assets of \$138.2 million due primarily to an unrecorded asset and changes in accounting principle related to Other Liabilities (taxes) and amounts “due to” higher education institutions component units. These changes resulted in a liability overstatement of \$151.7 million and a liability understatement of \$97.7 million, respectively (see Note 31).
- 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 the following changes in accounting principle. The first change related to an estimate of deferred taxes that resulted in an overstatement of liabilities by \$132.0 million. The second change related to amounts “due to” higher education institution component units that resulted in an understatement of liabilities by \$11.6 million (see Note 31).
- The Nonmajor Special Revenue funds were restated due to a change in reporting classification. Due to the significant dollar amount in the fund, a new Special Revenue Classification – Special Revenue – Water Quality Improvement Fund is now reported separately.
- The Nonmajor Capital Project Funds were restated for a change in accounting principle for amounts “due to” higher education institutions component units related to the Department of Treasury’s reimbursement programs (see Note 31).

- The University of Virginia amount has been restated due to a procedural error related to the one-time change in the Commonwealth’s payroll accrual process during fiscal year 2006. The University did not properly accrue corresponding revenue, thereby creating a mismatch between accrued revenues and expenses, resulting in an overstatement of revenues for the prior year of approximately \$10.1 million. A foundation overstated a pension liability by approximately \$0.9 million. In addition, a foundation had a change in reporting by realizing a revocable trust is a component unit of the foundation. This resulted in a beginning net asset increase of approximately \$3.2 million. The remaining change in accounting principle is described in the next paragraph.
- The University of Virginia, Virginia Polytechnic Institute and State University, Virginia Commonwealth University, and the Nonmajor Higher Education Institution amounts have been restated for a change in accounting principle for amounts “due from” the General Fund related to the institutions’ General Fund appropriation available amounts and amounts “due from” the Capital Project Funds (Nonmajor) and the Virginia College Building Authority (Nonmajor Component Unit) related to the Department of Treasury’s reimbursement programs (see Note 31).
- Agency Funds have been restated to correct a prior year error regarding the understatement of amounts due from other funds.

**Beginning Balance Restatement**

*(Dollars in Thousands)*

	<u>Balance as of June 30, 2006</u>	<u>Correction of Prior Year Errors</u>	<u>Change in Reporting</u>	<u>Change in Accounting Principle</u>	<u>Balance June 30, 2006 as restated</u>
<b>Government-wide Activities:</b>					
Primary Government:					
Governmental Activities	\$ 16,098,634	\$ 138,221	\$ -	\$ 54,015	\$ 16,290,870
Business-type Activities	839,858	-	-	-	839,858
Total Primary Government	<u>\$ 16,938,492</u>	<u>\$ 138,221</u>	<u>\$ -</u>	<u>\$ 54,015</u>	<u>\$ 17,130,728</u>
Component Units	<u>\$ 15,569,134</u>	<u>\$ (9,239)</u>	<u>\$ 3,181</u>	<u>\$ 97,675</u>	<u>\$ 15,660,751</u>
<b>Major Governmental Funds:</b>					
General	\$ 2,135,487	\$ -	\$ -	\$ 120,388	\$ 2,255,875
Special Revenue Funds:					
Commonwealth Transportation	1,831,378	-	-	-	1,831,378
Federal Trust	49,687	-	-	-	49,687
Literary	300,921	-	-	-	300,921
<b>Nonmajor Governmental Funds:</b>					
Special Revenue Funds:					
Health and Social Services Fund	160,838	-	-	-	160,838
Water Quality Improvement Fund	-	-	166,376	-	166,376
Other Special Revenue Fund	646,760	-	(166,376)	-	480,384
Total Special Revenue	<u>807,598</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>807,598</u>
Debt Service Funds:					
Primary Government	94,265	-	-	-	94,265
Virginia Public Building Authority	164	-	-	-	164
Total Debt Service	<u>94,429</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>94,429</u>
Capital Project Funds:					
Primary Government	60,589	-	-	(6,860)	53,729
Virginia Public Building Authority	(76,662)	-	-	(99)	(76,761)
Total Capital Projects	<u>(16,073)</u>	<u>-</u>	<u>-</u>	<u>(6,959)</u>	<u>(23,032)</u>
Permanent Funds:					
Commonwealth Health Research Fund	29,342	-	-	-	29,342
Mental Health Endowment Funds	248	-	-	-	248
Total Permanent Funds	<u>29,590</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,590</u>
<b>Total Nonmajor Governmental Funds</b>	<u>915,544</u>	<u>-</u>	<u>-</u>	<u>(6,959)</u>	<u>908,585</u>
<b>Total Governmental Funds</b>	<u>\$ 5,233,017</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 113,429</u>	<u>\$ 5,346,446</u>

**Beginning Balance Restatement  
Component Units**

(Dollars in Thousands)

	Balance as of June 30, 2006	Correction of Prior Year Errors	Change in Reporting	Change in Accounting Principle	Balance June 30, 2006 as restated
<b>Major Component Units</b>					
Virginia Housing Development Authority	\$ 1,815,254	\$ -	\$ -	\$ -	\$ 1,815,254
Virginia Public School Authority	8,283	-	-	-	8,283
University of Virginia	5,393,729	(9,239)	3,181	5,395	5,393,066
Virginia Polytechnic Institute and State University	1,235,261	-	-	7,345	1,242,606
Virginia Commonwealth University	1,355,991	-	-	1,656	1,357,647
<b>Nonmajor Component Units</b>					
Virginia Economic Development Partnership	749	-	-	-	749
Virginia Outdoors Foundation	12,366	-	-	-	12,366
Virginia Port Authority	366,365	-	-	-	366,365
Virginia Resources Authority	1,041,878	-	-	-	1,041,878
Virginia Tourism Authority	1,544	-	-	-	1,544
Virginia Tobacco Settlement Foundation	6,460	-	-	-	6,460
Tobacco Indemnification and Community Revitalization Commission	437,051	-	-	-	437,051
Hampton Roads Sanitation District Commission	362,771	-	-	-	362,771
Virginia Biotechnology Research Park Authority	11,707	-	-	-	11,707
Virginia Small Business Financing Authority	23,446	-	-	-	23,446
Virginia Schools for the Deaf and Blind Foundation	2,797	-	-	-	2,797
Science Museum of Virginia Foundation	14,428	-	-	-	14,428
Virginia Museum of Fine Arts Foundation	209,460	-	-	-	209,460
A. L. Philpott Manufacturing Extension Partnership	1,887	-	-	-	1,887
Virginia Horse Center Foundation	1,336	-	-	-	1,336
Certified Nursing Facility Education Initiative	15	-	-	-	15
Assistive Technology Loan Fund Authority	11,690	-	-	-	11,690
Virginia Land Conservation Foundation	12,722	-	-	-	12,722
Virginia Arts Foundation	437	-	-	-	437
Library of Virginia Foundation	4,713	-	-	-	4,713
College of William and Mary	842,427	-	-	5,905	848,332
Virginia Military Institute	434,361	-	-	11,267	445,628
Virginia State University	107,012	-	-	7,440	114,452
Norfolk State University	95,501	-	-	1,927	97,428
University of Mary Washington	132,260	-	-	7,560	139,820
James Madison University	382,948	-	-	721	383,669
Radford University	183,428	-	-	3,457	186,885
Old Dominion University	370,965	-	-	6,313	377,278
George Mason University	391,509	-	-	5,404	396,913
Virginia Community College System	586,903	-	-	30,679	617,582
Christopher Newport University	148,084	-	-	1,912	149,996
Longwood University	171,672	-	-	2,048	173,720
Southwest Virginia Higher Education Center	9,766	-	-	48	9,814
Roanoke Higher Education Authority	15,783	-	-	-	15,783
Innovative Technology Authority	23,668	-	-	-	23,668
Institute for Advanced Learning and Research	7,565	-	-	-	7,565
Southern Virginia Higher Education Center	211	-	-	76	287
Virginia College Building Authority	(667,269)	-	-	(1,478)	(668,747)
<b>Total Nonmajor Component Units</b>	<b>5,760,616</b>	<b>-</b>	<b>-</b>	<b>83,279</b>	<b>5,843,895</b>
<b>Total Component Units</b>	<b>\$ 15,569,134</b>	<b>\$ (9,239)</b>	<b>\$ 3,181</b>	<b>\$ 97,675</b>	<b>\$ 15,660,751</b>

**Beginning Balance Restatement  
Agency Funds**

*(Dollars in Thousands)*

	<b>Balance as of July 1, 2006</b>	<b>Correction of Prior Year Error</b>	<b>Balance as of July 1, 2006, as restated</b>
<b>Agency Funds</b>			
Funds for the Collection of Taxes and Fees	\$ 244,596	\$ -	\$ 244,596
Employee Benefits Fund	4,739	-	4,739
Contractor Deposits Fund	33,057	-	33,057
Deposits of Insurance Carriers Fund	400,451	-	400,451
Inmate and Ward Fund	7,075	-	7,075
Child Support Collections Fund	14,275	8,000	22,275
Mental Health Patient Trust Fund	2,396	-	2,396
Mental Health Non-patient Trust Fund	20	-	20
Comptroller's Debt Setoff Fund	945	-	945
Unclaimed Property of Other States	4,560	-	4,560
Legal Settlement Fund	1,035	-	1,035
Consumer Services Fund	846	-	846
Department of State Police Fund	874	-	874
Aviation Fund	107	-	107
Virginia School for the Deaf and Blind Fund	29	-	29
Woodrow Wilson Rehabilitation Center Fund	21	-	21
Dog and Cat Sterilization Fund	2	-	2
Commuter Rail Fund	13,716	-	13,716
Environmental Quality Fund	546	-	546
<b>Total Agency Funds</b>	<b>\$ 729,290</b>	<b>\$ 8,000</b>	<b>\$ 737,290</b>

**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 \$2.9 million and \$8.4 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 Library of Virginia (Nonmajor Enterprise Fund) ended the year with a deficit net assets balance of \$213,712. 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 \$5.4 million. This deficit was the result of the purchase of a leasehold interest in a state-owned building in fiscal year 2006.

The Risk Management Fund (Internal Service Fund) ended the year with a deficit net assets balance of

\$222.1 million. The deficit was the result of the Worker's Compensation Program having 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 \$23.3 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 2008 when additional bonds are issued.

The Virginia College Building Authority (Nonmajor Component Unit) ended the year with a deficit net asset balance of \$764.4 million. This deficit occurs because the Authority issues bonds for the 21st Century College and Equipment programs 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, 2007, due to the effects of a Department of Taxation system interface application change.

**Reservations and Designations of Fund Balance  
General Fund, Basis of Budgeting  
June 30, 2007**

*(Dollars in Thousands)*

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Reserved Fund Balance:		
Revenue Stabilization Reserve Fund	\$ 1,189,834	
Revenue Stabilization Reserve 2006	114,845	
Payroll Reserve for July 1, 2007 Payroll	87,249	
Unexpended Lottery Proceeds	28,600	
Total Reserved Fund Balance		1,420,528
Unreserved Fund Balance:		
Designated:		
Amount Required for Reappropriation of 2007		
Unexpended Balances for Capital Outlay	854,650	
Natural Disaster Sum Sufficient	29,225	
Amount Required by Chapter 847	111,256	
Amount Required for Mandatory Appropriation		
2007 Transportation Initiative	500,000	
2007 Unexpended Balances	39,442	
Total Designated Fund Balance		1,534,573
Fund Balance, June 30, 2007		\$ 2,955,101

**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. The General Assembly has appropriated \$184.3 million for deposit into the Fund during fiscal year 2008. The *Constitution of Virginia* also stipulates that deposits cannot be made in excess of the maximum fund limit certified by the Auditor of Public Accounts, the amount reserved for deposit was limited to \$114.8 million.

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 deposit including all revenue increases from tax reform is \$21.3 million, and the calculated deposit excluding all revenue increases from tax reform (including those derived from estimates) is \$75.2 million. The Department of Planning and Budget has identified \$21.3

million for deposit into the Fund during fiscal year 2009. Sufficient cash is not available to designate this amount.

Section 2.2-1829(b) of the *Code of Virginia* requires an additional deposit into the Fund when specific criteria have been met. No such designation is required since the specified criteria were not met for fiscal year 2007.

The Revenue Stabilization Fund has principal and interest on deposit of \$1.2 billion reserved as a part of General Fund balance which equals the maximum amount allowed for fiscal year 2007. 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 \$1.2 billion and \$1.3 billion for fiscal year 2007 and fiscal year 2008, respectively.

## 6. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2007, the carrying amount of cash for the primary government was \$3,889,579,805 and the bank balance was \$249,352,345. The carrying amount of cash for the component units was \$1,288,463,881 and the bank balance was \$389,996,567. Cash equivalents are investments with an original maturity of 90 days or less. Cash and cash equivalents for Foundations (Component Units) totaled \$403,818,365 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 in the Interest Rate Risk section of 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 public funds in the following:

- U.S. Treasury and agency securities
- Corporate debt securities
- 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, corporate or private label mortgage-backed securities, and asset-backed securities 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) (part of 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's securities lending program are found in the securities lending section of this note.

As of June 30, 2007, the primary government had \$628,624,349 of cash equivalents and investments that were exposed to custodial risk as uninsured and uncollateralized. The VRS had \$628,200,000 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 \$356,075,000 and U.S. Treasury and Agency Securities represented \$138,245,000 of the total. The remainder was for various types of debt and equity securities. The component units had \$51,627,212 of cash equivalents and investments that were exposed to custodial risk as uninsured and uncollateralized. U.S. Treasury and Agency securities represented \$23,783,931 and Repurchase Agreements represented \$9,918,554 of the total and the remainder was for various types of debt and equity securities.

As of June 30, 2007, the investments of the Pension and Other Employee Benefit Trust Funds were approximately 61 percent of the primary government investments, and 99.9 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's guidelines limit the following maximum durations for any single security of the following investment types:

<u>Security Type</u>	<u>Maximum Duration</u>
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's 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, 2007, the Commonwealth had the following investments and maturities:

**Primary Government Investments**  
(Dollars in Thousands)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
<u>Debt Securities</u>					
U. S. Treasury and Agency Securities	\$ 1,404,932	\$ 220,095	\$ 794,187	\$ 240,789	\$ 149,861
Corporate Notes	5,364,812	2,027,876	2,375,107	711,488	250,341
Corporate Bonds	6,342,398	3,971,465	1,754,208	371,791	244,934
Commercial Paper	5,187,801	5,187,801	-	-	-
Negotiable Certificates of Deposit	3,438,096	3,438,092	4	-	-
Non-negotiable Certificates of Deposit	60,476	60,074	402	-	-
Repurchase Agreements	3,166,562	3,166,562	-	-	-
Municipal Securities	84,744	8,349	29,244	14,715	32,436
Asset Backed Securities	2,681,600	1,169,799	616,479	244,384	650,938
Agency Mortgage Backed	4,014,174	53,207	1,811,188	1,681,550	468,229
Mutual and Money Market Funds (Includes SNAP)	410,746	410,630	116	-	-
The Boston Company Pooled Employee Trust Fund	394,867	394,867	-	-	-
Guaranteed Investment Contracts	305,822	-	305,822	-	-
Fixed Income and Commingled Funds	1,281,158	-	1,168,544	112,614	-
Deposits with the U.S. Treasury for Unemployment Compensation	822,001	822,001	-	-	-
Investments held by broker-dealers under securities loans					
U. S. Government and Agency Securities	2,535,966	79,303	1,437,158	700,208	319,297
Corporate Notes	266,341	91,075	92,056	72,856	10,354
Corporate Bonds	212,083	72,464	75,255	19,969	44,395
Other	1,298,974	513,961	401,424	267,106	116,483
<b>Total</b>	<b>\$ 39,273,553</b>	<b>\$ 21,687,621</b>	<b>\$ 10,861,194</b>	<b>\$ 4,437,470</b>	<b>\$ 2,287,268</b>

**Component Unit Investments**  
(Dollars in Thousands)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
<u>Debt Securities</u>					
U. S. Treasury and Agency Securities	\$ 201,925	\$ 163,678	\$ 19,853	\$ 12,173	\$ 6,221
Corporate Notes	82,925	14,140	13,709	5,363	49,713
Corporate Bonds	307,411	168,047	127,388	3,498	8,478
Commercial Paper	806,484	806,484	-	-	-
Negotiable Certificates of Deposit	7,366	7,366	-	-	-
Non-negotiable Certificates of Deposit	43,015	43,015	-	-	-
Repurchase Agreements	116,412	116,412	-	-	-
Municipal Securities	3,200,655	26,386	99,448	90,224	2,984,597
Asset Backed Securities	313,297	3,111	16,538	4,050	289,598
Agency Mortgage Backed	72,551	10,778	4,052	9,218	48,503
Mutual and Money Market Funds (Includes SNAP)	870,903	829,140	14,509	25,256	1,998
Guaranteed Investment Contracts	519,624	-	251,958	-	267,666
Fixed Income and Commingled Funds	14,373	8,750	5,623	-	-
Other	53,201	668	2,059	25,029	25,445
<b>Total</b>	<b>\$ 6,610,142</b>	<b>\$ 2,197,975</b>	<b>\$ 555,137</b>	<b>\$ 174,811</b>	<b>\$ 3,682,219</b>

**Foundation Investments**  
(Dollars in Thousands)

<u>Investment Type</u>	<u>Fair Value</u>
U.S. Treasury and Agency Securities	\$ 790,811
Common & Preferred Stocks	2,658,978
Corporate Notes	21,491
Corporate Bonds	82,724
Commercial Paper	6,963
Negotiable Certificates of Deposit	25,149
Municipal Securities	430,606
Asset Backed Securities	1,464
Agency Mortgage Backed	4,683
Mutual and Money Market Funds	874,139
Bankers' Acceptance	247
Real Estate	294,682
Index Funds	64,927
Hedge Funds	2,058,856
Investment in Grantor Trust	357,914
Partnerships and Other Joint Ventures	192,619
Others	353,522
<b>Total</b>	<b>\$ 8,219,775</b>

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 percent of their portfolio in Baa2/BBB rated bonds which, at a minimum, must be rated Baa2/BBB by two nationally recognized rating agencies (one of which must be either Moody's or S&P). In addition, all such 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, 2007. 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 74.99 percent of the total debt securities, 8.75 percent of which were invested in unrated Negotiable Certificates of Deposit. Within the component units, the investments presented in the table represented 91.04 percent of the total debt securities, 42.96 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 section of this note.

**Credit Rating - Primary Government**  
(Dollars in Thousands)

<u>Investment</u>	<u>Amount</u>	<u>Rating Agency</u>	<u>Rating</u>	<u>Percent of Portfolio</u>
Negotiable Certificates of Deposit	\$ 3,438,096		N/A	8.75%
Agency Mortgage Backed	3,428,622		Unrated	8.73%
Commercial Paper	3,186,325	Standard & Poor's	A-1+	8.11%
Investments held by broker-dealers under securities loans (U.S. Government and Agency Securities)	2,535,665		N/A	6.46%
Repurchase Agreements	1,922,023	Moody's	P-1	4.89%
Corporate Bonds	1,902,916	Standard & Poor's	AAA	4.85%
Commercial Paper	1,523,918	Moody's	P-1	3.88%
U. S. Treasury and Agency Securities	1,404,932		N/A	3.58%
Asset Backed Securities	1,319,955	Standard & Poor's	AAA	3.36%
Asset Backed Securities	1,241,590	Moody's	Aaa	3.16%
Corporate Bonds	1,124,732		Unrated	2.86%
Deposits with the U.S. Treasury for Unemployment Compensation	822,001		Unrated	2.09%
Other Debt Securities	804,155	Moody's	Aaa	2.05%
Repurchase Agreements	785,137	Standard & Poor's	A-1+	2.00%
Corporate Notes	672,129	Standard & Poor's	AAA	1.71%
Corporate Notes	604,358		Unrated	1.54%
Fixed Income and Commingled Funds	597,065	Moody's	Aaa	1.52%
Corporate Bonds	571,369	Moody's	Aaa	1.45%
Corporate Bonds	549,699	Moody's	P-1	1.40%
Corporate Notes	511,180	Standard & Poor's	AA-	1.30%
Agency Mortgage Backed	511,020	Standard & Poor's	AAA	1.30%

**Credit Rating - Component Units**  
(Dollars in Thousands)

<u>Investment</u>	<u>Amount</u>	<u>Rating Agency</u>	<u>Rating</u>	<u>Percent of Portfolio</u>
Municipal Securities	\$ 2,839,766		Unrated	42.96%
Commercial Paper	754,417	Moody's	P-1	11.41%
Guaranteed Investment Contracts	519,624		N/A	7.86%
Mutual and Money Market Funds (Includes SNAP)	467,162		N/A	7.07%
Asset Backed Securities	304,747	Moody's	Aaa	4.61%
Corporate Bonds	235,181	Standard & Poor's	AAA	3.56%
Municipal Securities	224,807	Standard & Poor's	AAA	3.40%
U. S. Treasury and Agency Securities	201,925		N/A	3.05%
Mutual and Money Market Funds (Includes SNAP)	165,172	Standard & Poor's	AAA	2.50%
Repurchase Agreements	96,831	Moody's	P-1	1.46%
Mutual and Money Market Funds	75,554	Standard & Poor's	AAA	1.14%
Mutual and Money Market Funds	69,584		N/A	1.05%
Mutual and Money Market Funds	64,173		Unrated	0.97%

**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. The Commonwealth holds no investment in the securities of a single issuer that is more than 5 percent of the total market value of its investments. In addition, the Treasury and VRS have individual investment policies limiting the amounts that may be invested in any 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 adversely impact the fair value of an investment. All investments exposed to foreign currency risk were part of the VRS portfolio at June 30, 2007.

The VRS' currency risk exposure, 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	International Funds	Total
U. S. Dollar	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,865,259	\$ 4,865,259
Euro Currency Unit	12,682	1,686,524	11,281	648,439	30,379	-	2,389,305
British Pound Sterling	-	1,434,282	(13,092)	34,657	1,355	-	1,457,202
Australian Dollar	6,438	1,013,411	-	-	35,054	-	1,054,903
Canadian Dollar	1,738	602,488	(998)	-	6,868	-	610,096
Norwegian Krone	245	473,492	6,097	-	-	-	479,834
Hong Kong Dollar	3,239	353,445	-	-	31,975	-	388,659
New Taiwan Dollar	8,810	363,592	-	-	-	-	372,402
Swedish Krona	728	313,299	-	28,612	2,233	-	344,872
Japanese Yen	38,376	204,040	33,869	-	1,614	-	277,899
South Korean Won	839	239,372	-	-	-	-	240,211
Brazil Real	800	231,236	6,528	-	-	-	238,564
Indian Rupee	5,233	191,530	-	-	-	-	196,763
Mexican New Peso	313	127,887	-	-	-	-	128,200
S African Comm Rand	850	104,144	-	-	-	-	104,994
Singapore Dollar	237	75,984	-	-	16,798	-	93,019
New Turkish Lira	649	74,928	-	-	-	-	75,577
Thailand Baht	57	60,047	-	-	-	-	60,104
Israeli Shekel	930	57,303	-	-	-	-	58,233
Polish Zloty	283	40,158	-	-	-	-	40,441
Malaysian Ringgit	919	37,449	-	-	-	-	38,368
Danish Krone	264	33,319	-	-	-	-	33,583
Russian Rubel (New)	3	32,290	-	-	-	-	32,293
Egyptian Pound	451	26,592	-	-	-	-	27,043
Chinese Yuan Renminbi	-	24,242	-	-	-	-	24,242
Indonesian Rupian	116	14,824	-	-	-	-	14,940
Chilean Peso	-	12,714	-	-	-	-	12,714
Hungarian Forint	1,125	8,014	-	-	-	-	9,139
Turkish Lira	7,189	-	-	-	-	-	7,189
Romanian Leu	-	7,171	-	-	-	-	7,171
Pakistan Rupee	-	5,220	-	-	-	-	5,220
Philippines Peso	179	3,538	-	-	-	-	3,717
Argentina Peso	-	(10,561)	-	-	-	-	(10,561)
Czech Koruna	116	(20,868)	-	-	-	-	(20,752)
New Zealand Dollar	9	(171,285)	-	-	-	-	(171,276)
Swiss Franc	3,300	(496,776)	-	-	539	-	(492,937)
<b>Total</b>	<b>\$ 96,118</b>	<b>\$ 7,153,045</b>	<b>\$ 43,685</b>	<b>\$ 711,708</b>	<b>\$ 126,815</b>	<b>\$ 4,865,259</b>	<b>\$ 12,996,630</b>

## 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. The enabling legislation for the securities lending program is Section 2.2-4506 of Chapter 45 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 or are term repurchase agreements with the right of substitution. 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 36 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. Treasury and Agency securities. At June 30, 2007, all collateral received was in the form of cash.

Securities loaned for the general account as of June 30, 2007, had a carrying value of \$2,207,716,672 and a fair value of \$2,225,784,988. The fair value of the collateral received was \$2,252,228,573 providing for coverage of 101.2 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, 2007, the cash reinvestment portfolio had a weighted average maturity of 35 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, 2007, the majority of the cash reinvestments were in asset backed and corporate floating rate securities, corporate bonds, commercial paper, 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 an irrevocable letter of credit issued by a major bank, 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 148 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, 2007, was \$6,329,913,000. The June 30, 2007, balance was composed of U.S. Government and agency securities of \$2,604,362,000, corporate and other bonds of \$409,177,349 and common and preferred stocks of \$3,316,373,957.

The value of collateral (cash and non-cash) at June 30, 2007, was \$6,530,930,000.

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 – New York Branch, 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, 2007, the fair value of investment account securities on loan was \$321,002,808 secured by \$324,978,714 in cash deposits.

### **Derivative Financial Instruments**

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates or financial indexes. They include futures, forwards, options, and 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 generally are 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 and 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 the 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 risk 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 also may 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 \$98,034,000 at June 30, 2007.

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, 2007, the Authority experienced a net loss of \$535,060 from hedging transactions settled during the year. At June 30, 2007, 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, 2007.

### **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. This 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, 2007, the VRS had purchased S & P, Russell Index, Treasury bonds and notes and global indices futures and options with a notional value of \$7,564,225,000 and sold Treasury bonds and notes and global indices futures and options with a notional value of \$678,124,000. At June 30, 2007, the VRS had pledged as collateral U.S. Treasury and U.S. Government Agency securities with a total market value of \$1,018,385,000 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, 2007, included receivables for deposits with brokers for securities sold short of \$1,969,530,000 and payables for securities sold short and not covered with market values of \$1,960,937,000.

## **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, 2007, the VRS had sold foreign currency contracts with a notional value of \$9,498,313,000 and had purchased foreign currency contracts with a notional value of \$9,460,292,000.

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 counterparties for the exchange of payments at certain intervals over a predetermined timeframe. 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 2007, the VRS entered into interest rate and total return swaps with a total notional value of \$1,772,046,000. 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, interest, taxes, prepaid tuition contributions, security transactions, 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, 2007:

	Accounts Receivable	Loans / Mortgage Receivable	Interest Receivable	Taxes Receivable	Prepaid Tuition Contributions Receivable
<b>Primary Government:</b>					
General	\$ 614,809	\$ 18	\$ 386,763	\$ 1,372,826	\$ -
Major Special Revenue Funds:					
Commonwealth Transportation	122,465	37,462	-	149,529	-
Federal Trust	380,265	235	-	-	-
Literary	199,755	320,918	16,675	-	-
Nonmajor Governmental Funds	161,231	-	6,781	2,982	-
Major Enterprise Funds:					
State Lottery	50,759	-	-	-	-
Virginia College Savings Plan	5,596	-	3,301	-	294,492
Unemployment Compensation	97,831	-	-	-	-
Nonmajor Enterprise Funds	36,896	-	-	-	-
Internal Service Funds	21,643	-	-	-	-
Private Purpose	-	82	1,058	-	-
Pension and Other Employee Benefit Trust	178,591	-	180,291	-	-
Investment Trust Fund	-	-	10,819	-	-
Agency Funds	333	-	-	207,728	-
<b>Total Primary Government (1)</b>	<b>\$ 1,870,174</b>	<b>\$ 358,715</b>	<b>\$ 605,688</b>	<b>\$ 1,733,065</b>	<b>\$ 294,492</b>
<b>Discrete Component Units:</b>					
Virginia Housing Development Authority (2)	\$ -	\$ 6,991,051	\$ 36,921	\$ -	\$ -
Virginia Public School Authority	-	-	64,812	-	-
University of Virginia	147,490	31,807	-	-	-
Virginia Polytechnic Institute and State University	49,324	30,438	1,097	-	-
Virginia Commonwealth University	229,497	26,359	339	-	-
Nonmajor Component Units	126,324	2,094,629	40,862	6,035	-
<b>Total Component Units</b>	<b>\$ 552,635</b>	<b>\$ 9,174,284</b>	<b>\$ 144,031</b>	<b>\$ 6,035</b>	<b>\$ -</b>

Note (1): Fiduciary net receivables in the amount of \$3,852,304 (dollars in thousands) are not included in the Government-wide Statement of Net Assets.

Note (2): \$6,873,063 (dollars in thousands) is Restricted Loans Receivable, \$34,895 (dollars in thousands) is Restricted Interest Receivable, and \$15,308 (dollars in thousands) is Restricted Other Receivable.

## 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, 2007:

(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
<b>Discrete Component Units:</b>							
University of Virginia	\$ 29,824	\$ 85,417	\$ 6,887	\$ 122,128	\$ (12,364)	\$ (7,981)	\$ 101,783
Virginia Polytechnic Institute & State University	25,635	40,583	4,520	70,738	(6,099)	(2,723)	61,916
Virginia Commonwealth University	14,257	24,447	2,426	41,130	(3,914)	(376)	36,840
Nonmajor Component Units	51,447	86,660	19,357	157,464	(15,828)	(5,230)	136,406
<b>Total Component Units</b>	<b>\$ 121,163</b>	<b>\$ 237,107</b>	<b>\$ 33,190</b>	<b>\$ 391,460</b>	<b>\$ (38,205)</b>	<b>\$ (16,310)</b>	<b>\$ 336,945</b>

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 8.7 percent.

<u>Security Transactions</u>	<u>Other Receivables</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Accounts Receivable</u>	<u>Amounts to be Collected Greater than One Year</u>
\$ -	\$ -	\$ (1,416,016)	\$ 958,400	\$ 5,980
-	-	(3,379)	306,077	37,561
-	-	(10,372)	370,128	368
-	-	(193,767)	343,581	292,969
-	-	(89,301)	81,693	2,067
-	-	-	50,759	-
-	-	-	303,389	227,043
-	-	(18,618)	79,213	-
-	-	(1,078)	35,818	-
-	-	(111)	21,532	-
-	-	-	1,140	-
3,282,492	38,670	-	3,680,044	-
-	-	-	10,819	-
-	-	(47,760)	160,301	99
<u>\$ 3,282,492</u>	<u>\$ 38,670</u>	<u>\$ (1,780,402)</u>	<u>\$ 6,402,894</u>	<u>\$ 566,087</u>
\$ -	\$ 24,049	\$ -	\$ 7,052,021	\$ 6,873,934
-	-	-	64,812	64,810
-	41,656	(46,167)	174,786	46,140
-	162	(2,836)	78,185	36,723
-	17,538	(84,176)	189,557	19,187
-	71,520	(8,919)	2,330,451	2,062,726
<u>\$ -</u>	<u>\$ 154,925</u>	<u>\$ (142,098)</u>	<u>\$ 9,889,812</u>	<u>\$ 9,103,520</u>

**9. INTERFUND AND INTER-ENTITY 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," "Due from Internal Parties (Governmental Funds and Business-type Activities)," and "Due from External Parties (Fiduciary Funds)." Included in the category Due to Other Funds are "Due to Other Funds," "Due to Internal Parties (Governmental Funds and Business-type Activities)," and "Due to External Parties (Fiduciary Funds)." The following schedule shows the Due from/to Other Funds as of June 30, 2007.

**Schedule of Due from/to Other Funds**

June 30, 2007

*(Dollars in Thousands)*

Due From	Amount	Due To	Amount
<b>Primary Government</b>		<b>Primary Government</b>	
General Fund	\$ 11,563	Major Enterprise Funds:	
		State Lottery	\$ 3,180
		Unemployment Compensation	274
		Nonmajor Enterprise Funds	7,668
		Internal Service Funds	441
Major Special Revenue Funds:			
Commonwealth Transportation	75	Internal Service Funds	75
Nonmajor Governmental Funds	7,323	Major Special Revenue Funds:	
		Commonwealth Transportation	7,103
		Major Enterprise Funds:	
		Unemployment Compensation	220
Major Enterprise Funds:			
Unemployment Compensation	461	General Fund	259
		Major Special Revenue Funds:	
		Commonwealth Transportation	67
		Federal Trust	54
		Nonmajor Governmental Funds	52
		Major Enterprise Funds:	
		State Lottery	3
		Nonmajor Enterprise Funds	19
		Internal Service Funds	7
Nonmajor Enterprise Funds	1,851	General Fund	472
		Major Special Revenue Funds:	
		Commonwealth Transportation	1,065
		Federal Trust	165
		Nonmajor Governmental Funds	112
		Nonmajor Enterprise Funds	6
		Internal Service Funds	31
Internal Service Funds	39,902	General Fund	18,208
		Major Special Revenue Funds:	
		Commonwealth Transportation	8,746
		Federal Trust	7,413
		Nonmajor Governmental Funds	4,412
		Major Enterprise Funds:	
		State Lottery	49
		Nonmajor Enterprise Funds	838
		Internal Service Funds	236
Total Primary Government	<u>\$ 61,175</u>	Total Primary Government	<u>\$ 61,175</u>

**Schedule of Due from/to Internal/External Parties**  
June 30, 2007

*(Dollars in Thousands)*

Due From	Amount	Due To	Amount
<b>Primary Government</b>		<b>Primary Government</b>	
General Fund	\$ 4	Investment Trust	\$ 4
Nonmajor Governmental Funds	74	Agency	74
Pension and Other Employee Benefit Trust	20,408	Pension and Other Employee Benefit Trust	20,408
Agency	17,999	Major Special Revenue Funds: Federal Trust	17,999
<b>Total Primary Government</b>	<b>\$ 38,485</b>	<b>Total Primary Government</b>	<b>\$ 38,485</b>

**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, 2007. There were no Interfund Receivables/Payables for the Component Units as of June 30, 2007.

**Interfund Receivables/Payables**  
June 30, 2007

*(Dollars in Thousands)*

Receivable From:	Amount	Payable To:	Amount
<b>Primary Government</b>		<b>Primary Government</b>	
Nonmajor Governmental Funds	\$ 69,365	Major Special Revenue Funds: Federal Trust	\$ 7,317
		Major Enterprise Funds: State Lottery Department	6,000
		Nonmajor Governmental Funds	8,329
		Nonmajor Enterprise Funds	35,358
		Internal Service	12,361
<b>Total</b>	<b>\$ 69,365</b>	<b>Total</b>	<b>\$ 69,365</b>

**Due from/to Primary Government and Component Units**

Included in this category is activity between the Commonwealth and its component units, as well as activity between component units.

The following Due from Primary Government amounts represent general fund appropriation available amounts that are due from the General Fund: University of Virginia (Major Component Unit) - \$78.3 million, Virginia Polytechnic Institute and State University (Major Component Unit) - \$57.2 million, Virginia Commonwealth University (Major Component Unit) - \$22.8 million, Nonmajor Component Units - \$365.8

million. The General Fund reports \$24.4 million of the Due to Component Units in the governmental funds and the entire amount of \$524.1 million is reported in the government-wide financial statements.

The following Due from Primary Government amounts represent amounts due from the General Fund related to interest/rebate allocations: University of Virginia (Major Component Unit) - \$1.8 million, Virginia Polytechnic Institute and State University (Major Component Unit) - \$1.5 million, Virginia Commonwealth University (Major Component Unit) - \$1.7 million, Nonmajor Component Units - \$7.7 million.

The following Due from Primary Government amounts represent amounts due from Nonmajor Governmental Funds related to the Department of Treasury's reimbursement programs: University of Virginia (Major Component Unit) - \$0.5 million, Virginia Polytechnic Institute and State University (Major Component Unit) - \$5.0 million, Virginia Commonwealth University (Major Component Unit) - \$2.1 million, Nonmajor Component Units - \$17.1 million.

The following Due from Component Units amounts represent amounts due from the Virginia College Building Authority (Nonmajor Component Unit) related to the Department of Treasury's reimbursement programs: University of Virginia (Major Component Unit) - \$11.9 million, Virginia Polytechnic Institute and State University (Major Component Unit) - \$11.2 million, Virginia Commonwealth University (Major Component Unit) - \$18.1 million, Nonmajor Component Units - \$21.9 million. There is an additional Due to/from Component Units of \$0.2 million between Nonmajor Component Units.

#### Loans Receivable/Payable Between Primary Government and Component Units

The Virginia Commonwealth University (Major Component Unit) loan of \$4.0 million was used to fund programs until bonds were issued. The George Mason University (Nonmajor Component Unit) loan of \$10.5 million and the Virginia Community College System (Nonmajor Component Unit) loan of \$0.5 million were used to advance fund federally-funded grant programs.

The \$172.4 million in Loans Receivable from Primary Government represents loans from the Virginia Public School Authority (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, 2007:

*(Dollars in Thousands)*

	Cash and Travel Advances	Unamortized		Total Other Assets
		Bond Issuance Expense	Other Assets (1)	
<b>Primary Government:</b>				
General	\$ 1,461	\$ -	\$ -	\$ 1,461
Major Special Revenue Funds:				
Commonwealth Transportation	20,682	-	-	20,682
Federal Trust	1,583	-	-	1,583
Nonmajor Governmental Funds	694	-	118	812
Major Enterprise Funds:				
State Lottery	1	-	-	1
Nonmajor Enterprise Funds	166	-	213	379
Internal Service Funds	863	-	11,257	12,120
Total Primary Government	<u>\$ 25,450</u>	<u>\$ -</u>	<u>\$ 11,588</u>	<u>\$ 37,038</u>
<b>Discrete Component Units:</b>				
Virginia Housing Development Authority	\$ -	\$ 6,194	\$ 42,951	\$ 49,145
Virginia Public School Authority	-	-	9	9
University of Virginia	-	760	20,362	21,122
Virginia Polytechnic Institute and State University	-	768	4,860	5,628
Virginia Commonwealth University	275	6,244	11,743	18,262
Nonmajor Component Units	9,540	15,461	14,557	39,558
Total Component Units	<u>\$ 9,815</u>	<u>\$ 29,427</u>	<u>\$ 94,482</u>	<u>\$ 133,724</u>

Note (1): The \$11,257 (dollars in thousands) shown above represents a Virginia Information Technologies Agency interfund asset due from various governmental funds that will not be received within 60 days. This amount is reclassified to an internal balance on 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 Commonwealth Transportation Fund (Major Special Revenue) and Debt Service and Capital Projects (Nonmajor Governmental Funds) reported \$396.0 million in restricted assets related to bond agreements. The Virginia Housing Development Authority (Major Component Unit) reported restricted assets totaling \$894.4 million. The Virginia Public School Authority (Major Component Unit) reported restricted assets of \$93.1 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 \$140.6 million. Of this amount, \$70.3 million is assets placed in an escrow account for construction projects, \$42.6 million for debt service under a bond indenture agreement, \$2.2 million for securities lending transactions, and \$25.5 million reserved as part of the Port Facility Revenue Bond requirement. The Virginia Resources Authority (Nonmajor Component Unit) reported restricted assets of \$745.1 million. Of this amount, \$739.3 million is restricted for loans to local governments, bond indentures, or federal and state regulations for various revolving funds, and \$5.8 million is restricted for the Operating Reserve Fund for the Virginia Pooled

Financing Program. The Tobacco Indemnification and Community Revitalization Commission (Nonmajor Component Unit) reported restricted assets of \$363.9 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 \$3.9 billion primarily for endowment and other contractual obligations. Included in this amount is approximately \$3.0 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 \$222.8 million and \$12.9 million, respectively, primarily for donor-imposed restricted endowments.

The remaining \$27.2 million is spread among the Virginia Outdoors Foundation (Nonmajor Component Unit) Hampton Roads Sanitation District Commission (Nonmajor Component Unit), the Virginia Horse Center Foundation (Nonmajor Component Unit), the Small Business Financing Authority (Nonmajor Component Unit), the Library of Virginia Foundation (Nonmajor Component Unit) and the Danville Science Center (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			Balance June 30
	July 1, as restated	Increases	Decreases	
<b>Nondepreciable Capital Assets:</b>				
Land	\$ 1,757,641	\$ 129,690	\$ (33,964)	\$ 1,853,367
Construction in Progress	2,868,967	1,432,410	(1,408,056)	2,893,321
Total Nondepreciable Capital Assets	<u>4,626,608</u>	<u>1,562,100</u>	<u>(1,442,020)</u>	<u>4,746,688</u>
<b>Depreciable Capital Assets:</b>				
Buildings	2,271,381	238,533	(7,011)	2,502,903
Equipment	775,864	101,905	(18,851)	858,918
Infrastructure	18,910,064	1,343,213	(983,007)	19,270,270
Total Capital Assets being Depreciated	<u>21,957,309</u>	<u>1,683,651</u>	<u>(1,008,869)</u>	<u>22,632,091</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings	843,474	60,973	(6,278)	898,169
Equipment	370,287	69,766	(14,655)	425,398
Infrastructure	9,113,677	471,033	(677,467)	8,907,243
Total Accumulated Depreciation	<u>10,327,438</u>	<u>601,772</u>	<u>(698,400)</u>	<u>10,230,810</u>
Total Depreciable Capital Assets, Net	<u>11,629,871</u>	<u>1,081,879</u>	<u>(310,469)</u>	<u>12,401,281</u>
Total Capital Assets, Net	<u>\$ 16,256,479</u>	<u>\$ 2,643,979</u>	<u>\$ (1,752,489)</u>	<u>\$ 17,147,969</u>

Note: Beginning balances have been restated by \$138,221 (dollars in thousands) due to prior year errors, as discussed in Note 2.

**Depreciation Expense Charged to Functions of the Primary Government**  
June 30, 2007

*(Dollars in Thousands)*

Governmental Activities:	
General Government	\$ 14,169
Education	8,345
Transportation	500,248
Resources and Economic Development	5,504
Individual and Family Services	13,045
Administration of Justice	35,836
Capital Assets held by the Internal Service	
Funds are charged to various functions	24,625
Total	<u>\$ 601,772</u>

**Schedule of Changes in Capital Assets**  
**Business-type Activities**

*(Dollars in Thousands)*

	<u>Balance</u> <u>July 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30</u>
<b>Nondepreciable Capital Assets:</b>				
Land	\$ 1,977	\$ -	\$ -	\$ 1,977
Construction in Progress	361	379	-	740
Total Nondepreciable Capital Assets	<u>2,338</u>	<u>379</u>	<u>-</u>	<u>2,717</u>
<b>Depreciable Capital Assets:</b>				
Buildings	17,065	-	-	17,065
Equipment	86,366	2,253	(759)	87,860
Infrastructure	1	-	-	1
Total Capital Assets being Depreciated	<u>103,432</u>	<u>2,253</u>	<u>(759)</u>	<u>104,926</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings	10,270	158	-	10,428
Equipment	57,211	8,282	(723)	64,770
Infrastructure	1	-	-	1
Total Accumulated Depreciation	<u>67,482</u>	<u>8,440</u>	<u>(723)</u>	<u>75,199</u>
Total Depreciable Capital Assets, Net	<u>35,950</u>	<u>(6,187)</u>	<u>(36)</u>	<u>29,727</u>
Total Capital Assets, Net	<u>\$ 38,288</u>	<u>\$ (5,808)</u>	<u>\$ (36)</u>	<u>\$ 32,444</u>

**Schedule of Changes in Capital Assets**  
**Component Units**

(Dollars in Thousands)

	Balance July 1	Increases	Decreases	Subtotal June 30	Foundations (1)	Total June 30
<b>Nondepreciable Capital Assets:</b>						
Land	\$ 381,677	\$ 28,574	\$ (4,674)	\$ 405,577	\$ 165,929	\$ 571,506
Construction in Progress	1,132,558	1,065,374	(842,716)	1,355,216	72,962	1,428,178
Inexhaustible Works of Art / Historical Treasures	71,399	412	-	71,811	13,626	85,437
Livestock	807	-	(106)	701	2,490	3,191
Total Nondepreciable Capital Assets	<u>1,586,441</u>	<u>1,094,360</u>	<u>(847,496)</u>	<u>1,833,305</u>	<u>255,007</u>	<u>2,088,312</u>
<b>Depreciable Capital Assets:</b>						
Buildings	5,954,107	770,404	(60,196)	6,664,315	713,303	7,377,618
Infrastructure	1,648,031	157,866	(928)	1,804,969	-	1,804,969
Equipment	2,214,168	284,520	(218,278)	2,280,410	98,663	2,379,073
Improvements Other Than Buildings	328,352	22,841	(2,196)	348,997	46,726	395,723
Library Books	608,006	34,497	(5,150)	637,353	-	637,353
Total Capital Assets being Depreciated	<u>10,752,664</u>	<u>1,270,128</u>	<u>(286,748)</u>	<u>11,736,044</u>	<u>858,692</u>	<u>12,594,736</u>
<b>Less Accumulated Depreciation for:</b>						
Buildings	2,186,263	187,746	(46,906)	2,327,103	143,599	2,470,702
Infrastructure	867,110	51,065	(623)	917,552	-	917,552
Equipment	1,367,833	191,217	(188,403)	1,370,647	66,730	1,437,377
Improvements Other Than Buildings	159,270	16,090	(1,388)	173,972	15,318	189,290
Library Books	488,441	29,451	(5,150)	512,742	-	512,742
Total Accumulated Depreciation	<u>5,068,917</u>	<u>475,569</u>	<u>(242,470)</u>	<u>5,302,016</u>	<u>225,647</u>	<u>5,527,663</u>
Total Depreciable Capital Assets, Net	<u>5,683,747</u>	<u>794,559</u>	<u>(44,278)</u>	<u>6,434,028</u>	<u>633,045</u>	<u>7,067,073</u>
Total Capital Assets, Net	<u>\$ 7,270,188</u>	<u>\$ 1,888,919</u>	<u>\$ (891,774)</u>	<u>\$ 8,267,333</u>	<u>\$ 888,052</u>	<u>\$ 9,155,385</u>

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

### 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, 2007, the VRS had 814 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 credit (age 60 for employees of participating political subdivisions) or at age 50 with at least 30 years of service credit if elected by the employer (age 50 with at least 25 years of service credit for employees of participating political subdivisions). Employees may retire with a reduced benefit at age 50 with at least ten years of service credit or at age 55 (age 50 for employees of participating political

subdivisions) with at least five years of service credit.

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 unreduced 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 service credit 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, 2005. Employer contributions by the Commonwealth to VRS, SPORS, VaLORS, and JRS were 5.74 percent, 16.71 percent, 14.96 percent, and 36.47 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		
	2007	2006	2005	2007	2006	2005
Annual required contribution	\$ 294,388	\$ 166,975	\$ 156,313	\$ 25,488	\$ 27,939	\$ 25,891
Interest on net pension obligation	47,378	46,853	43,427	5,915	5,259	4,326
Adjustment to annual required contribution	<u>(48,915)</u>	<u>(42,825)</u>	<u>(39,694)</u>	<u>(6,085)</u>	<u>(4,807)</u>	<u>(3,945)</u>
Annual pension cost	292,851	171,003	160,046	25,318	28,391	26,272
Contributions made	<u>(192,360)</u>	<u>(124,789)</u>	<u>(117,225)</u>	<u>(16,358)</u>	<u>(15,258)</u>	<u>(14,475)</u>
Increase in net pension obligation	100,491	46,214	42,821	8,960	13,133	11,797
Net pension obligation, beginning of year	<u>631,875</u>	<u>585,661</u>	<u>542,840</u>	<u>78,871</u>	<u>65,738</u>	<u>53,941</u>
Net pension obligation, end of year	<u>\$ 732,366</u>	<u>\$ 631,875</u>	<u>\$ 585,661</u>	<u>\$ 87,831</u>	<u>\$ 78,871</u>	<u>\$ 65,738</u>
Percentage of annual pension cost contributed	65.7%	73.0%	73.2%	64.6%	53.7%	55.1%

  

	JRS			VaLORS		
	2007	2006	2005	2007	2006	2005
Annual required contribution	\$ 26,768	\$ 27,048	\$ 24,943	\$ 72,460	\$ 90,011	\$ 84,353
Interest on net pension obligation	4,094	3,476	2,683	15,814	13,782	10,997
Adjustment to annual required contribution	<u>(4,211)</u>	<u>(3,177)</u>	<u>(2,452)</u>	<u>(16,270)</u>	<u>(12,597)</u>	<u>(10,052)</u>
Annual pension cost	26,651	27,347	25,174	72,004	91,196	85,298
Contributions made	<u>(20,530)</u>	<u>(16,206)</u>	<u>(15,269)</u>	<u>(48,338)</u>	<u>(52,610)</u>	<u>(50,495)</u>
Increase in net pension obligation	6,121	11,141	9,905	23,666	38,586	34,803
Net pension obligation, beginning of year	<u>54,585</u>	<u>43,444</u>	<u>33,539</u>	<u>210,856</u>	<u>172,270</u>	<u>137,467</u>
Net pension obligation, end of year	<u>\$ 60,706</u>	<u>\$ 54,585</u>	<u>\$ 43,444</u>	<u>\$ 234,522</u>	<u>\$ 210,856</u>	<u>\$ 172,270</u>
Percentage of annual pension cost contributed	77.0%	59.3%	60.7%	67.1%	57.7%	59.2%

The amounts in the table above include Governmental and Component Unit activity for which the Commonwealth is considered the employer. The VRS pension liability for the Virginia Economic Development Partnership (VEDP) (Component Unit), the Virginia Tourism Authority (VTA) (Component Unit), the Virginia Outdoors Foundation (VOF) (Component Unit), and the Virginia National Defense Industrial Authority (VNDIA) (Component Unit) are reported in the financial statements. However, since the Commonwealth is not considered the employer for VEDP, VTA, VOF, or VNDIA, the Commonwealth's net pension obligation shown above at the end of the year does not include VEDP's pension liability of \$1.6 million, VTA's pension liability of \$790,466, or VNDIA's pension liability of \$44,766. The VOF had no pension liability at June 30, 2007.

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 3.5 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, 2007, was 21 years.

**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 (5.74 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, 2007, the total contributions to this plan were \$823,573.

The summary of significant accounting policies for the plan is in accordance with those discussed in Note 13. 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, 2007, 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, 2007, 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., 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, 2007, the total contributions to these plans were:

TIAA-CREF	\$	84,323,425
VALIC		2,569,499
Fidelity Investments		39,358,105
Great West Life		96,466
Vanguard		3,026,670
Total	\$	<u>129,374,165</u>

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, 2007, were approximately \$10,490,000. 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, 2007, there were six actively employed participants in the HCP Plan. Total contributions to the HCP Plan for the year ended June 30, 2007, were approximately \$30,400.

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 \$6,923,000 for the year ended June 30, 2007.

MCVAP also sponsors the VCUHS 401(a) Retirement Plan a defined contribution plan which covers all non-medical employees of MCVAP 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, 2007, were approximately \$1,570,000.

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 2007 was approximately \$669,000.

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, 128 faculty members have elected to enroll in the plan. As of June 30, 2007, 39 participants remain, including eleven new participants who retired under this plan during fiscal year 2007. In order to satisfy IRS requirements, a trust fund has been established as a means to make the payments to the plan participants. The University prepaid the entire fiscal year 2008-plan contribution of \$902,422 in 2007.

The Center for Innovative Technology (CIT) is a blended component unit of the Innovative Technology Authority (nonmajor). The CIT 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 \$477,494 in fiscal year 2007.

#### **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 Partnership 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 \$1,549,445 in fiscal year 2007.

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

	2007	2006	2005
Service cost - benefits earned during the year	\$ 2,036,800	\$ 1,801,800	\$ 1,642,100
Interest cost on projected benefit obligation	3,316,900	2,903,200	2,653,000
Expected return on assets	(3,729,500)	(3,213,200)	(2,972,100)
Net amortization and deferral	941,500	709,500	643,600
Annual pension cost	2,565,700	2,201,300	1,966,600
Contributions made	(2,634,600)	(4,216,500)	(1,104,900)
Increase in prepaid pension obligation	(68,900)	(2,015,200)	861,700
Prepaid pension obligation, beginning of year	(9,321,300)	(7,306,100)	(8,167,800)
Prepaid pension obligation, end of year	<u>\$ (9,390,200)</u>	<u>\$ (9,321,300)</u>	<u>\$ (7,306,100)</u>

The annual pension cost for the current year was determined as part of the October 2006, 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 2007, 6.75 percent in fiscal year 2006, and 6.75 percent in fiscal year 2005. 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, 2007, 2006, and 2005.

#### Trend Information

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
2007	\$ 2,565,700	103 %	\$ (9,390,200)
2006	\$ 2,201,300	192 %	\$ (9,321,300)
2005	\$ 1,966,600	56 %	\$ (7,306,100)

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**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Service cost - benefits earned during the year	\$ 532,378	\$ 514,545	\$ 329,902
Interest cost on projected benefit obligation	299,507	223,047	157,419
Expected return on assets	(434,736)	(165,669)	(107,220)
Net amortization and deferral	<u>387,386</u>	<u>191,195</u>	<u>83,198</u>
Annual pension cost	784,535	763,118	463,299
Contributions made	(1,654,371)	(896,505)	(506,915)
Additional minimum liability	<u>(1,402,080)</u>	<u>(126,285)</u>	<u>945,384</u>
Increase in pension obligation	(2,271,916)	(259,672)	901,768
Pension obligation, beginning of year	<u>1,144,113</u>	<u>1,403,785</u>	<u>502,017</u>
Pension obligation, end of year	<u>\$ (1,127,803)</u>	<u>\$ 1,144,113</u>	<u>\$ 1,403,785</u>

The annual pension cost for the current year was determined as part of the August 2007 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 2007, 6.25 percent in 2006, and 5.25 percent in 2005. 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, 2007, 2006, and 2005.

**Trend Information**

<u>Fiscal Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Prepaid Pension Obligation</u>
2007	\$ 784,535	211 %	\$ (1,127,803)
2006	\$ 763,118	117 %	\$ 1,144,113
2005	\$ 463,299	109 %	\$ 1,403,785

The Authority also sponsors two noncontributory supplemental plans covering certain key employees. The plans had assets of \$2,453,128 and an accrued liability of \$4,420,115. Contributions to the plans were \$132,358 for the year ended June 30, 2007.

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, 2007, the Authority's annual pension cost of \$62,904 was equal to the Authority's required and actual contributions.

The Virginia Horse 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, 2007. As of July 1, 2006, employees were able to make contributions to the plan, however, the contributions are not matched by the Foundation.

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, 2007, and 2006, 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 \$70,939 for the fiscal year ended June 30, 2007.

The Science Museum of Virginia Foundation has a 403(b) defined contribution pension plan and a 537 plan through the Teachers Insurance and Annuity Association (TIAA) and the College Retirement Equities Fund (CREF) Retirement Plan for employees meeting age and service requirements. The Foundation contributes an amount not to exceed 3 percent of the regular salary of each participant. The Foundation's employer contributions totaled \$7,363 to the 403 (b) and \$15,000 to the 537 plan in 2007. In addition, the Belmont Bay Science Center Foundation also participates in the Science Museum of Virginia Foundation's 403(b) defined contribution pension plan. The Foundation contributed \$3,433 during 2007.

#### 14. OTHER EMPLOYMENT BENEFITS

In addition to the pension plan, the Commonwealth participates in two other employment benefit plans, Group Life Insurance and Virginia Sickness and Disability Program, which are administered by the Virginia Retirement System (VRS). The VRS administers a third 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 three plans are the same as those described in Note 13 for pension plans. A separately issued financial report that includes financial statements for the Group Life Insurance and Virginia Sickness and Disability Program is publicly available. Copies may be obtained by writing to the 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 2007 there were approximately 355,046 Commonwealth employees and 122,947 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, 2005, 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 1.13 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 \$1,435.7 million. The actuarial value of the program's assets available for benefits on that date was \$751.4 million, leaving a present value of future contributions of \$684.3 million.

##### Virginia Sickness and Disability Program

The 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 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 19). 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 automatically 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 1.78 percent of payroll for Commonwealth employees, State police officers and VaLORS employees during the fiscal year. The Commonwealth recognized long-term disability expenses of \$33.3 million during the fiscal year. As of June 30, 2007, there were approximately 72,165 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 2007, \$78,000 was appropriated. At June 30, 2007, there were 1,284 workers participating in the Fund.

### **15. OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

The Government Accounting Standards Board (GASB) issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which requires additional reporting and disclosures for OPEB plans. The statement became effective for VRS-administered OPEB plans beginning with the fiscal year ended June 30, 2007. The assets and actuarial accrued liabilities for the VRS-administered OPEB plans were determined through an actuarial valuation performed as of June 30, 2006, by Wachovia Retirement Services, and are presented in the Schedule of Funding Progress – Other Post-Employment Benefits.

The first actuarial valuation was prepared in 2006 using the required parameters of GASB Statement No. 43. There is no Schedule of Employer Contributions included in this report since the first contributions paid based on the valuation using the GASB Statement No. 43 parameters did not occur until fiscal year 2008. These results will be included in the fiscal year 2008 CAFR and Schedule of Employer Contributions.

#### **Life Insurance Benefits**

Employees who retire or terminate from service after age 50 with at least 10 years of service or at age 55 with at least five years of service (age 50 for state police officers, other state law enforcement and correctional officers and hazardous duty employees of participating political subdivisions), or who retire because of disability, are entitled to post-employment life insurance benefits. At retirement or termination, accidental death benefits cease and natural death coverage reduces at a rate equal to 25 percent on January 1 of the first full year following retirement or termination and each year thereafter, until it reaches 25 percent of its original value. These group life insurance benefit provisions and requirements are established by Title 51.1 of the *Code of Virginia* (1950), as amended. There were approximately 122,947 retirees in the program in fiscal year 2007.

Since 1960, when the group life insurance program was established, a portion of the premium contributions collected during members' active careers has been placed in an Advance Premium Deposit Reserve. This reserve was established to pre-fund death benefits to members after retirement.

Employers providing life insurance benefits are part of a cost-sharing pool. Therefore, separate measurements of assets and actuarial accrued liabilities are not made for individual employers participating in the program.

#### **Retiree Health Insurance Credit Program**

The Retiree Health Insurance Credit Fund was established on January 1, 1990, and provides benefits for retired state employees, state police officers, other state law enforcement and correctional officers and judges who have at least 15 years of service credit under the retirement plans. The program provides a maximum credit reimbursement of \$4 per month per year of service credit against the monthly health insurance premiums of eligible retirees.

A similar program was established on July 1, 1993, to provide benefits for retired teachers and employees of participating political subdivisions with at least 15 years of service credit under the retirement plans. Retired teachers may receive a monthly credit ranging from \$75 to \$105, and local government retirees may receive a maximum credit of \$45.

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 of the *Code of Virginia* (1950), as amended. The amount required to fund all credits is financed on a current disbursement

basis by the employers based on contribution rates determined by the System's actuary. Approximately 76,119 retired members were covered under this program at June 30, 2007.

#### **Virginia Sickness and Disability Program**

The Commonwealth provides OPEB disability insurance benefits, in accordance with state statutes, to eligible retired and terminated employees. There were approximately 2,178 former members receiving benefits from the program during fiscal year 2007.

#### **Pre-Retiree Medicare Retiree Healthcare**

The Commonwealth provides a healthcare plan for retirees who are not yet eligible to participate in Medicare. An irrevocable trust fund was established on July 1, 2007, to account for the activity related to this plan. As such, no OPEB disclosures are available for this plan as of June 30, 2007.

#### **Line of Duty Death and Disability**

The Commonwealth provides death and health benefits to the beneficiaries of certain law enforcement and rescue personnel disabled or killed in the line of duty. An irrevocable trust fund was established on July 1, 2007, to account for the activity related to this plan. As such, no OPEB disclosures are available for this plan as of June 30, 2007.

Refer to Note 39 for additional information regarding the Commonwealth's OPEB plans.

### **16. 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 \$1,055.4 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, 2007, was \$138.7 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 deferred compensation plans available to all employees created in accordance with Internal Revenue Section 457. The Plans permit 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 Plans are in irrevocable trusts 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 \$145,962 for the fiscal year ended June 30, 2007. 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 \$319,336 for the fiscal year ended June 30, 2007.

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, 2007, the estimated ongoing annual required contribution is approximately \$1,245,000, and is funded through operations and the sale of land. The fair market value of the Trust as of June 30, 2007, was \$11,156,000. The estimated unfunded actuarial accrued liability at June 30, 2006, the date of the most recent evaluation, was \$12,431,000.

## **17. 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 \$2.7 billion are not included in the financial statements.

## **18. COMMITMENTS**

### **A. Construction Projects**

#### **Highway Projects**

At June 30, 2007, the Department of Transportation (part of 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 33.4 percent or \$480.4 million, (2) State Funds – approximately 63.0 percent or \$908.1 million, and (3) Proceeds from Bonds – approximately 3.6 percent or \$51.5 million.

#### **Mass Transit Projects**

At June 30, 2007, the Department of Rail and Public Transportation (part of Primary Government) had contractual commitments of approximately \$141.7 million for various public transportation, rail preservation, and rail enhancement projects. Funding of the future expenditures is expected to be as follows: (1) State Funds – approximately 78 percent or \$110.2 million, and (2) Federal Funds – approximately 22 percent or \$31.5 million.

#### **Port Projects**

At June 30, 2007, the Virginia Port Authority (Nonmajor Component Unit) was committed to construction contracts totaling \$253.6 million.

#### **Sanitation District Project**

At June 30, 2007, the Hampton Roads Sanitation District Commission (Nonmajor Component Unit) was committed to construction programs totaling \$19.9 million.

#### **Virginia Economic Development Partnership**

At June 30, 2007, the Virginia Economic Development Partnership (Nonmajor Component Unit) had \$1 million in commitments to the Pulaski County Industrial Development Authority to fund construction and development costs for the New River Valley Center of Excellence for worker training and retraining.

#### **Higher Education Institutions**

Colleges and universities (Component Units) had contractual commitments as of June 30, 2007, of approximately \$691.5 million primarily for construction contracts. Higher Education Foundations' commitments total approximately \$27.2 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, 2007, was \$72.8 million for governmental activities (including Internal Service Funds) and \$18.0 million for business-type activities. Rental expense for the discrete component units (excluding Foundations) for the year ended June 30, 2007, was \$90.1 million. The Commonwealth has, as of June 30, 2007, the following minimum rental payments due under the above leases (dollars in thousands):

	Primary Government		Component Units (1)
	Governmental Activities	Business-type Activities	
2008	\$ 54,685	\$ 15,753	\$ 61,061
2009	41,392	12,187	51,648
2010	31,937	9,831	44,113
2011	24,877	7,206	32,291
2012	20,586	3,259	21,665
2013-2017	53,853	2,224	53,782
2018-2022	6,126	-	19,232
2023-2027	189	-	2,545
2028-2032	43	-	823
2033-2037	20	-	823
2038-2042	20	-	823
2043-2047	20	-	823
2048-2052	12	-	424
Total	<u>\$ 233,760</u>	<u>\$ 50,460</u>	<u>\$ 290,053</u>

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

	Foundations (2)	
2008	\$	1,901
2009		1,316
2010		1,181
2011		871
2012		958
Thereafter		2,902
Total	<u>\$</u>	<u>9,129</u>

Note (2): Foundations represent FASB reporting entities defined in Note 1.B. Rental expense for the year ended June 30, 2007, was approximately \$1.7 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. Information Technology Infrastructure Partnership – Northrop Grumman**

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 nine fiscal years.

**D. Investment Commitments – Virginia Retirement System**

The Virginia Retirement System extends investment commitments in the normal course of business, which, at June 30, 2007, amounted to \$4.3 billion.

**E. Tobacco Grants**

The Tobacco Indemnification and Community Revitalization Commission (Commission) (Nonmajor Component Unit) has \$75.1 million in grant award commitments not reflected in these statements since eligibility requirements were not met as of June 30, 2007, in accordance with GASB Statement No. 33. The Commission awarded an additional \$9.8 million in grants in July 2007 that are also not reflected in these statements.

The Virginia Tobacco Settlement Foundation (Nonmajor Component Unit) has \$16.0 million in grant commitments and outstanding contracts not reflected in these statements since eligibility requirements were not met as of June 30, 2007, in accordance with GASB Statement No. 33.

**F. Other Commitments**

The Virginia Land Conservation Foundation (Nonmajor Component Unit) has \$5.2 million in grant award commitments, which were not dispersed since eligibility requirements were not met as of June 30, 2007.

**19. 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 the 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 23). All amounts related to the fiduciary funds are recognized in those funds.

The liability at June 30, 2007, 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.

## 20. 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, 2007, \$90.7 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:

	<u>Balance</u>	<u>Current</u>	<u>Claim</u>	<u>Balance</u>
	<u>July 1,</u>	<u>Year Claims</u>	<u>Payments</u>	<u>June 30, (1)</u>
		<u>and Changes</u>		
		<u>in Estimates</u>		
2006-2007	\$ 81,474	\$ 768,965	\$ (759,703)	\$ 90,736
2005-2006	\$ 77,717	\$ 730,916	\$ (727,159)	\$ 81,474

(1) Of the balance shown above, \$90.7 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, 2007, \$281.5 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, 2007, is \$341.4 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:

	<u>Balance</u>	<u>Current</u>	<u>Claim</u>	<u>Balance</u>
	<u>July 1,</u>	<u>Year Claims</u>	<u>Payments</u>	<u>June 30, (1)</u>
		<u>and Changes</u>		
		<u>in Estimates</u>		
2006-2007	\$ 272,128	\$ 66,654	\$ (57,293)	\$ 281,489
2005-2006	\$ 243,257	\$ 81,696	\$ (52,825)	\$ 272,128

(1) Of the balance shown above, \$51.4 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, 2007, 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 \$4,633,936.

## **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 213 local government units participating in the pool. This includes 22 school districts, 30 counties, 82 cities/towns, and 79 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, 2007, \$16.5 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 pools were established to provide an economical, low-cost alternative to the commercial insurance market for the Commonwealth's political subdivisions. These risk programs are accounted for in the Risk Management Enterprise Fund (nonmajor). The pool is established subject to approval of the Governor. It may be insurance, self-insurance, or any combination thereof, and must provide protection and legal defense against liability. Local participation is voluntary and open to any political subdivision. As of June 30, 2007, there were 538 units of local government in the pool, including 4 cities, 40 towns, and 33 counties. The remaining 461 units include a large variety of boards, commissions, authorities, and special districts.

The pool has a minimum membership period of one year. However, a member group can cancel their membership and withdraw from the plan on their coverage anniversary date or at the end of the fiscal year with thirty days notice.

The pool is actuarially valued annually and is considered sound. Investment income is considered in the anticipation of premium deficiencies. No excess insurance or reinsurance is provided, but a "stability fund" is incorporated into the actuarially determined required reserves. If, however, the plan assets and reserves were to be exhausted, the members would be responsible for any deficits or liabilities. For the liability insurance pool, local participation is voluntary and open to any political subdivision. The risk assumed by the local public entity pool for member liability is \$1,000,000 per occurrence.

At June 30, 2007, \$12.7 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, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Unpaid Claims and Claim Adjustment Expenses at Beginning of Fiscal Year	\$ 16,573	\$ 16,212	\$ 12,804	\$ 10,467
Incurred Claims and Claim Adjustment Expenses:				
Provision for Insured Events of the Current Fiscal Year	162,536	155,767	2,928	7,498
Changes in Provision for Insured Events of Prior Fiscal Years	-	-	(1,841)	(2,830)
Total Incurred Claims and Adjustment Expenses	162,536	155,767	1,087	4,668
Payments:				
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Fiscal Year	162,560	155,406	106	177
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Prior Fiscal Year	-	-	1,344	2,433
Total Payments	162,560	155,406	1,450	2,610
Change in Provision for Discounts	-	-	260	279
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Discounted) (1) (2) (3)	\$ 16,549	\$ 16,573	\$ 12,701	\$ 12,804
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Undiscounted)	\$ 16,549	\$ 16,573	\$ 13,450	\$ 13,597

Note (1): The entire balance for Local Choice Health Care, \$16,549 (dollars in thousands) is due within one year.

Note (2): Of the balance shown above for Risk Management, \$5,076 (dollars in thousands) is due within one year.

Note (3): The interest rate used for discounting is 3.0 percent.

## 21. ACCOUNTS PAYABLE

The following table (dollars in thousands) summarizes Accounts Payable as of June 30, 2007.

	<u>Vendor</u>	<u>Salary/ Wage</u>	<u>Retainage</u>	<u>Other</u>	<u>Foundations (1)</u>	<u>Total</u>
<b>Primary Government:</b>						
General	\$ 202,998	\$ 112,313	\$ 4,773	\$ -	\$ -	\$ 320,084
Major Special Revenue Funds:						
Commonwealth Transportation	170,252	36,446	20,198	-	-	226,896
Federal Trust	92,232	15,417	38	1	-	107,688
Literary	240	-	-	-	-	240
Nonmajor Governmental Funds	35,900	27,791	10,227	46	-	73,964
Major Enterprise Funds:						
State Lottery (2)	2,334	1,569	-	2,855	-	6,758
Virginia College Savings Plan (2)	173	263	-	1,379	-	1,815
Unemployment Compensation	-	116	-	-	-	116
Nonmajor Enterprise Funds	35,047	4,584	-	8	-	39,639
Internal Service Funds	53,290	3,594	-	-	-	56,884
Private Purpose	1,011	39	-	-	-	1,050
Pension and Other Employee Benefit Trust (3)	386	1,398	-	53,186	-	54,970
Agency Funds	1,857	-	10,435	-	-	12,292
<b>Total Primary Government (4)</b>	<u>\$ 595,720</u>	<u>\$ 203,530</u>	<u>\$ 45,671</u>	<u>\$ 57,475</u>	<u>\$ -</u>	<u>\$ 902,396</u>
<b>Discrete Component Units:</b>						
Virginia Housing Development Authority	\$ 43,606	\$ -	\$ -	\$ -	\$ -	\$ 43,606
Virginia Public School Authority	78	-	-	-	-	78
University of Virginia	137,310	62,240	8,273	11,888	69,432	289,143
Virginia Polytechnic Institute and State University	43,966	52,512	5,163	-	10,202	111,843
Virginia Commonwealth University	62,291	58,353	6,876	-	8,669	136,189
Nonmajor Component Units	163,558	143,523	22,018	1,424	14,292	344,815
<b>Total Component Units</b>	<u>\$ 450,809</u>	<u>\$ 316,628</u>	<u>\$ 42,330</u>	<u>\$ 13,312</u>	<u>\$ 102,595</u>	<u>\$ 925,674</u>

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

Note (2): Other Accounts Payable for the State Lottery represents administrative costs 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 \$40,537 (dollars in thousands) in investment payables associated with month-end rebalancing and \$12,649 (dollars in thousands) in program benefit liabilities.

Note (4): Fiduciary liabilities of \$68,312 (dollars in thousands) are not included in the Government-wide Statement of Net Assets. In addition, Governmental Fund liabilities of \$51,878 (dollars in thousands) are included in the Government-wide Statement of Net Assets, but excluded from the above amounts.

## 22. OTHER LIABILITIES

The following table (dollars in thousands) summarizes Other Liabilities as of June 30, 2007.

	Primary Government				
	General	Commonwealth Transportation	Federal Trust	Nonmajor Governmental Funds	State Lottery
Lottery Prizes Payable	\$ -	\$ -	\$ -	\$ -	\$ 39,932
Due to Program Participants, Escrows, and Providers	-	-	-	-	-
Medicaid Payable	190,914	-	191,967	-	-
Family Access to Medical Insurance Security Payable	1,242	-	2,307	-	-
Accrued Interest Payable	-	-	-	-	-
Tax Refunds Payable	294,404	-	-	-	-
Insurance Carrier Surety Deposit	-	-	-	-	-
Deposits Pending Distribution	3,264	1,221	-	6,051	-
Car Tax Refund Payable	263,025	-	-	-	-
Other Liabilities	-	-	-	2,030	-
Total Other Liabilities	<u>\$ 752,849</u>	<u>\$ 1,221</u>	<u>\$ 194,274</u>	<u>\$ 8,081</u>	<u>\$ 39,932</u>

	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	63	24,509	-	-	315
Medicaid Payable	-	-	-	-	-
Family Access to Medical Insurance Security Payable	-	-	-	-	-
Accrued Interest Payable	-	-	-	78	-
Tax Refunds Payable	-	-	-	-	-
Insurance Carrier Surety Deposit	-	-	-	-	-
Deposits Pending Distribution	-	-	179	100	-
Car Tax Refund Payable	-	-	-	-	-
Other Liabilities	-	-	78	5,019	-
Total Other Liabilities	<u>\$ 63</u>	<u>\$ 24,509</u>	<u>\$ 257</u>	<u>\$ 5,197</u>	<u>\$ 315</u>

(Continued on next page)

**Primary Government (continued)**

	<b>Pension and Other Employee Benefit Trust Funds</b>	<b>Agency Funds</b>	<b>Total Primary Government (1)</b>
Lottery Prizes Payable	\$ -	\$ -	\$ 39,932
Due to Program Participants, Escrows, and Providers	-	28,966	53,853
Medicaid Payable	-	-	382,881
Family Access to Medical Insurance Security Payable	-	-	3,549
Accrued Interest Payable	-	-	78
Tax Refunds Payable	-	-	294,404
Insurance Carrier Surety Deposit	-	403,656	403,656
Deposits Pending Distribution	-	34,674	45,489
Car Tax Refund Payable	-	-	263,025
Other Liabilities	1,795	2,133	11,055
Total Other Liabilities	<u>\$ 1,795</u>	<u>\$ 469,429</u>	<u>\$ 1,497,922</u>

Note (1): Fiduciary liabilities of \$471,539 (dollars in thousands) are not included in the Government-wide Statement of Net Assets. In addition, Governmental Fund liabilities of \$309,900 (dollars in thousands) are included in the Government-wide Statement of Net Assets, but excluded from the above amounts.

**Component Units**

	<b>Virginia Housing Development Authority</b>	<b>Virginia Public School Authority</b>	<b>University of Virginia</b>	<b>Virginia Polytechnic Institute &amp; State University</b>	<b>Virginia Commonwealth University</b>
Accrued Interest Payable	\$ 89,144	\$ 60,459	\$ 1,165	\$ 570	\$ 4,504
Other Liabilities	-	383	61,044	23,231	99,897
Deposits Pending Distribution	-	-	441,865	16,837	25,935
Short-term Debt	-	-	83,248	-	-
Grants Payable	-	-	-	-	-
Total Other Liabilities	<u>\$ 89,144</u>	<u>\$ 60,842</u>	<u>\$ 587,322</u>	<u>\$ 40,638</u>	<u>\$ 130,336</u>

**Component Units**

	<b>Nonmajor Component Units</b>	<b>Total Component Units</b>
Accrued Interest Payable	\$ 56,749	\$ 212,591
Other Liabilities	44,648	229,203
Deposits Pending Distribution	17,905	502,542
Short-term Debt	21,857	105,105
Grants Payable	9,401	9,401
Total Other Liabilities	<u>\$ 150,560</u>	<u>\$ 1,058,842</u>

## 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, 2007, the estimated liability related to Medicaid claims totaled \$382.9 million. Of this amount, \$190.9 million is reflected in the General Fund (major) and \$192.0 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, 2007, the estimated liability related to claims totaled \$3.5 million. Of this amount, \$1.2 million is reflected in the General Fund (major) and \$2.3 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 on or before December 31, 2006, and on business tax returns filed for corporate fiscal years ending on or before June 30, 2007. 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 Commonwealth 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 \$263.0 million reflects payments owed to localities as of June 30 and paid in July.

## Short-term Debt

Various Higher Education Institutions' Foundations (Component Units) have short-term debt. University of Virginia Foundations (Major Component Unit) report \$19.0 million and Nonmajor Component Unit Foundations report \$21.9 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 \$64.2 million to provide bridge financing for capital projects.

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

## 23. 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 (part of 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.

<b>Total Long-term Liabilities</b>		
June 30, 2007		
<i>(Dollars in Thousands)</i>	<b>Balance At June 30</b>	<b>Amount Due Within One Year</b>
<b>Primary Government:</b>		
Governmental Activities:(1)		
<b>General Obligation Bonds: (2)</b>		
9(b) Transportation Facilities (3)	\$ 24,263	\$ 5,130
9(b) Public Facilities (3)	797,300	57,460
9(c) Parking Facilities (3)	8,804	1,149
9(c) Transportation Facilities (3)	69,962	10,830
Total General Obligation Bonds	<u>900,329</u>	<u>74,569</u>
<b>Non-General Obligation Bonds - 9(d):</b>		
Transportation Debt (3) (4)	1,788,088	159,905
Virginia Public Building Authority (3)	1,575,187	112,690
Total Non-General Obligation Bonds	<u>3,363,275</u>	<u>272,595</u>
<b>Other Long-term Obligations:</b>		
Pension Liability	789,771	-
Compensated Absences	340,008	155,650
Capital Lease Obligations	125,033	10,420
Regional Jail Financing Payable	11,693	1,713
Notes Payable	25,877	2,836
Installment Purchase Obligations	59,574	5,087
Industrial Development Authority Obligations	19,010	4,370
Economic Development Authority Obligations (3)	100,387	3,190
Other Liabilities	16,472	2,967
Total Other Long-term Obligations	<u>1,487,825</u>	<u>186,233</u>
Total Governmental Activities (3)	<u>5,751,429</u>	<u>533,397</u>
Business-type Activities: (1) (6)		
<b>Other Long-term Obligations:</b>		
Pension Liability	16,966	-
Compensated Absences	8,682	4,387
Installment Purchase Obligations	2,610	875
Tuition Benefits Payable	1,730,482	84,568
Lottery Prizes Payable	313,112	58,766
Total Other Long-term Obligations	<u>2,071,852</u>	<u>148,596</u>
Total Business-type Activities	<u>2,071,852</u>	<u>148,596</u>
<b>Total Primary Government</b>	<u>7,823,281</u>	<u>681,993</u>

(Continued on next page)

**Total Long-term Liabilities**  
June 30, 2007  
(continued from previous page)

<i>(Dollars in Thousands)</i>	<b>Balance At June 30</b>	<b>Amount Due Within One Year</b>
<b>Component Units:</b>		
<b>General Obligation Bonds: (2)</b>		
Higher Education Fund - 9(c) Bonds (3)	411,842	33,757
<b>Non-General Obligation Bonds:</b>		
Higher Education Institutions - 9(d) (3) (6)	815,247	25,580
Virginia College Building Authority (3)	828,488	81,141
Innovative Technology Authority	7,145	875
Virginia Port Authority (3) (7)	467,117	21,208
Virginia Housing Development Authority (3) (8)	5,998,183	213,754
Virginia Resources Authority (3) (8)	1,696,588	57,675
Virginia Public School Authority (3) (6)	2,860,310	188,253
Hampton Roads Sanitation District Commission (6)	143,658	9,922
Virginia Biotechnology Research Park Authority (3) (9)	61,175	3,308
Foundations (6) (10)	691,685	6,984
Total Non-General Obligation Bonds	<u>13,569,596</u>	<u>608,700</u>
<b>Other Long-term Obligations:</b>		
Pension Liability (5)	315,260	-
Compensated Absences	220,887	141,604
Capital Lease Obligations	124,738	6,910
Notes Payable (6)	1,034,475	91,224
Installment Purchase Obligations	126,755	20,338
Bond Anticipation Notes (6)	40,000	40,000
Trust and Annuity Obligations (11)	911	49
Other Liabilities (6)	292,330	44,613
Total Other Long-term Obligations (Excluding Foundations)	<u>2,155,356</u>	<u>344,738</u>
<b>Other Long-term Obligations (Foundations): (6) (10)</b>		
Pension Liability	51,930	-
Compensated Absences	4,515	4,409
Capital Lease Obligations	416	118
Notes Payable	207,785	31,301
Installment Purchase Obligations	123	103
Bond Anticipation Notes	2,100	2,100
Trust and Annuity Obligations (11)	98,816	2,917
Other Liabilities	18,860	185
Total Other Long-term Obligations - Foundations	<u>384,545</u>	<u>41,133</u>
Total Other Long-term Obligations	<u>2,539,901</u>	<u>385,871</u>
<b>Total Component Units</b>	<u>16,521,339</u>	<u>1,028,328</u>
<b>Total Long-term Liabilities</b>	<u>\$ 24,344,620</u>	<u>\$ 1,710,321</u>

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 \$1,312.2 million.
3. Amounts are net of any unamortized discounts, premiums, and deferrals.
4. This debt includes \$800.5 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 \$3.5 million and Virginia Port Authority of \$4.4 million. It does not include pension obligations from fiduciary funds of \$3.7 million.
6. This debt is not supported by taxes.
7. This debt includes \$230.8 million that is not supported by taxes.
8. This debt is not supported by taxes; however, \$449.3 million from VHDA and \$678.6 million from VRA is considered moral obligation debt.
9. This debt includes \$11 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 \$24,263,481 of Section 9(b) general obligation bonds, \$69,961,604 of Section 9(c) general obligation bonds and \$987,550,631 of Section 9(d) revenue bonds. The Transportation Facilities Section 9(d) debt of \$1,788,087,999 includes \$800,537,368 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 \$258,785,991. 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 February 15, 2007.

On February 15, 2007, the Commonwealth Transportation Board issued \$39,115,000 of Section 9(d) Transportation Revenue Refunding Bonds Series 2007A and \$83,955,000 of Section 9(d) Transportation Revenue Refunding Bonds Series 2007B. The Series 2007A and Series 2007B bonds were issued to advance refund outstanding Series 1997C bonds.

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

Maturity	Principal	Interest	Total
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	5,045,000	1,896,350	6,941,350
2013-2017	25,425,000	5,503,100	30,928,100
2018-2022	11,585,000	1,180,800	12,765,800
Less:			
Unamortized Discount	(555,178)	-	(555,178)
Deferral on Debt Defeasance	(1,928,600)	-	(1,928,600)
Add:			
Unamortized Premium	2,631,626	-	2,631,626
Total	\$ 69,961,604	\$ 18,456,563	\$ 88,418,167

Maturity	Principal	Interest	Total
2008	\$ 159,905,000	\$ 78,193,958	\$ 238,098,958
2009	162,960,000	70,589,493	233,549,493
2010	176,790,000	62,494,074	239,284,074
2011	185,490,000	53,622,681	239,112,681
2012	141,000,000	45,637,178	186,637,178
2013-2017	498,005,000	143,638,534	641,643,534
2018-2022	263,315,003	51,079,382	314,394,385
2023-2027	99,135,268	9,649,787	108,785,055
2028-2032	9,608,396	-	9,608,396
Less:			
Deferral on Debt Defeasance	(14,997,189)	-	(14,997,189)
Add:			
Accretion on Capital Appreciation Bonds	9,690,926	-	9,690,926
Unamortized Premium	97,185,595	-	97,185,595
Total	\$ 1,788,087,999	\$ 514,905,087	\$ 2,302,993,086

**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 requirements and interest requirements were \$5,065,538. The following schedule details the annual funding requirements necessary to repay these bonds:

Maturity	Principal	Interest	Total
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
Less:			
Deferral on Debt Defeasance	(473,400)	-	(473,400)
Add:			
Unamortized Premium	2,466,881	-	2,466,881
Total	\$ 24,263,481	\$ 2,857,250	\$ 27,120,731

**FAIRFAX COUNTY ECONOMIC DEVELOPMENT AUTHORITY**  
**Debt Service Requirements to Maturity**

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
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	3,875,000	3,953,188	7,828,188
2013-2017	22,480,000	16,658,688	39,138,688
2018-2022	28,480,000	10,663,500	39,143,500
2023-2027	27,940,000	3,375,050	31,315,050
Add:			
Unamortized Premium	3,871,678	-	3,871,678
Total	<u>\$ 100,386,678</u>	<u>\$ 52,222,425</u>	<u>\$ 152,609,103</u>

**Public Facilities Bonds**

Section 9(b) general obligation bonds consist of Public Facilities Bonds, 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, Series 2006A Refunding, Series 2006B, and Series 2007A. 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 \$83,262,564. The interest rates for all bonds range from 2.0 percent to 5.5 percent and the issuance dates range from June 6, 1996, to June 20, 2007. The following schedule details the annual funding requirements necessary to repay these bonds:

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

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2008	\$ 57,460,000	\$ 36,064,800	\$ 93,524,800
2009	59,390,000	33,697,976	93,087,976
2010	59,060,000	30,983,395	90,043,395
2011	58,765,000	28,231,795	86,996,795
2012	58,555,000	25,420,958	83,975,958
2013-2017	233,035,000	86,436,948	319,471,948
2018-2022	144,120,000	41,722,650	185,842,650
2023-2027	90,810,000	10,012,225	100,822,225
Less:			
Deferral on Debt Defeasance	(8,908,600)	-	(8,908,600)
Add:			
Unamortized Premium	45,013,318	-	45,013,318
Total	<u>\$ 797,299,718</u>	<u>\$ 292,570,747</u>	<u>\$ 1,089,870,465</u>

**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 \$1,534,512.

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

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

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
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	260,000	204,000	464,000
2013-2017	1,415,000	815,250	2,230,250
2018-2022	1,685,000	441,000	2,126,000
2023-2027	800,000	54,450	854,450
Less:			
Deferral on Debt Defeasance	(267,400)	-	(267,400)
Add:			
Unamortized Premium	647,483	-	647,483
Total	<u>\$ 8,804,311</u>	<u>\$ 2,845,546</u>	<u>\$ 11,649,857</u>

**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, 2005D, 2006A, and 2006B. 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 fixed rate bonds range from 2.5 percent to 6.6 percent and the issuance dates range from August 1, 1992, to November 30, 2006. The Series 2005D bonds are variable rate bonds and the rates are reset weekly by the remarketing agent. Current year principal and interest requirements totaled \$146,336,746. 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
2008	\$ 112,690,000	\$ 70,253,587	\$ 182,943,587
2009	118,095,000	63,828,320	181,923,320
2010	123,080,000	58,802,835	181,882,835
2011	120,720,000	53,441,760	174,161,760
2012	118,875,000	47,786,216	166,661,216
2013-2017	520,080,000	156,447,242	676,527,242
2018-2022	241,260,000	66,221,173	307,481,173
2023-2027	181,635,000	16,660,571	198,295,571
Less:			
Unamortized Discount	(4,380,781)	-	(4,380,781)
Deferral on Debt Defeasance	(28,588,153)	-	(28,588,153)
Add:			
Unamortized Premium	71,721,257	-	71,721,257
Total	<u>\$ 1,575,187,323</u>	<u>\$ 533,441,704</u>	<u>\$ 2,108,629,027</u>

### 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
2008	\$ 1,712,928	\$ 919,166	\$ 2,632,094
2009	1,749,353	884,436	2,633,789
2010	1,785,867	847,422	2,633,289
2011	1,827,477	808,212	2,635,689
2012	1,869,189	766,526	2,635,715
2013-2017	2,748,174	78,586	2,826,760
Total	<u>\$ 11,692,988</u>	<u>\$ 4,304,348</u>	<u>\$ 15,997,336</u>

### 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 \$5,295,901. The following schedule details the annual funding requirements necessary to repay these bonds:

NEWPORT NEWS INDUSTRIAL DEVELOPMENT AUTHORITY  
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
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
Total	<u>\$ 19,010,000</u>	<u>\$ 2,157,770</u>	<u>\$ 21,167,770</u>

### 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	\$ 624,609
College and university debt backed exclusively by pledged revenues of an institution	<u>190,638</u>
Total Higher Education Institution 9(d) debt	<u>\$ 815,247</u>

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 June 20, 2007. 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
2008	33,076,529	19,365,112	52,441,641
2009	33,464,574	17,949,812	51,414,386
2010	33,428,015	16,501,302	49,929,317
2011	30,608,898	14,894,739	45,503,637
2012	26,880,000	13,450,496	40,330,496
2013-2017	113,630,000	48,748,033	162,378,033
2018-2022	76,230,000	25,489,244	101,719,244
2023-2027	51,935,000	9,528,431	61,463,431
2028-2032	15,020,000	1,542,125	16,562,125
Less:			
Unamortized Discount	(349,923)	-	(349,923)
Deferral on Debt Defeasance	(9,929,700)	-	(9,929,700)
Add:			
Unamortized Premium	7,848,146	-	7,848,146
Total	<u>\$ 411,841,539</u>	<u>\$ 167,469,294</u>	<u>\$ 579,310,833</u>

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

Maturity	Principal	Interest	Total
2008	\$ 26,074,067	\$ 35,145,652	\$ 61,219,719
2009	22,187,515	34,085,912	56,273,427
2010	23,426,067	33,144,082	56,570,149
2011	30,054,726	32,249,164	62,303,890
2012	31,323,496	30,997,280	62,320,776
2013-2017	135,003,137	134,679,461	269,682,598
2018-2022	113,483,843	106,502,249	219,986,092
2023-2027	109,880,000	82,014,188	191,894,188
2028-2032	128,635,000	59,681,654	188,316,654
2033-2037	194,810,000	32,702,846	227,512,846
Less:			
Deferral on Debt Defeasance	(11,331,710)	-	(11,331,710)
Add:			
Unamortized Premium	11,701,185	-	11,701,185
Total	<u>\$ 815,247,326</u>	<u>\$ 581,202,488</u>	<u>\$ 1,396,449,814</u>

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

Maturity	Principal	Interest	Total
2008	78,900,000	30,463,234	109,363,234
2009	73,655,000	29,193,381	102,848,381
2010	68,690,000	25,783,463	94,473,463
2011	60,415,000	22,775,975	83,190,975
2012	50,530,000	20,000,645	70,530,645
2013-2017	187,640,000	73,727,355	261,367,355
2018-2022	185,330,000	34,421,500	219,751,500
2023-2027	89,625,000	5,300,683	94,925,683
Less:			
Deferral on Debt Defeasance	(5,785,200)	-	(5,785,200)
Add:			
Unamortized Premium	39,488,206	-	39,488,206
Total	<u>\$ 828,488,006</u>	<u>\$ 241,666,236</u>	<u>\$ 1,070,154,242</u>

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:

**FOUNDATIONS' BONDS (1)**  
Debt Service Requirements to Maturity

Maturity	Principal
2008	\$ 6,984,332
2009	8,698,780
2010	8,490,643
2011	12,199,781
2012	12,025,215
Thereafter	643,286,553
Total	<u>\$ 691,685,304</u>

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
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	1,090,000	260,568	1,350,568
2013-2017	2,375,000	270,344	2,645,344
Total	<u>\$ 7,145,000</u>	<u>\$ 2,279,080</u>	<u>\$ 9,424,080</u>

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 11, 2007. 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
2008	\$ 20,625,000	\$ 21,297,156	\$ 41,922,156
2009	20,750,000	21,251,346	42,001,346
2010	11,205,000	20,432,533	31,637,533
2011	11,895,000	19,870,508	31,765,508
2012	12,465,000	19,280,908	31,745,908
2013-2017	69,595,000	86,230,562	155,825,562
2018-2022	74,475,000	67,609,584	142,084,584
2023-2027	95,260,000	46,344,901	141,604,901
2028-2032	75,245,000	23,864,976	99,109,976
2033-2037	64,220,000	8,303,262	72,523,262
Less:			
Deferral on Debt Defeasance	(1,261,264)	-	(1,261,264)
Add:			
Unamortized Premium	12,643,146	-	12,643,146
Total	<u>\$ 467,116,882</u>	<u>\$ 334,485,736</u>	<u>\$ 801,602,618</u>

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 June 28, 2007. 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
2008	\$ 213,754,000	\$ 288,737,000	\$ 502,491,000
2009	257,065,000	287,505,000	544,570,000
2010	272,860,000	276,485,000	549,345,000
2011	265,355,000	264,742,000	530,097,000
2012	261,650,000	253,039,000	514,689,000
2013-2017	1,216,950,000	1,089,708,000	2,306,658,000
2018-2022	1,071,190,000	792,906,000	1,864,096,000
2023-2027	930,055,000	527,038,000	1,457,093,000
2028-2032	743,063,000	302,879,000	1,045,942,000
2033-2037	512,541,000	125,646,000	638,187,000
2038-2042	170,570,000	39,367,000	209,937,000
2043-2047	73,010,000	6,456,000	79,466,000
Add:			
Unamortized Premium	10,120,000	-	10,120,000
Total	<u>\$ 5,998,183,000</u>	<u>\$ 4,254,508,000</u>	<u>\$ 10,252,691,000</u>

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 March 18, 2007. 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
2008	\$ 57,675,000	\$ 74,497,838	\$ 132,172,838
2009	64,620,000	73,406,655	138,026,655
2010	66,115,000	70,597,898	136,712,898
2011	90,955,000	67,221,708	158,176,708
2012	94,685,000	62,843,044	157,528,044
2013-2017	425,880,000	251,878,605	677,758,605
2018-2022	381,915,000	158,322,661	540,237,661
2023-2027	304,225,000	78,425,980	382,650,980
2028-2032	151,310,000	31,138,319	182,448,319
2033-2037	82,345,000	8,758,870	91,103,870
Less:			
Unaccreted Capital Appreciation Bonds	(49,103,905)	-	(49,103,905)
Add:			
Unamortized Premium	25,967,386	-	25,967,386
Total	<u>\$ 1,696,588,481</u>	<u>\$ 877,091,578</u>	<u>\$ 2,573,680,059</u>

### 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 10, 2007. 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
2008	\$ 189,465,000	\$ 136,761,333	\$ 326,226,333
2009	195,290,000	125,863,369	321,153,369
2010	190,870,000	116,140,160	307,010,160
2011	185,500,000	106,684,919	292,184,919
2012	184,265,000	97,592,626	281,857,626
2013-2017	818,387,063	360,314,881	1,178,701,944
2018-2022	647,505,000	175,038,344	822,543,344
2023-2027	361,280,000	53,775,539	415,055,539
2028-2032	72,810,000	6,963,938	79,773,938
2033-2037	2,910,000	64,909	2,974,909
Less:			
Deferral on			
Debt Defeasance	(46,194,100)	-	(46,194,100)
Add:			
Unamortized Premium	58,222,218	-	58,222,218
Total	<u>\$ 2,860,310,181</u>	<u>\$ 1,179,200,018</u>	<u>\$ 4,039,510,199</u>

### Virginia Biotechnology Research Partnership Authority

The Virginia Biotechnology Research Partnership 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 Partnership 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
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	3,995,000	2,329,745	6,324,745
2013-2017	21,685,000	8,100,650	29,785,650
2018-2022	20,975,000	2,729,375	23,704,375
Add:			
Unamortized Premium	394,611	-	394,611
Total	<u>\$ 61,174,611</u>	<u>\$ 24,260,376</u>	<u>\$ 85,434,987</u>

Total principal outstanding at June 30, 2007, on all Component Unit bonds amounted to \$14.0 billion.

### 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
2008	\$ 9,922,000	\$ 5,731,000	\$ 15,653,000
2009	10,439,000	4,820,000	15,259,000
2010	10,821,000	4,418,000	15,239,000
2011	11,349,000	3,955,000	15,304,000
2012	11,798,000	3,505,000	15,303,000
2013-2017	56,396,000	10,676,000	67,072,000
2018-2022	17,790,000	4,140,000	21,930,000
2023-2027	15,108,000	1,546,000	16,654,000
2028-2032	35,000	-	35,000
Total	<u>\$ 143,658,000</u>	<u>\$ 38,791,000</u>	<u>\$ 182,449,000</u>

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

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

*(Dollars in Thousands)*

	<b>Balance July 1, 2006</b>	<b>Issuances and Other Increases</b>	<b>Retirements and Other Decreases</b>	<b>Subtotal June 30, 2007</b>
<b>Primary Government</b>				
<b>Governmental Activities:</b>				
<b>Long-term Debt Bearing the Pledge of the</b>				
<b>Full Faith and Credit of the Commonwealth:</b>				
General Obligation Bonds - 9(b) and 9(c):				
Public Facilities Bonds (3)	\$ 571,340	\$ 242,875	\$ (53,020)	\$ 761,195
Parking Facilities Bonds (3)	9,494	-	(1,070)	8,424
Transportation Facilities Bonds (3)	107,777	-	(15,694)	92,083
Add: Unamortized Premium	42,133	12,722	(4,096)	50,759
Accretion on Capital Appreciation Bonds	-	-	-	-
Less: Unamortized Discount	(1,102)	547	-	(555)
Deferral on Debt Defeasance	(13,144)	1,567	-	(11,577)
<b>Total General Obligation Bonds</b>	<b>716,498</b>	<b>257,711</b>	<b>(73,880)</b>	<b>900,329</b>
<b>Long-term Debt / Obligations Not Bearing the Pledge</b>				
<b>of the Full Faith and Credit of the Commonwealth:</b>				
Transportation Facilities Bonds (3)	1,854,904	123,070	(281,765)	1,696,209
Virginia Public Building Authority Bonds (3)	1,274,505	350,065	(88,135)	1,536,435
Regional Jails Financing Payable	13,375	-	(1,682)	11,693
Industrial Development Authority Obligations	23,160	-	(4,150)	19,010
Economic Development Authority Obligations (3)	96,515	-	-	96,515
Add: Unamortized Premium	162,493	27,903	(17,434)	172,962
Accretion on Capital Appreciation Bonds	7,448	2,243	-	9,691
Less: Unamortized Discount	(8,396)	3,833	-	(4,563)
Deferral on Debt Defeasance	(54,960)	14,320	(2,947)	(43,587)
Installment Purchase Obligations	50,485	15,888	(6,799)	59,574
Notes Payable - Virginia Public Broadcasting Board	13,485	-	(2,415)	11,070
Notes Payable - Transportation	12,325	-	-	12,325
Notes Payable - Aviation	2,768	-	(286)	2,482
Compensated Absences	328,799	16,637	(5,428)	340,008
Capital Lease Obligations	126,615	10,144	(11,726)	125,033
Pension Liability	709,835	82,285	(2,349)	789,771
Other	18,114	1,581	(3,223)	16,472
<b>Total Long-term Debt / Obligations Not Bearing the Pledge</b>	<b>4,631,470</b>	<b>647,969</b>	<b>(428,339)</b>	<b>4,851,100</b>
<b>Total Governmental Activities</b>	<b>5,347,968</b>	<b>905,680</b>	<b>(502,219)</b>	<b>5,751,429</b>
<b>Business-type Activities:</b>				
<b>Long-term Debt / Obligations Not Bearing the Pledge</b>				
<b>of the Full Faith and Credit of the Commonwealth:</b>				
Installment Purchase Obligations	5,967	-	(3,357)	2,610
Compensated Absences	8,262	4,399	(3,979)	8,682
Pension Liability	14,474	2,492	-	16,966
Lottery Prizes Payable	346,636	4,195	(37,719)	313,112
Tuition Benefits Payable	1,617,517	178,341	(65,376)	1,730,482
<b>Total Business-type Activities</b>	<b>1,992,856</b>	<b>189,427</b>	<b>(110,431)</b>	<b>2,071,852</b>
<b>Total Primary Government</b>	<b>\$ 7,340,824</b>	<b>\$ 1,095,107</b>	<b>\$ (612,650)</b>	<b>\$ 7,823,281</b>

<u>Foundations (4)</u>	<u>Balance June 30, 2007</u>	<u>Due Within One Year</u>
\$ -	\$ 761,195	\$ 57,460
-	8,424	1,149
-	92,083	15,960
-	50,759	-
-	-	-
-	(555)	-
-	(11,577)	-
-	<u>900,329</u>	<u>74,569</u>
-	1,696,209	159,905
-	1,536,435	112,690
-	11,693	1,713
-	19,010	4,370
-	96,515	3,190
-	172,962	-
-	9,691	-
-	(4,563)	-
-	(43,587)	-
-	59,574	5,087
-	11,070	2,550
-	12,325	-
-	2,482	286
-	340,008	155,650
-	125,033	10,420
-	789,771	-
-	<u>16,472</u>	<u>2,967</u>
-	<u>4,851,100</u>	<u>458,828</u>
-	<u>5,751,429</u>	<u>533,397</u>
-	2,610	875
-	8,682	4,387
-	16,966	-
-	313,112	58,766
-	<u>1,730,482</u>	<u>84,568</u>
-	<u>2,071,852</u>	<u>148,596</u>
<u>\$ -</u>	<u>\$ 7,823,281</u>	<u>\$ 681,993</u>

*Continued on next page*

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

*(continued)*

*(Dollars in Thousands)*

	<b>Balance July 1, 2006</b>	<b>Issuances and Other Increases</b>	<b>Retirements and Other Decreases</b>	<b>Subtotal June 30, 2007</b>
<b>Component Units</b>				
<b>Long-term Debt Bearing the Pledge of the Full Faith and Credit of the Commonwealth:</b>				
General Obligation Bonds - Higher Education 9(c) (3)	\$ 325,969	\$ 117,029	\$ (31,156)	\$ 411,842
<b>Long-term Debt / Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:</b>				
Bonds (3)	11,333,493	2,607,423	(1,063,005)	12,877,911
Installment Purchase Obligations	137,788	15,333	(26,366)	126,755
Capital Lease Obligations	59,532	72,523	(7,317)	124,738
Notes Payable	908,394	242,084	(116,003)	1,034,475
Compensated Absences	199,127	173,226	(151,466)	220,887
Pension Liability	259,739	58,060	(2,539)	315,260
Bond Anticipation Notes	-	40,000	-	40,000
Trust and Annuity Obligations	31	1,023	(143)	911
Other	284,322	232,983	(224,975)	292,330
<b>Total Component Units</b>	<b>\$ 13,508,395</b>	<b>\$ 3,559,684</b>	<b>\$ (1,622,970)</b>	<b>\$ 15,445,109</b>

- (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.

<u>Foundations (4)</u>	<u>Balance June 30, 2007</u>	<u>Due Within One Year</u>
\$ -	\$ 411,842	\$ 33,757
691,685	13,569,596	608,700
123	126,878	20,441
416	125,154	7,028
207,785	1,242,260	122,525
4,515	225,402	146,013
51,930	367,190	-
2,100	42,100	42,100
98,816	99,727	2,966
18,860	311,190	44,798
<u>\$ 1,076,230</u>	<u>\$ 16,521,339</u>	<u>\$ 1,028,328</u>

## Bond Defeasance

### Primary Government

On February 15, 2007, the Commonwealth Transportation Board issued \$39,115,000 in Transportation Revenue and Refunding Bonds Series 2007A and \$83,955,000 in Transportation Revenue and Refunding Bonds Series 2007B with true interest cost (TIC) of 3.95 percent. The bonds that were refunded with the series 2007A Transportation Revenue Refunding Bonds were \$39,655,000 of outstanding Transportation Revenue Bonds, Series 1997B. The bonds that were refunded with the series 2007B Transportation Revenue Refunding Bonds were \$88,755,000 of outstanding Transportation Revenue Bonds, Series 1997C. The net proceeds from the sale of the refunding portion of the bonds of \$131,355,689 (after payment of underwriter's fees and other issuance costs) were deposited to an irrevocable trust with an escrow agent to provide future debt service payment 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 \$2,945,689. This amount has been 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 13 years will be reduced by \$11,564,925 resulting in an economic gain of \$10,260,810 discounted at a rate of 3.89 percent.

### Component Units

In February 2007, the Virginia College Building Authority issued \$59,125,000 of Series 2007A 21<sup>st</sup> Century College Program refunding bonds. The bonds refunded with the series 2007A refunding bonds were \$8,400,000 of series 1998, \$7,215,000 of series 1999, \$7,300,000 of series 2001, and \$38,190,000 of series 2002A 21<sup>st</sup> Century College Program bonds. The net proceeds from the sale of the refunding bonds of \$61,979,042 were deposited in irrevocable trusts with escrow agents to provide for all future debt service on the defeased bonds. This defeasance resulted in an accounting loss of \$2,057,000. Total debt service payments over the next 15 years will be reduced by \$3,478,788 resulting in a present value savings of \$2,658,194 discounted at the rate of 3.94 percent.

In April 2007, the Virginia Port Authority issued \$74,255,000 of Port Facility Revenue Bonds to currently refund all but \$7,040,000 in principal amount of the Authority's Port Facilities Revenue Bonds, Series 1997 issued in the original par amount of \$98,065,000. The refunding was undertaken to take advantage of the lower interest rates available to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by \$939,014. This amount is netted against the old debt and amortized over the life of the new debt which is the same as the refunded debt. The transaction also resulted in a net present value savings of \$7,000,743. Proceeds from

the sale, along with other funds available from the Authority, were placed in an irrevocable trust with an escrow agent to repay the bonds in full in July 2007.

During the fiscal year, the Virginia Resources Authority issued refunding bonds series 2006B and 2006C. The bonds that were refunded or partially refunded were \$22,020,000 of series 2000A and \$14,095,000 of series 2000B Water and Sewer Revenue Bonds. The refunding resulted in an economic gain of \$2,263,810.

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, 2007, there were \$557.1 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 \$765.1 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, \$55,040 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, 2007, are shown in the following table (dollars in thousands). There were no capital lease amounts associated with business-type activities.

	<u>Governmental Activities</u>	<u>Component Units (1)</u>
2008	\$ 20,513	\$ 11,700
2009	19,595	11,858
2010	19,201	12,211
2011	18,666	10,770
2012	16,847	9,318
2013-2017	64,606	39,872
2018-2022	26,775	26,635
2023-2027	690	23,365
2028-2032	-	22,991
2033-2037	-	4,800
2038-2042	-	950
2043-2047	-	1,194
2048-2052	-	3,092
<b>Total Gross Minimum Lease Payments</b>	<b>186,893</b>	<b>178,756</b>
Less: Amount Representing Executory Costs	<u>12,005</u>	<u>6,548</u>
<b>Net Minimum Lease Payments</b>	<b>174,888</b>	<b>172,208</b>
Less: Amount Representing Interest	<u>49,855</u>	<u>47,470</u>
<b>Present Value of Net Minimum Lease Payments</b>	<b><u>\$ 125,033</u></b>	<b><u>\$ 124,738</u></b>

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

### Foundations (2)

2008	\$ 118
2009	280
2010	<u>18</u>
<b>Net Minimum Lease Payments</b>	<b>416</b>
Less: Amount Representing Interest	<u>-</u>
<b>Present Value of Net Minimum Lease Payments</b>	<b><u>\$ 416</u></b>

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

At June 30, 2007, 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.

	<u>Buildings</u>	<u>Equipment</u>	<u>Total</u>
<b>Governmental Activities:</b>			
Gross Capital Assets	\$ 178,504	\$ 7,431	\$ 185,935
Less: Accumulated Depreciation	<u>50,366</u>	<u>623</u>	<u>50,989</u>
<b>Total Governmental Activities</b>	<b><u>\$ 128,138</u></b>	<b><u>\$ 6,808</u></b>	<b><u>\$ 134,946</u></b>
<b>Component Units:</b>			
Gross Capital Assets	\$ 140,009	\$ 34,263	\$ 174,272
Less: Accumulated Depreciation	<u>13,796</u>	<u>18,543</u>	<u>32,339</u>
Subtotal (excluding Foundations)	<u>126,213</u>	<u>15,720</u>	<u>141,933</u>
Foundations:			
Gross Capital Assets	-	567	567
Less: Accumulated Depreciation	<u>-</u>	<u>108</u>	<u>108</u>
Subtotal Foundations	<u>-</u>	<u>459</u>	<u>459</u>
<b>Total Component Units</b>	<b><u>\$ 126,213</u></b>	<b><u>\$ 16,179</u></b>	<b><u>\$ 142,392</u></b>
<b>Total Capital Lease Assets</b>	<b><u>\$ 254,351</u></b>	<b><u>\$ 22,987</u></b>	<b><u>\$ 277,338</u></b>

## Notes Payable

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

<b>Primary Government</b>	
Transportation Note	\$ 12,325
Virginia Public Broadcasting Board Note	11,070
Aviation Note	2,482
Installment Notes	62,184
<b>Total Primary Government</b>	<u>88,061</u>
<b>Component Units</b>	
Virginia Public School Authority	172,390
University of Virginia	68,553
Virginia Polytechnic Institute and State University	122,304
Virginia Commonwealth University	164,670
Nonmajor Component Units	506,558
Installment Notes	126,755
Subtotal (excluding Foundations)	<u>1,161,230</u>
Foundations:	
Notes Payable	207,785
Installment Notes	123
Subtotal - Foundations	<u>207,908</u>
<b>Total Component Units</b>	<u>1,369,138</u>
<b>Total Notes Payable</b>	<u>\$ 1,457,199</u>

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 (part of 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 (part of 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 variable interest rates are reset weekly by the remarketing agent. 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 \$172,390,000 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).

An additional amount of \$862,085,000 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 \$851,968,456. Interest rates range from 2.75 percent to 5.75 percent and shall be paid semi-annually. The final principal payment is due in 2035. The Virginia Biotechnology Research Partnership Authority has a note payable in the amount of \$800,381 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 \$5,068,768 between the Medical Center and a subsidiary. The College of William and Mary (Nonmajor Component Unit) has notes payable of \$2,057,509 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 \$2,105,097, 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 \$85,387, 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 construction. Future principal payments as of June 30, 2007, are shown in the following table (dollars in thousands).

**Foundations' Notes Payable (Component Units) (1)**

June 30, 2007

<b>Maturity</b>	<b>Principal</b>
2008	\$ 31,301
2009	11,716
2010	13,481
2011	22,241
2012	9,938
Thereafter	119,108
<b>Total</b>	<b>\$ 207,785</b>

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 \$188,938,569 of the total outstanding debt of the Commonwealth. The Foundations (Component Units) had installment purchase obligations totaling \$123,053 as of year-end. Presented in the following tables are repayment schedules for installment purchase obligations.

**Installment Purchase Obligations - Governmental Funds**

June 30, 2007

<b>Maturity</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2008	\$ 5,086,941	\$ 2,952,005	\$ 8,038,946
2009	5,975,035	2,216,176	8,191,211
2010	6,186,457	1,819,974	8,006,431
2011	5,049,858	1,589,094	6,638,952
2012	3,480,129	1,423,019	4,903,148
2013-2017	17,020,897	5,176,933	22,197,830
2018-2022	16,138,040	1,820,282	17,958,322
2023-2027	636,715	8,641	645,356
<b>Total</b>	<b>\$ 59,574,072</b>	<b>\$ 17,006,124</b>	<b>\$ 76,580,196</b>

**Installment Purchase Obligations - Business-type Activities**

June 30, 2007

<b>Maturity</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2008	\$ 875,027	\$ 72,473	\$ 947,500
2009	770,681	46,587	817,268
2010	776,891	20,579	797,470
2011	186,944	1,963	188,907
<b>Total</b>	<b>\$ 2,609,543</b>	<b>\$ 141,602</b>	<b>\$ 2,751,145</b>

**Installment Purchase Obligations - Component Units (1)**

June 30, 2007

<b>Maturity</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2008	\$ 20,338,565	\$ 3,408,560	\$ 23,747,125
2009	18,414,683	3,888,948	22,303,631
2010	18,856,059	4,181,375	23,037,434
2011	9,584,364	2,235,919	11,820,283
2012	8,781,027	1,931,982	10,713,009
2013-2017	33,231,651	5,692,400	38,924,051
2018-2022	17,548,605	1,383,980	18,932,585
<b>Total</b>	<b>\$ 126,754,954</b>	<b>\$ 22,723,164</b>	<b>\$ 149,478,118</b>

Note (1): The above amounts exclude installment purchase obligations of Foundations.

**Installment Purchase Obligations - Foundations (2)**

June 30, 2007

<b>Maturity</b>	<b>Principal</b>
2008	\$ 102,669
2009	20,384
<b>Total</b>	<b>\$ 123,053</b>

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, 2007, are shown in the following table:

	<u>Jackpot</u>	<u>Win For Life</u>	<u>Total</u>
Due within one year	\$ 56,423,312	\$ 2,342,987	\$ 58,766,299
Due in subsequent years	<u>223,036,370</u>	<u>31,309,990</u>	<u>254,346,360</u>
Total (present value)	279,459,682	33,652,977	313,112,659
Add:			
Interest to Maturity	<u>78,858,318</u>	<u>29,175,023</u>	<u>108,033,341</u>
Lottery Prizes Payable at Maturity	<u>\$ 358,318,000</u>	<u>\$ 62,828,000</u>	<u>\$ 421,146,000</u>

## 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, 2007, tuition benefits payable of \$1.7 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 \$294.5 million has been recorded to reflect the actuarially determined present value of future payments anticipated from contract holders.

## 24. OTHER REVENUE

The following table (dollars in thousands) summarizes Other Revenue for the fiscal year ended June 30, 2007.

	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
<b>Primary Government:</b>					
General	\$ 243	\$ 194,696	\$ 10,281	\$ 6	\$ -
Major Special Revenue Funds:					
Commonwealth Transportation	18,918	10,201	56,437	-	1,279
Federal Trust	8	163	-	-	485
Literary	-	66,087	-	-	-
Nonmajor Governmental Funds	90,629	50,663	72,656	12,421	22,544
Nonmajor Enterprise Funds	-	12,684	-	-	-
Private Purpose	-	-	-	-	-
Pension and Other Employee Benefit Trust	-	-	-	-	-
Total Primary Government	<u>\$ 109,798</u>	<u>\$ 334,494</u>	<u>\$ 139,374</u>	<u>\$ 12,427</u>	<u>\$ 24,308</u>

	Tobacco Master Settlement	Taxes	Smart Tag	Other	Total Other Revenue (1)
<b>Primary Government:</b>					
General	\$ 50,087	\$ -	\$ -	\$ 59,268	\$ 314,581
Major Special Revenue Funds:					
Commonwealth Transportation	-	-	11,727	16,545	115,107
Federal Trust	-	-	-	74,116	74,772
Literary	-	-	-	84,988	151,075
Nonmajor Governmental Funds	-	-	-	122,329	371,242
Nonmajor Enterprise Funds	-	12,430	-	2,494	27,608
Private Purpose	-	-	-	7	7
Pension and Other Employee Benefit Trust	-	-	-	338	338
Total Primary Government	<u>\$ 50,087</u>	<u>\$ 12,430</u>	<u>\$ 11,727</u>	<u>\$ 360,085</u>	<u>\$ 1,054,730</u>

Note (1): \$85,000 (dollars in thousands) of the total amount recorded for the Literary Fund is related to unclaimed property.

## 25. PRIZES AND CLAIMS

The following table summarizes Prizes and Claims Expense for the fiscal year ended June 30, 2007.

*(Dollars in Thousands)*

	<u>Insurance Claims</u>	<u>Lottery Prize Expense</u>	<u>Total Prizes and Claims</u>
<b>Proprietary Funds:</b>			
Major Enterprise Funds:			
State Lottery	\$ -	\$ 781,038	\$ 781,038
Unemployment Compensation	381,660	-	381,660
Nonmajor Enterprise Funds	165,278	-	165,278
Total Enterprise Funds	<u>\$ 546,938</u>	<u>\$ 781,038</u>	<u>\$ 1,327,976</u>
Internal Service Funds	<u>\$ 837,679</u>	<u>\$ -</u>	<u>\$ 837,679</u>

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## 26. DEPRECIATION AND AMORTIZATION

The following table summarizes Depreciation and Amortization Expense for the fiscal year ended June 30, 2007.

*(Dollars in Thousands)*

	<u>Depreciation</u>	<u>Amortization</u>	<u>Total Depreciation and Amortization</u>
<b>Proprietary Funds:</b>			
Major Enterprise Funds:			
State Lottery	\$ 1,991	\$ -	\$ 1,991
Virginia College Savings Plan	64	-	64
Nonmajor Enterprise Funds	6,384	105	6,489
Total Enterprise Funds	<u>\$ 8,439</u>	<u>\$ 105</u>	<u>\$ 8,544</u>
Internal Service Funds	<u>\$ 24,625</u>	<u>\$ -</u>	<u>\$ 24,625</u>

## 27. OTHER EXPENSES

The following table summarizes Other Expenses for the fiscal year ended June 30, 2007.

*(Dollars in Thousands)*

	Grants and Distributions To Localities	Expendable Equipment/ Improvements	Other (2)	Total Other Expenses (1)
<b>Proprietary Funds:</b>				
Major Enterprise Funds:				
Virginia College Savings Plan	\$ -	\$ 129	\$ 870	\$ 999
Nonmajor Enterprise Funds	107	2,002	379	2,488
Total Enterprise Funds	<u>\$ 107</u>	<u>\$ 2,131</u>	<u>\$ 1,249</u>	<u>\$ 3,487</u>
Internal Service Funds	<u>\$ 1,369</u>	<u>\$ 8,753</u>	<u>\$ 8,265</u>	<u>\$ 18,387</u>
Private Purpose	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15</u>	<u>\$ 15</u>
Pension and Other Employee Benefit Trust	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 550</u>	<u>\$ 550</u>

Note (1): Fiduciary expenses of \$565 (dollars in thousands) are not included in the Government-wide Statement of Activities.

Note (2): \$7,466 (dollars in thousands) can be attributed to expenses related to closing cases in the Risk Management Internal Service Fund.

## 28. OTHER NON-OPERATING REVENUE/EXPENSES

The following table summarizes Other Non-Operating Revenue/Expenses for the fiscal year ended June 30, 2007.

*(Dollars in Thousands)*

	Loss on Sale of Capital Assets	Expenses for Securities Lending Transactions	Other (1)	Total Other Non- Operating Revenue/ Expenses
<b>Proprietary Funds:</b>				
Major Enterprise Funds:				
State Lottery	\$ -	\$ (3,919)	\$ 391	\$ (3,528)
Nonmajor Enterprise Funds	(10)	(2,958)	(147)	(3,115)
Total Enterprise Funds	<u>\$ (10)</u>	<u>\$ (6,877)</u>	<u>\$ 244</u>	<u>\$ (6,643)</u>
Internal Service Funds	<u>\$ (495)</u>	<u>\$ (5,555)</u>	<u>\$ 4,079</u>	<u>\$ (1,971)</u>

Note (1): \$3,648 (dollars in thousands) is related to revenues associated with asset transfers in the Virginia Information Technologies Agency Internal Service Fund.

## 29. TRANSFERS

The following table summarizes Transfers In and Transfers Out for the fiscal year ended June 30, 2007 (dollars in thousands).

Transfers Out (Reported In):	Transfers In (Reported In):				
	General	Commonwealth Transportation	Federal Trust	Literary Fund	Nonmajor Governmental Funds
<b>Primary Government</b>					
General	\$ -	\$ 171,316	\$ -	\$ -	\$ 545,147
Major Special Revenue Funds:					
Commonwealth Transportation	36,939	-	188	-	264,132
Federal Trust	298	9,496	-	-	232
Nonmajor Governmental Funds	34,067	1,001	1,181	-	7,982
Major Enterprise Funds:					
State Lottery	437,180	-	-	10,747	-
Virginia College Savings Plan	146	-	-	-	-
Unemployment Compensation	273	-	9,501	-	-
Nonmajor Enterprise Funds	104,802	-	-	5	1,025
Internal Service Funds	553	-	-	-	1,023
<b>Total Primary Government</b>	<b>\$ 614,258</b>	<b>\$ 181,813</b>	<b>\$ 10,870</b>	<b>\$ 10,752</b>	<b>\$ 819,541</b>

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) move unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; and (4) 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 \$12.7 million to the General Fund as required by Chapter 847, 2007 Acts of Assembly.
- The Department of Motor Vehicles transferred certain fees of approximately \$6.9 million to the General Fund as required by Chapter 847, 2007 Acts of Assembly.

## 30. EXTRAORDINARY ITEMS

Extraordinary items are defined as significant transactions or events that are both unusual in nature and infrequent in occurrence. A foundation of the University of Virginia (Major Component Unit) reported

an extraordinary item of approximately \$19.5 million for the change in reporting related to a revocable trust that is a component unit of the foundation. A foundation of the Christopher Newport University (Nonmajor Component Unit) reported an extraordinary item of \$2.5 million which represents the excess of insurance proceeds over the net book value of property and improvements that were damaged in August 2006 when lightning struck a building owned by the foundation.

## 31. CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2007, the Department of Taxation changed the methodology used to compute deferred taxes. Previously, the computations were based on fiscal year data. Beginning in fiscal year 2007, the computations are based on tax year data. As a result, beginning balances for the Government-wide Governmental Activities and General Fund (Major) have been restated by \$151.7 million and \$132.0 million, respectively.

During fiscal year 2007, higher education institutions were issued new guidelines for reporting "due from" amounts related to Department of Treasury's reimbursement programs. Beginning net assets have been increased by approximately \$8.4 million for the higher education institutions because of the new guidelines. In addition, beginning net assets have been decreased by approximately \$6.9 million in the Capital Project Funds (Nonmajor) and \$1.5 million for the Virginia College Building Authority (Nonmajor Component Unit).

<b>Nonmajor Enterprise Funds</b>	<b>Internal Service Funds</b>	<b>Total Primary Government</b>
\$ 73	\$ -	\$ 716,536
-	311	301,570
31	1	10,058
40	-	44,271
-	-	447,927
-	-	146
-	-	9,774
-	443	106,275
-	-	1,576
<u>\$ 144</u>	<u>\$ 755</u>	<u>\$ 1,638,133</u>

Prior to fiscal year 2007, general fund appropriation available amounts reported by higher education institutions were eliminated in the Comprehensive Annual Financial Report because these amounts were also reported in the General Fund as cash. For fiscal year 2007, these amounts are not eliminated and are reported as a "Due from Primary Government" by the higher education institutions. A "Due to Component Units" is reported in the General Fund. Beginning net assets have been increased by approximately \$90.7 million for the higher education institutions because of this change. The General Fund beginning fund balance has been decreased by approximately \$11.6 million in the governmental fund statements, and beginning net assets in the government-wide financial statements has been decreased by the entire \$90.7 million.

### 32. ON-BEHALF PAYMENTS

Higher Education Institutions (Component Units) recognized various foundation and association on-behalf payments for fringe benefits and salaries during fiscal year 2007 totaling \$947,751. This activity was recorded as Program Revenue – Operating Grants and Contributions in the amount of \$921,501; and Program Revenue – Charges for Services in the amount of \$26,250, with corresponding expenses.

### 33. ENDOWMENTS

Donor restricted endowments reside primarily within the higher education institutions. The net appreciation available for expenditure is \$1,074,371,734, and of this amount, \$1,070,564,748 is reported as restricted net assets and \$3,806,986 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.

### 34. CASH FLOWS – ADDITIONAL DETAILED INFORMATION

The following table (dollars in thousands) summarizes specific cash flows for the fiscal year ended June 30, 2007.

	<u>State Lottery</u>	<u>Virginia College Savings Plan</u>	<u>Unemployment Compensation</u>
Cash Flows Resulting from:			
Payments for Prizes, Claims, and Loss Control:			
Lottery Prizes	\$ (843,293)	\$ -	\$ -
Claims and Loss Control	-	-	(380,731)
Total	<u>\$ (843,293)</u>	<u>\$ -</u>	<u>\$ (380,731)</u>
Other Operating Revenues:			
Other Operating Revenue	\$ -	\$ -	\$ -
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Other Operating Expenses:			
Payments for Contractual Services	\$ (26,938)	\$ (3,413)	\$ -
Other Operating Expenses (1)	-	-	-
Total	<u>\$ (26,938)</u>	<u>\$ (3,413)</u>	<u>\$ -</u>
Other Noncapital Financing Receipt Activities:			
Advances/Contributions from the Commonwealth	\$ 6,000	\$ -	\$ -
Receipts from Taxes	-	-	-
Other Noncapital Financing Receipt Activities	949	-	-
Total	<u>\$ 6,949</u>	<u>\$ -</u>	<u>\$ -</u>
Other Noncapital Financing Disbursement Activities:			
Repayments of Advances/Contributions from the Commonwealth	\$ (8,000)	\$ -	\$ -
Other Noncapital Financing Disbursement Activities	-	-	-
Total	<u>\$ (8,000)</u>	<u>\$ -</u>	<u>\$ -</u>
Other Capital and Related Financing Disbursements for Capital Expenditures			
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Note (1): \$7,466 (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
\$ -	\$ (843,293)	\$ -
(163,984)	(544,715)	(813,415)
<u>\$ (163,984)</u>	<u>\$ (1,388,008)</u>	<u>\$ (813,415)</u>
\$ 4,920	\$ 4,920	\$ 6
<u>\$ 4,920</u>	<u>\$ 4,920</u>	<u>\$ 6</u>
\$ (51,068)	\$ (81,419)	\$ (284,322)
(48)	(48)	(8,518)
<u>\$ (51,116)</u>	<u>\$ (81,467)</u>	<u>\$ (292,840)</u>
\$ 28,623	\$ 34,623	\$ -
142,233	142,233	-
755	1,704	201
<u>\$ 171,611</u>	<u>\$ 178,560</u>	<u>\$ 201</u>
\$ (39,890)	\$ (47,890)	\$ -
(1,264)	(1,264)	-
<u>\$ (41,154)</u>	<u>\$ (49,154)</u>	<u>\$ -</u>
\$ -	\$ -	\$ (1,487)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,487)</u>

### **35. 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. The Commonwealth 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 component units.

Additionally, the General Assembly created two special non-reverting funds. The Tobacco Settlement monies are accounted for in 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 reported in 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). In May 2007, 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) the remaining 25 percent of its future right, title and interest in the Tobacco Settlement Revenues (TSRs). Specifically, these rights include all 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.

### **36. TAXATION PUBLIC-PRIVATE PARTNERSHIP**

The Department of Taxation (Department) entered into a partnership agreement with CGI AMS (formerly American Management Systems, Inc. or AMS) in July 1998. Under this contract CGI AMS and Department personnel 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 was that any payments made under the contract were limited to additional revenue benefits realized by the Department from enhancements developed through the partnership. As of June 30, 2004, sufficient revenue benefits had been generated to fully fund the total contract cost. By November 2006, the final payment was made to CGI AMS, making the total cost of the project \$170.6 million. In December 2006, the remaining balance in the Fund, \$976,987, was transferred to the Commonwealth.

### **37. OXYCONTIN SETTLEMENTS**

During fiscal year 2007, lawsuits were filed related to OxyContin. As a result, the Commonwealth was party to three separate plea agreements. One agreement provided \$20 million for a prescription monitoring program. These amounts are recorded in the Prescription Monitoring Permanent Fund (Nonmajor) as the principal must remain intact. Under the terms of the second agreement, the Office of the Attorney General received \$39.8 million to be used by the Virginia Medicaid Fraud Control Unit. This amount is recorded as unearned revenue in the Other Special Revenue Fund (Nonmajor). Under the terms of the third agreement, the Department of State Police will receive \$44.2 million during fiscal years 2008 and 2009 to assist with enforcement activities, training, and equipment purchases.

## 38. 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 received the 2008 cost allocation plan, which is based on state fiscal year 2006 data. The Commonwealth believes this liability has the potential to total \$305,292 as of June 30, 2007.

Virginia's combined overpayment and underpayment food stamp error rate for federal fiscal year 2006 was 6.96 percent. The national average combined error rate was 5.99 percent. A liability amount is established when, for the second or subsequent consecutive fiscal year, the USDA determines there is a 95 percent probability a State's payment error rate exceeds 105 percent of the national performance measure. Virginia fell within the tolerance level for 2006. Therefore, 2006 will not count as a first year of potential liability.

### 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 the 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.

### 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 \$1.8 billion. The discretely presented component units have such debt of \$877.6 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, 2007, the bailment inventory was valued at \$35,868,177.

## 39. PENDING GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS

The GASB has issued accounting and reporting standards for other postemployment benefits. As discussed in Note 15, the Virginia Retirement System (VRS) has implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plan*, in the System's published financial statements for the fiscal year ended June 30, 2007. The Commonwealth, as an employer, will implement GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*, for the fiscal year ended June 30, 2008. This Statement will require the Commonwealth to report obligations and funding status in the financial statements for the fiscal year 2008.

In addition to the VRS administered Life Insurance, Long-term Disability and Health Insurance Credit programs, the Commonwealth administers the Pre-Medicare Retiree Healthcare and the Line of Duty Death and Disability programs. Effective July 1, 2007, irrevocable trust funds were established to account for the financial activity of these two programs. As of June 30, 2007, the Commonwealth's estimated annual required contribution for all OPEBs is \$294.7 million and the estimated unfunded actuarial liabilities are \$2.1 billion.

## 40. SUBSEQUENT EVENTS

### Primary Government

In October 2007, the Virginia Public Building Authority issued \$242,480,000 in Public Facilities Revenue Bonds, Series 2007A 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 2007, the Commonwealth issued \$183,305,000 in General Obligation Bonds, Series 2007B to fund capital projects for educational facilities, parks and recreational facilities of the Commonwealth, and various institutions of higher education.

### Component Units

Subsequent to June 30, 2007, the Virginia Resource Authority closed two loans totaling \$991,614.

In August 2007, the Virginia Housing Development Authority issued Commonwealth Mortgage Bonds, Series A and Subseries A-Z totaling \$150,000,000. In addition, the Virginia Housing Development Authority issued a Bank of America Revolving Credit Facility totaling \$25,000,000.

Hampton Roads Sanitation District elected to participate in the Virginia Municipal League/Virginia Association of Counties Commercial Paper Financing Program. On August 15, 2007, Hampton Roads Sanitation District closed on a \$75 million debt instrument that provides funding for the District's capital program. The initial

draw of \$25 million was at an interest rate of 4.13 percent including all fees. The terms of the commercial paper include a 30-day reset period.

In September 2007, the Virginia Housing Development Authority issued Rental Housing Bonds, Series B and Series C totaling \$23,650,000. In addition, the Virginia Housing Development Authority redeemed \$12,775,000 in Commonwealth Mortgage Bonds.

On October 31, 2007, the Virginia College Building Authority issued \$216.9 million in Educational Facilities Revenue Bonds, Series 2007A and \$100.8 million in Educational Facilities Revenue Refunding Bonds, Series 2007B, (the "2007 Bonds") under the Public Higher Education Financing Program (the "Program"). The Authority used the proceeds of the 2007A Bonds (the "new money bonds") to acquire Institutional Notes from participating public institutions of higher education (the "Institutions") in the Commonwealth and the 2007B Bonds (the "refunding bonds") were used to refund certain outstanding maturities of prior series of the Authority's Educational Facilities Revenue Bonds. Each participating Institution will, in turn, use the proceeds of its Institutional Note to finance capital projects which have been approved by the General Assembly. The 2007 Bonds are the twelfth and thirteen series of bonds to be issued under the Program.

In November 2007, the Virginia Public School Authority issued \$223,080,000 of School Financing Bonds (1997 Resolution) Series 2007B to purchase certain general obligation local school bonds to finance capital projects for public schools.