

*A REPORT TO THE CITIZENS OF THE COMMONWEALTH*

# *Virginia Financial Perspective*

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*For the Fiscal Year Ended June 30, 2007*



**Timothy M. Kaine**  
Governor

**Jody M. Wagner**  
Secretary of Finance

**David A. Von Moll**  
Comptroller

December 15, 2007

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## EXECUTIVE SUMMARY – PURPOSE OF THIS REPORT

The purpose of this report is to summarize and simplify the presentation of information contained in the Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Virginia. The Commonwealth's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and are independently audited by the Auditor of Public Accounts. Much of the information in the audited financial statements is necessarily technical and complex. As a result, the full financial statements may not be particularly useful to the citizens of the Commonwealth who wish to better understand state government finances.

Virginia began issuing simplified financial reports in 1991. These reports, commonly referred to as *popular reports*, are intended to better inform the public about their government's financial condition, without excessive detail or the use of technical accounting terms.

This report summarizes and explains the information contained in the financial statements for fiscal year 2007, along with other information on the Commonwealth's finances, in easily understood terms. This report represents the ongoing commitment of Commonwealth officials to keep Virginia's citizens informed about state finances, and to be accountable in all respects for the receipt and expenditure of public funds.

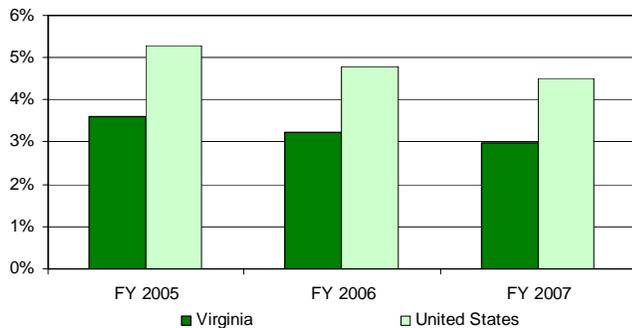
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## Virginia's Economy

Each year the CAFR includes a section describing the Commonwealth's economic outlook. For fiscal year (FY) 2007, economists at the University of Virginia's Weldon Cooper Center for Public Service (Center) prepared this economic highlight section. In FY 2007, the Commonwealth's economy continued to expand. However, this growth has slowed slightly when compared to recent fiscal years. Unemployment continued its downward trend, employment has grown in nearly every industry sector and almost every urban center, personal income grew moderately although not at the rate of previous fiscal years, and the housing market experienced its second consecutive decline.

Employment and income are the two broad economic measures that give the best picture of major developments. Unemployment decreased by 0.2 percent in FY 2007. Persons without work constituted 3.0 percent of the labor force (**Figure 1**). Virginia's unemployment rate was 1.5 percentage points lower than the national average.

*Figure 1*  
**Unemployment Rate**



Sources: U. S. Bureau of Labor Statistics and Virginia Employment Commission

**Figure 2** shows changes in employment by industry based on the North American Industry Classification System (NAICS). All industries except construction, manufacturing, and information showed positive employment gains in FY 2007. The largest gains were in the natural resources and mining industries. However, in terms of change in number of employees, the professional and business services, as well as educational and health services exceeded all others.

**Figure 2** also shows FY 2007 industry growth rates for the nation. Virginia's overall growth rate was slightly below the national rate. A number of important Virginia industries, including construction and manufacturing, underperformed in relation to national counterparts.

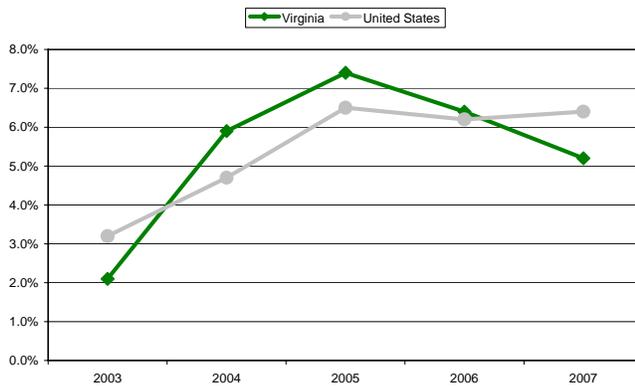
*Figure 2*  
**Nonfarm Payroll Employment**

NAICS Industry	Virginia Employment (000)			Change, FY 2006 – FY 2007	
	2005	2006	2007	Virginia, Percent	U.S., Percent
Natural resources and mining	10.4	11.1	11.5	3.6	7.8
Construction	237.3	248.9	248.6	(0.1)	1.6
Manufacturing	298.0	292.7	286.5	(2.1)	(0.5)
Wholesale trade	115.7	118.5	121.2	2.3	2.0
Retail trade	414.8	422.3	426.1	0.9	0.1
Transportation and utilities	121.1	120.4	121.3	0.7	1.9
Information	94.9	92.0	91.9	(0.1)	0.6
Financial activities	190.8	194.1	197.2	1.6	2.0
Professional and business services	593.6	618.5	636.4	2.9	2.8
Education and health services	387.4	399.6	409.0	2.4	2.7
Leisure and hospitality	325.1	334.4	341.0	2.0	3.2
Other services	180.5	181.1	183.1	1.1	0.7
Federal civilian government	151.7	152.7	153.6	0.6	(0.4)
State government	147.6	151.3	153.2	1.3	1.3
Local government	357.4	364.6	369.6	1.4	1.5
<b>Total Nonfarm Employment</b>	<b>3,626.3</b>	<b>3,702.2</b>	<b>3,750.2</b>		

Source: U. S. Bureau of Labor Statistics  
Note: Details may not add due to rounding.

**Figure 3** shows the percentage change in personal income for the last three fiscal years. Developments in personal income have a strong bearing on Commonwealth government revenues since collections from the individual income tax and the retail sales tax are closely tied to income. In FY 2007, Virginia personal income in current dollars grew by 5.2 percent. This was below the national rate of 6.4 percent and below the Commonwealth's rate in the three preceding years.

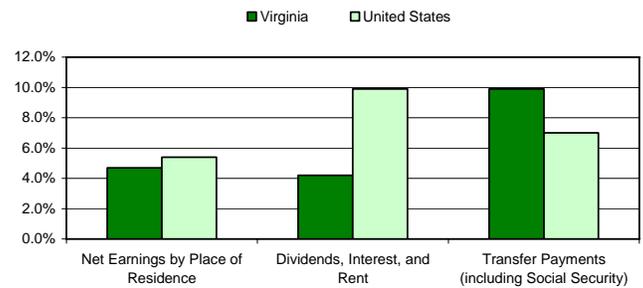
**Figure 3**  
**Percentage Change in Personal Income**



Source: Bureau of Economic Analysis

There are three major components of personal income (**Figure 4**). The first and largest is net earnings by place of residence, which is the sum of wages and salaries and proprietors' income. In FY 2007, Virginia's net earnings rose by 4.7 percent versus 5.4 percent nationally. Dividends, interest, and rent, the second component, increased by 4.2 percent while the national rate was 9.9 percent. The third component, transfer payments such as Social Security income, grew by 9.9 percent compared to 7 percent for the nation.

**Figure 4**  
**Personal Income Growth Rates**



FY 2007 was a moderate year for the Virginia economy. The current housing slump and related problems in financial markets will create difficult conditions in FY 2008, especially in the construction and real estate industries. Nonetheless, Virginia's strategic location on the east coast with proximity to major markets and a fine seaport, as well as the importance of the federal government as employer and contractor, provide economic muscle for adjusting to the fluctuations in the national and international economies.

## FINANCIAL STATEMENT INFORMATION

This section contains financial statement information for the Commonwealth of Virginia for the fiscal year ending June 30, 2007.

Virginia state government reports on its finances on the basis of a *fiscal year* which starts on July 1 and ends the following June 30. All information presented in this report is for the fiscal year that began on July 1, 2006, and ended on June 30, 2007. This is referred to as fiscal year 2007, or FY 2007.

Virginia's financial information is prepared by the Department of Accounts, an executive branch agency, under the direction of the Governor and the Secretary of Finance. The information is then audited by the Auditor of Public Accounts, who is an official of the legislative branch of government. In this way, the audit process is independent. The financial information for FY 2007 was audited and received an unqualified

auditor's opinion.

Virginia accounts for its financial operations in government-wide financial statements and fund financial statements. The government-wide financial statements provide readers with a broad overview of the Commonwealth's finances in a manner similar to a private sector business. The statements provide both short-term and long-term information, and are prepared on a full accrual basis of accounting, which means that all revenue and expenditures are reflected even if the cash was not received or paid as of June 30, 2007. The fund statements are divided into three categories, governmental, proprietary, and fiduciary. The governmental funds are reported on a modified accrual basis of accounting which focuses on assets that can readily be converted to cash. The proprietary funds account for activities that operate like private sector business and use the full accrual basis of accounting.

The fiduciary funds account for resources held for the benefit of parties outside the government. These also use the full accrual basis of accounting. These fiduciary funds are not included in the government-wide financial statements because they cannot be used to finance the Commonwealth's operations.

Virginia accounts for its revenues and expenditures within various funds. The funds are groups of related accounts that are segregated for specific activities or objectives. The largest fund supporting the operation of state government is the General Fund, which accounts for the majority of receipts from income and sales taxes. Another important fund is the Commonwealth Transportation Fund, which derives its revenues from gasoline taxes, vehicle registration fees, and a portion of sales taxes. The largest fund overall is the Pension Trust Fund, which includes the assets of the state employees' pension system.

Virginia accounts for its revenues and expenditures under two different methods of accounting. The Virginia Constitution and laws passed by the General Assembly require that all accounting be on a *cash basis*. This means that revenue is recognized when cash is received and expenditures are recognized when cash is paid out. Cash basis accounting is simple and easily verified. It is, therefore, the best way to demonstrate that state agencies are complying with laws that govern spending.

The other method of accounting used in Virginia involves the application of *accounting principles generally accepted in the United States of America*, or *GAAP*. GAAP is defined by national standard setting bodies, and is the method of accounting required when Virginia sells bonds. Only financial information prepared on a GAAP basis can be audited in accordance with accepted practice and receive an unqualified opinion from the Auditor of Public Accounts.

Information is presented in this report on the GAAP basis of accounting, and also, for the general fund, on the budgetary (cash) basis. Labels have been used to note which basis of accounting is being shown.

This Popular Report contains information from only selected funds and accounts and does not include information of the State's component units. Component units are legally separate entities that are accountable to the State. Some examples of component units are the public higher education institutions.

The full financial statements of the Commonwealth of Virginia, together with other economic and demographic information, are published in Virginia's Comprehensive Annual Financial Report, or CAFR. If you would like to view the CAFR, it is available for download at [www.doa.virginia.gov](http://www.doa.virginia.gov).

## Commonwealth Statement of Net Assets and Statement of Activities - GAAP Basis

A *Statement of Net Assets* summarizes all of the assets and liabilities with the difference between the two reported as net assets. As of the end of FY 2007, Virginia had *assets* (i.e., cash, investments, property and amounts owed to the state) on a GAAP basis of \$32.0 billion. These assets were partially offset by liabilities (i.e., amounts owed by the state to others) of \$14.2 billion. This left state government with net assets (the amount left after liabilities are subtracted from assets) of \$17.8 billion. **Figure 5** is a condensed Statement of Net Assets for the Commonwealth as of June 30, 2007.

The Statement of Activities (**Figure 6**) summarizes information showing how the State's net assets changed, on a GAAP basis, during the fiscal year. Total net assets increased by \$655.2 million which was primarily due to an increase in capital assets. Virginia recognized \$11.9 billion in program revenues and \$18.2 billion in general revenues, which was used to pay for \$29.4 billion of expenses. Program revenues are receipts that can be identified with specific expenses and are used to pay those expenses. General revenues consist primarily of tax revenue, as well as any other revenue that does not meet the definition of program revenue.

The FY 2006 net asset balance has been restated by \$138.2 million to correct errors reported in the previous year. The majority of these errors were related to the omission of a capital asset last year. In addition, there was a change in the way the Commonwealth computes amounts owed to taxpayers and public colleges for \$54.0 million.

Although the total equity of Virginia is substantial and confirms the overall financial health of the Commonwealth, it is equally important to look at the financial condition of some of the individual *funds*. Governmental activities represent activities associated with the taxes and fees charged by most state agencies. Business-type activities are those like the State Lottery that operate like a business.

*Figure 5*  
**Statement of Net Assets (GAAP Basis)**  
As of June 30, 2007

*(Dollars in Millions)*

	Primary Government			FY 2006 Total (Informational Only)
	Governmental Activities	Business-type Activities	FY 2007 Total	
Assets	\$ 28,212	\$ 3,739	\$ 31,951	\$ 30,110
Liabilities	11,540	2,625	14,165	12,979
Net Assets	<u>\$ 16,672</u>	<u>\$ 1,114</u>	<u>\$ 17,786</u>	<u>\$ 17,131</u>

**Figure 6**  
**Statement of Activities (GAAP Basis)**  
 For the Fiscal Year Ended June 30, 2007

*(Dollars in Millions)*

	Primary Government			FY 2006 Total (Informational Only)
	Governmental Activities	Business-type Activities	FY 2007 Total	
Program Revenues:				
Charges for Services	\$ 2,110	\$ 2,991	\$ 5,101	\$ 5,113
Operating Grants and Contributions	5,870	36	5,906	5,698
Capital Grants and Contributions	850	-	850	707
	8,830	3,027	11,857	11,518
Expenses	27,168	2,213	29,381	26,770
Net (Expenses) Revenues	(18,338)	814	(17,524)	(15,252)
General Revenues	18,135	24	18,159	17,575
Transfers and Other Items	584	(564)	20	164
Change in Net Assets	381	274	655	2,487
Net Assets - July 1, as restated	16,291	840	17,131	14,644
Net Assets - June 30	<u>\$ 16,672</u>	<u>\$ 1,114</u>	<u>\$ 17,786</u>	<u>\$ 17,131</u>

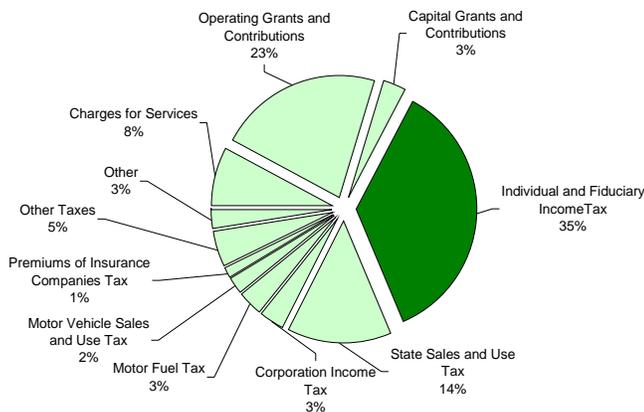
**Governmental Activities Revenues**

The following is a graphical representation of the Statement of Activities (**Figure 7**) revenues for governmental activities.

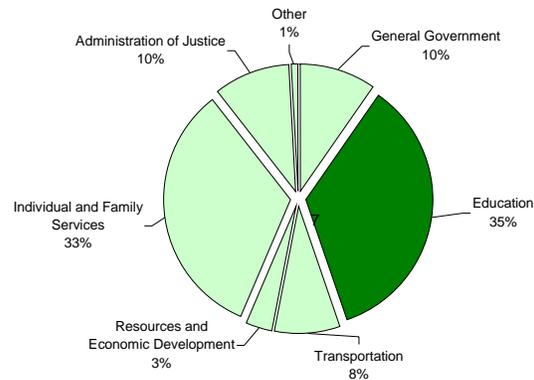
**Governmental Activities Expenses**

The following is a graphical representation of the Statement of Activities (**Figure 8**) expenses for governmental activities.

**Figure 7**  
**Revenues by Source – Governmental Activities**  
**FY 2007**



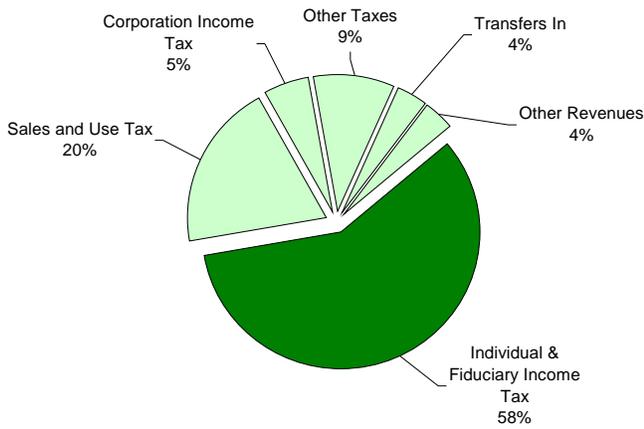
**Figure 8**  
**Expenses by Type – Governmental Activities**  
**FY 2007**



### General Fund – Cash Basis

During FY 2007 the General Fund received \$16.7 billion in resources. **Figure 9** illustrates the various revenue sources. Individual and fiduciary income taxes accounted for 58 percent of the total resources of the General Fund, while sales and use taxes made up 20 percent. These revenues plus other revenues totaled \$16.1 billion, or 96 percent of General Fund resources. The remaining resources totaling \$611.0 million came through transfers from other funds, including alcoholic beverage sales and lottery profits.

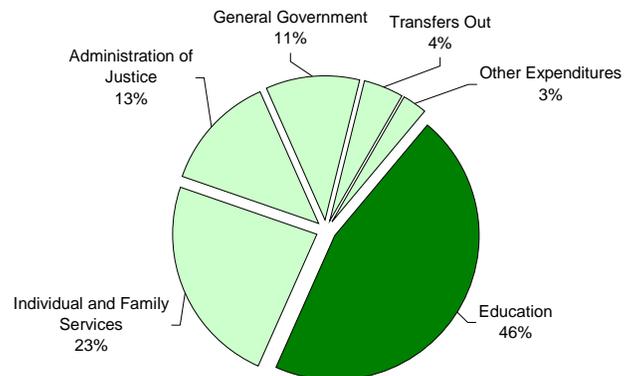
*Figure 9*  
**General Fund Resources**  
**FY 2007, Cash Basis**



Revenues (not including transfers) increased by \$733.4 million from FY 2006. This increase is attributable to the net effect of changes in all sources of revenue.

General Fund disbursements, including transfers, for FY 2007 (**Figure 10**) totaled \$16.7 billion. Expenditures totaled \$16.0 billion and transfers to other funds were \$716.5 million. Education accounted for 46 percent of General Fund spending, including direct state aid for primary and secondary schools and General Fund expenditures to support state colleges and universities. Support for social services, Medicaid, public health, and mental health consumed 23 percent of the General Fund. Public safety consumed 13 percent. Just 11 percent was used to support the administration of general governmental operations, which included \$961.1 million, for payments to localities to offset state-mandated reductions in local personal property tax rates (i.e., car tax).

*Figure 10*  
**General Fund Disbursements**  
**FY 2007, Cash Basis**



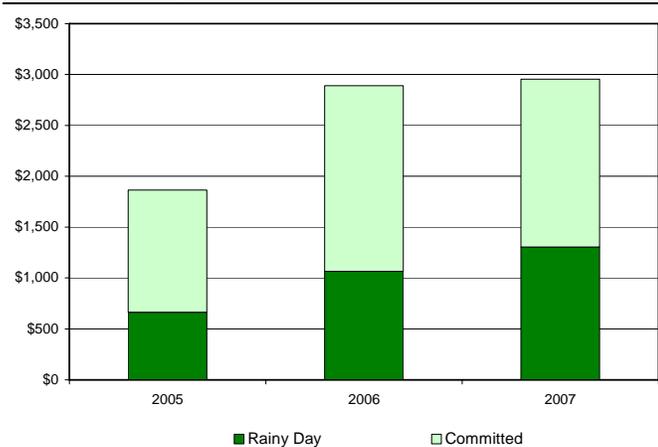
Expenditures (not including transfers) increased by \$1.6 billion over the prior year. The increase is due to the net effect of changes in all uses of General Fund resources.

General Fund revenues and net transfers exceeded expenditures by \$65.1 million on the cash basis. In other words, the General Fund had an operating gain for the year on the cash basis.

**Figure 11** shows the General Fund balance - cash basis - at the end of each year since 2005. The rebound of Virginia's economy and an overall increase in tax revenue collections that resulted from tax reform legislation increased the balance to \$1,865.3 million in FY 2005 and \$2,890.0 million in FY 2006. The General Fund balance showed an increase in FY 2007 to \$2,955.1 million.

*Figure 11*  
**General Fund Balance - Cash Basis**  
**Highlighting the Available Fund Balance**

(Dollars in Millions)



These balances are made up of “committed” funds and the “rainy day” fund.

Balances are “committed” if there are plans in place for their use.

The "rainy day" fund, or Revenue Stabilization Fund, is required by an amendment to the State Constitution, which was approved by the voters on November 7, 1992. The rainy day fund is reported as a reserved portion of the General Fund. The General Assembly is required to appropriate additional reserves to this fund when revenue collections are strong compared to the average for the previous six years. This reserved portion of the General Fund balance can only be used if state revenues decline sharply from the previous year.

The total amount reserved in the Revenue Stabilization Fund for FY 2007 is \$1,304.7 million. This amount is made up of \$1,189.8 million of principal and interest on deposit which equals the maximum amount allowed for FY 2007 and \$114.9 million reserved for deposit during FY 2008. The Commonwealth is required to deposit an additional \$21.3 million in FY 2009.

### General Fund - GAAP Basis

During FY 2007 the General Fund received \$16.7 billion in resources. **Figure 12** illustrates the various revenue sources. Individual and fiduciary income taxes accounted for 58 percent of the resources, while sales and use taxes made up 20 percent. These revenues plus other revenues totaled \$16.1 billion, or 96 percent. The remaining monies totaling \$619.2 million came from other sources, such as transfers from other funds, including alcoholic beverage sales and lottery profits.

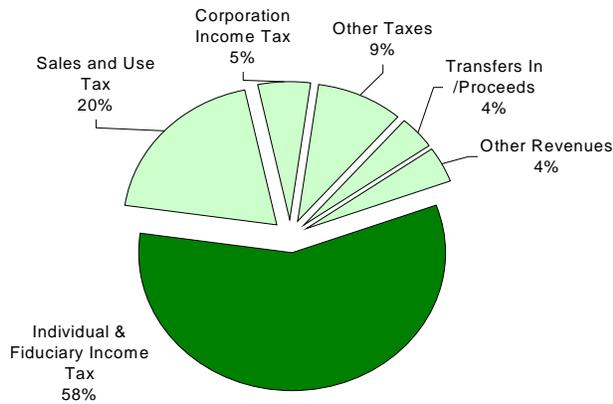
Revenues (not including transfers) increased by \$630.2 million from FY 2006. This increase is attributable to the net effect of changes in all line items.

General Fund disbursements, including transfers, for FY 2007 (**Figure 13**) totaled \$16.9 billion. Expenditures totaled \$16.2 billion and transfers to other funds were \$716.5 million. Education accounted for 45 percent including direct state aid for primary and secondary schools and General Fund expenditures to support state colleges and universities. Support for social services, Medicaid, public health, and mental health consumed 24 percent of the General Fund. Public safety disbursed 13 percent, while only 10 percent was used to support the administration of general governmental operations.

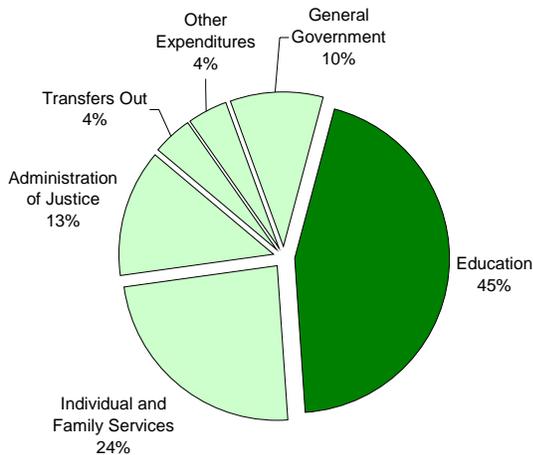
Expenditures (not including transfers) increased by \$1.7 billion over the prior year. The increase is due to the net effect of changes in all line items.

General Fund expenditures exceeded revenues and net transfers by \$272.2 million on the GAAP basis of accounting. In other words, the General Fund had an operating loss for the year on the GAAP basis of accounting.

**Figure 12**  
**General Fund Resources**  
**FY 2007, GAAP Basis**



**Figure 13**  
**General Fund Disbursements**  
**FY 2007, GAAP Basis**



GAAP accounting requires that Virginia recognize certain assets and liabilities that are not recognized on the cash basis of accounting. Overall, the additional liabilities recognized under GAAP exceeded the additional assets, reducing fund balance to a greater degree than is recognized on a cash basis of accounting. Several future liabilities are particularly significant. One is for *estimated tax refunds due* of \$243.3 million, which is an estimate of the state income taxes withheld during FY 2007 that will eventually be refunded. Another is for *tax refunds payable* on returns filed in FY 2007 and paid during the months of July and August following year end close of \$306.9 million. The third item is an amount of estimated *Medicaid claims payable* of \$190.9 million, which represents medical services rendered in prior years that will not be paid for until FY 2008. These amounts are summarized in **Figure 14** that compares the General Fund on a cash and GAAP basis of accounting.

**Figure 14**  
**Analysis of General Fund Balance**  
**Cash Basis versus GAAP Basis**

For Fiscal Years Ended June 30, 2007 and 2006

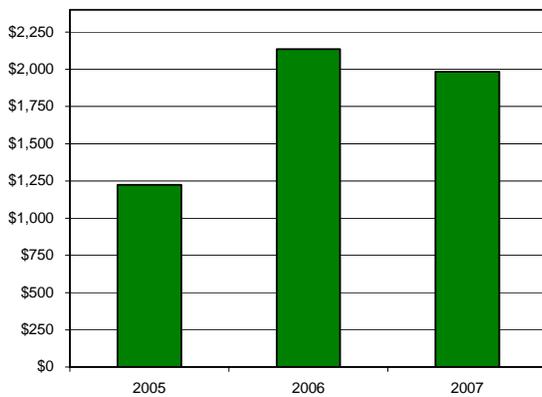
(Dollars in Millions)

	<u>FY 2007</u>	<u>FY 2006</u>
<b>Fund Balance, Cash Basis</b>	\$ 2,955.1	\$ 2,890.0
ADD:		
Sales Taxes Receivable	298.7	311.3
Other Taxes Receivable	279.0	429.3
Other Receivables	60.5	69.6
Inventory/Prepaid Items	82.8	76.5
Other Accrued Items	(10.4)	(33.3)
Total to be Added	<u>710.6</u>	<u>853.4</u>
LESS:		
Tax Refunds Payable	306.9	260.0
Estimated Tax Refunds Due	243.3	279.3
Medicaid Claims Payable	190.9	173.0
Sales Taxes Due to Localities	190.3	179.5
Other Accrued Items	<u>750.6</u>	<u>595.7</u>
Total to be Subtracted	<u>1,682.0</u>	<u>1,487.5</u>
Difference	<u>(971.4)</u>	<u>(634.1)</u>
<b>Fund Balance, GAAP Basis</b>	<u>\$ 1,983.7</u>	<u>\$ 2,255.9</u>

General Fund expenditures exceeded revenues and net transfers by \$272.2 million on the GAAP basis of accounting. Fund balance decreased to \$1,983.7 million, compared to a balance of \$2,255.9 million in FY 2006 (**Figure 15**). The decrease in the General Fund GAAP basis balance from FY 2006 to FY 2007 is due to increases in Education expenditures related to re-basing the Standards of Quality and increases in Individual and Family Service expenditures related to Medicaid.

*Figure 15*  
**General Fund Balance - GAAP Basis**

(Dollars in Millions)



**Commonwealth Transportation Fund - GAAP Basis**

The Commonwealth Transportation Fund pays for the construction and maintenance of state highways. The fund also provides monies for other modes of transportation including rail, bus, aviation and seaports.

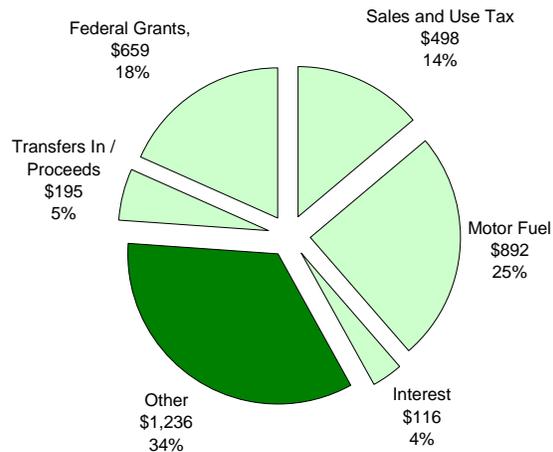
The size of this fund reflects the fact that Virginia is one of only a few states that includes essentially all roads within the state highway system. Virginia has approximately 70,066 miles of state roads.

The Commonwealth Transportation Fund (**Figure 16**) is classified as a *special revenue fund* because revenues of the fund come from various taxes and fees that are restricted for use in the support of transportation programs.

These revenue sources include the tax on motor fuel, vehicle registration and titling fees, and driver licensing fees. Also, since 1986, one half cent of the state's sales tax is deposited into this fund.

During FY 2007, the Commonwealth Transportation Fund had revenues and other receipts of \$3.6 billion and expenditures and other uses of \$3.5 billion on a GAAP basis. At the end of FY 2007, the fund had a balance of \$2.0 billion measured on a GAAP basis.

*Figure 16*  
**Commonwealth Transportation Fund Revenue Resources FY 2007, GAAP Basis**  
(Dollars in Millions)



Highway construction projects often require several years to complete. State revenues contribute approximately 63.0 percent of the funding for these projects. The federal government provides 33.4 percent, and 3.6 percent comes from bond proceeds. Local governments also contribute to the cost of highway construction.

## College Savings Plan Fund - GAAP Basis

### Proprietary Fund

The Virginia College Savings Plan (VCSP) Fund administers the Virginia Prepaid Education Program that locks in future tuition costs for minors from birth through the ninth grade. The fund accounts for the actuarially determined contributions and payments for approved expenses, and is classified as a proprietary fund. VCSP had current assets of \$278.1 million plus noncurrent assets such as investments and receivables of \$1.6 billion. These assets were held to satisfy current liabilities of \$113.1 million and long-term liabilities of \$1.6 billion. Invested in capital assets, net of related debt is \$145,000 and total unrestricted net assets were \$121.4 million as of June 30, 2007.

### Private Purpose Fund

VCSP also administers two other plans, the Virginia Education Savings Trust and College America. These plans are voluntary, non-guaranteed, higher educational investment programs. They are classified as a private purpose fund because the monies solely benefit individuals.

Total assets in the VCSP private purpose fund totaled \$24.0 billion as of June 30, 2007, and included \$23.6 billion of mutual fund investments. The net assets held in trust as of June 30, 2007, were \$24.0 billion.

For FY 2007, VCSP reported additions of \$9.1 billion, which is primarily composed of contributions from plan participants in the amount of \$5.5 billion. Deductions for FY 2007 totaled \$1.6 billion, including \$649.1 million in tuition benefits paid and \$896.8 million in redeemed shares.

## Pension Trust Fund - GAAP Basis

The Commonwealth maintains a number of funds that are managed for the benefit of various groups and institutions. The largest of these is the pension trust fund for state and certain local employees. This fund ended FY 2007 with a total equity of \$58.3 billion. During FY 2007 the fund received \$2.3 billion in contributions and earned \$10.0 billion on investment holdings. The increase in net assets after the payment of retirement benefits, refunds and operating costs was \$9.6 billion (**Figure 17**).

On November 5, 1996, Virginia voters approved an amendment to the Constitution of Virginia which provided that funds of the Virginia Retirement System are trust funds held separate from other state funds. This amendment safeguards the trust funds from being used for any purpose other than paying benefits to members and beneficiaries. The amendment does not change the way the System is funded or organized.

*Figure 17*  
**Statement of Changes in Plan Net Assets**  
**Pension Trust Fund - GAAP Basis**  
For the Fiscal Year Ended June 30, 2007

*(Dollars in Thousands)*

<b>Additions:</b>	
Contributions	\$ 2,273,249
Investment Income:	
Interest, Dividends, and Other	
Investment Income	10,503,029
Less Investment Expenses	513,602
Net Investment Income	9,989,427
Other Revenue	338
<b>Total Additions</b>	<b>12,263,014</b>
<b>Deductions:</b>	
Retirement Benefits	2,314,309
Refunds to Former Members	95,765
Retiree Health Insurance Credits	80,447
Insurance Premiums and Claims	118,627
Administrative Expenses	27,797
Other Expenses	33,832
<b>Total Deductions</b>	<b>2,670,777</b>
Net Increase (Decrease)	9,592,237
<b>Net Assets, July 1</b>	<b>48,751,776</b>
<b>Net Assets, June 30</b>	<b>\$ 58,344,013</b>

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

Virtually all pension systems experience some gap between the amount that has been contributed and the amount that will be required to honor all promised benefits to both current and future retirees. This gap arises when benefits are added to the plan, and can also be produced by differences between the assumptions that are made in financing the trust fund and actual experience.

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

Employer contributions made for FY 2007 totaled \$277.6 million. This was less than the actuarially determined Annual Required Contribution of \$419.1 million, but did meet statutory requirements. When compared to other plans similar to Virginia's, the funding statistics indicate that Virginia's plans are adequately funded and financially sound. The pension obligation is included in the calculations of future state contribution rates so that a portion of this obligation is paid off each year.

### Alcoholic Beverage Control Fund - GAAP Basis

The ABC fund accounts for the receipts and disbursements from the sale of alcoholic beverages. In FY 2007, ABC profits of \$104.3 million were distributed to the General Fund to use for current operations and for alcohol treatment and rehabilitation programs. Total ABC operating income for FY 2007 was \$103.6 million on \$510.8 million in total sales.

### State Lottery Fund - GAAP Basis

The lottery fund (**Figure 18**) accounts for all receipts and disbursements from the sale of lottery tickets for various games.

During FY 2007, the Lottery had revenues of \$1.4 billion and expenses, including lottery prize payments, of \$925.8 million. Non-operating income for the year, including interest earnings, was \$11.2 million. During FY 2007, \$447.9 million was transferred out to be spent for public education as required by law.

*Figure 18*  
**Revenues, Expenses and Changes in Fund Net Assets**  
**State Lottery - GAAP Basis**  
For the Fiscal Year Ended June 30, 2007

*(Dollars in Thousands)*

<b>Operating Revenues:</b>	
Charges for Sales and Services	\$ 1,362,343
Total Operating Revenue	<u>1,362,343</u>
<b>Operating Expenses:</b>	
Personal Services	19,811
Contractual Services	34,424
Supplies and Materials	1,909
Depreciation	1,991
Lottery Prize Expense	866,018
Other Expenses	1,611
Total Operating Expenses	<u>925,764</u>
Operating Income	<u>436,579</u>
<b>Nonoperating Revenues:</b>	
Interest, Dividends, and Rents	14,698
Other	(3,528)
Total Nonoperating Revenues	<u>11,170</u>
Income Before Transfers and Changes	447,749
Operating Transfers Out	<u>(447,927)</u>
Change in Net Assets	(178)
<b>Total Net Assets, July 1</b>	<u>(2,684)</u>
<b>Total Net Assets, June 30</b>	<u>\$ (2,862)</u>

## **Risk Management (Self-Insurance) Program - GAAP Basis**

The Commonwealth is self-insured for workers' compensation, property damage, general (tort) liability, medical malpractice and automobile insurance coverage. At the end of FY 2007, the self-insurance program had cash and other assets of \$128.2 million, while the estimated liability for claims payable was \$281.5 million. The program had additional liabilities of \$68.9 million, which resulted in a GAAP deficit balance of \$222.1 million.

The self-insurance program remains solvent because additional cash is constantly being provided from premiums paid by state agencies.

## **Debt Administration**

The total outstanding debt on the books of the Commonwealth as of the end of FY 2007 was \$24.3 billion (**Figure 19**). Debt on the books of the Commonwealth can be classified into three categories:

- 1) general obligation bonds of Virginia taxpayers,
- 2) limited obligations, which may use tax revenue to pay principal and interest (Other Tax Supported); and
- 3) debt issued by state-created authorities and institutions of higher education, which is not an obligation of Virginia taxpayers and does not use tax revenues (Non-Tax Supported).

As illustrated in **Figure 19**, a total of \$1.3 billion, or 5.4 percent of all debt, is a general obligation of Virginia taxpayers and supported by a pledge of all tax revenues and other monies of the Commonwealth. This kind of pledge is also referred to as "full faith and credit" debt. General obligation debt is issued as provided for in the State Constitution.

The next category of debt, limited obligations which may use tax revenue, does not carry the "full faith and credit" of the Commonwealth, but does use certain tax revenues, in whole or in part, to pay principal and interest. Examples of other tax supported debt include certain bonds issued by the Virginia Port Authority to improve Virginia ports, most highway construction bonds, bonds issued to construct state office buildings, hospitals and prisons, and capital leases and installment purchase contracts entered into by state agencies and institutions of higher education. A total of \$6.0 billion of this type of tax supported debt was outstanding at the end of FY 2007. This is 24.6 percent of all debt on the books of the Commonwealth.

Non-tax Supported Debt makes up 70.0 percent of all debt in the Commonwealth. The majority of this debt is issued by various authorities that are created under state law to issue bonds to finance programs considered to provide a benefit to the public. Total debt in this category at the end of FY 2007 was \$17.0 billion.

*Figure 19*  
**State Debt/Obligations**  
**Tax Supported and Non-Tax Supported**  
 As of June 30, 2007

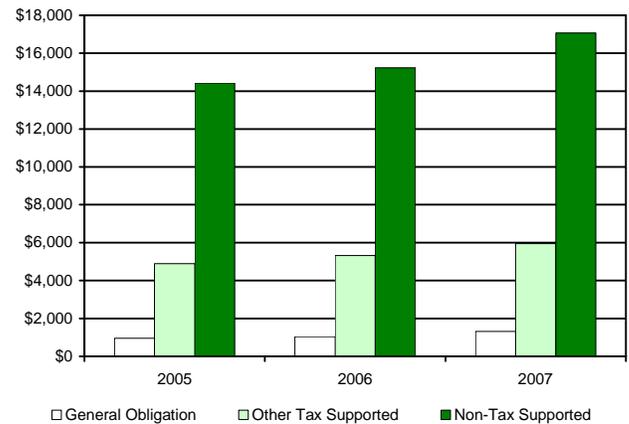
<i>(Dollars in Thousands)</i>	<b>Total</b>	<b>Percent of Total</b>
<b>Tax-Supported Debt/Obligations</b>		
<b>General Obligation Bonds</b>		
Public Facilities Bonds	\$ 797,300	3.2%
Parking Facilities Bonds	8,804	0.1%
Transportation Facilities Bonds	94,225	0.4%
Higher Education Bonds	411,842	1.7%
Total General Obligation Bonds	<u>1,312,171</u>	<u>5.4%</u>
<b>Other Tax-Supported Debt/Obligations</b>		
Transportation	987,550	4.1%
Virginia Port Authority	236,300	0.9%
Virginia Public Building Authority	1,575,187	6.5%
Innovative Technology Authority	7,145	0.1%
Virginia College Building Authority	828,488	3.4%
Long-term Capital Lease Payable	249,771	1.0%
Compensated Absences Obligations	560,895	2.3%
Pension Liability Obligations	1,105,031	4.5%
Biotechnology Research Park	50,200	0.2%
Regional Jail Construction	11,693	0.1%
Installment Purchase	186,329	0.8%
Other Long-term Debt/Obligations	161,746	0.7%
Total Other	<u>5,960,335</u>	<u>24.6%</u>
Total Tax-Supported Debt/Obligations	<u>7,272,506</u>	<u>30.0%</u>
<b>Non-Tax Supported Debt/Obligations</b>		
Higher Education	815,247	3.3%
Virginia Housing Development Authority	5,998,183	24.6%
Virginia Public School Authority	2,860,310	11.7%
Virginia Resources Authority	1,696,588	7.0%
Other Long-term Debt/Obligations	5,701,786	23.4%
Total Non-Tax Supported Debt/Obligations	<u>17,072,114</u>	<u>70.0%</u>
<b>Total Commonwealth Debt/Obligations</b>	<u>\$ 24,344,620</u>	<u>100.0%</u>

The largest of these authorities is the Virginia Housing Development Authority, which has \$6.0 billion in debt outstanding secured by various mortgages. Other issuers include the Virginia Public School Authority and the Virginia Resources Authority. Colleges and teaching hospitals also issue bonds secured only by fees paid for services. These bonds do not use state taxes to pay principal and interest.

In each case, the debt of these authorities is secured only by the revenues of the issuing body. No tax revenues are used to support this debt and it is not considered a legal obligation of the Commonwealth. However, \$1.1 billion of the total carries a “moral obligation” promise by the Commonwealth to consider funding any deficiencies in debt service reserves from tax revenues. To date, no such deficiencies have occurred.

**Figure 20** summarizes the outstanding debt owed by the Commonwealth in all categories over three fiscal years. **Figure 21** shows the ratio of general obligation debt per person and **Figure 22** shows the percentage of governmental expenditures used to pay governmental debt.

**Figure 20**  
**Categories of Debt**  
(Dollars in Millions)



**Figure 21**  
**Ratio of General Obligation Debt Per Capita**  
(Amounts in Thousands, Except for Per Capita)

For the Fiscal Year Ended June 30,	Population (1)	General Obligation Debt (2)	General Long-term Debt Per Capita
2007	7,694	\$ 1,312,171	\$ 171
2006	7,623	1,042,467	137
2005	7,512	953,995	127
2004	7,432	853,309	115

- (1) Population figure for 2007 is estimated.
- (2) Includes 9(a), 9(b) and 9(c) debt, net of unamortized premiums, discounts and deferral on debt defeasance payable.

**Figure 22**  
**Percentage of Annual Debt Service Expenditures for Governmental Debt to Total Expenditures – All Governmental Fund Types**  
(Dollars in Thousands)

For the Fiscal Year Ended June 30,	Debt Service (1)	Total Expenditures (2)	Percentage
2007	\$ 513,798	\$ 27,399,582	1.88
2006	458,943	25,297,715	1.81
2005	414,035	23,670,765	1.75

- (1) Includes principal and interest payments related to general bonded debt reflected in the governmental activities column of the Government-wide Statement of Net Assets. The principle outstanding at June 30, 2007, was \$4.6 billion.
- (2) Includes General, Special Revenue, Debt Service, Capital Projects, and Permanent Funds.

Source: Department of Accounts

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## OTHER INFORMATION

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The following section discusses other information which may be of interest to the reader. The remaining information was reported in the State Comptroller’s “Report on Statewide Financial Management and Compliance for the Quarter Ended June 30, 2007.” This information is not included in the audited financial statements.

### Prompt Payment

State government places a significant emphasis on ensuring that vendors doing business with state agencies are paid within the time specified in the purchase contract. Payment performance is monitored monthly and payments that are overdue more than seven days entitle vendors to collect interest. Agencies must achieve a 95 percent compliance rate with all payment provisions in order to be considered in compliance with the Virginia Prompt Payment Act.

**Figure 23** shows that for FY 2007, the state made 98.8 percent of its payments on time, and that 97.0 percent of the dollars owed were paid in compliance with prompt payment requirements. The state paid out \$67,493 in interest on late payments during FY 2007, an increase of \$32,992 from FY 2006, on total vendor payments of \$5.6 billion.

*Figure 23*  
**Statewide Prompt Payment Statistics**  
 For Fiscal Year 2007

Number of Late Payments	27,902
Total Number of Payments	2,420,585
Late Dollars (in Thousands)	\$ 171,989
Total Dollars (in Thousands)	\$ 5,639,853
Interest Paid	\$ 67,493
Percent of Payments in Compliance	98.8%
Percent of Dollars in Compliance	97.0%

### E-Commerce and Payment Systems

Virginia actively pursues administrative efficiencies and cost savings by promoting use of automated payment systems by state agencies. To reduce the number of state issued checks, Virginia uses Financial Electronic Data Interchange (EDI), also known as electronic banking, and Payroll Direct Deposit. To consolidate payments for low dollar purchases the state uses the Small Purchase Charge Card.

#### Electronic Data Interchange

A total of 197,437 payments equaling \$23.6 billion were made in FY 2007 using EDI. This helped to avoid the issuance of over 312,500 checks. Electronic payments were made to 43,280 grantees, vendors and localities.

#### Direct Deposit

Further efforts to reduce the amount of resources consumed are made by using electronic systems for payroll payments. These include the elimination of paychecks for Commonwealth employees who are paid through direct deposit to their bank accounts. As of June 30, 2007, 93.1 percent of salaried employees and 74.8 percent of wage employees took part in Direct Deposit.

#### Payline

Payline, the Commonwealth’s electronic pay stub system, provides secure internet access for employee payroll information. Payline allows for the elimination of costly printing and distribution of earnings notices for employees on direct deposit. During FY 2007, the printing of 417,777 earnings notices was avoided through the Payline earnings notice print opt-out program.

**Small Purchase Charge Card Program**

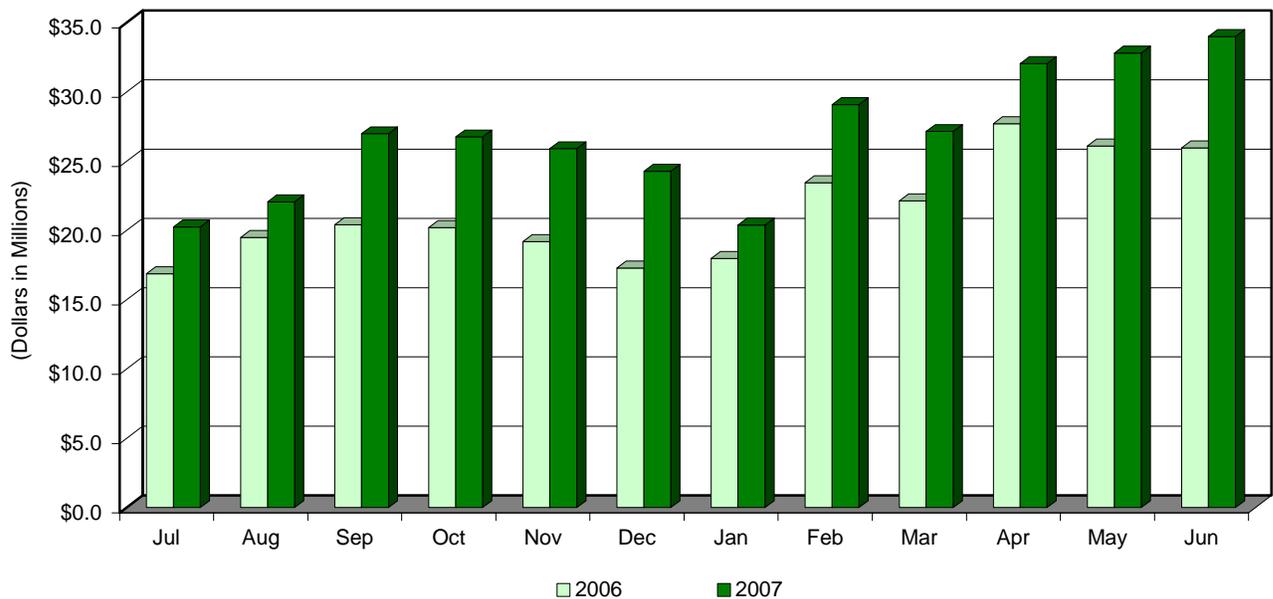
Also in FY 2007, approximately \$321.8 million in purchases were made using the small purchase charge card and gold charge card programs. This helped to avoid printing 680,638 checks. As of June 30, 2007,

222 agencies were using 14,956 cards (**Figure 24**). A comparison of charge activity for FY 2007 to activity for FY 2006 is shown in **Figure 25**.

*Figure 24*  
**Small Purchase Charge Card Program**

<u>Charge Card Activity</u>	<u>Quarter Ended June 30, 2007</u>	<u>Fiscal Year 2007 to Date</u>	<u>Comparative Fiscal Year 2006 to Date</u>
Amount of Charges	\$ 98,886,644	\$ 321,790,956	\$ 256,997,842
Estimated Number of Checks Avoided	182,513	680,638	607,970
Total Number of Participating Agencies		222	210
Total Number of Cards Outstanding		14,956	14,102

*Figure 25*  
**Charge Amount Comparison**  
FY 2006 – FY 2007



## Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) recognized the Commonwealth through its Award for Outstanding Achievement in Popular Annual Financial Reporting for the fiscal year ended June 30, 2006. This is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report whose contents conform to program standards of creativity, presentation, reader appeal, and understandability. The award is valid for a period of one year only. The Commonwealth has received this award for the last twelve consecutive years (fiscal years 1995-2006). It is expected that the current report continues to conform to the Popular Annual Financial Reporting requirements.

# Award for Outstanding Achievement in Popular Annual Financial Reporting

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**Commonwealth of Virginia**

for the Fiscal Year Ended

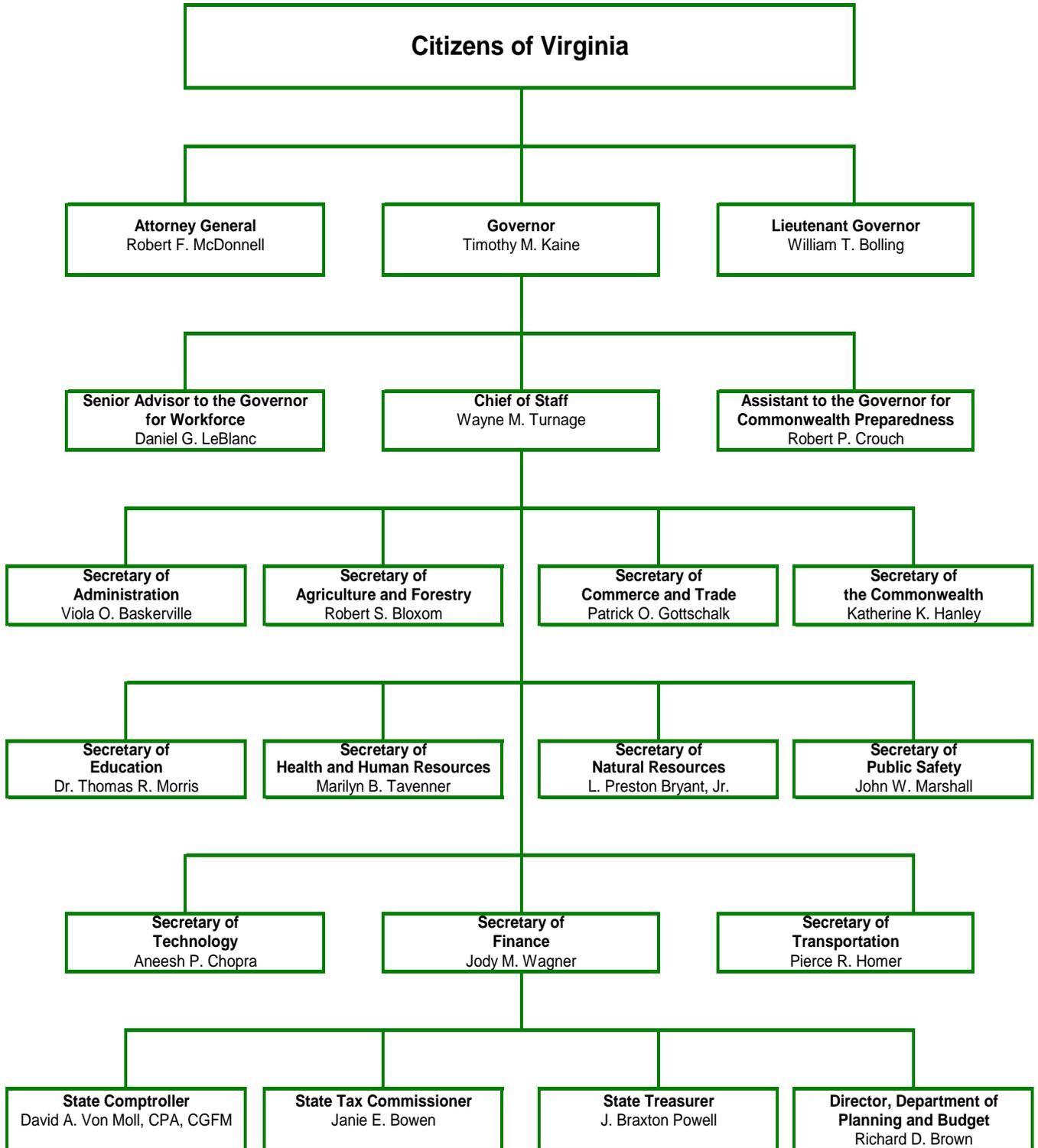
**June 30, 2006**



*Cherie S. Cox*  
President

*Jeffrey L. Esser*  
Executive Director

**Organization of Government  
Selected Government Officials - Executive Branch**





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