

Virginia Financial Perspective

For the Fiscal Year Ended June 30, 2014



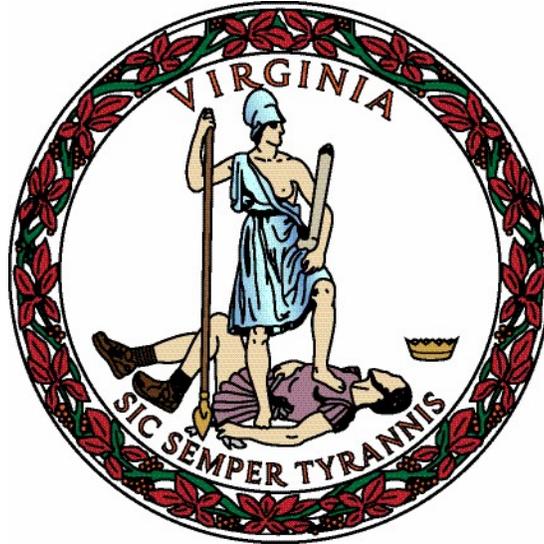
Terence R. McAuliffe
Governor

Richard D. Brown
Secretary of Finance

David A. Von Moll
Comptroller

December 15, 2014

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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 2014, 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.

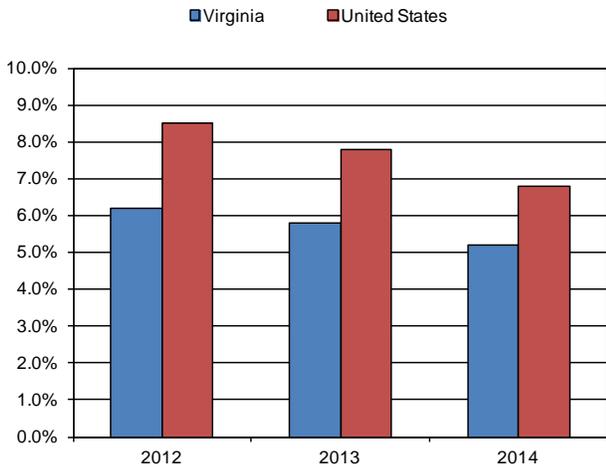
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Virginia’s Economy

Each year the CAFR includes a section reviewing the Commonwealth’s economy. For fiscal year 2014, economists at Virginia Commonwealth University’s Center for Urban and Regional Analysis prepared this economic highlight section. In fiscal year 2014, Virginia’s economy continued its recovery from the recession of 2008-2010; however, the pace of recovery slowed and this is cause for moderate concern.

Employment and income are the two broad measures that give the best picture of economic developments. Virginia’s unemployment rate continued its post-recession decline of about 0.5 percentage points each year for fiscal years 2012 and 2013. In fiscal year 2014, the unemployment rate in Virginia declined to 5.2 percent, significantly lower than the 6.8 percent observed nationally (**Figure 1**). Although these values are still far from the low unemployment rates of the pre-recession period, this decline seems consistent with a generally recovering economy.

Figure 1
Unemployment Rate



Source: U. S. Bureau of Labor Statistics

Figure 2 shows changes in nonfarm employment by industry based on the North American Industry Classification System (NAICS). Data from fiscal year 2013 had continued to show signs of economic recovery from the recession. The performance during fiscal year 2014 confirms this trend, although Virginia experienced a more moderate job growth than at the national level. Notable exceptions to this trend in fiscal year 2014 are mining, manufacturing, transportation and utilities, information services, professional and business services, and federal government. During fiscal year 2014, these sectors combined lost approximately 20,500 jobs. All other sectors showed significant growth, adding nearly 33,000 jobs to the Virginia economy.

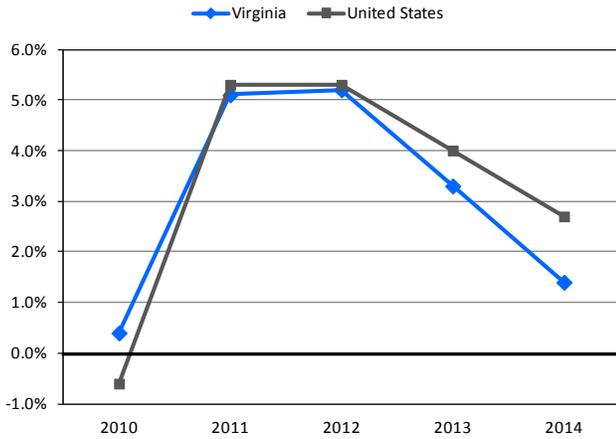
Figure 2
Nonfarm Payroll Employment

Industry	Virginia Employment (000)			Change, FY 2014 - FY 2013		
	2012	2013	2014	Virginia	U.S.	U.S.
Mining and logging	11.1	10.4	9.9	(0.5)	(4.8)	3.9
Construction	177.3	176.9	178.3	1.4	0.8	3.2
Manufacturing	231.5	231.3	229.9	(1.4)	(0.6)	0.6
Wholesale trade	111.2	111.5	111.6	0.1	0.1	1.8
Retail trade	404.6	406.8	412.5	5.7	1.4	2.1
Transportation and utilities	115.4	116.2	116.0	(0.2)	(0.2)	1.7
Information services	72.5	71.4	70.6	(0.8)	(1.1)	(0.5)
Financial activities	185.3	190.8	193.5	2.7	1.4	1.0
Professional and business services	673.3	682.3	669.0	(13.3)	(1.9)	3.7
Educational and health services	478.9	491.6	505.5	13.9	2.8	1.8
Leisure and hospitality	354.1	362.8	366.6	3.8	1.0	3.2
Other services	190.0	193.4	195.6	2.2	1.1	0.6
Federal government	173.9	175.2	170.9	(4.3)	(2.5)	(2.6)
State government	157.9	159.4	160.7	1.3	0.8	0.1
Local government	379.5	375.2	377.0	1.8	0.5	0.3
Total	3,716.5	3,755.2	3,767.6	12.4	0.3	1.7

Source: U. S. Bureau of Labor Statistics
Some prior year numbers have been revised to reflect the incorporation of newly available and revised source data.

Figure 3 shows the percentage change in personal income for the last five fiscal years. Personal income is an indicator of Virginia’s economy because most of the state government revenues, income, and retail taxes in particular, are directly or indirectly related to personal income. In fiscal year 2014, Virginia personal income increased at a rate of 1.4 percent compared to 3.0 percent during the previous fiscal year. Although still lower than pre-recession levels, this indicator reinforces the idea of a slow economic recovery at both the state and national levels.

Figure 3
Percentage Change in Personal Income

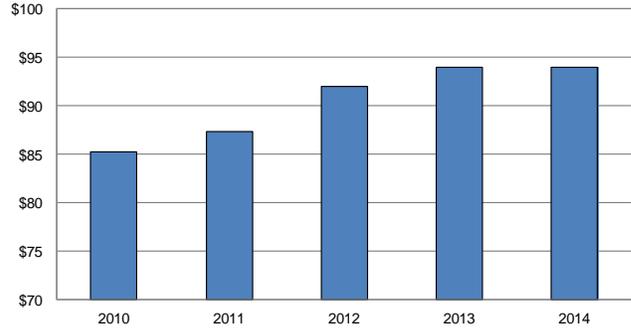


Source: U.S. Bureau of Economic Analysis, Regional Economic Information System
 Some prior year numbers have been revised to reflect the incorporation of newly available and revised source data.

Each of the three major components of personal income – net earnings by place of residence; dividends, interest and rent; and transfer payments – again experienced an increase during fiscal year 2014. The most important of these three components (net earnings by place of residence) grew 2.1 percent in Virginia and 4.2 percent nationwide.

Figure 4 shows taxable retail sales in Virginia for the last five years. These data are used as a proxy for retail sales, even though they do not include motor vehicle and motor fuel sales. Taxable sales data includes sales at restaurants and lodging places. Virginia had taxable sales around \$94.4 billion, a slight increase of 0.9 percent over fiscal 2013.

Figure 4
Taxable Retail Sales in Virginia
 (Dollars in Billions)



Source: Virginia Department of Taxation

Fiscal year 2014, overall, can be considered as a year of mixed results. While there is an overall consolidation of the post-recession recovery that started in fiscal year 2010 and gathered some momentum in fiscal year 2011, some indicators show an alarming slowdown. This appears to be largely the result of spending reductions at the federal government level, but it may also be the result of some lingering effects of the recession, as well as global economic uncertainty marked by the weakness of the Euro zone and crises in the Middle East and in parts of Africa. Virginia’s recovery from the recession has slowed, and this is reflected especially in the employment and personal income indicators. Thus, the optimism expressed in the fiscal year 2013 overview has given way to moderate concern.

FINANCIAL STATEMENT INFORMATION

This section contains financial statement information for the Commonwealth of Virginia for the fiscal year ending June 30, 2014.

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, 2013, and ended on June 30, 2014. This is referred to as fiscal year 2014, or FY 2014.

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 2014 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, 2014. 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 and Other Employee Benefit Trust Funds, which includes the assets of the state employees' pension system.

Virginia accounts for its revenues and expenditures using 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 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/Financial_Reporting/CAFR/CAFR_Main.cfm.

Commonwealth Statement of Net Position and Statement of Activities – GAAP Basis

A *Statement of Net Position* summarizes all of the assets and deferred outflows of resources, and all the liabilities and deferred inflows of resources, with the difference reported as net position. As of the end of FY 2014, Virginia had *assets and deferred outflows of resources* (i.e., cash, investments, property, receivables, and consumption of assets applicable to future reporting periods) on a GAAP basis of \$41.1 billion. These assets were partially offset by *liabilities and deferred inflows of resources* (i.e., amounts owed by the state to others and acquisition of assets applicable to future reporting periods) of \$19.0 billion. This left state government with a net position (the amount left after liabilities and deferred inflows of resources are subtracted from assets and deferred outflows of resources) of \$22.1 billion. **Figure 5** is a condensed Statement of Net Position for the Commonwealth as of June 30, 2014.

The Statement of Activities (**Figure 6**) summarizes information showing how the state's net position changed, on a GAAP basis, during the fiscal year. Total net position increased by \$1.3 billion. The net position of the governmental activities increased \$753.0 million, or 3.7 percent, primarily due to increases in capital assets and decreases in total liabilities and deferred inflows of resources. Business-type activities had an increase of \$502.1 million, or 76.1 percent, primarily due to an increase for the Unemployment Compensation Fund and Virginia

College Savings Plan. Virginia recognized \$17.0 billion in program revenues and \$20.9 billion in general revenues, which was used to pay for \$36.6 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 increase in total revenues was primarily attributable to sales and use taxes, individual and fiduciary income taxes, motor vehicle sales and use taxes, and premiums of insurance companies taxes, offset by decreases primarily attributable to motor fuels taxes, deeds, contracts, wills and suits taxes, and corporate taxes. The increase in expenses was primarily attributable to increases in transportation, education, individual and family services, and administration of justice expenditures.

The FY 2014 net position balance has been restated by \$22.5 million due primarily to the implementation of new accounting standards and the correction of prior year errors.

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 Virginia Lottery that operate like a business.

Figure 5
Statement of Net Position (GAAP Basis)
As of June 30, 2014

(Dollars in Millions)

	Primary Government			FY 2013 Total as restated (Informational Only)
	Governmental Activities	Business-type Activities	FY 2014 Total	
Assets and Deferred Outflows of Resources	\$ 36,919	\$ 4,211	\$ 41,130	\$ 40,241
Liabilities and Deferred Inflows of Resources	15,957	3,049	19,006	19,372
Net Position	<u>\$ 20,962</u>	<u>\$ 1,162</u>	<u>\$ 22,124</u>	<u>\$ 20,869</u>

Figure 6
Statement of Activities (GAAP Basis)
 For the Fiscal Year Ended June 30, 2014

(Dollars in Millions)

	Primary Government			FY 2013 Total as restated (Informational Only)
	Governmental Activities	Business-type Activities	FY 2014 Total	
Program Revenues:				
Charges for Services	\$ 2,561	\$ 4,131	\$ 6,692	\$ 6,326
Operating Grants and Contributions	8,732	-	8,732	8,820
Capital Grants and Contributions	1,509	70	1,579	1,815
Total Program Revenues	12,802	4,201	17,003	16,961
Expenses	33,616	2,987	36,603	35,500
Net (Expenses) Revenues	(20,814)	1,214	(19,600)	(18,539)
General Revenues	20,843	12	20,855	19,947
Transfers and Other Items	724	(724)	-	-
Change in Net Position	753	502	1,255	1,408
Net Position - July 1, as restated	20,209	660	20,869	19,461
Net Position - June 30	\$ 20,962	\$ 1,162	\$ 22,124	\$ 20,869

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 2014

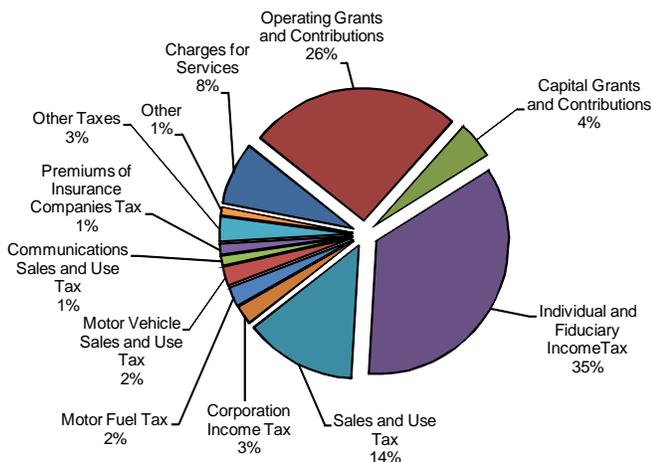


Figure 8
Expenses by Type – Governmental Activities
FY 2014

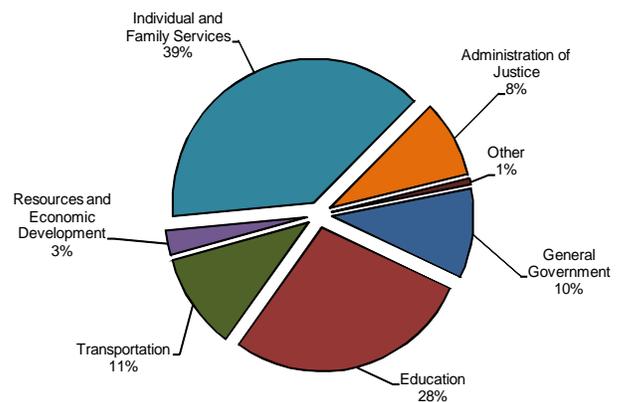
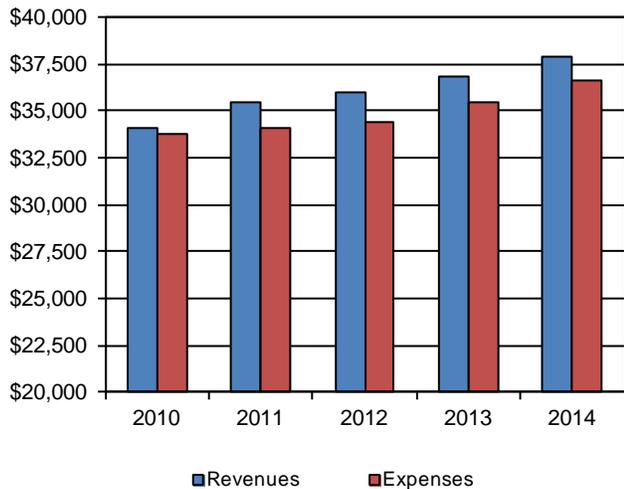


Figure 9 represents financial trend information for primary government (governmental and business-type activities) to help the reader understand how the Commonwealth’s financial performance has changed over time.

Figure 9
Primary Government
Total Revenues and Expenses
FY 2010 – FY 2014

(Dollars in Thousands)



General Fund – GAAP Basis

During FY 2014 the General Fund received \$18.9 billion in resources. **Figure 10** illustrates the various revenue sources. Individual and fiduciary income taxes accounted for 62 percent of the resources, while sales and use taxes made up 18 percent. These revenues plus other revenues totaled \$18.1 billion, or 96 percent. The remaining monies totaling \$785.1 million came from other sources, such as transfers from other funds, including alcoholic beverage sales.

Revenues (not including transfers) increased by \$260.3 million from FY 2013. This change results from increases of \$426.8 million primarily attributable to individual and fiduciary income taxes, interest, dividends, rents, and other investment income, and premiums of insurance companies taxes offset by decreases of \$166.5 million primarily attributable to deeds, contracts, wills and suits taxes, other revenue

primarily relating to expenditure recoveries from prior years, and tobacco master settlement revenue.

General Fund disbursements, including transfers, for FY 2014 (**Figure 11**) totaled \$18.9 billion. Expenditures totaled \$18.5 billion and transfers to other funds were \$469.9 million. Education accounted for 41 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 29 percent of the General Fund. Disbursements for public safety were 13 percent, while only 12 percent was used to support the administration of general governmental operations.

Expenditures (not including transfers) increased by \$507.0 million over the prior year. The increase is primarily attributable to education, individual and family services, and administration of justice. General Fund expenditures exceeded revenues and net transfers and other sources by \$8.3 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 10
General Fund Resources
FY 2014, GAAP Basis

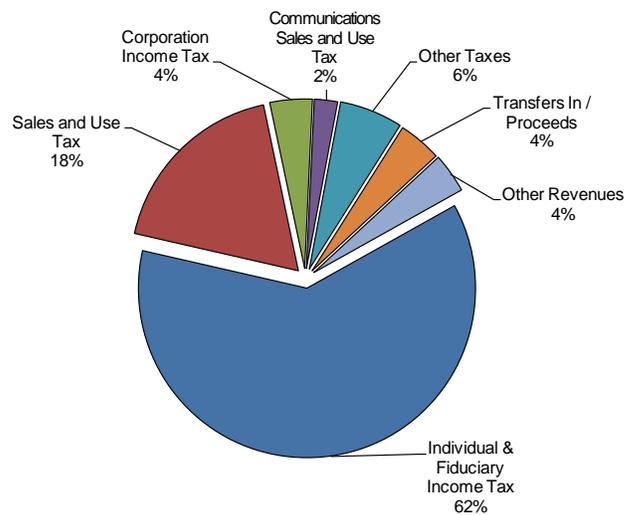
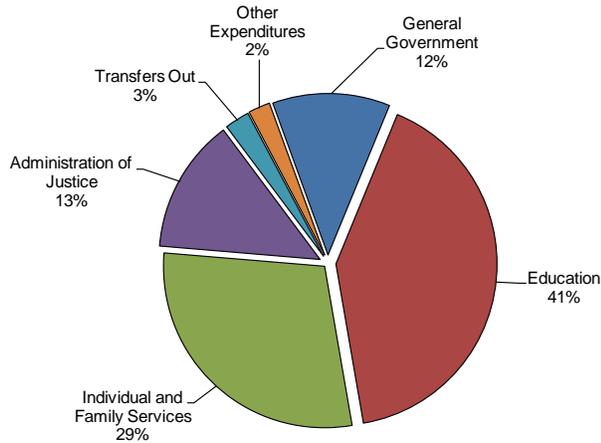


Figure 11
General Fund Disbursements
FY 2014, GAAP Basis



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 \$101.6 million, which is an estimate of the state income taxes withheld during FY 2014 that will eventually be refunded. Another is for *tax refunds payable* on returns filed in FY 2014 and paid during the months of July and August following year end close of \$390.7 million. The third item, *estimated Medicaid claims payable* of \$312.6 million, represents medical services rendered in prior years that will not be paid for until FY 2015. These amounts are summarized in **Figure 12** that compares the General Fund on a cash and GAAP basis of accounting.

Figure 12
Analysis of General Fund Balance
Cash Basis versus GAAP Basis
 For Fiscal Years Ended June 30, 2014 and 2013

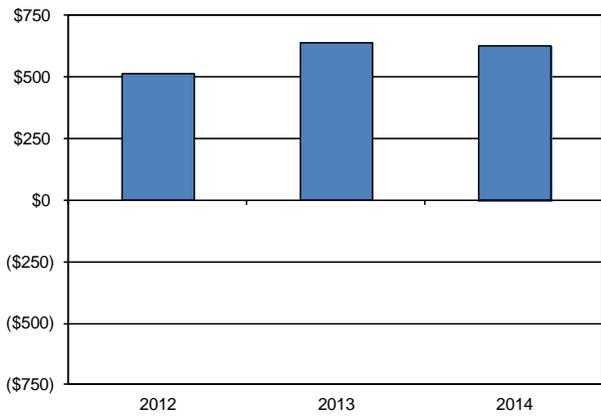
(Dollars in Millions)

	FY 2014	FY 2013
Fund Balance, Cash Basis	\$ 1,349.3	\$ 1,820.6
ADD:		
Sales Taxes Receivable	261.0	216.9
Other Taxes Receivable	540.6	486.3
Other Receivables	1,009.7	135.6
Inventory/Prepaid Items	110.5	120.4
Other Accrued Items	51.8	29.7
Deferred Outflows of Resources	-	-
Total to be Added	1,973.6	988.9
LESS:		
Tax Refunds Payable	390.7	375.9
Estimated Tax Refunds Due	101.6	486.0
Medicaid Claims Payable	312.6	341.2
Sales Taxes Due to Localities	304.2	273.2
Other Accrued Items	706.6	695.3
Deferred Inflows of Resources	877.6	-
Total to be Subtracted	2,693.3	2,171.6
Difference	(719.7)	(1,182.7)
Fund Balance, GAAP Basis	<u>\$ 629.6</u>	<u>\$ 637.9</u>

Fund balance decreased to \$629.6 million, compared to a balance of \$637.9 million in FY 2013 (**Figure 13**). The decrease in the General Fund GAAP basis balance from FY 2013 to FY 2014 is primarily due to increases in individual and fiduciary income taxes, sales and use taxes, and deeds, contracts, wills, and suits, offset by increases in education, individual and family services, and administration of justice expenditures.

Figure 13
General Fund Balance - GAAP Basis

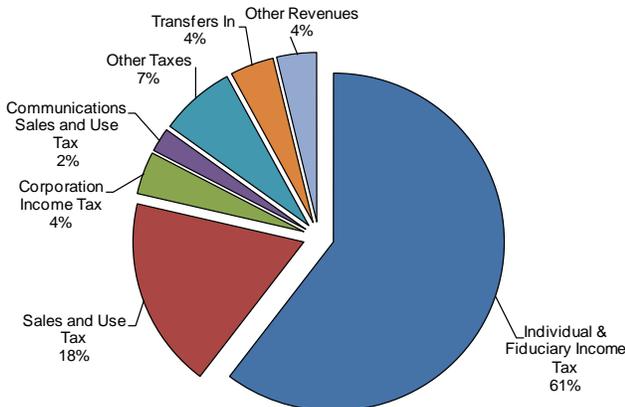
(Dollars in Millions)



General Fund – Cash Basis

During FY 2014, the General Fund received \$18.5 billion in resources. **Figure 14** illustrates the various revenue sources. Individual and fiduciary income taxes accounted for 61 percent of the total resources of the General Fund, while sales and use taxes made up 18 percent. These revenues plus other revenues totaled \$17.7 billion, or 96 percent of General Fund resources. The remaining resources totaling \$770.5 million came through transfers from other funds, including alcoholic beverage sales.

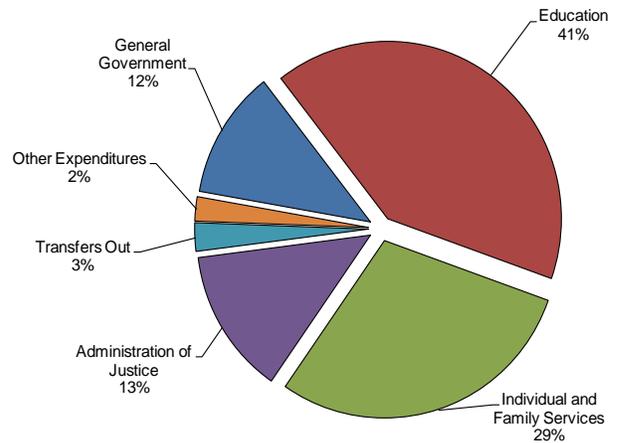
Figure 14
General Fund Resources
FY 2014, Cash Basis



Revenues (not including transfers) decreased by \$235.6 million from FY 2013. This decrease is attributable to the net effect of changes in all sources of revenue.

General Fund disbursements, including transfers, for FY 2014 (**Figure 15**) totaled \$18.9 billion. Expenditures totaled \$18.4 billion and transfers to other funds were \$490.3 million. Education accounted for 41 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 29 percent of the General Fund. Public safety consumed 13 percent. Just 12 percent was used to support the administration of general governmental operations, which included \$950.0 million for payments to localities to offset state-mandated reductions in local personal property tax rates (i.e., car tax).

Figure 15
General Fund Disbursements
FY 2014, Cash Basis



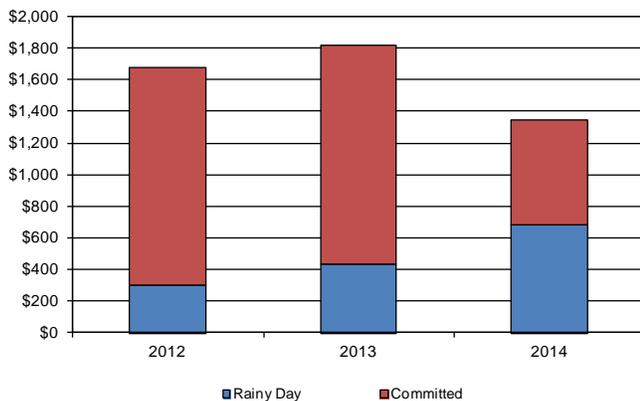
Expenditures (not including transfers) increased by \$450.5 million over the prior year. The increase is due to the net effect of changes in all uses of General Fund resources.

General Fund expenditures exceeded revenues and net transfers by \$471.3 million on the cash basis. In other words, the General Fund had an operating loss for the year on the cash basis.

Figure 16 shows the General Fund balance – cash basis – at the end of each year since 2012. The General Fund Balance – Cash basis was \$1.7 billion in FY 2012 and \$1.8 billion in FY 2013. The General Fund balance showed a decrease in FY 2014 to \$1.3 billion.

Figure 16
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 restricted 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 restricted portion of the General Fund balance can only be used if state revenues decline sharply from the previous year.

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. A deposit of \$244.6 million was made during fiscal year 2014 as required by Section 2.2-1829 of the *Code of Virginia*. There was no withdrawal made in fiscal year 2014, and the General Assembly has authorized a withdrawal in fiscal year 2015.

Under the provisions of Article X, Section 8 of the Constitution of Virginia, a deposit of \$243.2 million is required during fiscal year 2015 based on fiscal year 2013 revenue collections. This required deposit is included as a restricted component of fund balance and includes the advance reservation of \$95.0 million provided in Chapter 2, 2014 Acts of Assembly. A deposit is not required during fiscal year 2016 based on fiscal year 2014 revenue collections.

Section 2.2-1829) of the *Code of Virginia* requires an additional deposit into the Fund when specific criteria have been met. No such deposit is required since the specified criteria were not met for fiscal year 2014.

The Revenue Stabilization Fund has principal and interest on deposit of \$687.5 million restricted as a part of General Fund balance. Pursuant to the constitutional amendment of Article X, Section 8, effective January 1, 2011, the amount on deposit cannot exceed 15.0 percent of the Commonwealth’s average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years. As of June 30, 2014, the Constitutional maximum is \$2.3 billion.

Commonwealth Transportation Fund - GAAP Basis

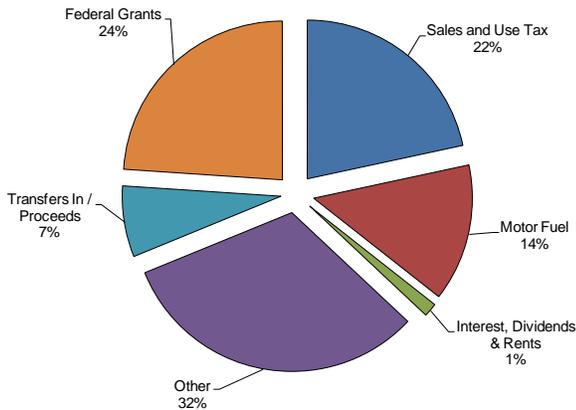
The Commonwealth Transportation Fund pays for the construction and maintenance of state highways. The fund also provides monies for other modes of transportation including rail, bus, aviation and seaports. The size of this fund reflects the fact that Virginia is one of only a few states that includes essentially all roads within the state highway system. Virginia has approximately 71,937 miles of state roads.

The Commonwealth Transportation Fund (**Figure 17**) 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 revenue is deposited into this fund. Beginning in fiscal year 2014, an additional portion of the state's sales tax revenue is deposited into this fund.

During FY 2014, the Commonwealth Transportation Fund had revenues and other receipts of \$5.4 billion and expenditures and other uses of \$5.5 billion on a GAAP basis. At the end of FY 2014, the fund had a balance of \$2.3 billion measured on a GAAP basis.

Figure 17
**Commonwealth Transportation Fund
Revenue Resources
FY 2014, GAAP Basis**



Highway construction projects often require several years to complete. State revenues contribute approximately 48 percent of the funding for these projects. The federal government provides 25 percent, and 27 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 \$129.5 million plus noncurrent assets such as investments and receivables of \$2.5 billion. These assets were held to satisfy current liabilities of \$226.5 million and long-term liabilities of \$1.9 billion. Net investment in capital assets was \$3.5 million and total unrestricted net position was \$514.8 million as of June 30, 2014.

Private Purpose Fund

Total investments in the VCSP private purpose fund totaled \$2.8 billion as of June 30, 2014, and included \$667.2 million of mutual fund investments. The net position held in trust as of June 30, 2014, was \$2.8 billion.

For FY 2014, VCSP reported contributions from plan participants of \$353.2 million. Deductions for FY 2014 totaled \$167.1 million, including \$148.3 million in educational expense benefits paid and \$17.4 million in redeemed shares.

Pension and Other Employee Benefit Trust Funds - GAAP Basis

The Commonwealth maintains a number of pension and other employee benefit trust funds that are managed for the benefit of various groups and institutions. These funds ended FY 2014 with a total net position held in trust for participants of \$66.2 billion. During FY 2014, the funds received \$3.1 billion in contributions and \$9.1 billion in income on investment holdings. The increase in net position after the payment of retirement benefits, refunds, other employee benefit plan benefits and operating costs was \$7.8 billion (**Figure 18**).

Additionally, the Commonwealth receives actuarial valuations that estimate the future liabilities of the individual funds. When comparing each fund's actuarial assets to these future liabilities, a funding ratio can be determined. As of June 30, 2014, the funded ratio for the Commonwealth's individual

pension plans is 65.9%, 59.4%, 54.1%, and 62.4% for the Virginia Retirement System, State Police Officers' Retirement System, Virginia Law Officers' Retirement System, and Judicial Retirement System, respectively.

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 18
Statement of Changes in Plan Net Position
Pension and Other Employee Benefit Trust Funds -
GAAP Basis
 For the Fiscal Year Ended June 30, 2014

(Dollars in Thousands)

Additions:	
Contributions	\$ 3,075,846
Investment Income:	
Interest, Dividends, and Other	
Investment Income	9,463,251
Less Investment Expenses	361,294
Net Investment Income	9,101,957
Other Revenue	796
Total Additions	<u>12,178,599</u>
Deductions:	
Retirement Benefits	3,879,183
Refunds to Former Members	103,431
Retiree Health Insurance Credits	142,610
Insurance Premiums and Claims	167,182
Administrative Expenses	46,138
Long-term Disability Benefits	33,820
Other Expenses	9,047
Total Deductions	<u>4,381,411</u>
Net Increase	7,797,188
Net Position, July 1	<u>58,378,686</u>
Net Position, June 30	<u><u>\$ 66,175,874</u></u>

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 or paying less than the rates computed by the actuary.

Employer contributions made for FY 2014 totaled \$2.1 billion. This was less than the actuarially determined Annual Required Contribution of \$3.0 billion, but did meet statutory requirements.

Alcoholic Beverage Control Fund - GAAP Basis

The ABC fund accounts for the receipts and disbursements from the sale of alcoholic beverages. In FY 2014, ABC transferred \$149.2 million to the General Fund to use for current operations and for alcohol treatment and rehabilitation programs. Total ABC operating income for FY 2014 was \$133.2 million on \$671.0 million in total sales.

Virginia Lottery Fund - GAAP Basis

The Virginia Lottery fund (**Figure 19**) accounts for all receipts and disbursements from the sale of lottery tickets for various games.

During FY 2014, the Virginia Lottery had operating revenues of \$1.8 billion and expenses, including lottery prize payments, of \$1.3 billion. Non-operating income for the year, including interest earnings, was \$1.5 million. During FY 2014, \$548.4 million was transferred out to be spent for public education as required by law.

Figure 19
**Revenues, Expenses and Changes in
Fund Net Position**
Virginia Lottery - GAAP Basis
For the Fiscal Year Ended June 30, 2014

(Dollars in Thousands)

Operating Revenues:	
Charges for Sales and Services	\$ 1,810,821
Total Operating Revenue	<u>1,810,821</u>
Operating Expenses:	
Personal Services	27,022
Contractual Services	30,604
Supplies and Materials	652
Depreciation	2,992
Prizes and Claims	1,072,636
Cost of Sales and Services	130,491
Other Expenses	1,789
Total Operating Expenses	<u>1,266,186</u>
Operating Income	<u>544,635</u>
Nonoperating Revenues:	
Interest, Dividends, and Rents	1,384
Other	80
Total Nonoperating Revenues	<u>1,464</u>
Income Before Transfers and Changes	546,099
Transfers Out	<u>(548,386)</u>
Change in Net Position	(2,287)
Total Net Position, July 1	<u>(11,563)</u>
Total Net Position, June 30	<u>\$ (13,850)</u>

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

The Commonwealth is self-insured for workers' compensation, property damage, general (tort) liability, medical malpractice, surety bond exposures, and automobile insurance coverage. At the end of FY 2014, the self-insurance program had cash and other assets of \$179.2 million, while the estimated liability for claims payable was \$624.6 million. The program had additional liabilities of \$61.3 million, which resulted in a GAAP deficit balance of \$506.8 million.

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

Debt Administration

Virginia has held its AAA bond rating, the best rating possible, for over 75 years, longer than any other state, which is a reflection of the confidence placed in the Commonwealth's fiscal health by bond raters and finance professionals. Virginia's bond rating allows it to borrow money at the most competitive rates available. Having a good credit rating means Virginia can save millions of taxpayer dollars in interest payments when it finances debt, such as borrowing for construction costs. With less interest to pay, Virginia's resources can be used where needed, and the state can maintain more favorable tax rates for citizens and industries.

As noted on page 4, Component Units are generally excluded from this document. However, the debt of Component Units is included in the Debt Administration section of this document in order to provide a complete presentation of the Commonwealth's total debt.

The total outstanding debt on the books of the Commonwealth as of the end of FY 2014 was \$37.6 billion (**Figure 20**). 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 20**, a total of \$1.7 billion, or 4.5 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 \$13.8 billion of this type of tax supported debt was

outstanding at the end of FY 2014. This is 36.5 percent of all debt on the books of the Commonwealth.

Non-tax Supported Debt makes up 59.0 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 2014 was \$22.2 billion.

Figure 20
State Debt/Obligations
Tax Supported and Non-Tax Supported
As of June 30, 2014

<i>(Dollars in Thousands)</i>	Total	Percent of Total
Tax-Supported Debt/Obligations		
General Obligation Bonds		
Public Facilities Bonds	\$ 706,192	1.9%
Parking Facilities Bonds	17,045	0.1%
Transportation Facilities Bonds	19,632	0.1%
Higher Education Bonds	925,086	2.4%
Total General Obligation Bonds	<u>1,667,955</u>	<u>4.5%</u>
Other Tax-Supported Debt/Obligations		
Transportation	2,373,382	6.3%
Virginia Port Authority	222,044	0.6%
Virginia Public Building Authority	2,374,835	6.3%
Virginia College Building Authority	3,286,119	8.6%
Long-term Capital Lease Payable	143,105	0.4%
Compensated Absences Obligations	601,757	1.6%
Pension Liability Obligations	3,181,441	8.4%
OPEB Liability Obligations	1,270,479	3.4%
Virginia Biotechnology Research Partnership Authority	34,355	0.1%
Installment Purchase	190,462	0.5%
Other Long-term Debt/Obligations	107,968	0.3%
Total Other	<u>13,785,947</u>	<u>36.5%</u>
Total Tax-Supported Debt/Obligations	<u>15,453,902</u>	<u>41.0%</u>
Non-Tax Supported Debt/Obligations		
Higher Education	1,826,602	4.9%
Virginia Housing Development Authority	4,931,982	13.1%
Virginia Public School Authority	3,523,633	9.4%
Virginia Resources Authority	3,367,876	8.9%
Other Long-term Debt/Obligations	8,538,620	22.7%
Total Non-Tax Supported Debt/Obligations	<u>22,188,713</u>	<u>59.0%</u>
Total Commonwealth Debt/Obligations	<u>\$ 37,642,615</u>	<u>100.0%</u>

The largest of these authorities is the Virginia Housing Development Authority, which has \$4.9 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, \$831.2 million 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 21 summarizes the outstanding debt owed by the Commonwealth in all categories over three fiscal years. **Figure 22** shows the ratio of general obligation debt per person and **Figure 23** shows the percentage of governmental expenditures used to pay governmental debt.

Figure 21
Categories of Debt
(Dollars in Millions)

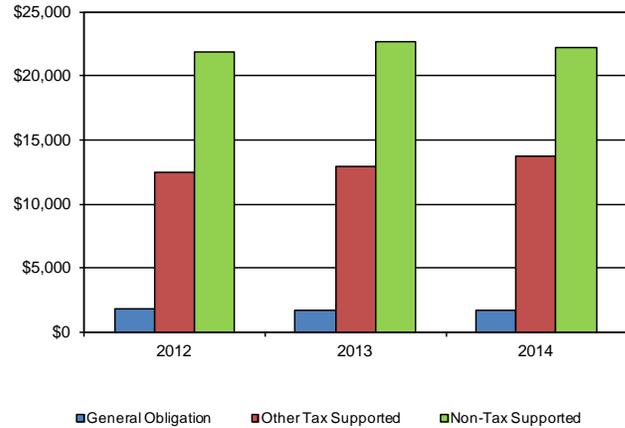


Figure 22
Ratio of General Obligation Debt Per Capita
(Amounts in Thousands, Except for Per Capita)

For the Fiscal Year Ended June 30,	Population (1)	General Obligation Debt (2)	General Long-term Debt Per Capita
2014	8,332	\$ 1,667,955	\$ 200
2013	8,235	1,669,850	203
2012	8,178	1,780,215	218
2011	8,029	1,725,654	215
2010	7,886	1,680,661	213

- (1) Population figure for 2013 is estimated.
- (2) Includes 9(a), 9(b) and 9(c) debt, net of unmortized premiums, discounts and deferral on debt defeasance payable, except for FY 2014 which excludes deferrals of debt defeasance due to new reporting requirements.

Figure 23
**Percentage of Annual Debt Service Expenditures for
 Governmental Debt to Total Noncapital Expenditures –
 All Governmental Fund Types**
(Dollars in Thousands)

<u>For the Fiscal Year Ended June 30,</u>	<u>Debt Service (1)</u>	<u>Total Noncapital Expenditures (2)</u>	<u>Percentage</u>
2014	\$ 700,105	\$ 31,635,121	2.21
2013	762,782	29,617,488	2.58
2012	684,672	29,876,336	2.29

- (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, 2014, was \$6.7 billion.
- (2) Includes General, Special Revenue, Debt Service, Capital Projects, and Permanent Funds.

Source: Department of Accounts



George Washington Monument, Capitol Grounds

OTHER INFORMATION

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 95.0 percent compliance rate with all payment provisions in order to be considered in compliance with the Virginia prompt payment statutes.

Figure 24 shows that for FY 2014, the state made 99.1 percent of its payments on time, and that 98.3 percent of the dollars owed were paid in compliance with prompt payment requirements. The state paid out \$56,683 in interest on late payments during FY 2014, an increase of \$38,346 from FY 2013, on total vendor payments of \$6.2 billion.

Figure 24
Statewide Prompt Payment Statistics
For Fiscal Year 2014

Number of Late Payments	20,753
Total Number of Payments	2,291,934
Late Dollars (in Thousands)	\$ 107,816
Total Dollars (in Thousands)	\$ 6,228,451
Interest Paid	\$ 56,683
Percent of Payments in Compliance	99.1%
Percent of Dollars in Compliance	98.3%

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. The state uses the Small Purchase Charge Card to consolidate payments for low dollar purchases.

Electronic Data Interchange

A total of 270,565 payments equaling \$31.8 billion were made in FY 2014 using EDI. This helped to avoid the issuance of 438,437 checks. Electronic payments were made to 136,764 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, 2014, 99.8 percent of salaried employees and 97.9 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 2014, the printing of 2,125,999 earnings notices was avoided through the Payline earnings notice print opt-out program.

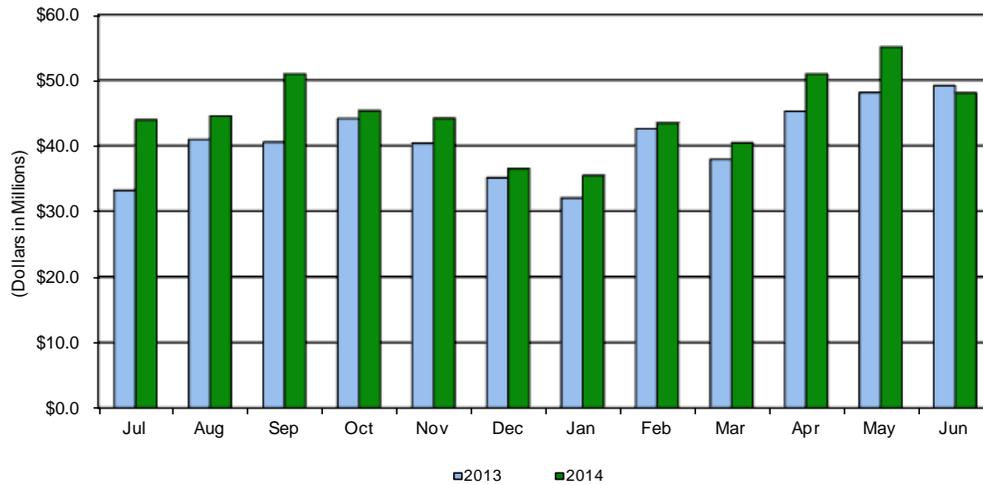
Small Purchase Charge Card Program

Also in FY 2014, approximately \$538.9 million in purchases were made using the small purchase charge card and gold charge card programs. This helped to avoid printing 781,255 checks. As of June 30, 2014, 200 agencies were using 14,825 cards (**Figure 25**). A comparison of charge activity for FY 2014 to activity for FY 2013 is shown in **Figure 26**.

Figure 25
Small Purchase Charge Card Program

Charge Card Activity	Quarter Ended June 30, 2014	Fiscal Year 2014 to Date	Comparative Fiscal Year 2013 to Date
Amount of Charges	\$ 154,053,236	\$ 538,884,271	\$ 489,339,996
Estimated Number of Checks Avoided	213,023	781,255	752,119
Total Number of Participating Agencies		200	202
Total Number of Cards Outstanding		14,825	14,722

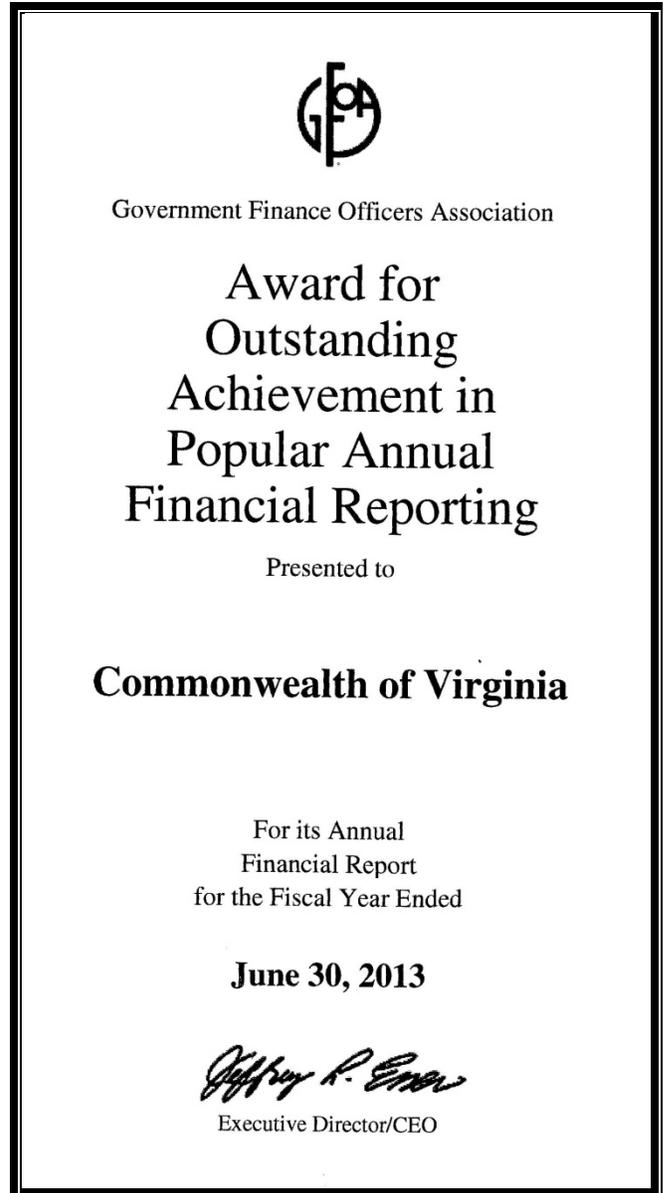
Figure 26
Charge Amount Comparison
FY 2013 – FY 2014



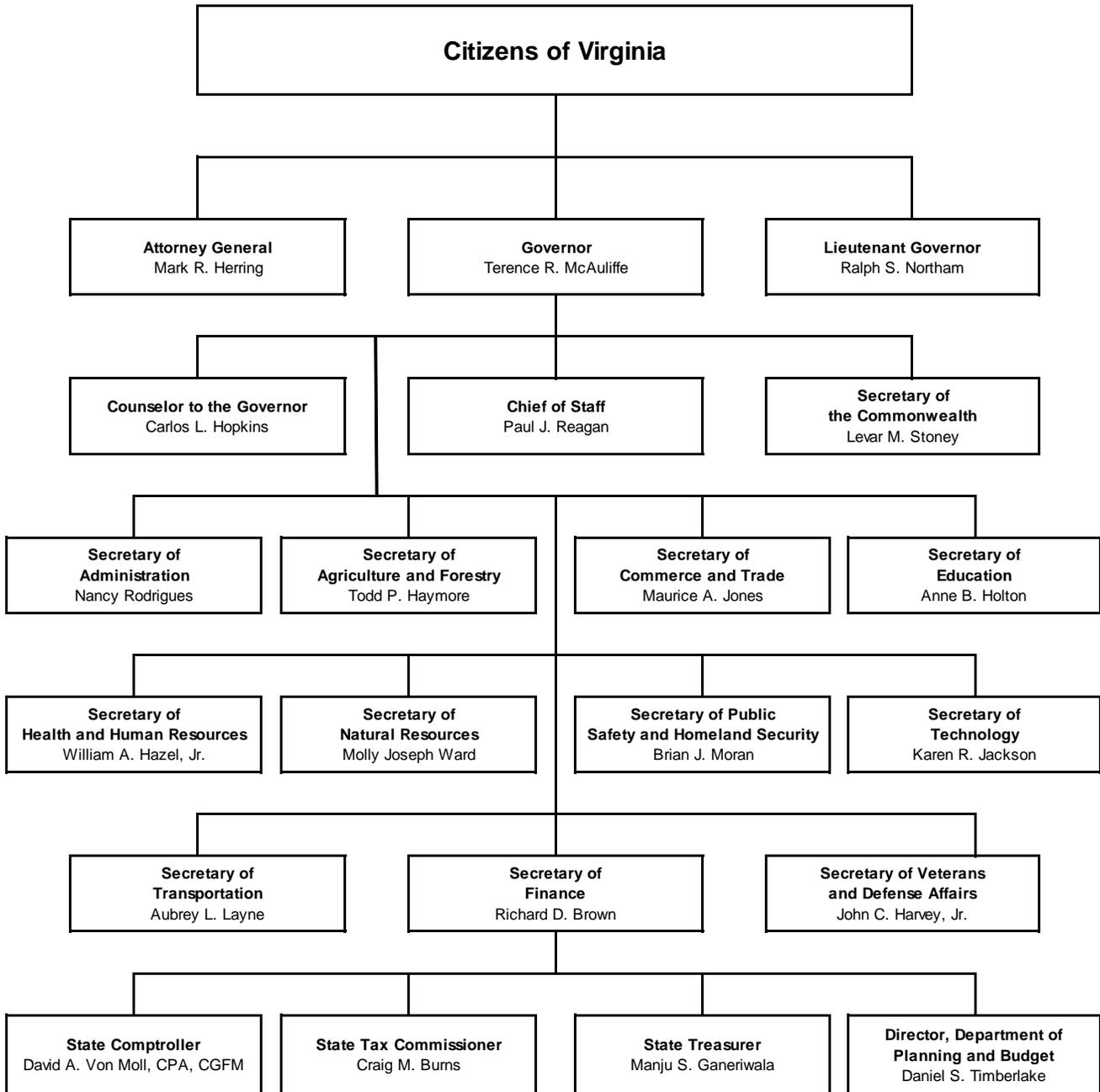
Award for Outstanding Achievement in Popular Annual Financial Reporting

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, 2013. 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 19 consecutive years (fiscal years 1995-2013). It is expected that the current report continues to conform to the Popular Annual Financial Reporting requirements.



Organization of Government Selected Government Officials - Executive Branch





Virginia State Capitol Rotunda

For more information on Virginia's government,
please visit www.virginia.gov

To view an electronic copy of Virginia's Comprehensive Annual Report
Please visit [www.doa.virginia.gov/Financial Reporting/CAFR/CAFR_Main.cfm](http://www.doa.virginia.gov/Financial_Reporting/CAFR/CAFR_Main.cfm)

*This report was prepared by staff of the
Virginia Department of Accounts*

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