

Management's Discussion and Analysis

(Unaudited)

The following is a discussion and analysis of the Commonwealth of Virginia's (the Commonwealth) financial performance, including an overview and analysis of the financial activities of the Commonwealth for the fiscal year ended June 30, 2008. Readers should consider this information in conjunction with the transmittal letter, which is located in the Introductory Section of this report, and the Commonwealth's financial statements, including the notes to the financial statements, which are located after this analysis.

Financial Highlights

Government-wide Highlights

The primary government's assets exceeded its liabilities at June 30, 2008, by \$18.3 billion. Net assets of governmental activities increased by \$739.7 million and net assets of business-type activities decreased by \$213.1 million. Component units reported an increase in net assets of \$675.6 million from June 30, 2007.

Fund Highlights

At the end of the fiscal year, the Commonwealth's governmental funds reported a combined ending fund balance of \$4.8 billion, a decrease of \$738.4 million in comparison with the prior year. Of this total fund balance, \$3.3 billion represents unreserved fund balance and the remaining \$1.5 billion represents amounts reserved for specific purposes, such as the Revenue Stabilization Fund. The enterprise funds reported net assets at June 30, 2008, of \$902.2 million, a decrease of \$211.0 million during the year.

While the Commonwealth's combined governmental fund increased during fiscal year 2008, the General Fund actual revenues marginally increased \$6.6 million over final budgeted revenues. This small increase coupled with wider economic concerns have contributed to a projected budget shortfall for the fiscal year 2008-2010 biennial budget. See page 34 for additional information.

Long-term Debt

The Commonwealth's total debt rose during the fiscal year to \$26.9 billion, an increase of \$2.6 billion or 10.7 percent. During fiscal year 2008, the Commonwealth issued new debt in the amount of \$503.3 million for the primary government and \$3.4 billion for the component units. More detailed information regarding these activities begins on page 131.

Overview of the Financial Statements

This discussion and analysis is an introduction to the Commonwealth's basic financial statements, which include three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. The report also contains additional required supplementary information and other information.

Government-wide Statements

The government-wide financial statements are designed to 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 about the Commonwealth's financial position which helps readers determine whether the Commonwealth's financial position has improved or deteriorated during the fiscal year. These statements include all non-fiduciary financial activity on the full accrual basis of accounting. This means that all revenue and expenditures are reflected in the financial statements even if the related cash has not been received or paid as of June 30.

The Statement of Net Assets (pages 38 and 39) presents information on all of the Commonwealth's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may indicate whether the financial position of the Commonwealth is improving or deteriorating.

The Statement of Activities (pages 40 through 42) presents information showing how the Commonwealth's net assets changed during fiscal year 2008. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both the Statement of Net Assets and Statement of Activities report three separate activities. These activities are described as follows:

Governmental Activities – account for functions of the Commonwealth that are primarily supported by taxes and intergovernmental revenues. The majority of the Commonwealth’s basic services, such as education, individual and family services, transportation, resources and economic development, administration of justice, and general government, fall within this category.

Business-type Activities – account for functions that are intended to recover all or a significant portion of their costs through user fees and charges. The major business-type activities of the Commonwealth include the State Lottery, Virginia College Savings Plan, and Unemployment Compensation Fund.

Discretely Presented Component Units – account for functions of legally separate entities for which the Commonwealth is financially accountable. The Commonwealth has 27 non-higher education component units and 22 higher education institutions that are reported as discretely presented component units. Information regarding the individual financial statements of the component units is presented in the notes to the financial statements.

This report includes two schedules (pages 46 and 50) that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities on the appropriate government-wide statements (full accrual accounting). The following indicates some of the reporting differences between the government-wide financial statements and the fund financial statements.

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Long-term liabilities, unless due and payable, are not included in the fund financial statements. These liabilities are only included in the government-wide statements.
- Internal service funds are reported as governmental activities in the government-wide statements, but are reported as proprietary funds in the fund financial statements.
- Other long-term assets that are not available to pay for current period expenditures are deferred in the governmental fund statements, but not deferred in the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but are reported as expenditures in the fund financial statements.
- Bond proceeds provide current financial resources on the fund financial statements, but are recorded as long-term liabilities in the government-wide financial statements.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the Commonwealth’s funds can be divided into three categories: governmental, proprietary, and fiduciary. Each of these categories uses different accounting approaches. Fund financial statements begin on page 44 and provide detailed information about the major individual funds.

- **Governmental funds** – Most of the basic services provided by the Commonwealth are reported in the governmental funds. These statements provide a detailed, short-term view of the functions reported as governmental activities in the government-wide financial statements. The government-wide financial statements are reported using the full accrual basis of accounting, but the governmental fund financial statements are reported using the modified accrual basis of accounting. This allows the reader to focus on assets that can be readily converted to cash and determine whether there are adequate resources to meet the Commonwealth’s current needs.

Because the focus of governmental funds is more limited than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This comparison can help readers better understand the long-term impact of the Commonwealth’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The Commonwealth reports 14 individual governmental funds. Information is presented separately in the governmental fund statements for the General, Commonwealth Transportation, Federal Trust, and Literary funds, which are all considered major funds. Data from the other 10 governmental funds are aggregated into a single column on the fund statements. Individual fund data for these nonmajor governmental funds is provided in the combining financial statements immediately following the required supplementary information.

- **Proprietary funds** – The Commonwealth maintains two different types of proprietary funds, enterprise and internal service. These funds report activities that operate more like those of private sector business and use the full accrual basis of accounting. Enterprise funds report activities that charge fees for supplies or services to the general public like the State Lottery. Enterprise funds are reported as business-type activities on the government-wide financial statements. The enterprise funds use the full accrual basis of accounting and the only differences between amounts reported on the government-wide statements and the enterprise fund statements are due to internal service fund activity (see reconciliations on pages 52 and 54). Internal service funds report activities that charge fees for supplies and services to other Commonwealth agencies, like Fleet Management. Internal service funds are reported as governmental activities in the government-wide statements because these types of services predominantly benefit governments rather than business-type functions.

The Commonwealth reports 22 individual proprietary funds. Information is presented separately in the proprietary fund statements for the State Lottery Department, Virginia College Savings Plan, and Unemployment Compensation Funds, all of which are considered major funds. Data from the other enterprise funds are aggregated into a single column on the fund statements. All internal service funds are aggregated into a single column on the fund statements. Individual fund data for all nonmajor proprietary funds is provided in the combining financial statements immediately following the required supplementary information.

- **Fiduciary funds** – These funds are used to account for resources held for the benefit of parties outside the government and use the full accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because the resources of these funds are restricted and cannot be used to finance the Commonwealth's operations. The Commonwealth's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets beginning on page 62.

The Commonwealth's fiduciary funds are the:

- Private-purpose Trusts, which reports the activities for 6 separate funds and accounts for transactions of trust arrangements in which the principal and income benefit individuals, private organizations, or other governments;
- Pension and Other Employee Benefit Trusts, which reports the activities of 12 separate pension and other employment retirement plans for employees;
- Investment Trust, which accounts for the activities of the external investment pool; and,
- Agency, which accounts for assets held on behalf of others in 21 separate funds.

Individual fund data for all fiduciary funds is provided in the combining financial statements immediately following the required supplementary information.

- **Component Units** – The government-wide financial statements report information for all component units aggregated in a single column. Information is provided separately in the component unit fund statements for the Virginia Housing Development Authority, Virginia Public School Authority, University of Virginia, Virginia Polytechnic Institute and State University, and Virginia Commonwealth University, all of which are considered major component units. Data from the other component units are aggregated into a single column on the fund statements. Individual fund data for all nonmajor component units is provided in the combining financial statements immediately following the required supplementary information.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the component unit fund financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes budgetary comparison schedules reconciling the statutory and generally accepted accounting principles fund balances at June 30. It also includes information concerning the Commonwealth's funding progress for pension and other post-employment benefits, as well as trend information for Commonwealth-managed risk pools.

Other Information

The combining statements referred to earlier in connection with nonmajor funds and component units can be found beginning on page 177 of this report. The individual fund information is aggregated into a single total on the combining financial statements, which carries forward to the fund financial statements.

Government-wide Financial Analysis

The primary government's assets exceeded its liabilities by \$18.3 billion during the fiscal year. The net assets of the governmental activities increased \$739.7 million or 4.4 percent, primarily due to increases in capital assets as discussed further on page 35 offset by decreases in the governmental funds and long-term debt. Business-type activities had a decrease of \$213.1 million or 19.1 percent, primarily due to decreases for the Virginia College Savings Plan and the Unemployment Compensation Fund. The government-wide beginning balance was restated for the correction of prior year errors to arrive at a restated beginning balance of \$17.8 billion.

Figure 9
Net Assets as of June 30, 2008 and 2007
(Dollars in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2008	2007 as restated	2008	2007	2008	2007 as restated
Current and other assets	\$ 10,324,856	\$ 11,064,189	\$ 3,640,278	\$ 3,707,277	\$ 13,965,134	\$ 14,771,466
Capital assets	18,594,489	17,170,682	30,673	32,444	18,625,162	17,203,126
Total assets	28,919,345	28,234,871	3,670,951	3,739,721	32,590,296	31,974,592
Long-term liabilities outstanding	5,961,754	5,751,429	2,257,431	2,071,852	8,219,185	7,823,281
Other liabilities	5,523,636	5,789,202	512,154	553,441	6,035,790	6,342,643
Total liabilities	11,485,390	11,540,631	2,769,585	2,625,293	14,254,975	14,165,924
Net assets:						
Invested in capital assets, net of related debt	15,240,757	13,856,949	26,592	29,834	15,267,349	13,886,783
Restricted	1,711,491	1,892,920	816,061	872,174	2,527,552	2,765,094
Unrestricted	481,707	944,371	58,713	212,420	540,420	1,156,791
Total net assets	\$ 17,433,955	\$ 16,694,240	\$ 901,366	\$ 1,114,428	\$ 18,335,321	\$ 17,808,668

The largest portion of the primary government's net assets (83.3 percent) reflects its investment in capital assets (e.g., land, buildings, equipment, infrastructure, and construction in progress), less any related outstanding debt used to acquire those assets. These assets are recorded net of depreciation in the financial statements. The primary government uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the primary government's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities (**Figure 9**).

An additional portion of the primary government's net assets (13.8 percent) represents restricted net assets. These resources are subject to external restrictions or constitutional provisions specifying how they may be used. The remaining balance of \$540.4 million is unrestricted net assets (**Figure 9**).

Approximately 57.6 percent of the primary government's total revenue came from taxes. While the primary government's expenses cover many services, the largest expenses are for education and individual and family services. General revenues normally fund governmental activities. For fiscal year 2008, governmental program and general revenue exceeded governmental activity expenses by \$146.5 million. Program revenues exceeded expenses from business-type activities by \$355.0 million. The following condensed financial information (**Figure 10**) was derived from the Government-wide Statement of Activities and provides detail regarding the change in net assets (see page 40).

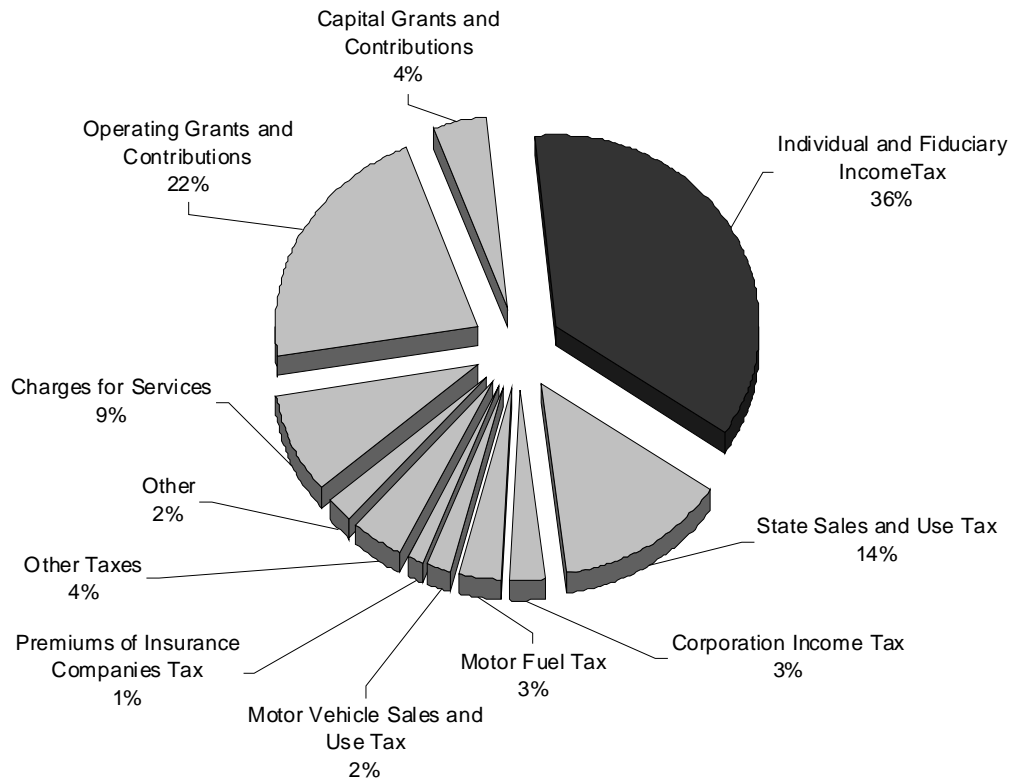
Figure 10
Changes in Net Assets for the Fiscal Years Ended June 30, 2008 and 2007
(Dollars in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2007		2007		2007	
	2008	as restated	2008	2007	2008	as restated
Revenues:						
Program Revenues:						
Charges for Services	\$ 2,404,098	\$ 2,109,855	\$ 2,706,165	\$ 2,991,653	\$ 5,110,263	\$ 5,101,508
Operating Grants and Contributions	6,067,358	5,869,805	39,243	36,091	6,106,601	5,905,896
Capital Grants and Contributions	1,152,439	850,561	-	-	1,152,439	850,561
General Revenues:						
Taxes:						
Individual and Fiduciary Income	10,099,573	9,639,024	-	-	10,099,573	9,639,024
State Sales and Use	3,820,715	3,755,896	-	-	3,820,715	3,755,896
Corporation Income	772,323	905,852	-	-	772,323	905,852
Motor Fuel	923,894	929,723	-	-	923,894	929,723
Motor Vehicle Sales and Use	533,755	588,471	-	-	533,755	588,471
Deeds, Contracts, Wills, and Suits	456,984	583,782	-	-	456,984	583,782
Premiums of Insurance Companies	396,858	384,894	-	-	396,858	384,894
Alcoholic Beverage Sales Tax	105,655	100,160	-	-	105,655	100,160
Tobacco Products	182,850	187,726	-	-	182,850	187,726
Estate	135,781	140,379	-	-	135,781	140,379
Public Service Corporations	106,378	88,672	-	-	106,378	88,672
Beer and Beverage Excise	44,357	43,804	-	-	44,357	43,804
Wine and Spirits/ABC Liter	18,552	18,020	-	-	18,552	18,020
Bank Stock	13,724	12,624	-	-	13,724	12,624
Other Taxes	66,319	74,906	12,531	12,430	78,850	87,336
Unrestricted Grants and Contributions	53,709	50,138	-	-	53,709	50,138
Investment Earnings	348,446	477,212	11,743	10,779	360,189	487,991
Miscellaneous	224,072	153,506	910	391	224,982	153,897
Total Revenues	27,927,840	26,965,010	2,770,592	3,051,344	30,698,432	30,016,354
Expenses:						
General Government	2,476,981	2,639,348	-	-	2,476,981	2,639,348
Education	9,302,822	9,537,646	-	-	9,302,822	9,537,646
Transportation	3,053,918	2,255,662	-	-	3,053,918	2,255,662
Resources and Economic Development	873,015	838,557	-	-	873,015	838,557
Individual and Family Services	9,254,559	9,028,007	-	-	9,254,559	9,028,007
Administration of Justice	2,615,198	2,643,026	-	-	2,615,198	2,643,026
Interest and Charges on Long-term Debt	204,855	203,372	-	-	204,855	203,372
State Lottery	-	-	936,416	929,369	936,416	929,369
Virginia College Savings Plan	-	-	244,165	179,530	244,165	179,530
Unemployment Insurance	-	-	432,805	381,660	432,805	381,660
Alcoholic Beverage Control	-	-	456,986	433,944	456,986	433,944
Local Choice Health Care	-	-	202,318	179,032	202,318	179,032
Nonmajor	-	-	117,741	109,261	117,741	109,261
Total Expenses	27,781,348	27,145,618	2,390,431	2,212,796	30,171,779	29,358,414
Excess/deficiency before transfers and Contributions	146,492	(180,608)	380,161	838,548	526,653	657,940
Contributions to Permanent Funds Transfers	593,223	563,978	(593,223)	(563,978)	-	-
Contributions to Permanent Funds	-	20,000	-	-	-	20,000
Increase in net assets	739,715	403,370	(213,062)	274,570	526,653	677,940
Net assets, July 1, as restated	16,694,240	16,290,870	1,114,428	839,858	17,808,668	17,130,728
Net assets, June 30	\$ 17,433,955	\$ 16,694,240	\$ 901,366	\$ 1,114,428	\$ 18,335,321	\$ 17,808,668

Governmental Activities Revenues

Figure 11 is a graphical representation of the Statement of Activities revenues for governmental activities. Governmental activities revenues increased by \$962.8 million, or 3.6 percent. This increase is mainly attributable to activities of the General Fund and the Commonwealth Transportation Fund which are discussed further on pages 34 and 35, respectively.

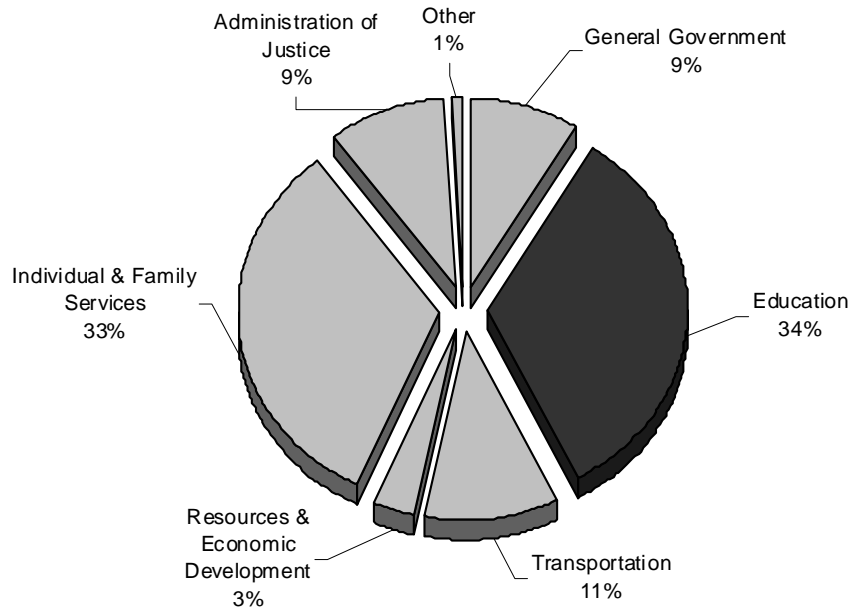
Figure 11
Revenues by Source – Governmental Activities
Fiscal Year 2008



Governmental Activities Expenses

Figure 12 is a graphical representation of the Statement of Activities expenses for governmental activities. Governmental activities expenses increased by \$635.7 million or 2.3 percent. The majority of the increase is related to the General Fund and the Commonwealth Transportation Fund which are discussed further on pages 34 and 35, respectively.

Figure 12
Expenses by Type – Governmental Activities
Fiscal Year 2008

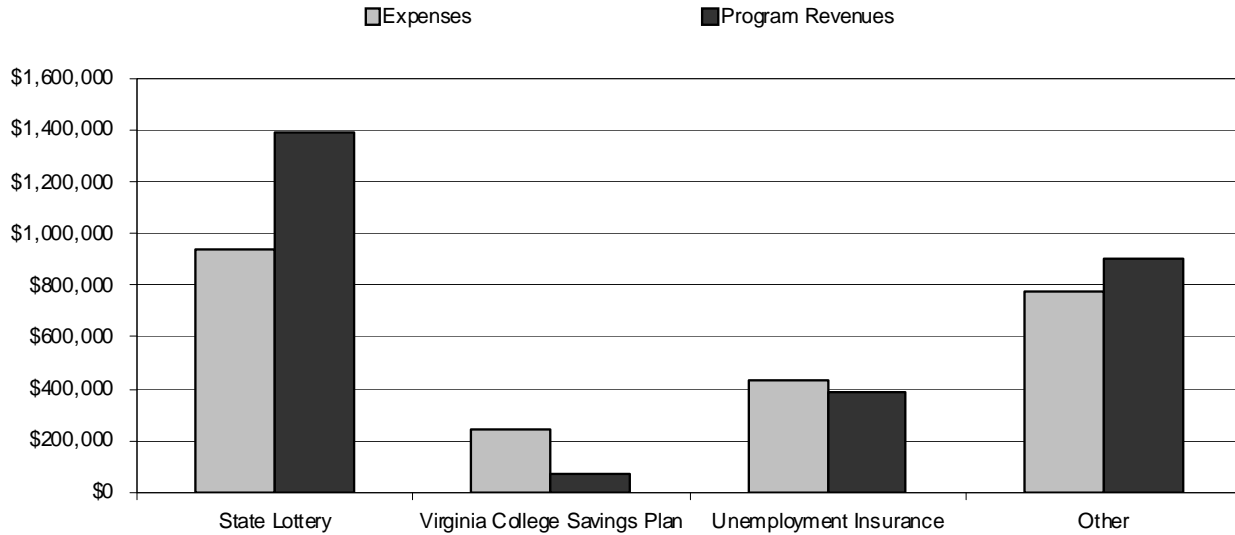


Net Assets of Business-type Activities

Net assets of business-type activities decreased by \$213.1 million during the fiscal year. Highlights of the changes in net assets for the major enterprise funds were as follows:

- Lottery sales were \$1.4 billion, increasing nearly two percent from the prior year. Net income was \$465.1 million, an increase of \$17.3 million (3.9 percent) from fiscal year 2007. Sales of scratch games decreased by \$3.4 million (0.5 percent) and online sales increased by \$27.4 million (4.1 percent). This is offset by an increase of \$8.2 million (0.9 percent) in total expenses, primarily attributable to the cost of sales and services.
- Virginia College Savings Plan's net assets decreased by \$174.2 million (143.3 percent), from a surplus of \$121.6 million to a deficit of \$52.6 million. This deterioration in financial position is primarily attributable to much worse than anticipated investment performance and a change in the tuition growth assumption that significantly increased the projected unfunded actuarial liability calculated by the Plan's actuary. The decrease in net assets was offset somewhat by revenue from new contract sales.
- Unemployment Compensation Fund net assets decreased by \$56.1 million during fiscal year 2008 as a result of a net operating loss of \$83.1 million and net transfers out of \$11.3 million for administration, offset by interest income of \$38.3 million. The net operating loss reflects increased benefit claim payments as well as decreased premium revenues from participating employers. For fiscal year 2008 the average employer assessment rate decreased from 1.2 percent in fiscal year 2007 to 1.0 percent, contributing to an overall premium revenue decrease of \$90.3 million. For benefit payments, which are reflective of Virginia's softening employment market, the overall blended unemployment rate for fiscal year 2008 rose from 3.0 percent to 3.4 percent. The increase in the unemployment rate translated into an additional 26,650 benefit claimants for fiscal year 2008 over the prior year. Additionally, the average weekly benefit payment increased from \$259 to \$269 per week, a 4.6 percent increase, and the average claim duration also slightly increased from an average 12.4 weeks to 12.5 weeks. These multiple influences led to total increased benefit payments of \$49.8 million over the prior year.

Figure 13
Business-type Activities
Program Revenues and Expenses
 For the Fiscal Year Ended June 30, 2008
 (Dollars in Thousands)



Fund Statements Financial Analysis

As of the end of the fiscal year, the primary government's governmental funds reported combined ending fund balances of \$4.8 billion. Of this total amount, \$3.4 billion, or 69.6 percent, constitutes unreserved fund balance. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to a variety of other restricted purposes, such as the Revenue Stabilization Fund, outstanding debt and capital outlay.

General Fund Highlights

The General Fund is the chief budgetary operating fund of the primary government. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$78.5 million and reserved fund balance was \$1.1 billion. As discussed in Note 5, the decrease in reserved fund balance is due largely to a withdrawal of \$351.5 million from the Revenue Stabilization Fund during the fiscal year to offset declining revenue. When compared to the prior year, the net change in fund balance of the General Fund is a decrease of \$508.6 million. Fiscal year 2008 General Fund revenues were 1.4 percent or \$219.8 million greater than fiscal year 2007 revenues. This was attributable to a \$275.7 million increase (1.8 percent) in overall tax revenues offset by a \$72.6 million decrease (22.4 percent) in interest revenue. Fiscal year 2008 expenditures increased \$762.6 million as compared to fiscal year 2007. This was attributable to increases in education expenditures, capital outlay expenditures, individual and family services expenditures, and administration of justice expenditures of \$224.0 million, \$173.4 million, \$162.5 million, and \$142.9 million, respectively. Net other financing sources and uses increased by \$34.2 million which is due to both higher transfers in and lower transfers out.

Budget Highlights

While the General Fund recognized modest increases in overall growth when compared to fiscal year 2007, the slowing economy contributed to a decrease in the original revenue budget of \$683.0 million. This reduction was primarily attributable to decreases in the final budget for individual and fiduciary income tax revenue of \$344.0 million, sales and use tax revenue of \$167.9 million, and corporation income revenue of \$95.8 million. Total actual revenues were higher than final budgeted revenues by \$6.6 million.

Total final budget expenditures exceeded original budget expenditures by \$152.1 million or one percent. Approximately \$255.3 million of the increase relates to additional capital outlay projects. Additionally, administration of justice final budget expenditures increased approximately \$127.8 million due to increased legislative appropriations. The increases in the final budgeted expenditures were offset by decreases in general government and education expenditures of approximately \$215.1 million and \$116.9 million, respectively.

The Commonwealth spent less than planned so the actual expenditures were \$309.6 million or two percent lower than the final budgeted expenditures. This variance was primarily a result of \$141.4 million related to capital outlay projects.

Budget Outlook

The economic indicators for fiscal year 2008 revenues reflect a slowing economy. Declining employment levels, slower income growth, lower consumer confidence, and the continued downward trends in the housing market drove shortfalls in withholding, sales, and recordation taxes. The two General Fund revenue sources most closely tied to current economic activity – payroll withholding and retail sales taxes – experienced a meaningful slowdown in the rate of growth during the second half of fiscal year 2008. In addition, as discussed in Note 37, the United States' credit market has experienced tremendous fluctuations in recent months. The resulting economic concerns coupled with lower than anticipated revenue growth during fiscal year 2008 have contributed to a \$2.5 billion reduction in the General Fund revenue forecast for the 2008-2010 biennium. Based on the most recent General Fund revenue estimate, the fiscal year 2009 revenue is projected to decline by 4.0 percent while the fiscal year 2010 revenue is projected to increase by 3.6 percent over the revised 2009 forecast. In addition, the projected fiscal year 2010 revenue will be less than the actual revenue collected in fiscal year 2008. Due to lower anticipated revenue collections, the Commonwealth must reevaluate the planned General Fund spending. Accordingly, the Governor instructed Cabinet Secretaries to prepare and submit plans for five, ten, and fifteen percent reductions in General Fund spending for the remainder of fiscal year 2009. In addition to proposed spending reductions, the Governor proposes a withdrawal of \$400 million from the Revenue Stabilization Fund to help address the fiscal year 2009 budget shortfall. The Governor will release his proposed fiscal year 2010 budget reductions in conjunction with his amendments to the 2008-2010 biennial budget on December 17, 2008.

Major Special Revenue Fund Highlights

The Commonwealth Transportation Fund ended the fiscal year with a fund balance of \$1.84 billion, a decrease of \$109.2 million from the prior year. Approximately \$2.4 billion is committed for various highway, public transportation, and rail preservation projects (see Note 18). The decrease in fund balance was primarily the result of the following activities: in fiscal year 2008, revenues and expenditures both increased \$337.6 million or 9.9 percent and \$739.1 million or 23 percent, respectively, with expenditures exceeding revenues by approximately \$173.8 million. This increased activity is primarily due to increased federal funds available for construction and increases in secondary highway maintenance.

The Federal Trust Fund balance increased by \$31.1 million or 55.9 percent. Federal Grants and Contracts revenue increased by approximately \$176.8 million or 3.2 percent. This increase was offset with an increase in total expenditures of approximately \$117.4 million or 2.1 percent. The increases in Federal Grants and Contracts revenue were offset with decreases associated with the Department of Medical Assistance Services (DMAS). During the fiscal year, DMAS received less drug rebate recoveries, primarily attributable to the implementation of Medicare Part D and timing differences related to drug rebate receivables.

The Literary Fund's fund balance decreased by \$6.6 million or 2.2 percent in fiscal year 2008 from fiscal year 2007. The decrease is the result of net disbursements exceeding net receipts by \$17.1 million, offset by a cash transfer in of \$10.5 million from the State Lottery representing unclaimed prizes.

Capital Asset and Long-term Debt

Capital Assets. The primary government's investment in capital assets for its governmental and business-type activities as of June 30, 2008, amounts to \$18.6 billion (net of accumulated depreciation totaling \$10.9 billion). This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable such as roads, bridges, drainage systems, and other similar assets. As noted on page 30, increases in capital assets contributed to the overall increase in governmental activities' net assets. The increase in the primary government's investment in capital assets was primarily attributable to increases in infrastructure, construction in progress, and building acquisitions or improvements of \$653.5 million, \$372.2 million, and \$295.2 million, respectively. These increases are primarily attributable to transportation. The primary government reports equipment with a value of \$50,000 or greater and an expected useful life of two or more years. The primary government capitalizes all land, buildings, and infrastructure that have a cost or value greater than \$100,000. Additional information on the primary government's capital assets can be found in Note 12, "Capital Assets."

Figure 14
Capital Assets as of June 30, 2008
(Net of Depreciation)
(Dollars in Thousands)

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Land	\$ 1,934,665	\$ 1,977	\$ 1,936,642
Buildings	1,875,342	7,736	1,883,078
Equipment	458,548	20,708	479,256
Infrastructure	11,046,369	-	11,046,369
Construction in Progress	3,279,565	252	3,279,817
Total	\$ 18,594,489	\$ 30,673	\$ 18,625,162

Long-term Debt. The Commonwealth is prohibited from issuing general obligation bonds for operating purposes. At the end of the current fiscal year, the Commonwealth had total debt outstanding of \$26.9 billion, including total tax-supported debt of \$7.8 billion and total debt not supported by taxes of \$19.1 billion. Bonds backed by the full faith and credit of the government and tax-supported total \$1.0 billion. Debt is considered tax supported if Commonwealth tax revenues are used or pledged for debt service payments. An additional \$1.0 billion is considered moral obligation debt which is not tax-supported. The Commonwealth has no direct or indirect pledge of tax revenues to fund reserve deficiencies. However, in some cases, the Commonwealth has made a moral obligation pledge to consider funding deficiencies in debt service reserves that may occur. The remainder of the Commonwealth's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

During fiscal year 2008, the Commonwealth issued \$3.9 billion of new debt for various projects. \$503.3 million of the new debt was for the primary government and \$3.4 billion for the component units. Additional information on the Commonwealth's outstanding debt can be found in Note 23, as well as in the section entitled "Debt Schedules." The Commonwealth maintains a "triple A" bond rating for general obligation debt from the three rating agencies: Moody's Investors Service; Standard & Poor's Ratings Group, a division of The McGraw Hill Companies, Inc.; and Fitch, Inc.

State statutes limit the amount of general obligation debt the Commonwealth may issue for each specific type of debt. The 9(a) bonds, which have been issued to redeem previous debt obligations, are limited to 30 percent of 1.15 times the annual tax revenues for fiscal year 2008. The 9(b) bonds, which have been authorized by the citizens of Virginia through bond referenda to finance capital projects, are limited to 1.15 times the average of selected tax revenues for fiscal years 2006, 2007, and 2008. The 9(c) bonds, which have been issued to finance capital projects that will generate revenue upon their completion, are limited to 1.15 times the average of selected tax revenues for fiscal years 2006, 2007, and 2008. The current debt limitation for the Commonwealth is \$4.9 billion, \$14.9 billion, and \$15.3 billion, respectively, for the 9(a), 9(b), and 9(c) general obligation bond issues. These limits significantly exceed the Commonwealth's outstanding general obligation debt. Currently, there is no 9(a) debt outstanding.

Figure 15
Outstanding Debt as of June 30, 2008
General Obligation Bonds
(Dollars in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
General obligation bonds				
9(b)	\$ 935,105	\$ -	\$ 935,105	\$ -
9(c)	66,884	-	66,884	487,296
Total	<u>\$ 1,001,989</u>	<u>\$ -</u>	<u>\$ 1,001,989</u>	<u>\$ 487,296</u>

Economic Factors and Review

In fiscal year 2008, Virginia's economy weakened as it mirrored the national economy's slowdown. The Commonwealth's growth rate was just below the national growth rate for the second consecutive year since 1996. Virginia's personal income in current dollars grew by just 4.4 percent, the lowest growth in the four previous years. Although higher in fiscal year 2008 than in prior years, unemployment in Virginia was only 3.4 percent, in comparison with the national average, which was 4.9 percent. During fiscal year 2008, new housing in Virginia again fell by 28 percent. Overall, Virginia's economic decline was not as severe as for the nation as a whole. For a more in-depth discussion on the Commonwealth's economy see "Economic Review" on page 8.

Requests for Information

This financial report is designed to provide a general overview of the Commonwealth's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the State Comptroller's Office, Commonwealth of Virginia, P. O. Box 1971, Richmond, Virginia 23218. This report is also available for download from the World Wide Web. Our Internet address is www.doa.virginia.gov.

The Commonwealth's component units issue their own separate financial statements. Contact information regarding each component unit is provided in Note 1.B.