

Virginia Financial Perspective

**A Report to the Citizens
of the Commonwealth**

For the Fiscal Year Ended June 30, 2003

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December 15, 2003

Virginia Financial Perspective



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.

Twelve years ago, Virginia began issuing simplified financial reports, commonly referred to as *popular reports*. These 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 2003, 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.

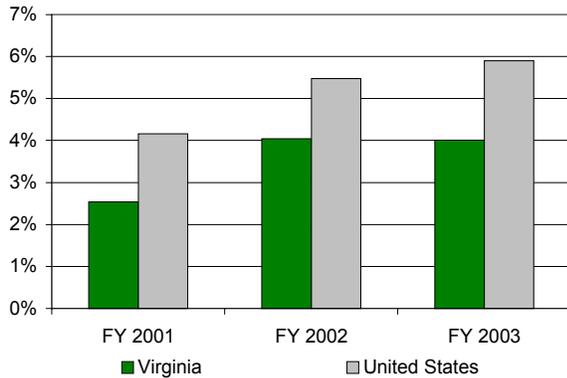
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Virginia's Economy

Each year the CAFR includes a section describing the Commonwealth's economic outlook. For fiscal year (FY) 2003, economists at Virginia Commonwealth University's Center for Urban Development prepared this economic highlight section. FY 2003 can be thought of as something of a transitional fiscal year for the Virginia economy. Emerging from FY 2002, which included the September 11 terrorist attacks and the end to a brief recession, the Commonwealth's economy began to grow in FY 2003. Several economic indicators including wages and salaries, personal income, new privately owned housing units authorized, and retail sales finished the fiscal year with positive gains. While employment finished the fiscal year slightly lower, unemployment remained at the same level as FY 2002.

Employment and income are the two broad economic measures that give the best picture of major developments. Unemployment decreased by less than 0.1 percent in FY 2003. Persons without work constituted 4.0 percent of the labor force (**Figure 1**).

Figure 1
Unemployment Rate

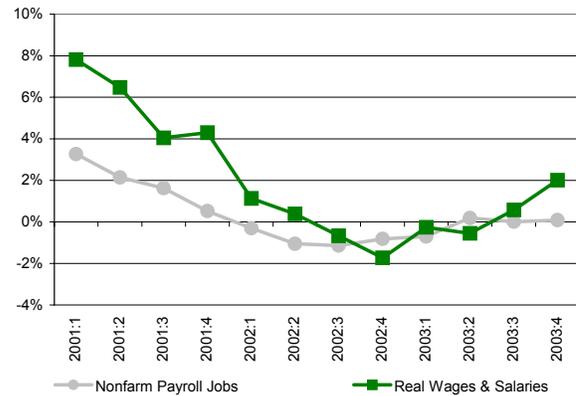


Source: Bureau of Labor Statistics

Virginia's unemployment rate was nearly two percentage points lower than the national average.

Figure 2 shows that Virginia's total nonfarm employment in FY 2003 remained essentially flat in relation to FY 2002. As a continuation from the second half of FY 2002, the year-to-year quarterly growth rates in real salaries and wages fell during the first two quarters of FY 2003. These losses were offset during the last two quarters of FY 2003 by modest gains.

Figure 2
Economic Indicator Growth Rates



Source: Bureau of Labor Statistics and Bureau of Economic Analysis

Virginia's average pay per job in FY 2003 was \$40,032. This is over \$1,700 more than the national average of \$38,318. The sectors with higher incomes are information, government, and professional and business services. Education and health services recorded the largest percentage increase in wages and salaries per job in FY 2003.

Virginia's personal income is estimated to reach \$243 billion in FY 2003 (the fourth quarter has been estimated by the Center). As shown in **Figure 3**, this is a 3.5 percent increase over FY 2002. Total wages and salaries comprised about 58 percent of personal income and increased 2.3 percent over FY 2002. For the last three fiscal years, Virginia's personal income and wages and salaries grew at a faster pace than the United States. Further, adjusting for inflation, Virginia's growth in real personal income (1.6 percent) and real wages and salaries (0.4 percent) outpaced the Nation's growth of 1.3 percent and -0.3 percent, respectively.

Figure 3
Personal Income

	Annual Growth Rates			
	FY 03	FY 01	FY 02	FY 03
Virginia Personal Income (in Millions of \$)	\$243,078	7.8%	2.5%	3.5%
Virginia Wages and Salaries (in Millions of \$)	\$140,874	8.2%	1.1%	2.3%
United States Personal Income		6.4%	2.0%	3.2%
United States Wages and Salaries		5.9%	0.4%	1.6%
Inflation, PCE Chain-Type Index		2.5%	1.3%	1.9%
Virginia Real Personal Income		5.2%	1.1%	1.6%
Virginia Real Wages and Salaries		5.6%	-0.2%	0.4%
United States Real Personal Income		3.9%	0.6%	1.3%
United States Real Wages and Salaries		3.4%	-0.9%	-0.3%

Sources: Bureau of Labor Statistics and Bureau of Economic Analysis

FINANCIAL STATEMENT INFORMATION

This section contains Financial Statement Information for the Commonwealth of Virginia for the fiscal year ending June 30, 2003.

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, 2002, and ended on June 30, 2003. This is referred to as fiscal year 2003, or FY 2003.

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 2003 was audited and received an unqualified auditor's opinion.

Virginia capital assets include infrastructure, such as highways and bridges, and the use of full accrual accounting in the Government-wide Statements.

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, 2003. 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. A

third fund 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 all of the State's component units. Component units are legally separate entities that are accountable to the State. Only the Statement of Net Assets and Statement of Activities on pages 4 and 5 includes all of the State's funds and component units.

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. Requests for copies of the CAFR should be directed to the address given on the last page of this report.

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 2003, Virginia had Primary Government *assets* (i.e., cash, investments, property and amounts owed to the state) on a GAAP basis of \$21.0 billion, and Component Unit assets of \$22.3 billion. These assets were partially offset by Primary Government liabilities (i.e., amounts owed by the state to others) of \$9.6 billion, and Component Unit liabilities of \$13.2 billion. This left state government with Primary Government net assets (the amount left after liabilities are subtracted from assets) of \$11.3 billion, and Component Unit net assets of \$9.1 billion. **Figure 4** is a condensed Statement of Net Assets for the Commonwealth as of June 30, 2003.

The Statement of Activities (**Figure 5**) summarizes information showing how the State's net assets changed, on a GAAP basis, during the fiscal year. Virginia recognized \$9.7 billion in program revenues and \$13.1 billion in general revenues, which was used to pay for \$22.9 billion of expenses in the primary government. Virginia's component units reported \$5.4 billion of program revenues and \$2.1 billion of general revenues, which was used to pay \$7.0 billion of expenses and \$7.0 million for other items.

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*.

Statement of Net Assets (GAAP Basis)
As of June 30, 2003

(Dollars in Millions)

Figure 4

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	FY 2002 Total (Informational Only)	Total	FY 2002 Total (Informational Only)
Current and Other Assets	\$ 5,296	\$ 2,265	\$ 7,561	\$ 7,356	\$ 16,811	\$ 16,889
Capital Assets	12,998	360	13,358	12,730	5,493	5,229
Total Assets	<u>18,294</u>	<u>2,625</u>	<u>20,919</u>	<u>20,086</u>	<u>22,304</u>	<u>22,118</u>
Long-Term Liabilities	4,610	2,066	6,676	5,605	11,106	11,753
Other Liabilities	2,550	388	2,938	3,214	2,101	1,727
Total Liabilities	<u>7,160</u>	<u>2,454</u>	<u>9,614</u>	<u>8,819</u>	<u>13,207</u>	<u>13,480</u>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	9,811	24	9,835	9,175	3,825	3,687
Restricted	883	437	1,320	2,333	3,997	3,702
Unrestricted	440	(290)	150	(241)	1,275	1,249
Total Net Assets	<u>\$ 11,134</u>	<u>\$ 171</u>	<u>\$ 11,305</u>	<u>\$ 11,267</u>	<u>\$ 9,097</u>	<u>\$ 8,638</u>

Statement of Activities (GAAP Basis)
For the Fiscal Year Ended June 30, 2003

(Dollars in Millions)

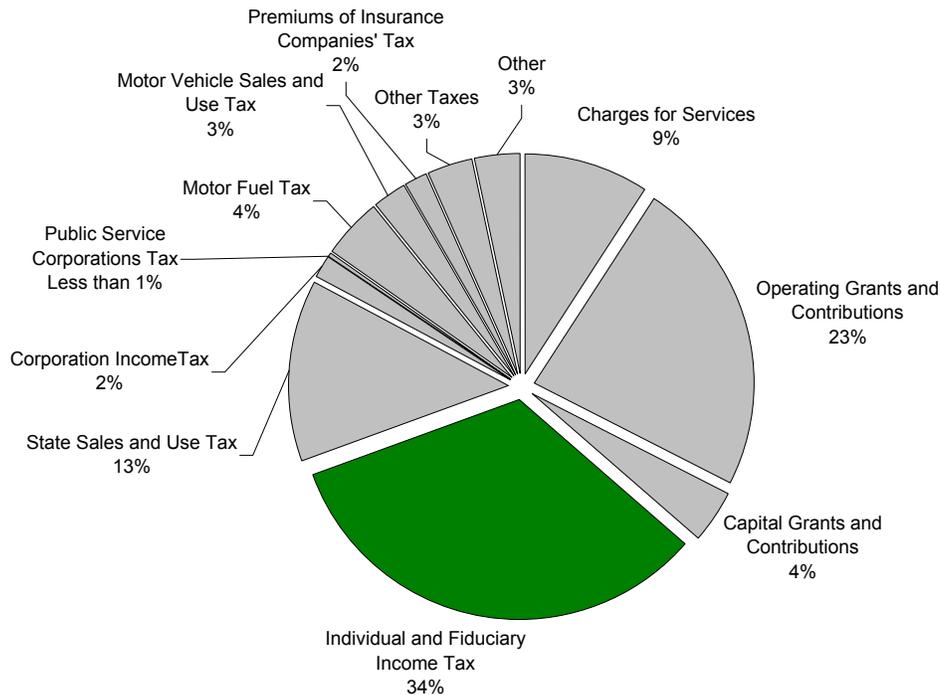
Figure 5

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	FY 2002 Total (Informational Only)	Total	FY 2002 Total (Informational Only)
Program Revenues:						
Charges for Services	\$ 1,890	\$ 2,214	\$ 4,104	\$ 4,620	\$ 4,057	\$ 3,659
Operating Grants and Contributions	4,796	38	4,834	4,276	1,241	1,107
Capital Grants and Contributions	779	-	779	1,189	82	95
	<u>7,465</u>	<u>2,252</u>	<u>9,717</u>	<u>10,085</u>	<u>5,380</u>	<u>4,861</u>
Expenses	20,474	2,449	22,923	22,601	6,973	6,622
Net (Expenses) Revenues	(13,009)	(197)	(13,206)	(12,516)	(1,593)	(1,761)
General Revenues	13,092	19	13,111	12,415	2,082	2,086
Transfers and Other Items	466	(466)	-	-	(7)	(17)
Change in Net Assets	<u>\$ 549</u>	<u>\$ (644)</u>	<u>\$ (95)</u>	<u>\$ (101)</u>	<u>\$ 482</u>	<u>\$ 308</u>

Governmental Activities Revenues

The following is a graphical representation of the Statement of Activities revenues for governmental activities.

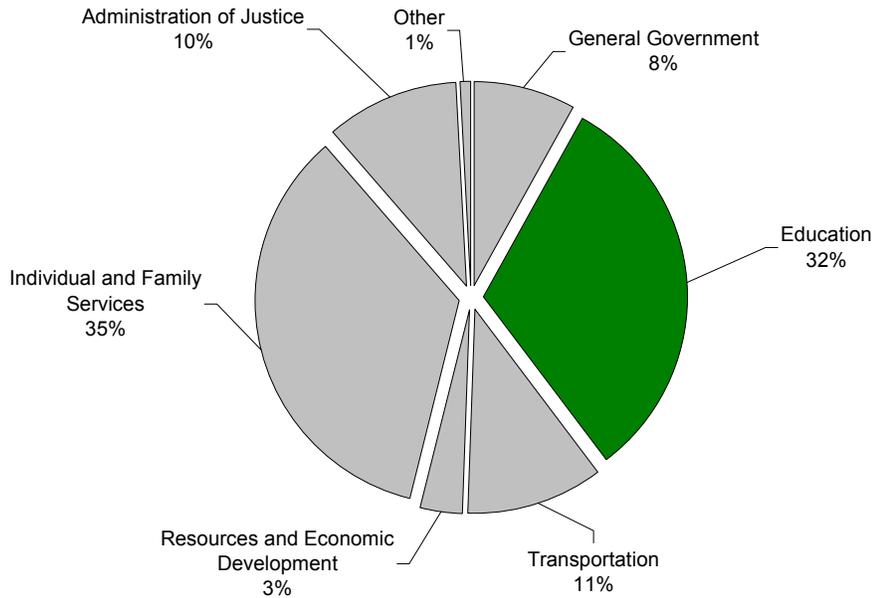
Figure 6
**Revenues by Source – Governmental Activities
FY 2003**



Governmental Activities Expenses

The following is a graphical representation of the Statement of Activities expenses for governmental activities.

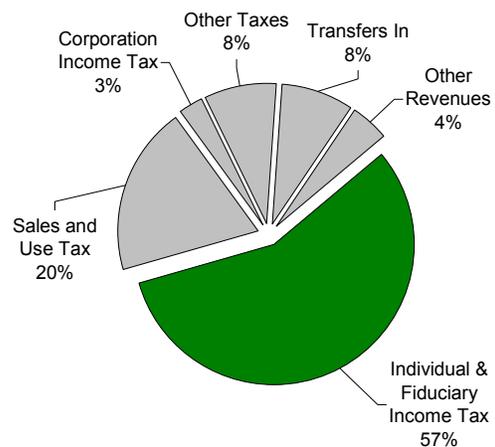
Figure 7
**Expenditures by Type – Governmental Activities
 FY 2003**



General Fund – Cash Basis

During FY 2003 the General Fund received \$12.0 billion in resources. **Figure 8** illustrates the various revenue sources. Individual and fiduciary income taxes accounted for 57 percent of the resources, while sales and use taxes made up 20 percent. These revenues plus other revenues totaled \$11.0 billion, or 92 percent. The remaining monies totaling \$1.0 billion came through transfers from other funds, including alcoholic beverage sales and lottery profits.

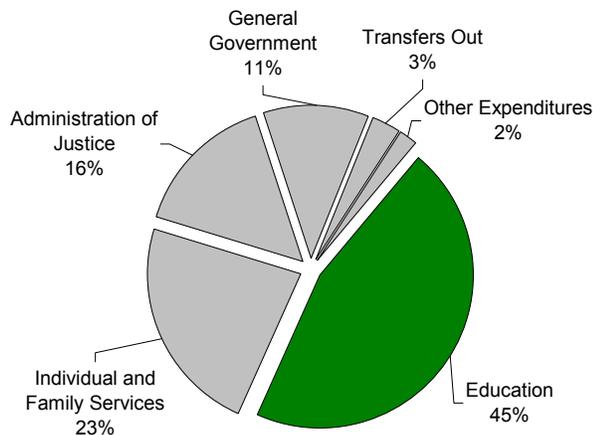
Figure 8
**General Fund Revenue
 FY 2003, Cash Basis**



Revenues (not including transfers) increased by \$248 million from FY 2002. This increase is attributable to the net effect of changes in all line items.

General Fund disbursements, including transfers, for FY 2003 (Figure 9) totaled \$12.1 billion. Expenditures totaled \$11.7 billion and transfers to other funds were \$384 million. Education accounted for 45 percent including direct state aid for primary and secondary schools and General Fund transfers 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 disbursed 16 percent, while only 11 percent was used to support the administration of general governmental operations. It should be noted that 63 percent, or \$856.7 million, of the total general government amount includes payments to localities to offset state-mandated reductions in local personal property tax rates.

Figure 9
General Fund Disbursements
FY 2003, Cash Basis



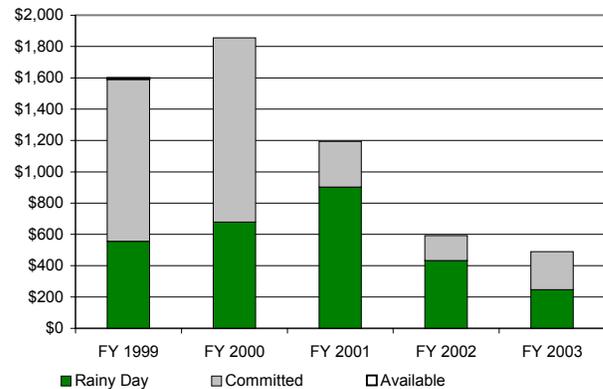
Expenditures (not including transfers) decreased by \$68 million over the prior year. The decrease is due to the net affect of changes in all line items.

General Fund expenditures and net transfers exceeded revenues by \$78 million on the cash basis. In other words, the General Fund had an operating loss for the year on the cash basis, caused in part by the lingering budgetary effects of the FY 2002 economic slowdown.

Figure 10 shows the General Fund balance - cash basis - at the end of each year since 1999. Virginia's General Fund balance at the end of FY 1999 was \$1,599.6 million. FY 2000's continuing strong economy brought the fund balance to \$1,855.3 million. The FY 2001 economic slowdown contributed towards a reduction in the General Fund balance to \$1,194.1 million. The continued

slowdown reduced the balance to \$632.9 million in FY 2002 and \$554.8 million in FY 2003.

General Fund Balance - Cash Basis
Highlighting the Available Fund Balance
(Dollars in Millions) Figure 10



These balances are made up of "committed" funds, "available" funds, and the "rainy day" fund.

Balances are "committed" if there are plans in place for their use. "Available" balances may be used by the Governor and General Assembly for new projects or programs. At the end of FY 2003, as at the end of FY 2002, FY 2001, and FY 2000, there was no available balance.

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 2003 is \$247.5 million. It is made up of \$79.9 million from 1993 collections, \$66.6 million from 1995 collections, \$58.3 from 1996 collections, \$123.8 million from 1997 collections, \$194.1 million from 1998 collections, \$103.3 million from 1999 collections, \$187.1 million from FY 2000 collections, and \$149.5 million in interest. Transfers of \$247.5 and \$467.7 million were made from the Revenue Stabilization Fund into the General Fund in FY 2003 and FY 2002, respectively as prescribed by the state budget. Collections for FY 1994, FY 2001, and FY 2002 did not require a contribution, and a contribution is not required for FY 2003.

General Fund - GAAP Basis

Figures 11 and 12 show the General Fund GAAP revenues and expenditures to help the reader see the differences between the cash and GAAP basis amounts.

Figure 11
General Fund Revenue
FY 2003, GAAP Basis

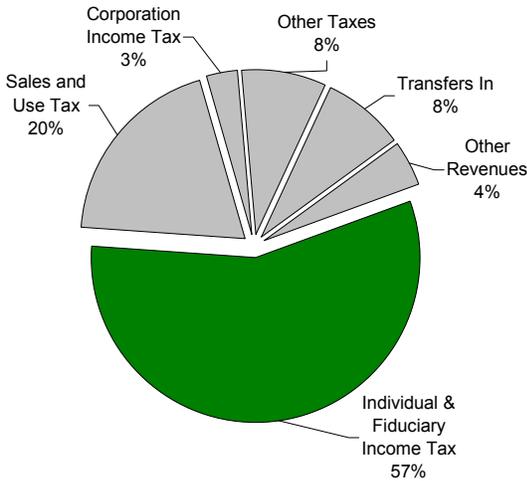
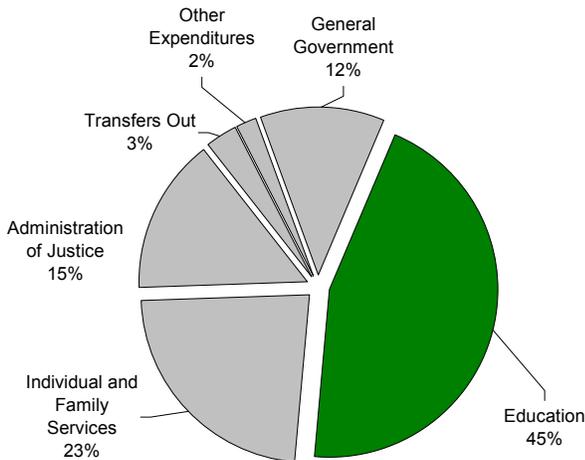


Figure 12
General Fund Disbursements
FY 2003, GAAP Basis



liabilities are particularly significant. One is for *estimated tax refunds due* of \$168.1 million, which is an estimate of the state income taxes withheld during FY 2003 that will eventually be refunded. Another is for *tax refunds payable* on returns filed in FY 2003 and paid during the months of July and August following year end close of \$217.9 million. The third item is an amount of estimated *Medicaid claims payable* of \$160.4 million, which represents medical services rendered in prior years that will not be paid for until FY 2004. These amounts are summarized in Figure 13 that compares the General Fund on a cash and GAAP basis of accounting.

Analysis of General Fund Balance
Cash Basis versus GAAP Basis
For Fiscal Years Ended June 30, 2003 and 2002

(Dollars in Millions)

Figure 13

	FY 2003	FY 2002
Fund Balance, Cash Basis	\$ 554.8	\$ 632.9
ADD:		
Sales Taxes Receivable	87.1	85.4
Other Taxes Receivable	281.5	280.5
Other Receivables	85.4	89.1
Inventory	37.1	34.8
Other Accrued Items	46.1	55.2
Total to be Added	537.2	545.0
LESS:		
Tax Refunds Payable	217.9	226.5
Estimated Tax Refunds Due	168.1	501.8
Medicaid Claims Payable	160.4	184.3
Sales Taxes Due to Localities	143.9	145.0
Other Accrued Items	338.1	337.0
Total to be Subtracted	1,028.4	1,394.6
Difference	(491.2)	(849.6)
Fund Balance, GAAP Basis	\$ 63.6	\$ (216.7)

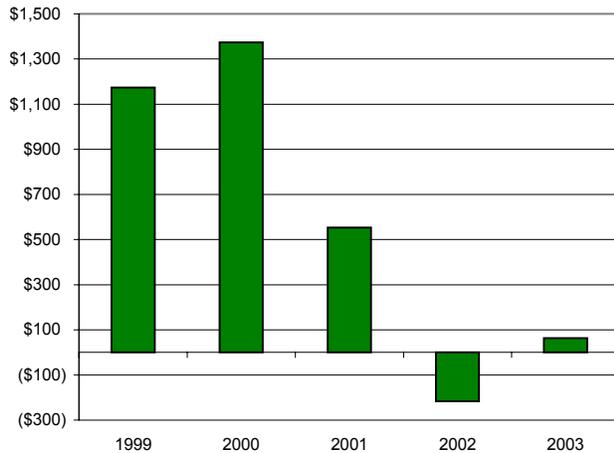
General fund expenditures and net transfers exceeded revenues by \$87.2 million on the GAAP basis. Fund balance increased to \$63.6 million, compared to a balance of \$(216.7) million in FY 2002 (Figure 14). The increase in the General Fund GAAP basis balance from FY 2002 to FY 2003 is mainly attributable to a change in methodology related to estimated tax refunds due.

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

General Fund Balance - GAAP Basis

(Dollars in Millions)

Figure 14



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 71,402 miles of state roads.

The Commonwealth Transportation Fund (Figure 15) 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.

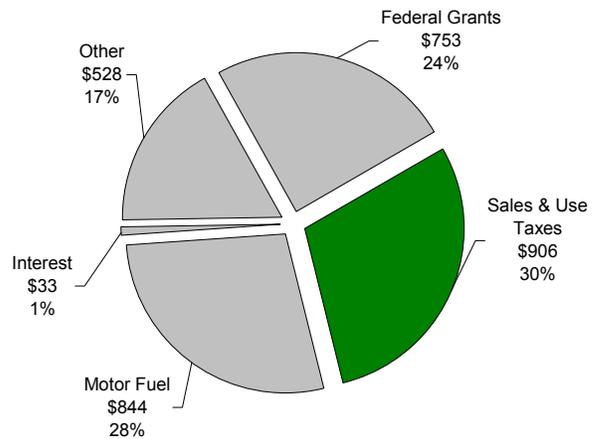
During FY 2003, the Commonwealth Transportation Fund had revenues and other receipts of \$3.9 billion and expenditures and other uses of \$3.7 billion on a GAAP basis. At the end of FY 2003, the fund had a balance of \$1.3 billion measured on a GAAP basis.

Figure 15

Commonwealth Transportation Fund Revenue Sources

FY 2003, GAAP Basis

(Dollars in Millions)



Highway construction projects often require several years to complete. State revenues contribute approximately 65.1 percent of the funding for these projects. The federal government provides 31.1 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 \$212.4 million plus noncurrent assets such as investments and receivables of \$734.7 million. These assets were held to satisfy current liabilities of \$46.2 million and long-term liabilities of \$1.134 billion. Invested in capital assets, net of related debt is \$0.2 million and total unrestricted net assets were a negative \$232.9 million as of June 30, 2003.

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 \$3.6 billion as of June 30, 2003, and included \$3.5 billion of mutual fund investments. The net assets held in trust as of June 30, 2003, were also \$3.5 billion.

For FY 2003 VCSP reported additions, composed of contributions from plan participants, of \$2.4 billion. Deductions for FY 2003 totaled \$160.1 million, including \$41.3 million in tuition benefits paid and \$116.2 million in redeemed shares.

The University of Virginia Component Unit Fund - GAAP Basis

The University of Virginia is the Commonwealth's largest institution of higher education. It is comprised of the graduate and undergraduate university facilities in Charlottesville, Virginia, a separate four-year college in Wise, Virginia, and one teaching hospital. In FY 2003, the University of Virginia had total program revenues of \$1.3 billion and general revenues of \$404 million. Revenues are derived from numerous sources including student tuition and fees, contracts, grants, private gifts, and sales and services through the hospital and auxiliary enterprises. For the same period, the University reported expenses of \$1.5 billion, and showed a net increase in assets of \$235 million.

As of June 30, 2003, the University had total assets of \$4.5 billion, which included \$2.1 billion of restricted assets and \$1.3 billion of capital assets. For the same period, liabilities totaled \$1.1 billion, of which \$524 million was classified as long-term liabilities. The University of Virginia had \$3.4 billion in net assets as of June 30, 2003.

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 2003 with a total equity of \$34.7 billion. During FY 2003 the fund received \$1.2 billion in contributions and earned \$991.8 million on investment holdings. The increase in net assets after the payment of retirement benefits, refunds and operating costs was \$274.6 million (**Figure 16**).

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.

**Statement of Changes in Plan Net Assets
Pension Trust Fund - GAAP Basis
For the Fiscal Year Ended June 30, 2003**

<i>(Dollars in Thousands)</i>	<i>Figure 16</i>
Additions:	
Contributions	\$ 1,151,595
Investment Income:	
Interest, Dividends, and Other	
Investment Income	1,128,491
Less Investment Expenses	136,655
Net Investment Income	991,836
Other Revenue	2,682
Total Additions	2,146,113
Deductions:	
Retirement Benefits	1,598,065
Refunds to Former Members	72,150
Retiree Health Insurance Credits	61,027
Insurance Premiums and Claims	104,275
Administrative Expenses	18,990
Other Expenses	17,056
Total Deductions	1,871,563
Net Increase (Decrease)	274,550
Net Assets, July 1	34,429,730
Net Assets, June 30	\$ 34,704,280

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 2003 totaled \$57.3 million. This was less than the actuarially determined Annual Required Contribution of \$265.8 million, but did meet statutory requirements. The State has elected to allow employer contributions to include an annual amount that would phase in automatic cost of living adjustment funding requirements over a five-year period ending with FY 2003. 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.

State Lottery Fund - GAAP Basis

The lottery fund (**Figure 17**) accounts for all receipts and disbursements from the sale of lottery tickets for various games.

During FY 2003, the Lottery had revenues of \$1.1 billion and expenses, including lottery prize payments, of \$758.3 million. Non-operating income for the year, including interest earnings, was \$9.4 million. During FY 2003, \$387.5 million was transferred out to be spent for public education as required by law.

**Revenues, Expenses and Changes in
Fund Net Assets
State Lottery - GAAP Basis
For the Fiscal Year Ended June 30, 2003**

<i>(Dollars in Thousands)</i>	<i>Figure 17</i>
Operating Revenues:	
Charges for Sales and Services	\$ 1,135,730
Total Operating Revenue	1,135,730
Operating Expenses:	
Personal Services	19,038
Contractual Services	30,362
Supplies and Materials	2,149
Depreciation	6,546
Lottery Prize Expense	696,888
Other Expenses	3,346
Total Operating Expenses	758,329
Operating Income	377,401
Nonoperating Revenues:	
Interest, Dividends, and Rents	9,253
Other	173
Total Nonoperating Revenues	9,426
Income Before Transfers and Changes	386,827
Operating Transfers Out	(387,505)
Change in Net Assets	(678)
Total Net Assets, July 1	(1,389)
Total Net Assets, June 30	\$ (2,067)

Alcoholic Beverage Control Fund - GAAP Basis

The "ABC" fund accounts for the receipts and disbursements from the sale of alcoholic beverages. In FY 2003, ABC profits of \$57.6 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 2003 was \$58.0 million on \$374.6 million in total sales.

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 2003, the self-insurance program had cash and other assets of \$96.5 million, while the estimated liability for claims payable was \$189.2 million. The program had additional liabilities of \$44.3 million, which resulted in a GAAP deficit balance of \$137 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 2003 was \$17.8 billion (**Figure 18**). 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 18**, a total of \$917 million, or 5.2 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 \$4.4 billion of this type of tax supported debt was outstanding at the end of FY 2003. This is 24.7 percent of all debt on the books of the Commonwealth.

Non-Tax Supported Debt makes up 70.2 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 2003 was \$12.5 billion.

State Debt/Obligations
Tax Supported and Non-Tax Supported
 As of June 30, 2003

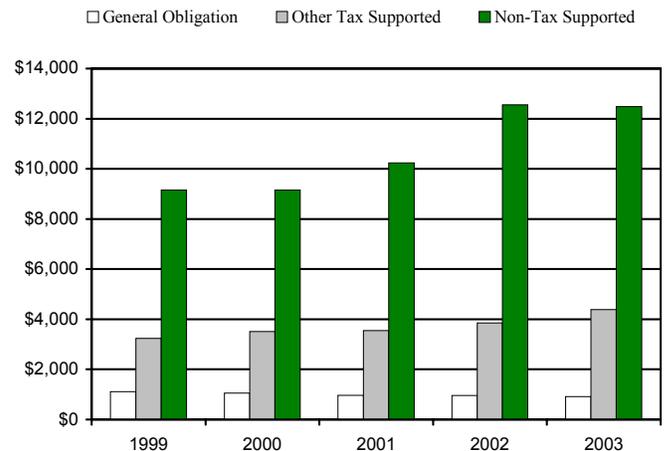
<i>(Dollars in Thousands)</i>		<i>Figure 18</i>
Tax-Supported Debt/Obligations		
General Obligation Bonds		
Public Facilities Bonds	\$ 410,669	2.3%
Parking Facilities Bonds	6,457	0.0%
Transportation Facilities Bonds	150,767	0.9%
Higher Education Bonds	349,185	2.0%
Total General Obligation Bonds	<u>917,078</u>	<u>5.2%</u>
Other Tax-Supported Debt/Obligations		
Transportation	1,072,229	6.0%
Virginia Port Authority	222,221	1.2%
Virginia Public Building Authority	956,495	5.4%
Innovative Technology Authority	9,965	0.1%
Virginia College Building Authority	448,525	2.5%
Long-Term Capital Lease Payable	301,487	1.7%
Compensated Absences Obligations	477,775	2.7%
Pension Liability Obligations	655,463	3.7%
Biotechnology Research Park	84,335	0.5%
Regional Jail Construction	18,252	0.1%
Installment Purchase	52,624	0.3%
Other Long-Term Debt/Obligations	90,449	0.5%
Total Other	<u>4,389,820</u>	<u>24.7%</u>
Total Tax-Supported Debt/Obligations	<u>5,306,898</u>	<u>29.8%</u>
Non-Tax Supported Debt/Obligations		
Higher Education	538,207	3.0%
Virginia Housing Development Authority	4,750,653	26.8%
Pocahontas Parkway Association	432,563	2.4%
Virginia Public School Authority	2,113,059	11.9%
Virginia Resources Authority	920,124	5.2%
Other Long-Term Debt/Obligations	3,720,361	20.9%
Total Non-Tax Supported Debt/Obligations	<u>12,474,967</u>	<u>70.2%</u>
Total Commonwealth Debt/Obligations	<u>\$ 17,781,865</u>	<u>100.0%</u>

The largest of these authorities is the Virginia Housing Development Authority, which has \$4.8 billion in debt outstanding secured by various mortgages. Other issuers include the Virginia Public School Authority, Pocahontas Parkway Association, 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, \$2.0 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 19 summarizes the outstanding debt owed by the Commonwealth in all categories over five fiscal years.

Figure 19
Categories of Debt
(Dollars in Millions)



OTHER INFORMATION

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, 2003." 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 20 shows that for FY 2003, the state made 98.7 percent of its payments on time, and that 96.1 percent of the dollars owed were paid in compliance with prompt payment requirements. The state paid out \$9,222 in interest on late payments during FY 2003, an improvement of \$11,907 from FY 2002, on total vendor payments of \$4.5 billion.

Figure 20

Statewide Prompt Payment Statistics

For FY 2003

Number of Late Payments	31,546
Total Number of Payments	2,476,985
Late Dollars (in Thousands)	\$ 176,729
Total Dollars (in Thousands)	\$ 4,506,661
Interest Paid	\$ 9,222
Percent of Payments in Compliance	98.7%
Percent of Dollars in Compliance	96.1%

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.

Approximately 95,558 payments totaling \$16.7 billion were made in FY 2003 using EDI. This helped to avoid the issuance of approximately 197,331 checks. Electronic payments were made to over 12,000 grantees, vendors and localities.

Also in FY 2003, approximately \$137.0 million in purchases were made using the small purchase charge card and newly available increased limit charge card programs. This helped to avoid another 396,325 checks. As of June 30, 2003, 194 agencies were using 10,227 cards.

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, 2003, 85.9 percent of salaried employees and 46.2 percent of wage employees took part in Direct Deposit.

Personal Property Tax Relief

During FY 1998, the General Assembly passed the Personal Property Tax Relief Act under which the Commonwealth has assumed financial responsibility for a certain portion of the personal property taxes collected by localities beginning in 1998. There is no impact on local revenues. The Commonwealth funds localities in an amount equal to the amount of tax relief.

Specifically, the tax owed on the first \$20,000 of the value of any car, truck or motorcycle held for personal use has been reduced by 70 percent through FY 2003. In 1998, the Commonwealth reimbursed taxpayers directly after they paid their personal property tax bills. Beginning in 1999, personal property tax bills sent by localities show the tax relief as a reduction in the amount owed on the personal property tax bills. The localities bill the Commonwealth for the amount of the reductions.

Figure 21 shows the schedule of the elimination of the personal property tax on the first \$20,000 of the value of qualifying vehicles through FY 2003. These payments are recorded as part of general government expenditures.

Personal Property Tax Relief

Figure 21

Calendar Year	Percentage of Tax Relief	Amount of Tax Relief for the Fiscal Year Ended June 30 (Dollars in Millions)
1998	12.5%	-
1999	27.5%	\$181.3
2000	47.5%	322.1
2001	70.0%	604.1
2002	70.0%	826.2
2003	70.0%	856.7

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, 2002. 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 eight consecutive years (fiscal years 1995-2002). 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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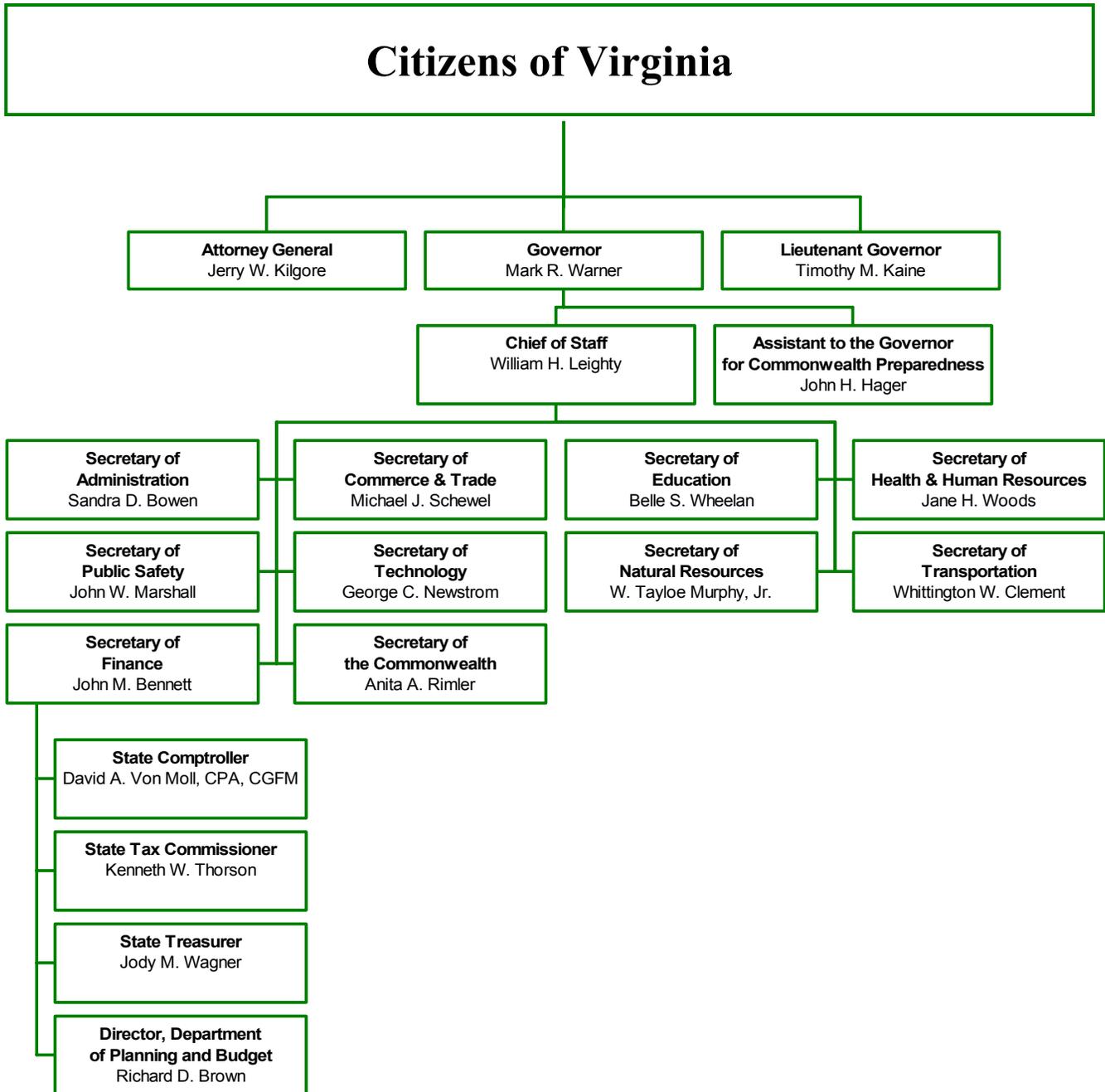
For the fiscal year ending
June 30, 2002

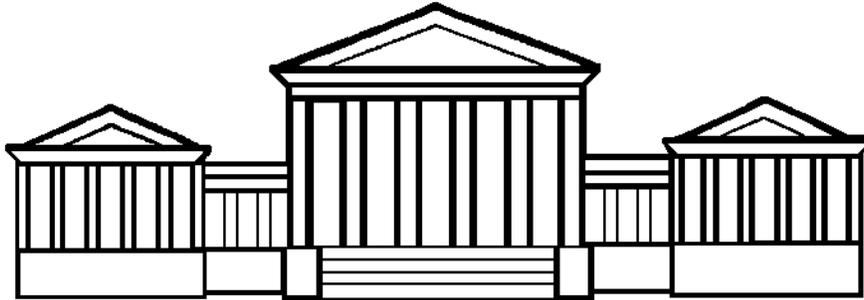


Edward Harrington
President

Jeffrey L. Essler
Executive Director

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





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