1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying financial statements have been prepared in conformance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB).

B. Reporting Entity

For financial reporting purposes, the Commonwealth's reporting entity consists of (1) the primary government, (2) component unit organizations for which the primary government is financially accountable (blended component units), and (3) other component unit organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and they are financially accountable to the primary government (discrete component units). The funds of all agencies, boards, commissions, foundations, and authorities that have been identified as part of the primary government or a component unit have been included.

Section 2100 of the GASB *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification) describes the criteria for determining which organizations, functions, and activities should be considered part of the Commonwealth of Virginia (the "Commonwealth") for financial reporting purposes. The basic criteria include appointing a voting majority of an organization's governing body and (1) the Commonwealth's ability to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Commonwealth.

(1) Primary Government – A primary government consists of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, and departments are, for financial reporting purposes, part of the primary government.

(2) Blended Component Units – Though legally separate entities, these component units are, in substance, part of the primary government's operations. The blended component unit serves or benefits the primary government almost exclusively. Financial information from these units is combined with that of the primary government. Blended component units are:

Pocahontas Parkway Association (Major Enterprise Fund) – The Association, a private, non-stock, nonprofit corporation was created to develop, construct, and provide financing for the Route 895 Connector Project. The Association is a blended component unit of the Department of Transportation (Primary Government) because it is fiscally dependent on the primary government and provides services entirely to the benefit of the Commonwealth. Ernst & Young, LLP audited the Association, and a separate report is available from the Association, Post Office Box 1320, Richmond, Virginia 23218.

Virginia Historic Preservation Foundation (Nonmajor Special Revenue Fund) – The Foundation was created as a body politic and corporate to serve the Department of Historic Resources (Primary Government) by acquiring and holding properties of historical significance. The Governor appoints the seven-member Board, and the primary government is able to impose its will on the Foundation. The Director of the Department of Historic Resources is the Executive Director and controls all administrative duties of the Foundation. A trust agreement between the Board of Trustees of the Foundation, the Department of Historic Resources and the Association for the Preservation of Virginia Antiquities was made as of July 1, 1999. According to the trust agreement, the Foundation transferred the assets to the Association, until January 1, 2003, at which time the agreement may be terminated. The Association's activity is not reported in the accompanying financial statements. The administrative offices of the Foundation are located at 10 Courthouse Avenue, Petersburg, Virginia 23803. The Auditor of Public Accounts audits the Foundation as part of the Department of Historic Resources and discloses its existence in that report.

Virginia State Parks Foundation (Nonmajor Special Revenue Fund) – The Foundation was created as a body politic and corporate to serve the Department of Conservation and Recreation (Primary Government) in the duties and responsibilities described in Subtitle I of Title 10.1 of the *Code of Virginia*. The Governor appoints the seven-member Board, and the primary government is able to impose its will on the Foundation. The administrative offices of the Foundation are located at 203 Governor Street, Suite 402, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Foundation as part of the Department of Conservation and Recreation and discloses its existence in that report.

Virginia Public Building Authority (VPBA) (Nonmajor Governmental Funds) – The Authority was created as a body politic and corporate and is fiscally independent. A government instrumentality, the Authority finances the acquisition and construction of buildings for the use of the Commonwealth and other approved purposes. The Governor appoints the seven-member Board, and the primary government is able to impose its will on the Authority. The Auditor of Public Accounts audited the Authority, and a separate report is available from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218.

Virginia Land Conservation Foundation (VLCF) (Nonmajor Special Revenue Fund) – The Foundation was created as a body politic and corporate to serve the Department of Conservation and Recreation (Primary Government) by acquiring interests in preservation land and providing grants to other entities to acquire interests in preservation land. The Governor appoints the 18-member Board, and the primary government can impose its will on the Foundation. The administrative offices of the Foundation are located at 203 Governor Street, Suite 402, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Foundation as part of the Department of Conservation and Recreation and discloses its existence in that report.

Virginia Arts Foundation (Nonmajor Permanent Fund) – The Foundation was created as a body politic and corporate to serve the Virginia Commission for the Arts (Primary Government) by promoting the arts in the Commonwealth. The Governor appoints the Board of Trustees, and the Director of the Virginia Commission for the Arts serves as the Board chairman. In addition, the primary government can impose its will on the Foundation. The administrative offices of the Foundation are located at 223 Governor Street, Richmond, VA 23219. The Auditor of Public Accounts audits the foundation as part of the Virginia Commission for the Arts.

(3) Discrete Component Units – Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These discrete component units serve or benefit those outside of the primary government. Discretely presented component units are:

Higher Education Institutions – The Commonwealth's higher education institutions are granted broad corporate powers by State statutes. The Governor appoints the members of each institution's Board of Trustees. In addition to the annual appropriations to support the institutions' operations, the State provides funding for, and construction of, major academic plant facilities for the institutions. Therefore, there is a financial benefit/burden to the primary government. The bonds issued to finance the construction of these facilities are obligations of the State. The major Higher Education Institutions are: University of Virginia, including the University of Virginia Hospital and the University of Virginia's College at Wise (formerly reported as Clinch Valley College); Virginia Polytechnic Institute and State University; and Virginia Commonwealth University, including the Virginia Commonwealth University Health System Authority (formerly reported as MCV Health Systems Authority). The nonmajor Higher Education Institutions are: the College of William & Mary, including Richard Bland College and the Virginia Institute of Marine Science; Virginia Military Institute; Virginia State University; Norfolk State University; Mary Washington College; James Madison University; Radford University; Old Dominion University; George Mason University; Virginia Community College System; Christopher Newport University; and Longwood University. The Southwest Virginia Higher Education Center and the Roanoke Higher Education Authority are also included as nonmajor higher education institutions. The colleges and universities are funded through State appropriations, tuition, Federal grants, and private donations and grants. With the exception of the Virginia Commonwealth University Health System Authority, which is audited by Ernst & Young, LLP, the Auditor of Public Accounts audited the colleges and universities, and individual reports are issued under separate cover.

Complete financial statements for each institution may be obtained from their respective administrative offices. The addresses for these institutions may be obtained from the Virginia Department of Accounts, 101 North 14th Street, Richmond, Virginia 23219.

Virginia Housing Development Authority (VHDA) (Major) – The Authority was created as a political subdivision and instrumentality of the Commonwealth and is granted both political and corporate powers by the *Code of Virginia*. The Governor appoints a majority of the Authority's Board members. The Commonwealth may make grants to the Authority including, but not limited to, reserve funds, which is a potential financial benefit/burden to the primary government. The State is not obligated by the debt of the

Authority. The Authority was created in the public interest to provide investment in and stimulate construction of low–moderate income housing which benefits the citizens of the Commonwealth. The administrative offices of the Authority are located at 601 South Belvidere Street, Richmond, Virginia 23220. KPMG, LLP audited the Authority, and a separate report is available.

Virginia Public School Authority (VPSA) (Major) – The Authority was created as a public body corporate, and an agency and instrumentality of the Commonwealth to finance capital projects of city and county school boards. The Governor appoints the Board members, who serve at his pleasure. Therefore, the primary government is able to impose its will on the Authority. Additionally, the Authority receives Literary Fund notes transferred from the State to secure bonds issued by the Authority. The Auditor of Public Accounts audited the Authority, and a separate report is available from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218.

Virginia Economic Development Partnership (VEDP) (Nonmajor) – The Partnership was created as a body corporate and operates to encourage, stimulate, and support the development and expansion of commerce in the Commonwealth. The Governor appoints the 15 Board members, and there is a financial benefit/burden to the primary government. The administrative offices are located at 901 East Byrd Street, Post Office Box 798, Richmond, Virginia 23218-0798. The Auditor of Public Accounts audited the Partnership, and a separate report is available.

Virginia Outdoors Foundation (Nonmajor) – The Foundation was created as a body politic and corporate to serve the Department of Conservation and Recreation (Primary Government) by promoting preservation and raising funds for the purchase of preservation land. The Governor appoints the seven-member Board, and the primary government can impose its will on the Foundation. The Foundation is reported as a Discrete Governmental Component Unit because it uses a GAAP reporting model other than the governmental model. The administrative offices of the Foundation are located at 302 Royal Lane, Blacksburg, Virginia 24060. The Auditor of Public Accounts audited the Foundation, and a separate report is available.

Virginia Port Authority (VPA) (Nonmajor) – The Authority was established as a corporate body and operates to serve the citizens and promote commerce. The Governor appoints 11 of the 12 Board members, and the primary government is able to impose its will on the Authority. There is also a financial benefit/burden to the primary government. The administrative offices of the Authority are located at 600 World Trade Center, Norfolk, Virginia 23510. The Auditor of Public Accounts audited the Authority, and a separate report is available.

Virginia Resources Authority (VRA) (Nonmajor) – The Authority was created as a public body corporate, and operates as a political subdivision of the Commonwealth to provide financing for the construction of local water supply, wastewater treatment, airport, public safety, and professional sports facilities and brownfields remediation. The Governor appoints a majority of the 10-member Board and the Executive Director of the Authority. The primary government is able to impose its will on the Authority, and there is a financial benefit/burden to the primary government. The Commonwealth does not guarantee any bonds issued by the Virginia Resources Authority. The administrative offices of the Authority are located at 707 East Main Street, Suite 1350, Richmond, Virginia 23219. KPMG, LLP audited the Authority, and a separate report is available.

Virginia Tourism Authority (Nonmajor) – The Authority was created as a public body corporate and as a political subdivision of the Commonwealth. The Authority encourages, stimulates, and promotes tourism and film production industries of the Commonwealth. The Governor appoints the majority of the board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 901 East Byrd Street, Nineteenth Floor, Richmond, Virginia 23219. The Auditor of Public Accounts audited the Authority, and a separate report is available.

Virginia Tobacco Settlement Foundation (Nonmajor) – The Foundation was created as a body corporate and as a political subdivision of the Commonwealth. The Foundation was established to determine the appropriate recipients of moneys in the Virginia Tobacco Settlement Fund and to distribute moneys in this fund for such efforts as restricting the use of tobacco products by minors and the enforcement of laws restricting the distribution of tobacco products to minors. The Governor appoints the majority of the board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 701 East Franklin Street, Fifth Floor, Richmond, Virginia, 23219. The Auditor of Public Accounts audited the Authority, and a separate report is available.

Tobacco Indemnification and Community Revitalization Commission (Nonmajor) – The Commission was created as a body corporate and as a political subdivision of the Commonwealth. The Commission was established to determine the appropriate recipients of the moneys in the Tobacco

Indemnification and Community Revitalization Fund. This fund is to provide payments to tobacco farmers as compensation for the adverse economic effects resulting from loss of investment in specialized tobacco equipment and barns, lost tobacco production opportunities, and to revitalize tobacco dependent communities. The Governor appoints the majority of the board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 701 East Franklin Street, Suite 501, Richmond, Virginia 23219. The Auditor of Public Accounts audited the Commission, and a separate report is available.

Hampton Roads Sanitation District Commission (Nonmajor) – The Commission was established as a political subdivision of the Commonwealth and a government instrumentality. The Commission, which is the governing Board of the District, was granted corporate powers by the *Code of Virginia*. The Governor appoints the Commission members, who serve at his pleasure. Therefore, the primary government is able to impose its will on the Commission. The Commonwealth is not obligated by the debt of the Commission. The Commission was established to benefit the inhabitants of the District and operates a sewage system for 13 localities in the Chesapeake Bay area. The address for the administrative offices of the Commission is Post Office Box 5911, Virginia Beach, Virginia 23471. KPMG, LLP, audited the Commission, and a separate report is available.

Virginia Biotechnology Research Park Authority (Nonmajor) – The Authority is a legally separate, political subdivision of the Commonwealth created by the General Assembly to assist in the development of a biotechnology research park. The Governor and General Assembly appoint the Board members of the Authority, and there is a potential financial benefit/burden to the primary government. The administrative offices of the Authority are located at 800 East Leigh Street, Richmond, Virginia 23219. The Auditor of Public Accounts audited the Authority, and a separate report is available.

Small Business Financing Authority (SBFA) (Nonmajor) – The Virginia Small Business Financing Act of 1984 (Chapter 28, Title 9, *Code of Virginia*) established the Authority as a public body corporate and a political subdivision of the Commonwealth. The Governor appoints the 10 Board members, and the primary government is able to impose its will on the Authority. The Authority was created to assist small businesses in the Commonwealth in obtaining financing for new businesses or the expansion of existing businesses. The Authority can provide financial assistance to small businesses by providing loans, guarantees, insurance, and other assistance, thereby encouraging the investment of private capital in small businesses in the Commonwealth. Also, the Authority guarantees loans made to small businesses by banks. As of June 30, 2002, the Authority had outstanding loan guarantees totaling $1,234,676 and had set aside $1,400,000 of its total net assets of $1,696,121 in a guaranty reserve fund to support these guarantees. The administrative offices of the Authority are located at 707 East Main Street, Suite 300, Richmond, Virginia 23219. The Auditor of Public Accounts audited the Authority, and a separate report is available.

Virginia Schools for the Deaf and Blind Foundation (Nonmajor) – The Foundation operates as a non-private educational and fund raising organization solely in connection with, and exclusively for the benefit of the Virginia School for the Deaf and Blind at Staunton (Primary Government) and the Virginia School for the Deaf, Blind and Multi-Disabled at Hampton (Primary Government), and within the jurisdiction and management of the Virginia Board of Education. The Foundation is reported as a Discrete Governmental Component Unit because it uses a cash basis reporting model other than the governmental reporting model. The Foundation uses a December 31 calendar year end. The administrative offices of the Foundation are located at the Virginia Department of Education, 101 North 14th Street, Richmond, Virginia, 23219. The Auditor of Public Accounts audited the Foundation along with the audit of the Department of Education, and a separate report is available.

A. L. Philpott Manufacturing Extension Partnership (Nonmajor) – The Partnership has the mission to foster regional economic prosperity by helping small to mid-sized manufacturers recognize and achieve their full market potential. The Partnership provides regional manufacturing firms with technology consulting services, access to business modernization resources, and support for interfirm collaboration. Further, the Partnership provides direct assistance to increase sales, decrease costs, and improve quality, productivity, and competitiveness. The Partnership has a 17-member Board of Trustees. The Board consists of the presidents of two public four-year institutions of higher education and one private four-year institution of higher education; three community college presidents; the director of Virginia's Center for Innovative Technology; Virginia's Secretary of Commerce and Trade; and nine citizen members appointed by the Governor. There is also a financial benefit/burden to the primary government. The administrative office is located at Patrick Henry Community College, 645 Patriot Avenue, P. O. Box 5311, Martinsville, Virginia 24115. The Auditor of

Public Accounts audited the Partnership, and a separate report is available.

Virginia Equine Center Foundation (Nonmajor) – The Foundation was created as a body politic and corporate, and operates the Equine Center for the benefit of the equine industry. In 1994, the Commonwealth began making grant payments to the Equine Center Foundation to keep the Center from falling into default on its debt. The Governor appoints 10 of the 11 Board members, and there is a financial benefit/burden to the primary government. The address for the administrative offices of the Foundation is Post Office Box 1051, Lexington, Virginia 24450. The accounting firm of William White, Sr., CPA audited the Foundation, and a separate report is available.

Certified Nursing Facility Education Initiative (Nonmajor) – The Initiative was created as a nonprofit corporation by the *Code of Virginia* to assist the Department of Medical Assistance Services. The Initiative provides early on-site training and assistance to certified nursing facilities to improve quality of care and life to certified nursing facility residents. The Initiative is reported as a Discrete Governmental Component Unit because it uses an accrual basis reporting model other than the governmental reporting model. The administrative offices of the Initiative are located at Post Office Box 465, Orange, Virginia 22960. Walker Healthcare Services Group audited the Initiative, and a separate report is available.

Innovative Technology Authority (ITA) (Nonmajor) – The Authority is granted corporate powers by the *Code of Virginia*. The Authority serves to facilitate the marketing, organization, and development of scientific research and technology by the State's institutions of higher education and private industry in the Commonwealth. The Governor appoints 12 of the 15 Board members, and there is a financial benefit/burden to the primary government. The Authority's combined financial statements include the accounts of the Center for Innovative Technology (CIT) after elimination of all significant intercompany balances and transactions. CIT is a nonstock, not-for-profit corporation, which acts as the operating arm of the Authority. The address for the administrative offices of the Authority is CIT Building, Suite 600, 2114 Rock Hill Road, Herndon, Virginia 22070. The Auditor of Public Accounts audited the Authority, and a separate report is available.

Virginia College Building Authority (VCBA) (Nonmajor) – The Authority was created as a public body corporate, a political subdivision, and an agency and instrumentality of the Commonwealth. The Governor appoints a majority of the Board and members serve at his pleasure. Therefore, the primary government is able to impose its will on the Authority. The Authority finances certain capital projects and equipment purchases of State-supported colleges and universities. The Auditor of Public Accounts audited the Authority, and a separate report is available from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218.

Only the activity of the Authority that relates to the financing of capital projects and equipment purchases by State-supported colleges and universities is included in the financial statements. The Authority assists private institutions of higher education in the financing and refinancing of a broad range of facilities. The Authority is authorized to issue obligations and lend the proceeds to private institutions; however, such financings or refinancings are not obligations of the Commonwealth nor the Authority, but are payable solely from the revenues pledged by the respective private institution. This indebtedness, totaling $368.9 million, is not included in the financial statements.

(4) Related Organizations – Organizations for which a primary government is accountable because that government appoints a majority of the Board, but is not financially accountable, are related organizations. Related organizations are:

Virginia Recreational Facilities Authority – The Authority was created as a political subdivision and instrumentality of the Commonwealth and given separate corporate powers by the *Code of Virginia*. The Governor appoints the 13 Board members. The Authority operates educational programs, tourism, and commerce in the Roanoke Valley. The address for the administrative offices of the Authority is 3900 Rutrough Road, Post Office Box 8508, Roanoke, Virginia 24014. Foti, Flynn, Lowen and Company audited the Authority, and a separate report is available.

Allegheny–Highlands Economic Development Authority – The Authority was created as a body corporate and politic, and as a political subdivision of the Commonwealth by the General Assembly. The Governor appoints a majority of the seven-member Board. The Authority was created for the benefit of the citizens of the Commonwealth, particularly those in Allegheny County, Clifton Forge, and Covington, by improving commerce, health and welfare. The address for the administrative offices of the Authority is 450 Main Street Suite 201, Post Office Box 29, Covington, Virginia 24426.

In April 2001, the Authority defaulted on its debt, and in August 2001, the Authority filed for bankruptcy under Chapter 9.

Miller School of Albemarle – The School was created as an educational institution of the Commonwealth and a corporation to provide a quality education. The Governor appoints a majority of the nine-member Board. The administrative offices of the School are located at 1000 Samuel Miller Loop, Charlottesville, Virginia 22903. Joseph J. Saunders, III, CPA, Inc. audited the School, and a separate report is available.

Jamestown-Yorktown Educational Trust – The Trust was created as a nonprofit corporation by the *Code of Virginia* to assist the Jamestown-Yorktown Foundation (Foundation). The Foundation's Board of Trustees controls the Trust. Several Commonwealth officials serve as ex-officio members of the Board, and the Governor appoints twelve members. The Trust operates the Jamestown Settlement and Yorktown Victory Centers' gift shops and café, oversees investing and fund raising activities, purchases artifacts, and sponsors events. The address for the administrative offices of the Trust is Post Office Box 3605, Williamsburg, Virginia 23187. Goodman and Company, LLP audited the Trust, and a separate report is available.

Virginia Birth-Related Neurological Injury Compensation Program – The Program was created to provide a no-fault alternative for birth-related neurological injuries. The Governor appoints the seven-member Board. The administrative offices of the Program are located at 9100 Arboretum Parkway Suite 365, Richmond, Virginia 23236. Goodman and Company, LLP audited the Program, and a separate report is available.

Chesapeake Bay Bridge and Tunnel Commission – The Commission was created to establish policy and administer operations of the Chesapeake Bay Bridge Tunnel District. Any of the eleven members of the Commission appointed or reappointed on or after July 1, 1998, shall be appointed by the Governor, subject to confirmation by each house of the General Assembly. The administrative offices of the Commission are located at Post Office Box 111, 32386 Lankford Highway, Cape Charles, Virginia 23310. KPMG, LLP, audited the Commission and a separate report is available.

Virginia Information Providers Network Authority – The Authority was created as a political subdivision of the Commonwealth to provide for the centralized marketing, provision, leasing or executing of license agreements for access on-line or in volume. The Governor appoints the 11-member board of directors. The administrative offices of the Authority are located at 110 South 7th Street Suite 135, Richmond, Virginia 23219. The Auditor of Public Accounts audited the Authority and a separate report is available.

C. Government-wide and Fund Financial Statements

The government-wide financial statements, the Statement of Net Assets and the Statement of Activities, report information on all nonfiduciary activities of the primary government and component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Also, the primary government activity is reported separately from the legally separate component units for which the Commonwealth is financially accountable.

The Statement of Activities demonstrates the degree to which direct expenses of a specific function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. In addition, to the extent that indirect costs are allocated to the various functions, the program expenses will include both direct and indirect costs. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit, as well as investment income generated by operations. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Taxes and other items properly excluded from program revenues are reported instead as general revenues.

Net assets are restricted when constraints are placed on them that are imposed by external parties or constitutional provisions. Designations solely imposed by the Commonwealth's management are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, the Commonwealth's policy is to use the restricted resources first.

Separate financial statements are provided for governmental funds, proprietary funds, fiduciary funds, and major component units. However, fiduciary funds are not included in the government-wide statements. Major governmental funds, enterprise funds, and component units are reported as separate columns in the fund financial statements, with nonmajor funds being aggregated into a single column.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Grants and similar

items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Commonwealth considers revenues to be available if they are collected within 60 days of the end of the current fiscal year (or one year for Medicaid). Significant revenues subject to accrual include Federal grants and income and sales taxes. Revenues that the Commonwealth earns by incurring obligations are recognized in the same period as when the obligations are recognized.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgements are recorded only when the payment is due.

The Commonwealth reports the following major governmental funds:

General Fund – Accounts for the transactions related to resources received and used for those services traditionally provided by a State government, which are not accounted for in any other fund. These services include general government, legislative and judicial activities, public safety, health and mental health programs, resources and economic development, licensing and regulation, and primary and secondary education.

Commonwealth Transportation Special Revenue Fund – Accounts for the revenues and expenditures associated with highway operations, maintenance, construction, and other transportation related activities. Funding for these programs is received from highway user taxes, fees, and funds received from the Federal government.

Federal Trust Special Revenue Fund – Accounts for all federal dollars received by the Commonwealth except those received by the Commonwealth Transportation fund, the Unemployment Compensation Fund, and institutions of higher education.

Literary Fund Special Revenue Fund – Accounts for revenues from fines, forfeitures, and proceeds from unclaimed property used primarily to support public education in the Commonwealth. This fund provides low interest loans to school divisions for construction, renovations, and expansion of school buildings.

Proprietary Funds, Fiduciary Funds, and Component Units Financial Statements – The financial statements of the proprietary funds, fiduciary funds, and component units are reported using the economic resources measurement focus and the accrual basis of accounting. As with the government-wide statements, revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating.

GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, provides governments two options for reporting their proprietary fund activities (including component units accounted for using proprietary fund accounting). All Proprietary Funds reported herein, with the exception of the Pocahontas Parkway (Major Enterprise Fund), the Mental Health Local Funds (Nonmajor Enterprise Fund), the Virginia Polytechnic Institute and State University (Major Component Unit), the Virginia Port Authority (Nonmajor Component Unit), the A. L. Philpott Manufacturing Extension Partnership (Nonmajor Component Unit), the Mary Washington College (Nonmajor Component Unit), and the Roanoke Higher Education Authority (Nonmajor Component Unit), apply all applicable GASB pronouncements and all FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. The Pocahontas Parkway, the Mental Health Local Funds, the Virginia Polytechnic Institute and State University, the Virginia Port Authority, the A. L. Philpott Manufacturing Extension Partnership, the Mary Washington College, and the Roanoke Higher Education Authority apply all of these pronouncements, and also apply all FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

The Commonwealth reports the following major enterprise funds:

State Lottery Fund – Accounts for all receipts and expenses of the State Lottery.

Virginia College Savings Plan Fund – Administers the Virginia Prepaid Education Program.

Pocahontas Parkway Fund – Accounts for the Route 895 Connector Project. The Pocahontas Parkway Association is a blended component unit of the Department of Transportation (Primary Government).

Unemployment Compensation Fund – Accounts for receipts from employers and expenses incurred to provide benefits to eligible unemployed workers.

Additionally, the Commonwealth reports the following fund types:

Governmental Fund Types:

Special Revenue Funds – Account for transactions related to resources received and used for restricted or specific purposes. Examples include conservation, health care, public building construction, acquisition, and operation, and other miscellaneous activity.

Debt Service Funds – Account for transactions related to resources retained and used for the payment of interest and principal on long-term obligations.

Capital Project Funds – Account for transactions related to resources received and used for the acquisition, construction, or improvement of capital facilities not reported in the other governmental or proprietary funds. The primary resource for these funds is the proceeds of bond issues. Principal uses are for construction and improvement of State office buildings, correctional and mental health facilities, and parks.

Permanent Funds – Account for transactions of the Commonwealth Health Research Fund, Virginia Arts Foundation Fund, and Mental Health Endowment Funds whose principal must be maintained intact and whose income is used to benefit the Commonwealth's citizens and mental health patients.

Proprietary Fund Types:

Enterprise Funds – Account for transactions related to resources received and used for financing self-supporting activities of the Commonwealth that offer products and services on a user-charge basis to external users.

Internal Service Funds – Account for transactions related to the financing and sale of goods or services provided by the agencies of the Commonwealth to other agencies and institutions of the Commonwealth. The goods and services furnished are charged to the recipient agency or institution to recover costs through user charges.

Fiduciary Fund Types:

Private Purpose Trust Funds – Account for transactions of all other trust arrangements in which the principal and income benefit individuals, private organizations, or other governments. These trusts include those for escheat property, educational savings plans, and others.

Pension Trust Funds – Account for transactions of the Commonwealth administered retirement systems and other employment benefits.

Investment Trust Funds – Account for the external portions of the State Non-Arbitrage Program and Local Government Investment Pools that are sponsored by the Commonwealth.

Agency Funds – Account for amounts held in trust by the Commonwealth for others. Agency funds include those funds established to account for the collection of taxes and fees for distribution to localities and other states, employee benefits, deposits of insurance carriers, child support collections and other miscellaneous accounts.

E. Budgetary Process

Budgetary amounts shown in the Required Supplementary Information and Combining and Individual Fund Statements Sections represent the total of the original budgeted amounts and all supplemental appropriations. The Commonwealth's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be reappropriated for expenditure in the following fiscal year. The Governor, as required by the *Code of Virginia,* submits a budget composed of all proposed expenditures for the State, and of estimated revenues and borrowing for a biennium, to the General Assembly. Budgets are adopted for the General and Special Revenue Funds, except for the Literary (major) and State Parks Foundation (nonmajor) – Special Revenue Funds. Formal budgetary integration is not employed for the Capital Projects (nonmajor), Debt Service (nonmajor), Permanent Funds (nonmajor), the Literary – Special Revenue (major), and State Parks Foundation – Special Revenue (nonmajor) Funds because effective budgetary control is alternatively achieved through the General Fund and the remaining Special Revenue Funds.

The budget is prepared on a biennial basis; however, the budgets of the General and Special Revenue Funds contain separate appropriations for each year within the biennial budget, as approved by the General Assembly and signed into law by the Governor. For management control purposes, the budget is controlled at the program level. The Governor may transfer an appropriation within a State agency or from one State agency to another,

provided that total fund appropriations, as contained within the budget, are not exceeded. Increases in General Fund appropriations must be approved by the General Assembly.

Appropriations for programs funded from Special Revenue Funds may allow expenditures in excess of the original appropriations to the extent that revenues of the funds exceed original budget estimates and such additional expenditures are approved by the Governor through supplemental appropriations.

F. Cash, Cash Equivalents, and Investments

Cash

In order to maximize the Commonwealth's earning potential, the majority of the Primary Government's cash balances are pooled together in the general account for investment purposes. The amounts required for operations are liquidated as needed. Since all amounts not required for operations are held in investment securities, it is possible that the cash balances could be negative due to timing differences in liquidating the investments.

As of June 30, 2002, the General Fund had a negative cash balance of $2.5 billion. In order to properly reflect the general account position, this negative cash balance has been eliminated in the accompanying statements and offset against the Primary Government's cash equivalents and investments (see Note 4).

Cash Equivalents

Cash equivalents are investments with an original maturity of three months or less.

Investment Bases

Investments are principally comprised of monies held by component units, Pension Trust Funds, and monies held by the State Treasurer in both the general account and other fiduciary accounts.

Governmental and proprietary funds, both primary government and component units, report investments in money market and in the Commonwealth sponsored investment pools at amortized cost. All other investments are reported at fair value, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Investments administered by the Virginia Retirement System (VRS) are reported at fair value. The cost of investments sold is the average cost of the aggregate holding of the specific investment sold. Investments in affiliated organizations are accounted for on the equity method of accounting and the VRS' share of their earnings (losses) for the period is included in investment income using the equity method.

Investments of higher education institutions (Component Unit) are reported at fair value, except for money market investments and investments in the Commonwealth sponsored investment pools, which are reported at amortized cost.

Derivatives

Derivative instruments are used to improve return on investments and modify risk exposures (see Note 4).

G. Receivables

Receivables in the governmental funds consist primarily of the accrual of taxes, as well as Federal revenue and receivables of the Commonwealth's Medicaid program. Receivables in the Proprietary Funds consist primarily of tuition benefits payable. Receivables of Fiduciary Funds are primarily the accrual of member and employer contributions in the Pension Trust Funds and the accrual of local sales taxes in the Agency Funds. Receivables of the Component Units consist primarily of mortgage receivables, loans receivable, patient receivables, and student receivables. Receivables are recorded net of allowances for doubtful accounts (see Note 5).

H. Internal Balances

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

I. Inventory

Materials and Supplies

Inventories of materials and supplies are reported as expenditures when consumed. These assets are offset by a fund balance reserve that indicates they are not available for spending. Inventories exceeding $1 million of the General and the Special Revenue Funds are maintained at cost using the first-in, first-out (FIFO) methodology, except for the following:

- Department of Corrections (VDOC)
- Virginia Employment Commission (VEC)
- Department of State Police (VSP)
- Virginia Department of Transportation (VDOT)
- Department of Health (VDH)

VDOC inventories are recorded in the General (major) and Dedicated Special Revenue Fund (nonmajor) using the FIFO methodology and are maintained based on the lower of cost or market methodology.

VEC inventories are recorded in the Federal Trust Fund (major) and are maintained based on the weighted average methodology.

VSP inventories are recorded in the General (major) and Other Special Revenue (nonmajor) Funds. VDOT inventories are recorded in the

Commonwealth Transportation Fund (major). VDH inventories are recorded in the General (major), Other Special Revenue (nonmajor), Dedicated Special Revenue (nonmajor), and Federal Trust (major) Funds. All of these inventories are maintained at cost based on the average cost methodology.

Inventories maintained by the Virginia Museum of Fine Arts (Nonmajor Enterprise Fund), the Science Museum of Virginia (Nonmajor Enterprise Fund), the Consolidated Laboratory (Nonmajor Enterprise Fund), the Correctional Enterprises (Internal Service Fund), and the Virginia Equine Center Foundation (Nonmajor Component Unit) are stated at the lower of cost or market using FIFO. Inventories maintained by the Internal Service Funds except for the Correctional Enterprises are stated at cost using FIFO. Institutions of higher education (Component Units) use several methods for inventory valuations, including cost using FIFO, the lower of cost or market using FIFO, or weighted average methods.

The Department of Alcoholic Beverage Control (Nonmajor Enterprise Fund) and the Virginia Industries for the Blind (Nonmajor Enterprise Fund) maintain inventories using the average cost methodology. Inventories maintained by the Virginia Port Authority (Nonmajor Component Unit) are reported using the moving average cost methodology. The Virginia Housing Development Authority (Major Component Unit) maintains inventories at the lower of cost or fair value. The State Lottery Department's (Major Enterprise Fund) inventory consists of unsold instant tickets that are valued at cost and expensed over the life of each game as it is sold to retailers.

Food Stamps

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the Commonwealth recognizes food stamp distributions as revenue and expenditures in the Federal Trust Major Special Revenue Fund. Revenue and expenditures are recognized when benefits are distributed. Food stamps held at June 30 totaling $13.5 million are reported as inventory and are offset by deferred revenue. Due to the Commonwealth's conversion to the electronic benefits transfer system, the physical food stamp inventory system was returned to the Federal government subsequent to year-end.

J. Prepaid Items

Prepaid expenses for rent, insurance, and similar items reported in governmental funds are recognized when purchased.

K. Other Assets

Other Assets include those balances of a miscellaneous nature that are not specifically classified elsewhere (see Note 7).

L. Interfund Loans Receivable/Payable

Loans Receivable/Payable represent working capital advances from one fund to another (see Note 6).

M. Property, Plant, Equipment, and Infrastructure

Capital assets of governmental funds are recorded as expenditures at the time of purchase and capitalized in the governmental activities column of the Government-wide Statement of Net Assets. Capital assets of the other funds and component units are capitalized in the fund in which they are utilized. All depreciable capital assets are depreciated on the straight-line basis over their useful lives (see Note 9).

Capital assets are stated at historical cost or, in some instances, estimated historical cost. Donated capital assets are stated at fair market value at the time of donation. The Commonwealth capitalizes all property, plant, equipment, and infrastructure that have a cost or value greater than $5,000 and an expected useful life of greater than two years. Selected agencies and institutions of higher education utilize a capitalization limit lower than $5,000 for various reasons. Accordingly, reported fixed assets may include some items that cost less than $5,000. Infrastructure, including highways, bridges, and rights-of-way, is capitalized for the first time in fiscal year 2002 using the historical approach.

The Commonwealth's capitalization policy regarding works of art/historical treasures is that capitalization is encouraged, but not required, for works of art/historical treasures that meet the following conditions:

- The collection is held for public exhibition, education, or research in furtherance of public service, rather than financial gain;
- The collection is protected, kept unencumbered, cared for and preserved; and
- The collection is subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for the collection.

The Commonwealth capitalizes construction-in-progress when project expenditures exceed $5,000. Interest incurred during construction is not capitalized in governmental funds. Interest incurred during the construction of proprietary fund assets is included in the capitalized value of the asset. Expenditures are classified as construction-in-progress if:

(1) they extend the asset life, improve productivity, or improve the quality of service; and

(2) they fall into the planning, acquisition, construction, improvement, renovation, repair, replacement, relocation or demolition phase of the asset life.

The estimated lives of fixed assets are as follows:

	Years
Buildings	10–50
Equipment	2–20
Infrastructure	5–50

N. Accounts Payable

Accounts payable represent amounts, including salaries and wages, owed for goods and services received prior to year-end. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* accounts payable also include payments for nonexchange transactions that met eligibility requirements prior to year-end.

O. Deferred Revenue and Deferred Credit

Deferred Revenue

Deferred revenue represents monies received or revenues accrued but not earned as of June 30, 2002. The majority of this amount is reported by higher education institutions (Component Unit), where it is primarily composed of revenue for student tuition accrued in advance of the semester and advance payments on grants and contracts. In the General Fund (major), deferred revenue represents receivables that will be collected after August 31, 2002. In the Special Revenue Funds, deferred revenue is composed primarily of Federal grant money received but not spent. In the Enterprise Funds, a majority represents unearned premiums of Risk Management (nonmajor), unearned revenues of Consolidated Laboratory (nonmajor), and on-line ticket monies received by the State Lottery (major) for which corresponding drawings have not been held. In the Internal Service Funds, it represents primarily unearned premiums for the Risk Management Fund. Deferred revenues in the other component units consist primarily of the deferral of fees related to various lending activities.

Deferred Credit

The deferred credit represents the deferral of income taxes withheld for the period January through June 2002, that have not met the revenue recognition criteria and may ultimately be refunded upon the filing of income tax returns in subsequent years. This amount is estimated annually using statistical data derived from income taxes filed in previous years. Deferred credit totaling $501.8 million is reported in the General Fund (major).

P. Claims Payable

Claims payable, reported in the proprietary funds of the primary government, represent both health and liability insurance claims payable at June 30, 2002. This includes both actual claims submitted, as well as actuarially determined claims incurred but not reported. Claims relating to the Commonwealth's liability insurance programs are reported in the Risk Management – Internal Service Fund, and the Risk Management - Nonmajor Enterprise Fund. Also, health insurance claims are reported in the Health Care – Internal Service Fund and the Local Choice Health Care - Nonmajor Enterprise Fund (see Note 15.A. and 15.B.).

The claims payable reported in the Private Purpose Trust Fund reflects the amount of anticipated payments to the claimants of unclaimed property receipts.

Q. Obligations Under Securities Lending Program

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions,* liabilities resulting from these transactions have been recorded as obligations under security lending transactions.

R. Other Liabilities

Other liabilities represent amounts owed for various governmental and proprietary activities. Some of these amounts will be paid shortly after fiscal year end (see Note 16).

S. Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities column. The governmental fund statements reflect the portion of long-term liabilities that will be paid from expendable resources. The proprietary fund statements and discrete component unit statements reflect total long-term liabilities and distinguish between those portions payable within one year and those payable in future years (see Note 17).

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bond. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Expenditures for principal and interest payments for governmental fund general obligation bonds and revenue bonds are recognized in the Debt Service Fund (nonmajor) when due. In these fund statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as

other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures (see Note 17).

T. Reserved Fund Balances

Reserved fund balances indicate that portion of fund balance that is not available to fund operations or is legally segregated for specific future use. Fund balance reservations are not specifically denoted in instances where the nature of the fund dictates the entire amount is reserved.

U. Unreserved, Designated Fund Balances

Designations of fund balance, as shown in Note 2, are established to reflect tentative plans for future utilization of current financial resources. It is the policy of the Commonwealth to designate the portion of fund balance set aside by the General Assembly through the Appropriation Act to fund tentative but approved future plans. Unexpended appropriations approved by the Governor to be used to fund expenditures of the ensuing fiscal year are also reflected through a designation of fund balance. It is the policy of the Commonwealth to limit such designations in the event that their accumulation and presentation would cause a negative unreserved, undesignated fund balance to occur.

V. Unreserved, Undesignated Fund Balances

The unreserved, undesignated basis of budgeting fund balance is the amount of fund balance remaining from operations of the current and prior years, net of amounts established as reserved and designated fund balance described in Notes 1.T. and 1.U. above.

W. Cash Management Improvement Act

Included in “Due to Other Governments” is the Commonwealth's Cash Management Improvement Act (CMIA) interest liability to the Federal government, which is calculated in accordance with the interest calculation and exchange provisions of the Federal Cash Management Improvement Act of 1990. The Commonwealth's interest liability is subject to review and final confirmation by the Financial Management Service (FMS) of the U.S. Treasury. The payment is to be made on or before March 1, 2003. Payment will be made from a sum sufficient appropriation authorized for this purpose by the Appropriation Act. The CMIA interest rate of exchange is based by law on the annualized average earnings rate of 13-week Treasury bills.

X. Interest, Dividends, Rents, and Other Investment Income

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, all investment income is reported in this line item. Since this amount includes changes in the fair value of investments, the amount reported may be negative. In addition, the amount reported also includes rent payments received on properties owned by the Commonwealth.

Y. Intrafund Eliminations

Eliminations have been incorporated into the report to eliminate intrafund transactions within the related fund type. These eliminations prevent overstatement of financial activity.

Z. Interfund Activity

Generally, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions.

In the fund financial statements, transfers represent flows of assets without equivalent flows of assets in return or a requirement for repayment. In addition, transfers are recorded when a fund receiving revenue provides it to a different fund that expends the resources.

2. GENERAL FUND ANALYSIS – BASIS OF BUDGETING

The following schedule represents reservations and designations of General Fund balance on the basis of budgeting as presented in the General Fund Preliminary (Unaudited) Annual Report dated August 15, 2002.

Reservations and Designations of Fund Balance
General Fund, Basis of Budgeting
June 30, 2002

(Dollars in Thousands)

Fund Balance, June 30, 2002		$ 632,969
Reserved Fund Balance:		
Revenue Stabilization Reserve Fund	$ 472,376	
Payroll Reserve for July 1, 2002 Payroll	65,371	
Unexpended Lottery Proceeds	25,218	
Total Reserved Fund Balance		562,965
Unreserved Fund Balance:		
Designated:		
Amount Required for Reappropriation of 2002 Unexpended Balances:		
Capital Outlay	70,004	
Total Designated Fund Balance		70,004
Undesignated Fund Balance, June 30, 2002		$ -

3. REVENUE STABILIZATION FUND

In accordance with Article X, Section 8 of the *Constitution of Virginia*, the amount estimated as required for deposit to the Revenue Stabilization Fund must be appropriated for that purpose by the General Assembly. During fiscal year 2002, a deposit of $187.1 million and a withdrawal of $467.7 million were made. A deposit is not required based on FY 2002 revenue collections. The Revenue Stabilization Fund has principal and interest on deposit of $472.4 million reserved as a part of General Fund equity. The amount on deposit cannot exceed ten percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years. The maximum amount allowed is $934.5 million and $963.0 million for FY 2002 and FY 2003, respectively.

4. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2002, the carrying amount of cash for the primary government was $1,863,595,570 and the bank balance was $247,696,102. In addition, cash balances related to executory costs attributable to capital leases in the amount of $538,000 are not reported in the Government-wide Statement of Net Assets, but are included in the Governmental Fund Balance Sheet. The carrying amount of cash for the component units was $849,263,625 and the bank balance was $206,783,736. Cash equivalents are investments with an original maturity of three months or less.

The deposits of the primary government and the component units are secured in accordance with the provisions of the Virginia Security for Public Deposits Act, Section 2.2-4400 of the *Code of Virginia.* The Act requires any public depository that receives or holds public deposits to pledge collateral to the Treasury Board to cover public deposits in excess of Federal deposit insurance. The required collateral percentage is determined by the Treasury Board and ranges from 50 percent to 100 percent of public deposits in the case of a bank and 100 percent to 110 percent for a savings institution.

Securities pledged by banks and savings institutions, under the Act, are held by an approved escrow agent for the Treasury Board. In the event a depository bank defaults or becomes insolvent, the Treasury Board first assesses the collateral of the defaulting or insolvent institution and then assesses the collateral pledged by other public depositories on a statutory based ratio to the extent necessary to satisfy the assessment against the defaulting bank. The collateral pledged by all banks is sufficient to cover the uncollateralized public deposits of any single bank. Upon default or insolvency of a savings institution, the Treasury Board assesses the institution the amount of public funds on deposit in excess of Federal insurance. The State Treasurer liquidates the necessary pledged collateral of the institution to reimburse public depositors to the extent of the institution's deposit liability to them. As a result, these deposits are considered insured.

Certain deposits are held by trustees in accordance with the Trust Subsidiary Act, Section 6.1–32.8 et seq. of the *Code of Virginia*. The Act requires that cash held by trustees while awaiting investment or distribution is not to be used by an affiliate bank of the trustee in the conduct of its business unless the affiliate bank delivers securities to the trust department as collateral that is at least equal to the fair value of the trust funds held on deposit in excess of amounts insured by Federal deposit insurance.

The Commonwealth is authorized, in accordance with the guidelines set forth in Section 2.2-4500 et seq. of the *Code of Virginia,* to invest in the following:

U. S. Treasury and agency securities
Corporate debt securities of domestic corporations
Asset–backed securities
Mortgage–backed securities
AAA rated obligations of foreign governments
Bankers acceptances and bank notes
Negotiable certificates of deposit
Repurchase agreements
Money market funds

Permitted investments include agency mortgage-backed securities, reported as U. S. Treasury and agency securities, and asset-backed securities, reported as corporate notes, which by definition usually expose the investor to prepayment risk.

Prepayment risk, or the prepayment option granted the borrower, can create uncertainty concerning cash flows, can affect the price of the security causing negative convexity, and can expose the investor to reinvestment risk. Similarly, many agency and corporate securities are callable after some predetermined date at a predetermined price. The call options in regular agency debentures and some corporate securities can be open ended and may significantly impact cash flows, security pricing and reinvestment risks of these securities.

Certain investments held in trust by the Treasurer of Virginia in accordance with bond indentures and resolutions may have more restrictive investment policies. Investment policies of institutions of higher education (Component Units) are established by the institutions' governing boards.

The Board of Trustees of the Virginia Retirement System (VRS) (Primary Government) has full power to invest and reinvest the trust funds in accordance with Section 51.1–124.30 of the *Code of Virginia,* as amended. This section requires the Board to discharge its duties solely in the interest of the beneficiaries and to invest the assets with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Board must also diversify such investments so as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so.

The information presented for the external investment pools was obtained from audited financial statements. Copies of the State Non-Arbitrage Program (SNAP) report may be obtained by writing Evergreen Investment Management Company, LLC, Riverfront Plaza, 951 East Byrd Street, Richmond, Virginia 23219. Copies of the Local Government Investment Pool (LGIP) report may be obtained by writing the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218. Participation in these pools is voluntary, except for participants who borrow through the Virginia Public School Authority's pooled bond program and must participate in SNAP.

SNAP is an open-end management investment company registered with the Securities Exchange Commission (SEC). LGIP is not SEC-registered; however, it maintains a policy to operate in a manner consistent with SEC Rule 2a7.

Custodial Risk

Investments held by the Commonwealth at June 30, 2002, have been categorized according to the level of credit risk associated with its custodial arrangements at fiscal year end.

Credit risk, as used below, refers to the risk that the Commonwealth may not be able to obtain possession of its investments in the event of default by counterparty. The three types of credit risk are:

- Category 1, which includes investments that are insured or registered or for which securities are held by the Commonwealth or its agent in the Commonwealth's name;

- Category 2, which includes uninsured and unregistered investments for which securities are held by the counterparty's trust department or agent in the Commonwealth's name; and,

- Category 3, which includes uninsured and unregistered investments for which securities are held by the counterparty, or by its trust department or agent, but not in the Commonwealth's name.

Securities lent at year-end for cash collateral are presented as unclassified. Securities lent for non-cash collateral are classified according to the custodial arrangements.

The investments of the Pension Trust Funds are approximately 73.0 percent of the primary government investments that are in Category 1 and 96.9 percent of those in Category 3. Additionally, the entire amounts of Equity Index and Pooled Funds, Real Estate, Venture Capital, foreign currencies, and TBC Pooled Employee Trust Fund included in the primary government schedule are attributable to the Pension Trust Funds, and cannot be categorized because the investments are not evidenced by physical securities.

Cash Equivalents - Primary Government

June 30, 2002

(Dollars in Thousands)

Type of Securities	Category 1	Category 2	Category 3	Fair Value
Cash Equivalents - Categorized				
U. S. Treasury and Agency Securities	$ 135,958	$ -	$ -	$ 135,958
Corporate Notes	(4,745)	-	-	(4,745)
Corporate and Other Bonds	442	-	-	442
Commercial Paper	1,127,872	-	-	1,127,872
Negotiable Certificates of Deposit	186,719	-	-	186,719
Repurchase Agreements	692,318	-	3,698	696,016
Banker's Acceptance	(112)	-	-	(112)
Mutual, Money Market Funds	239,376	-	-	239,376
	$ 2,377,828	$ -	$ 3,698	
Cash Equivalents - Not categorized				
Deposits with the U. S. Treasury for Unemployment Compensation				828,615
Mutual, Money Market Funds				420,135
Other				561
Total Cash Equivalents				3,630,837
Less: General Fund Cash Drawn Against Cash Equivalents				(811,499)
Adjusted Total				$ 2,819,338

Note: Fiduciary cash and cash equivalents in the amount of $1,801,439 (dollars in thousands) are not included in the Government-wide Statement of Net Assets.

Investments - Primary Government
June 30, 2002

(Dollars in Thousands)

Type of Securities	Category 1	Category 2	Category 3	Fair Value
Investments - Categorized				
U. S. Treasury and Agency Securities	$ 7,154,042	$ -	$ 79,944	$ 7,233,986
Common and Preferred Stocks	7,989,909	-	3,014	7,992,923
Corporate Notes	783,042	-	-	783,042
Corporate and Other Bonds	2,989,875	-	4,854	2,994,729
Commercial Paper	13,499	-	-	13,499
Negotiable Certificates of Deposit	330,095	-	-	330,095
Municipal Securities	55,000	-	-	55,000
Repurchase Agreements	33,956	-	-	33,956
Banker's Acceptance	7,537	-	-	7,537
Mutual, Money Market Funds	1,152,305	-	-	1,152,305
Investments held by broker-dealers under securities loans				
U. S. Government and Agency Securities	80,436	-	62,456	142,892
	$ 20,589,696	$ -	$ 150,268	
Investments - Not categorized				
Deposits with the U. S. Treasury for Unemployment Compensation				
Mutual, Money Market Funds				1,137,186
Foreign Currencies				26,711
Equity Index and Pooled Funds				12,524,416
Index Funds				115,553
Real Estate				1,211,414
Venture Capital				2,191,040
TBC Pooled Employee Trust Fund				787,648
Guaranteed Investment Contracts				105,930
Fixed Income and Commingled Funds				297,956
Other				143,382
Investments held by broker-dealers under securities loans:				
U. S. Government and Agency Securities				2,100,061
VRS Separate Account				2,766,009
Common and Preferred Stocks				333,740
Corporate Notes				25,330
Corporate Bonds				484,652
Total Investments				44,990,992
Less: General Fund Cash Drawn Against Investments				(1,729,305)
Adjusted Total				$ 43,261,687

Note: Fiduciary investments in the amount of $41,259,178 (dollars in thousands) are not included in the Government-wide Statement of Net Assets.

Cash Equivalents - Component Units

June 30, 2002

(Dollars in Thousands)

Type of Securities	Category 1	Category 2	Category 3	Fair Value
Cash Equivalents - Categorized				
U. S. Treasury and Agency Securities	$ 3,958	$ -	$ -	$ 3,958
Commercial Paper	9,013	-	-	9,013
Municipal Securities	1,600	-	-	1,600
Repurchase Agreements	787,964	13,774	5,824	807,562
Certificates of Deposit	3,016	-	-	3,016
	$ 805,551	$ 13,774	$ 5,824	
Cash Equivalents - Not categorized				
Mutual, Money Market Funds				152,127
U. S. Government Securities				7,848
Other				4,753
Component Units' Investment in Local Government's Investment Pool				93,176
				$ 1,083,053

Investments - Component Units
June 30, 2002

(Dollars in Thousands)

Type of Securities	Category 1	Category 2	Category 3	Fair Value
Investments - Categorized				
U. S. Treasury and Agency Securities	$ 795,021	$ 6,591	$ 57,985	$ 859,597
Common and Preferred Stocks	461,567	-	6,312	467,879
Corporate Notes	29,706	2,117	-	31,823
Corporate Bonds	60,608	-	1,834	62,442
Commercial Paper	2,111	-	-	2,111
Municipal Securities	2,072,834	759	3,178	2,076,771
Repurchase Agreements	75,283	178,598	-	253,881
Asset Backed Securities	324,398	-	-	324,398
Agency Mortagage Backed	134,800	-	-	134,800
Money Market Instruments	233,540	-	-	233,540
Banker's Acceptance	76	-	-	76
Certificates of Deposit	6,006	-	-	6,006
Mutual Funds	-	-	2,355	2,355
	$ 4,195,950	$ 188,065	$ 71,664	
Investments - Not categorized				
Mutual, Money Market Funds				654,751
Real Estate				18,528
U. S. Government Securities				6,940
Index Funds				9,454
Other				1,131,251
Investments held by broker-dealers under securities loans:				
Securities held in a Collateral Investment Pool				27,352
				$ 6,303,955

Primary Government

Securities Lending

The State Treasury's securities lending program is managed by its Master Custodian, The JP Morgan Chase Bank, under a contract dated December 1, 2000. The enabling legislation for the securities lending program is Section 2.2-4506 of Chapter 45 Investment of Public Funds of the *Code of Virginia*, as amended. No violations of legal or contractual provisions were noted during the year. The general account participated in the securities lending program for the entire year.

All securities lending loans are on an open-ended or one-day basis and may be terminated by Treasury with a 24-hour notice. Per the contract with JP Morgan Global Securities Lending, all pledged cash and other collateral attributable to loans made on the Commonwealth's behalf shall be maintained by the Master Custodian Bank, and Treasury cannot pledge or sell such collateral absent a default.

The State Treasury's contract with JP Morgan Global Securities Lending provides for loss indemnification against borrower default as defined in the applicable Master Securities Lending Agreement. Additionally, JP Morgan Chase is liable for any losses experienced from reinvestment of cash collateral in investments not authorized by the provisions of the investment guidelines for the Commonwealth of Virginia agreed upon by both parties and made a part of the Securities Lending Agreement. There were no losses resulting from default during the reporting period, nor recoveries of prior period losses during this reporting period.

When securities are loaned, the collateral received is usually at least 102 percent of fair value of the securities loaned and must be maintained at 100 percent or greater. There are no stated restrictions on the amount of securities that may be loaned, but the basic composition of the general account portfolio has only about 50 percent in loanable securities, thus effectively capping the maximum percentage of the portfolio that may be loaned. During the past fiscal year, approximately 16 percent of the general account securities were on loan.

During the past year, a combination of U. S. Government (Treasury and Agency) securities and corporate securities have been loaned, with the majority of the loaned securities being U. S. Government securities. Collateral received included a combination of cash and non-cash securities, with the non-cash collateral being U. S. Government securities.

Securities loaned for the general account as of June 30, 2002, had a reported amount of $495,875,710 and a fair value of $509,564,737. The fair value of the collateral received was $517,619,087 providing for coverage of 101.6 percent. As a result, the State Treasury assumes no credit risk.

Current cash investment guidelines allow for a maximum weighted-average portfolio maturity of 120 days. At June 30, 2002, the open portion of the cash reinvestment portfolio had a weighted average maturity of 6 days. Treasury's current cash reinvestment guidelines allow for investment in Government securities, AAA rated sovereign governments, commercial paper and corporate notes, negotiable certificates of deposit, certificates of deposit and time-deposits collateralized under the Virginia Security for Public Deposits Act, bankers' acceptances, bank notes, repurchase agreements collateralized by U. S. Treasury and Agency issues, and registered money market funds. At June 30, 2002, cash reinvestments were as follows: $53 million in government repurchase agreements, $15 million in commercial paper, $139 million in floating rate corporate notes, $25 million in agency discount notes, $27 million in negotiable certificates of deposit, and $10 million in A1P1 money market repurchase agreements. Non-cash collateral value at June 30, 2002, was approximately $249 million in government securities.

Under authorization of the Board of Trustees, the VRS lends its fixed income and equity securities to various broker-dealers on a temporary basis. The program is administered through an agreement with the VRS' custodial agent bank. All security loan agreements are collateralized by cash, securities or irrevocable letter of credit issued by major banks, having a fair value equal to at least 102 percent of the fair value on domestic securities and 105 percent on international securities. Securities received as collateral cannot be pledged or sold by the VRS unless the borrower defaults. Contracts with the lending agents require them to indemnify the VRS if the borrowers fail to return the securities lent and related distributions, and the collateral is inadequate to replace the securities lent.

All security loans can be terminated on demand by either the VRS or the borrowers. The majority of loans are open loans meaning the rebate is set daily, resulting in a maturity of one or two days on average for loans, although securities are often out on loan for a longer period of time. The maturity of loans generally does not match the maturity of collateral investments, which averages 53 days. At year-end, the VRS has no credit risk exposure to borrowers because the amounts the VRS owes the borrowers exceed the amounts the borrowers owe the VRS. The fair value of securities on loan at June 30, 2002, was $2,848,935,000 and the value of collateral (cash and non-cash) was $2,271,711,000.

Securities out on loan are included with investments on the Combining Statement of Plan Net Assets and are classified in the summary of custodial risk. The invested cash collateral is included in the statement as an asset and corresponding liability. The invested cash collateral is also classified in the summary of custodial risk.

As authorized by Section 2.2–4506 of the *Code of Virginia*, the Virginia Lottery, through its master custodian, The JP Morgan Chase Manhattan Bank, New York, N. Y., N. A., lends securities to various security brokers and lenders on a temporary basis for a fee. Up to 100 percent of the securities may be available for loan. All security loan agreements are collateralized at loan inception at 102 percent of fair value by cash or U. S. Government obligations and adjusted to market daily to cover fair value fluctuations. As a result management assumes no credit risk.

The Virginia Lottery does not have the ability to use cash collateral or to pledge or sell collateral securities absent borrower default. The Lottery's contract with The Chase Manhattan Bank provides for loss indemnification against borrower default as a result of bankruptcy, insolvency, reorganization, liquidation, receivership or similar event. There were no losses resulting from default during the reporting period, nor recoveries of prior period losses during this reporting period. At June 30, 2002, the fair value of investment account securities on loan was $130,585,252 secured by $132,690,304 in cash deposits, and $218,721,256 secured by $223,095,681 in fair value securities that cannot be pledged or loaned.

Derivative Financial Instruments

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates or financial indexes. They include futures, forwards, options, or swap contracts. Some traditional securities, such as structured notes, can have derivative-like characteristics. In this case, the return may be linked to one or more indexes and asset-backed securities such as collateralized mortgage obligations, which are sensitive to changes in interest rates and prepayments. Futures, forwards, options and swaps are generally not recorded on the financial statements, whereas structured notes and asset-backed investments generally are recorded.

The VRS is a party, both directly and indirectly, to various derivative financial investments that may or may not appear on the financial statements that are used in the normal course of business to enhance returns on investments and manage risk exposure to changes in value due to fluctuations in market conditions. These investments may involve, to varying degrees, elements of credit and market risk in excess of amounts recognized on the financial statements. Credit risk is the possibility that loss may occur from failure of a counterparty to perform according to the terms of the contract. Market risk arises from adverse changes in market price, interest rates and foreign exchange rates that may result in a decrease in the fair value of a financial investment and/or increase in its funding cost.

In addition to exposure from directly held derivative financial instruments, the VRS may have indirect exposure to risk through its ownership interests in commingled investment funds that use, hold, or write derivative financial instruments. Indirect exposure may also arise from stock lending programs in which the commingled funds participate. Such programs usually reinvest a portion of their cash collateral holdings in derivative instruments. The VRS' pro rata share of the contractual or notional amounts of outstanding derivative transactions in commingled investment funds and their related security lending programs approximated $74,999,000 at June 30, 2002.

Forward, Futures, and Options Contracts

Forward contracts are contracts to purchase or sell, and futures contracts are contracts to deliver or receive financial instruments, foreign currencies or commodities at a specified future date and at a specified price or yield. Futures contracts are traded on organized exchanges (exchange traded) and require initial margin (collateral) in the form of cash or marketable securities. The net change in the futures contract value is settled daily in cash with the exchanges. Holders of futures contracts look to the exchange for performance under the contract and not to the entity holding the offsetting futures position. Accordingly, the amount at risk due to nonperformance of counterparties to futures contracts is minimal. In contrast, forward contracts traded over-the-counter are generally negotiated between two counterparties. They are subject to credit risks resulting from nonperformance of one of the counterparties and to market risks resulting from of adverse fluctuations in market prices, interest rates and foreign exchange rates.

Options may be either exchange traded or negotiated directly between two counterparties over the counter. Options grant the holder the right, but not the obligation, to purchase or sell a financial instrument at a specified price and within a specified period of time from the 'writer' of the option. As a purchaser of options, the VRS typically pays a premium at the outset. The premium is reflected as an asset on the financial statements. The VRS then retains the right but not the obligation to exercise the option and purchase the underlying financial instrument. Should the option not be exercised, it expires worthless and the premium is recorded as a loss. A writer of options assumes the obligation to deliver or receive the underlying financial instrument on exercise of the option. Certain option contracts may involve cash settlements based on specified indexes such as stock indexes. As a writer of options, the VRS receives a premium at the outset. The premium is reflected as a liability on the financial statements and bears the risk of an unfavorable change in the price of the financial instrument underlying the option.

Forward, futures and options contracts provide the VRS with the opportunity to build passive benchmark positions, manage portfolio duration in relation to various benchmarks, adjust portfolio yield curve exposure and gain market exposure to various indexes in a more efficient way and at lower transaction costs. Credit risks depend on whether the contracts are exchange traded or are exercised over-the-counter. Market risks arise from adverse changes in market prices, interest rates, and foreign exchange rates. At June 30, 2002, the VRS had purchased S & P and Russell Index futures and options on Eurodollar and Treasury bond note futures, including options on Eurodollar futures, with a notional value of $1,060,556,000 and sold S&P Index futures and options on Eurodollar and Treasury bond and note futures, including options on these futures with a net fair value of $394,316,000. At June 30, 2002, the VRS had pledged as collateral U. S. Treasury and U. S. Government Agency securities with a total fair value of $79,358,000 as the margin requirement for futures contracts.

In addition to unsettled purchases and sales, accounts receivable and accounts payable for security transactions at June 30, 2002, include receivables for deposits with brokers for securities sold short of $736,544,000 and payables for securities sold short and not covered with market values of $792,015,000.

Asset-Backed Securities

Among the instruments with derivative-like characteristics that the VRS invests in various asset-backed securities such as collateralized mortgage obligations (CMO), principal-only strips (PO), and interest-only strips (IO). These instruments are used primarily to enhance returns by taking advantage of opportunities available in this sector of the securities markets. CMO securities are bonds collateralized by mortgage-backed securities and issued in several tranches that represent a reallocation of the underlying mortgage-backed securities cash flows. Both PO and IO securities are created by splitting the asset-backed securities into principal-only and interest-only portions. At June 30, 2002, the VRS held CMO securities with a fair value of $301,643,000, and IO and PO securities with a fair value of $2,175,000.

The credit risks on the various asset-backed securities in which the VRS invests are usually very low. Many of the securities held by the VRS are issued by quasi-U. S. governmental agencies. Others are issued by organizations with AAA or AA credit ratings. The market risk of these securities depends on changes in interest rates and the level of the underlying prepayments, i.e., when the mortgagors repay the underlying principal and interest are paid by the mortgagors.

Foreign Exchange Contracts

Foreign exchange contracts include forward, futures and options contracts. They involve either the exchange of specific amounts of two currencies or the delivery of a fixed amount of a currency at a future date and specified exchange rate. Forward and futures contracts settle three or more business days from the contract date. Forward contracts are negotiated over-the-counter between two counterparties, while futures contracts are exchange traded. Foreign currency options, which are either negotiated between two counterparties or are exchanged traded, grant the buyer the right, but not the obligation, to purchase or sell at a specified price, a stated amount of an underlying currency at a future date. At June 30, 2002, the VRS had sold foreign currency contracts with a notional value of

$156,394,000 and had purchased foreign currency contracts with a notional value of $157,721,000. In addition, VRS had purchased options on foreign currency with a market value of $353,000.

Foreign exchange contracts are used by the VRS to effect settlements and to protect the base currency ($US) value of portfolio assets denominated in foreign currencies against fluctuations in the exchange rates of those currencies. The credit risk of currency contracts that are exchange traded lies with the clearinghouse of the exchange where the contracts are traded. The credit risk of currency contracts traded over-the-counter lies with the counterparty, and exposure is usually equal to the unrealized profit on in-the-money contracts. The market risk in foreign currency contracts is related to adverse movements in currency exchange rates.

Swap Agreements

Swaps are negotiated contracts between two counter parties for the exchange of payments at certain intervals over a predetermined time frame. The payments are based on a notional principal amount and calculated using either fixed or floating interest rates or total returns from certain instruments or indices. During FY 2002, the VRS entered into interest rate and total return swaps with a total notional value of $80,000,000. Swaps are use to manage risk and enhance returns. To reduce the risk of counter party non-performance, the VRS generally requires collateral on any material gains from these transactions.

Component Units

Derivative Financial Instruments

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes. A derivative instrument generally has one or more underlying investment, requires little or no initial net investment, and requires or permits a net settlement. In addition, some traditional securities can have derivative-like characteristics. Examples of common derivatives include, but are not limited to, futures, forwards, options or swap contracts. Although the contract or notional amount of the derivative is not recorded on the financial statements, all derivative instruments are recognized as either an asset or a liability depending on the rights or obligations of the contract measured at fair value.

The Virginia Housing Development Authority (major) manages its interest risk on single and multi-family loan commitments through short sales of investment securities. These transactions meet the requirements for hedge accounting as all hedged items are specifically identified, probable of occurring, and highly correlated to the hedging instrument. The gain or loss from hedging transactions is recorded as an unamortized premium or discount and recognized as an adjustment to yield over the remaining life of the loan. The Authority periodically assesses correlation in order to determine the ongoing appropriateness of hedge accounting. During the year ended June 30, 2002, the Authority experienced a net loss of $5,680,604 from hedging transactions settled during the year. At June 30, 2002, $4,628,647 of short sales were outstanding which had an unrealized loss of $8,938. The Authority's policy is to make adjustments to interest rates of loans related to such hedging transactions to reflect the losses or gains on such hedging transactions.

The University of Virginia (major) has indirect exposure to various derivative financial instruments that are used in the normal course of business to enhance returns on investments and manage risk exposure to changes in value due to fluctuations in market conditions. These investments may involve, to varying degrees, elements of credit and market risk in excess of amounts recognized on the financial statements. Credit risk is the possibility that losses may occur from the failure of a counterparty to perform according to the terms of the agreement. The University minimizes the credit (or repayment) risk in its direct derivative instrument by entering into transactions with high quality counterparties and a legally enforceable master netting agreement. The "net" mark to market exposure represents the netting of the positive and negative exposures with the same counterparty. Market risk arises due to adverse changes in market price, interest rate and foreign exchange rate fluctuations that may result in a decrease in the market value of a financial investment and/or increases, in its funding cost. The University manages market risk by establishing and monitoring limits as to the type and degree of risk that may be undertaken. At June 30, 2002, the University of Virginia was not participating in any direct fair value hedges.

5. RECEIVABLES

The following schedule details the accounts, loans, taxes, and other receivables presented in the major funds, aggregated nonmajor funds by type, internal service funds, fiduciary funds, major component units, and aggregated nonmajor component units, as of June 30, 2002:

(Dollars in Thousands)

	Accounts and Loans Receivable	Taxes Receivable	Other Receivables	Allowance for Doubtful Accounts	Net Accounts Receivable
Primary Government:					
General Fund	$ 261,294	$ 527,971	$ -	$ (195,422)	$ 593,843
Major Special Revenue Funds:					
Commonwealth Transportation Trust	281,620	-	-	(3,797)	277,823
Federal Trust	405,646	-	-	(19,325)	386,321
Literary	210,504	-	-	(136,842)	73,662
Major Enterprise Funds:					
State Lottery	36,195	-	-	-	36,195
Virginia College Savings Plan	283,859	-	-	-	283,859
Pocahontas Parkway	1,445	-	-	-	1,445
Unemployment Compensation	37,567	-	-	-	37,567
Nonmajor Governmental Funds	169,486	-	-	(63,635)	105,851
Nonmajor Enterprise Funds	16,570	-	-	-	16,570
Internal Service Funds	19,489	-	-	-	19,489
Private Purpose	540	-	-	-	540
Pension Trust	218,822	-	1,721,664	-	1,940,486
Investment Trust Funds	-	-	6,242	-	6,242
Agency Funds	524	38,755	-	-	39,279
Total Primary Government (1)	$ 1,943,561	$ 566,726	$ 1,727,906	$ (419,021)	$ 3,819,172
Discrete Component Units:					
Virginia Housing Development Authority	$ 125,355	$ -	$ -	$ (4,903)	$ 120,452
Virginia Public School Authority	440,535	-	-	-	440,535
University of Virginia	290,560	-	-	(77,116)	213,444
Virginia Polytechnic Institute and State University	7,964	-	-	(2,043)	5,921
Virginia Commonwealth University	186,849	-	-	(28,604)	158,245
Nonmajor Component Units	1,419,830	2,924	-	(8,549)	1,414,205
Total Component Units	$ 2,471,093	$ 2,924	$ -	$ (121,215)	$ 2,352,802

Note (1): Fiduciary net receivables in the amount of $1,986,547 (dollars in thousands) are not included in the Government-wide Statement of Net Assets

6. INTERFUND ASSETS/LIABILITIES

Due from/to Other Funds

Due from Other Funds are amounts to be received from one fund by another fund for goods sold or services rendered. Due to Other Funds are amounts owed by one fund to another fund for goods purchased or services obtained.

Included in the category of due from other funds are *"Due from Other Funds and Primary Government," "Due from Fiduciary Funds,"* and *"Due from Component Units."* Included in the category of due to other funds are *"Due to Other Funds and Primary Government," "Due to Fiduciary Funds,"* and *"Due to Component Units."* The following schedule shows the Due from/to Other Funds as of June 30, 2002 (in thousands of dollars).

Due To (Reported In):	**General Fund**	**Commonwealth Transportation Trust Fund**	**Federal Trust Fund**	**Nonmajor Governmental Funds**	**Internal Service Funds**
Primary Government					
General Fund	$ -	$ 21,339	$ -	$ -	$ 11,660
Major Special Revenue Funds:					
Commonwealth Transportation Trust	14,370	-	-	12,253	14,793
Federal Trust	5,421	-	-	-	4,137
Major Enterprise Funds:					
State Lottery	3	-	-	-	113
Virginia College Savings Plan	-	-	-	-	14
Pocahontas Parkway	-	711	-	-	-
Unemployment Compensation	-	-	-	116	-
Nonmajor Governmental Funds	4,668	-	5,430	-	4,408
Nonmajor Enterprise Funds	5,100	-	-	1,013	503
Internal Service Funds	-	-	-	-	241
Pension Trust Funds	-	-	-	-	-
Agency Funds	-	-	5,276	67	-
Total Primary Government	$ 29,562	$ 22,050	$ 10,706	$ 13,449	$ 35,869
Discrete Component Units					
Nonmajor Component Units	-	-	-	-	-
Total Component Units	$ -	$ -	$ -	$ -	$ -

Note: The above schedule does not include $15.7 million due to the Commonwealth Transportation Fund from Pocahontas Parkway that will not be repaid within one year.

Due From (Reported In):

Pension Trust Funds	Agency Funds	Total Primary Government	Virginia Polytechnic Institute & State University	Virginia Commonwealth University	Nonmajor Component Units	Total Component Units
$ -	$ 172	$ 33,171	$ -	$ -	$ -	$ -
-	-	41,416	-	-	2,076	2,076
-	-	9,558	-	-	-	-
-	-	116	-	-	-	-
-	-	14	-	-	-	-
-	-	711	-	-	-	-
-	-	116	-	-	-	-
-	-	14,506	-	-	1,096	1,096
-	-	6,616	-	-	-	-
-	-	241	-	-	-	-
10,808	1,852	12,660	-	-	-	-
-	-	5,343	-	-	-	-
$ 10,808	$ 2,024	$ 124,468	$ -	$ -	$ 3,172	$ 3,172
-	-	-	6,534	5,998	15,823	$ 28,355
$ -	$ -	$ -	$ 6,534	$ 5,998	$ 15,823	$ 28,355

Interfund Receivables/Payables

Interfund Receivables/Payables are short-term loans made by one fund to another.

The following schedule shows the Interfund Receivables/Payables for the Primary Government as of June 30, 2002 (in thousands of dollars). There were no Interfund Receivables/Payables for the Component Units as of June 30, 2002.

Payable To (Reported In):	**Receivable From (Reported In) Nonmajor Governmental Funds**
Primary Government	
Major Special Revenue Funds:	
Commonwealth Transportation Trust	$ 2,000
Federal Trust	8,915
Nonmajor Enterprise Funds	24,890
Internal Service Funds	9,883
Total Primary Government	$ 45,688

Interfund Loans Receivable/Payable Between Other Funds and Between Primary Government and Component Units

The $440.5 million in Interfund Loans Receivable represents loans from the Special Revenue Fund to the Virginia Public School Authority (Major Component Unit) and Higher Education (Component Unit).

The Literary Fund (Major Special Revenue Fund) provides low interest loans to school divisions for construction, renovation, and expansion of school buildings of the cities, counties and towns of the Commonwealth. Twice a year, all permanent loans in the Literary Fund are transferred to the Virginia Public School Authority (Major Component Unit) for use as collateral on bonds. A loan receivable is recorded by the Literary Fund. At year-end, $418.4 million in loans were receivable in the Special Revenue Fund and payable from the Authority.

The remaining $22.1 million was loaned to Higher Education (Component Unit.). George Mason University's (Nonmajor Component Unit) loan of $5.0, the College of William and Mary's (Nonmajor Component Unit) loan of $1.0 million and the Virginia Community College System's (Nonmajor Component Unit) loan of $1.0 million were used to advance fund federally funded grant programs. Virginia Commonwealth University's (Major Component Unit) loan of $13.9 million and the College of William and Mary's (Nonmajor Component Unit) additional loan of $0.2 million are for the construction of parking decks and other smaller construction projects. Longwood University's (Nonmajor Component Unit) loan of $1.0 million will be used for the University's housing sprinkler project.

The $151.2 million in Interfund Loans Receivable represents loans from the Virginia Public School Authority (Major Component Unit) to the Literary Fund (Major Special Revenue Fund). The Virginia Public School Authority makes grants to local school divisions to finance the purchase of educational technology equipment. The Authority makes these grants using the proceeds of notes issued for that purpose which will be repaid from appropriations to be made by the Virginia General Assembly from the Literary Fund.

7. OTHER ASSETS

The following table summarizes Other Assets as of June 30, 2002:

(Dollars in Thousands)

	Cash and Travel Advances	Unamortized Bond Issuance Expense	Other Assets	Total Other Assets
Primary Government:				
General Fund	$ 2,776	$ -	$ -	$ 2,776
Major Special Revenue Funds:				
Commonwealth Transportation Trust	1,321	-	-	1,321
Federal Trust	2,199	-	-	2,199
Major Enterprise Funds:				
State Lottery	5	-	-	5
Pocahontas Parkway	-	14,295	6,039	20,334
Nonmajor Governmental Funds	576	-	-	576
Nonmajor Enterprise Funds	188	-	-	188
Internal Service Funds	1,313	-	-	1,313
Private Purpose	10	-	-	10
Investment Trust Funds	-	-	34	34
Total Primary Government (1)	$ 8,388	$ 14,295	$ 6,073	$ 28,756
Discrete Component Units:				
Virginia Housing Development Authority	$ -	$ 130	$ 4,754	$ 4,884
Virginia Public School Authority	-	2,434	-	2,434
University of Virginia	295	-	2,415	2,710
Virginia Polytechnic Institute and State University	-	-	356	356
Virginia Commonwealth University	250	1,854	121,150	123,254
Nonmajor Component Units	524	2,843	6,882	10,249
Total Component Units	$ 1,069	$ 7,261	$ 135,557	$ 143,887

Note (1): Fiduciary other assets in the amount of $44 (dollars in thousands) are not included in the Government-wide Statement of Net Assets. In addition, Commonwealth Transportation other assets in the amount of $16,441 (dollars in thousands) are included in the Government-wide Statement of Net Assets, but excluded from the above amounts.

8. RESTRICTED ASSETS

Restricted assets represent monies or other resources that must be used for specific legal or contractual requirements. The Virginia Housing Development Authority (Major Component Unit) and the Virginia Public School Authority (Major Component Unit) reported restricted assets totaling $7,356.0 million and $165.8 million, respectively. These assets are restricted for debt service under a bond indenture agreement or other agreements. The Higher Education Institutions (Component Units) reported restricted assets totaling $1,791.6 million for endowment and other contractual obligations. The remaining $74.4 million is spread among the Virginia Port Authority (Nonmajor Component Unit), the Hampton Roads Sanitation District Commission (Nonmajor Component Unit) and the Small Business Financing Authority (Nonmajor Component Unit).

9. PROPERTY, PLANT, EQUIPMENT, AND INFRASTRUCTURE

The following schedule presents the changes in the Capital Assets:

Schedule of Changes in Capital Assets

Governmental Activities

(Dollars in Thousands)

	Balance July 1, as restated	Increases	Decreases	Balance June 30
Nondepreciable Capital Assets:				
Land	$ 1,100,279	$ 98,426	$ (161)	$ 1,198,544
Construction in Progress	2,744,415	1,576,363	(1,252,118)	3,068,660
Total Nondepreciable Capital Assets	3,844,694	1,674,789	(1,252,279)	4,267,204
Depreciable Capital Assets:				
Buildings	2,132,260	55,623	(7,995)	2,179,888
Equipment	1,046,916	99,893	(60,434)	1,086,375
Infrastructure	12,993,327	1,050,538	(513)	14,043,352
Total Capital Assets being Depreciated	16,172,503	1,206,054	(68,942)	17,309,615
Less Accumulated Depreciation for:				
Buildings	684,684	60,087	(7,391)	737,380
Equipment	628,296	89,587	(41,609)	676,274
Infrastructure	7,501,257	284,983	(274)	7,785,966
Total Accumulated Depreciation	8,814,237	434,657	(49,274)	9,199,620
Total Depreciable Capital Assets, Net	7,358,266	771,397	(19,668)	8,109,995
Total Capital Assets, Net	$ 11,202,960	$ 2,446,186	$ (1,271,947)	$ 12,377,199

Depreciation Expense Charged to Functions of the Primary Government

June 30, 2002

(Dollars in Thousands)

Governmental Activities:	
General Government	$ 12,420
Education	8,381
Transportation	313,562
Resources and Economic Development	15,740
Individual and Family Services	33,185
Administration of Justice	34,829
Capital Assets held by the Internal Service Funds are charged to various functions	16,540
Total	$ 434,657

Note: Beginning fund balances have been restated by $7,640.1 million due to infrastructure, depreciation recognition, the inclusion of internal service fund balances, and the correction of prior year errors.

Schedule of Changes in Capital Assets

Business-Type Activities

(Dollars in Thousands)

	Balance July 1, as restated	Increases	Decreases	Balance June 30
Nondepreciable Capital Assets:				
Land	$ 1,726	$ -	$ -	$ 1,726
Construction in Progress	255,195	55,647	-	310,842
Total Nondepreciable Capital Assets	256,921	55,647	-	312,568
Depreciable Capital Assets:				
Buildings	10,458	-	-	10,458
Equipment	81,422	19,503	(26,882)	74,043
Infrastructure	1	-	-	1
Total Capital Assets being Depreciated	91,881	19,503	(26,882)	84,502
Less Accumulated Depreciation for:				
Buildings	9,333	160	-	9,493
Equipment	50,245	10,962	(26,018)	35,189
Infrastructure	1	-	-	1
Total Accumulated Depreciation	59,579	11,122	(26,018)	44,683
Total Depreciable Capital Assets, Net	32,302	8,381	(864)	39,819
Total Capital Assets, Net	$ 289,223	$ 64,028	$ (864)	$ 352,387

Schedule of Changes in Capital Assets

Component Units

(Dollars in Thousands)

	Balance July 1, as restated	Increases	Decreases	Balance June 30
Nondepreciable Capital Assets:				
Land	$ 289,970	$ 11,679	$ (3,568)	$ 298,081
Construction in Progress	704,557	388,139	(377,343)	715,353
Inexhaustible Works of Art	66,692	281	-	66,973
Livestock	907	-	(83)	824
Total Nondepreciable Capital Assets	1,062,126	400,099	(380,994)	1,081,231
Depreciable Capital Assets:				
Buildings	3,847,915	383,319	(27,811)	4,203,423
Infrastructure	1,204,598	30,470	(126)	1,234,942
Equipment	1,700,098	190,688	(116,011)	1,774,775
Improvements Other Than Buildings	343,358	35,080	(2,970)	375,468
Depreciable Works of Art	-	-	-	-
Library Books	482,729	28,640	(3,735)	507,634
Total Capital Assets being Depreciated	7,578,698	668,197	(150,653)	8,096,242
Less Accumulated Depreciation for:				
Buildings	(1,517,253)	(114,000)	24,003	(1,607,250)
Infrastructure	(608,378)	(37,705)	-	(646,083)
Equipment	(1,058,978)	(150,731)	76,206	(1,133,503)
Improvements Other Than Buildings	(154,405)	(15,555)	972	(168,988)
Depreciable Works of Art	-	-	-	-
Library Books	(377,816)	(22,990)	8,268	(392,538)
Total Accumulated Depreciation	(3,716,830)	(340,981)	109,449	(3,948,362)
Total Depreciable Capital Assets, Net	3,861,868	327,216	(41,204)	4,147,880
Total Capital Assets, Net	$ 4,923,994	$ 727,315	$ (422,198)	$ 5,229,111

Note: Beginning fund balances have been restated by $2,766.9 million due to infrastructure and depreciation recognition.

10. RETIREMENT AND PENSION SYSTEMS

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

A. Plan Description

The Virginia Retirement System (VRS), a mixed agent and cost-sharing multiple-employer retirement plan, provides defined benefit pension plan coverage for State employees, teachers, political subdivision employees and other qualifying employees. The assets accumulated by the plan may legally be used to pay all benefits provided by the plan to any of the plan members or beneficiaries. At June 30, 2002, the VRS had 788 contributing employers. The State Police Officers' Retirement System (SPORS), the Judicial Retirement System (JRS), and the Virginia Law Officers' Retirement System (VaLORS) are single-employer defined benefit retirement plans. The SPORS provides retirement benefits to Virginia state police officers, the JRS provides retirement benefits to the Commonwealth's judiciary, and the VaLORS provides benefits to law enforcement and correctional officers other than state police officers. All retirement systems are administered by the Virginia Retirement System (System), an independent agency of the Commonwealth.

Benefit provisions and all other requirements are established by Title 51.1 of the *Code of Virginia*. All full-time, salaried, permanent employees of the Commonwealth, with the exception of certain full–time faculty and administrative staff of higher education institutions and eligible employees of the Commonwealth's teaching hospitals who have the option not to participate in the VRS, must participate in the VRS, SPORS, JRS, or VaLORS. Benefits vest after five years of service.

Employees are eligible for an unreduced retirement benefit at age 65 with five years of service (age 60 for participating law enforcement officers) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years of service for participating law enforcement officers). Employees may retire with a reduced benefit at age 50 with at least ten years of credited service or at age 55 (age 50 for participating law enforcement officers) with at least five years of credited service.

Annual retirement benefits are payable monthly for life in an amount equal to 1.7 percent of their average final salary (AFS) for each year of credited service. AFS is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. Members of the SPORS and VaLORS may receive a monthly benefit supplement if they retire prior to age 65. Members of the JRS receive weighted years of creditable service for each year of actual service under JRS. The VRS, SPORS, VaLORS, and JRS also provide death and disability benefits. These benefit provisions and all other requirements are established by State statute.

B. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the pension trust funds are prepared using the economic resources measurement focus and the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed, and investment income is recognized as earned by the pension plans. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Method Used to Value Investment

Investments are reported at fair value as determined by the System's master custodian, Boston Safe Deposit and Trust Company (Mellon Trust), from its Global Pricing System. This system assigns a price source, based on asset type and the vendor pricing products to which the master custodian subscribes, for every security held immediately following its acquisition. Prices supplied by these sources are monitored on a daily basis by the master custodian.

The pricing sources utilized by the master custodian provide daily prices for equity securities, corporate, government and mortgage-backed fixed income securities, private placement securities, futures and options on futures, open-ended funds, and foreign exchange rates. Depending on the vendor, collateralized mortgage obligations, adjustable rate mortgages, and asset-backed securities are priced either daily, weekly or twice a month, and at month end. Municipal fixed income securities and options on Treasury/Government National Mortgage Association securities are priced at month end.

When a price source is unable to provide a price, quotes are sought from major investment brokers and market making dealers or internal calculations are applied if feasible. As a last resort, the master custodian will contact investment managers for a price. The master custodian prices commingled funds, partnerships, and real estate assets from statements received from the funds, partnerships, or investment managers.

The retirement plans have no concentrations of investments in any one organization that represent 5 percent or more of plan net assets available for benefits.

C. Funding Policy

Employer and employee contributions are required by Title 51.1 of the *Code of Virginia.* The Commonwealth pays the 5 percent of employees' annual salaries that employees are required to contribute to the retirement system.

Employer contributions by the Commonwealth to VRS were reduced from 4.24 percent to 0.00 (zero) percent in January 2002. For fiscal year 2003, the contributions to VRS will remain at 0.00 (zero) percent; however, it is scheduled to increase to 3.77 percent in fiscal year 2004. Employer contributions to SPORS, VaLORS, and JRS were 12.5 percent, 8.08 percent, and 22.5 percent, respectively, of covered payrolls. For fiscal year 2003, the contribution to SPORS, VaLORS, and JRS will be slightly less than the rates recommended by the actuary; however, rates are scheduled to be at levels recommended by the actuary for fiscal year 2004. These rates were less than actuarially determined Annual Required Contributions (ARC), but they did meet statutory requirements. The ARC has parameters for funding automatic cost-of-living increases (COLAs) for retirees. The Commonwealth has elected the option that allows contributions to include an annual amount that would phase-in the parameters over a five-year period ending with fiscal year 2002.

D. Annual Pension Cost and Net Pension Obligation

The following table (reported in thousands of dollars) shows the Commonwealth's annual pension cost and net pension obligation to the VRS, SPORS, JRS, and VaLORS for the current and prior years.

	VRS			SPORS		
	2002	2001	2000	2002	2001	2000
Annual required contribution	$ 141,175	$ 162,654	$ 208,082	$ 21,296	$ 21,320	$ 18,332
Interest on net pension obligation	20,728	19,193	15,554	1,292	1,196	912
Adjustment to annual required contribution	(17,754)	(14,439)	(11,035)	(1,106)	(900)	(647)
Annual pension cost	144,149	167,408	212,601	21,482	21,616	18,597
Contributions made	(61,716)	(148,215)	(167,120)	(10,095)	(20,420)	(15,044)
Increase in net pension obligation	82,433	19,193	45,481	11,387	1,196	3,553
Net pension obligation, beginning of year	259,099	239,906	194,425	16,151	14,955	11,402
Net pension obligation, end of year	$ 341,532	$ 259,099	$ 239,906	$ 27,538	$ 16,151	$ 14,955
Percentage of annual pension cost contributed	42.8%	88.5%	78.6%	47.0%	94.5%	80.9%

	JRS			VaLORS		
	2002	2001	2000	2002	2001	2000
Annual required contribution	$ 21,655	$ 21,126	$ 15,332	$ 77,599	$ 51,220	$ 16,216
Interest on net pension obligation	436	404	364	213	197	-
Adjustment to annual required contribution	(373)	(304)	(258)	(182)	(148)	-
Annual pension cost	21,718	21,226	15,438	77,630	51,269	16,216
Contributions made	(10,641)	(20,822)	(14,935)	(25,006)	(51,072)	(13,753)
Increase in net pension obligation	11,077	404	503	52,624	197	2,463
Net pension obligation, beginning of year	5,454	5,050	4,547	2,660	2,463	-
Net pension obligation, end of year	$ 16,531	$ 5,454	$ 5,050	$ 55,284	$ 2,660	$ 2,463
Percentage of annual pension cost contributed	49.0%	98.1%	96.7%	32.2%	99.6%	84.8%

The VRS pension liability for the Virginia Economic Development Partnership (VEDP) (Component Unit), the Virginia Tourism Authority (VTA) (Component Unit), and the Virginia Outdoors Foundation (VOF) (Component Unit) are reported in the financial statements. However, since the Commonwealth is not considered the employer for VEDP, VTA, or VOF, the Commonwealth's net pension obligation shown above at the end of the year does not include VEDP's pension liability of $860,746, VTA's pension liability of $129,287, or VOF's pension liability of $3,296. The financial statements do not include the VRS pension liability of $2,945 for the Virginia Information Providers Network (VIPNET) (Related Organization).

The annual required contributions for the current year and the most recent actuarial valuation of assets were determined by the June 30, 2001, actuarial valuation. Actuarial valuations were prepared using the entry age normal cost method. The actuarial assumptions included (a) 8.00% investment rate of return, per year compounded annually; (b) projected salary increases ranging from 4.00% to 6.10%, including a 3.00% inflation component; and (c) 3.00% per year COLA. Valuation techniques were applied to smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining amortization period at June 30, 2001, was 30 years or less.

E. Defined Contribution Plan for Political Appointees

Officers appointed by the Governor, officers elected by popular vote or the General Assembly, and executive branch chief deputies and confidential assistants may participate in the Deferred Contribution Plan for Political Appointees, rather than the VRS. This optional retirement plan is authorized by the *Code of Virginia* and offered through the Great West Company. This is a defined contribution plan where the retirement benefits are based upon the Commonwealth's (5.4 percent) and the employee's (5.0 percent) contributions, plus interest and dividends. The Commonwealth pays the required employee contributions. During the year ended June 30, 2002, the total contributions to this plan were $647,689.

The summary of significant accounting policies for the plan is in accordance with those discussed in Section B. The plan has no concentration of investments in any one organization that represents 5.0 percent or more of the plan net assets available for benefits.

F. Higher Education Fund (Component Unit)

The Commonwealth's colleges and universities participate in the VRS, a mixed agent and cost-sharing multiple-employer retirement plan. The VRS issues a separate stand-alone report that is publicly available as previously discussed.

In addition, full-time faculty and certain administrative staff of the Commonwealth's colleges and universities may participate in an optional retirement annuity program, rather than the VRS. Optional Retirement Plans are authorized by the *Code of Virginia* and provide retirement and death benefits. The optional retirement annuity programs are offered through Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) Insurance Companies, Variable Annuity Life Insurance Company (VALIC), Fidelity Investments, Inc., Great West Life, Inc., T. Rowe Price, Inc., and Metropolitan Life. These are defined contribution programs where the retirement benefits received are based upon the Commonwealth's (5.4 percent) and employees' (5.0 percent) contributions, plus interest and dividends. The Commonwealth pays the required employee contributions. During the year ended June 30, 2002, the total contributions to these plans were:

TIAA-CREF	$	62,257,299
VALIC		3,997,901
Fidelity Investments		23,958,055
Great West Life		269,463
T. Rowe Price		1,293,253
Metropolitan Life		195,185
Total	$	91,971,156

The Virginia Commonwealth University Health System Authority (Authority) (a blended component unit of the Virginia Commonwealth University – Major) contributes to the VRS. The VRS issues a separate stand-alone report that is publicly available as previously discussed. Effective July 1, 1997, the Authority established the Virginia Commonwealth University Health System Authority Defined Contribution Plan (the Plan). All employees working at least 35 hours of service per week are eligible to participate in the Plan. Per the Plan document as approved by the Authority's Board of Directors, the Authority contributes 8.0 percent of the participant's salary to the Plan, up to a maximum of $30,000. Total contributions for the year ended June 30, 2002, were approximately $6,319,000. The Authority has the right at anytime, and without the consent of any party, to terminate the Plan in its entirety. The Authority's Board of Directors must approve any changes to the provisions of the Plan, including the contribution requirements, in writing. The Authority has also established the Virginia Commonwealth University Health System Authority Health Care Providers Defined Contribution Plan (the HCP Plan). All persons hired as a health care provider on or after July 1, 1993, and prior to July 1, 1997, and working at least 35 hours of service per week are eligible to participate in the HCP Plan. At June 30, 2002, there were 8 participants in the HCP Plan. All significant provisions of the HCP Plan, including the contribution requirements, are similar to the Plan. Total contributions to the HCP Plan for the year ended June 30, 2002, were approximately $116,000.

The Medical College of Virginia Associated Physicians (MCVAP) (a Component Unit of the Authority) sponsors the MCVAP 403(b) Retirement Fund (the 403(b) Plan), a defined contribution plan which covers substantially all non-medical employees of MCVAP. MCVAP's contribution to the 403(b) Plan (7.5 percent of participants' compensation) approximated $1,764,000 for the year ended June 30, 2002.

MCVAP also sponsors the MCVAP 401(a) Retirement Plan (the 401(a) Plan), a noncontributory, defined contribution plan which covers substantially all full time clinical providers of MCVAP. Contributions to the 401(a) Plan, as determined annually at the discretion of the Board of Directors were approximately $3,850,000 for the year ended June 30, 2002.

MCVAP also sponsors the VCUHS 401(a) Retirement, a defined contribution plan which covers all non-medical employees of MCVP and the VCUHS 457(b) Retirement Plan, a salary reduction plan that represents employee contributions. These plans became effective on January 1, 2002, and replaced the MCVAP 403 9b) plan for all non-medical staff. The contributions to the VCUHS 401(a) and VCUHS 457(b) Plan for the period January 1, 2002, through June 30, 2002, were approximately $1,312,000.

VA Premier (a Component Unit of the Authority) adopted a 401(k) plan sponsored by Prudential Mutual Fund Management, Inc. Employees may enter into the plan on the first day of the month coinciding with or following the date on which the employee begins employment. There is no minimum service or age requirement to be in the 401(k) plan. Employees may contribute 1 percent to 15 percent of their compensation. VA Premier will match 50 percent of the employees' contributions up to 4 percent of the employees' compensation. Matching will occur based on the bi-weekly pay periods. In addition, VA Premier contributes 3 percent of the employee's compensation after each bi-weekly payroll effective when the employee begins employment. Employees are fully vested after four years of service in which the employees have at least 1,000 hours of service each year. The total expense to VA Premier in 2002 was approximately $218,000.

The Innovative Technology Authority (ITA) has a defined contribution retirement plan covering substantially all employees. Under the plan, contributions are fixed at a percentage of each employee's compensation to pay premiums for individual retirement annuity contracts written by TIAA-CREF. Pension contributions for the plan totaled $453,528 in fiscal year 2002.

G. Other Component Units

Note 1.B. outlines the component units included in the Commonwealth's reporting entity. The Virginia Historic Preservation Foundation (Blended - Primary Government), the Virginia Public Building Authority (Blended - Primary Government), the Virginia Public School Authority (major), the Virginia College Building Authority (nonmajor), the Virginia State Parks Foundation (Blended - Primary Government), the Virginia Schools for the Deaf and Blind Foundation (nonmajor), and the Pocahontas Parkway Association (Blended - Primary Government) have no employees. The Virginia Economic Development Partnership, the Small Business Financing Authority, the Hampton Roads Sanitation District Commission, the Virginia Biotechnology Research Park Authority, the A. L. Philpott Manufacturing Extension Partnership, the Virginia Outdoors Foundation, the Virginia Tourism Authority, the Tobacco Indemnification and Community Revitalization Commission, the Virginia Tobacco Settlement Foundation (all nonmajor), and the Virginia Land Conservation Foundation (Blended - Primary Government) contribute solely to the VRS, a mixed agent and cost-sharing multiple-employer retirement plan. The VRS issues a separate stand-alone report that is publicly available as previously discussed.

Full-time employees of the Virginia Housing Development Authority (major) participate in a defined contribution employees' retirement savings plan administered by the Authority. This is a noncontributory plan where the Authority incurs employment retirement savings expense equal to 8.0 percent of full-time employees' compensation. Total retirement savings expense under this plan was $1,295,450 in fiscal year 2002. The retirement expense is fully funded as incurred; therefore, there is no unfunded future retirement liability.

The Virginia Port Authority (nonmajor) contributes to the VRS. The Authority also sponsors two single-employer noncontributory defined benefit pension plans. The Virginia Port Authority Pension Plans are administered by the Authority and provide retirement, disability, and death benefits to plan members and beneficiaries. Benefit provisions and obligations are established and may be amended by the Board of Commissioners of the Authority. The Authority's policy is to fund annually the minimum funding requirements of the Employee Retirement Income Security Act of 1974. In addition, the plan was restated October 1, 2001, to ensure compliance with additional regulations. On February 28, 2002, the plan was amended to provide for a one-time Voluntary Retirement Opportunity Program (VROP). The program provided for early retirement of selected employees who were 58 years of age and had at least ten years of creditable service as of April 1, 2002. The effect on this amendment, an increase in the actuarial present value of accumulated plan benefits of $2,337,300, was accounted for and fully funded during the fiscal year ended June 30, 2002. The actuarial present value of the accumulated plan benefits as of June 30, 2001, does not reflect the effect of this amendment. The plan's financial report is audited annually and can be obtained through the Human Resource Department at the Authority.

The components of annual pension cost and prepaid pension obligation for the first single-employer noncontributory defined benefit pension plan are as follows:

	2002	2001	2000
Service cost - benefits earned during the year	$ 982,000	$ 935,000	$ 972,000
Interest cost on projected benefit obligation	1,910,000	1,766,000	1,596,000
Expected return on assets	(2,550,000)	(2,898,000)	(2,614,000)
Net amortization and deferral	42,700	(496,000)	(363,000)
One time recognition - VROP	2,337,300	-	-
Annual pension cost	2,722,000	(693,000)	(409,000)
Contributions made	(2,840,200)	(249,000)	(193,500)
Increase in prepaid pension obligation	(118,200)	(942,000)	(602,500)
Prepaid pension obligation, beginning of year	(5,506,500)	(4,564,500)	(3,962,000)
Prepaid pension obligation, end of year	$ (5,624,700)	$ (5,506,500)	$ (4,564,500)

The annual pension cost for the current year was determined as part of the September 30, 2001, actuarial valuation using the aggregate actuarial cost method, which does not identify and separately amortize unfunded actuarial liabilities. The discount rate used in determining the actuarial present value of projected benefit obligation was 8.0 percent in 2002 and 2001 and 7.5 percent in 2000. The expected long-term rate of return on assets used in determining net periodic pension cost was 7.5 percent.

The following table sets forth the plan's funded status and the related amounts recorded in the Authority's balance sheets at June 30, 2002, 2001, and 2000.

Three-Year Trend Information

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
2002	$ 2,722,000	104 %	$ (5,624,700)
2001	$ (693,000)	0 %	$ (5,506,500)
2000	$ (409,000)	0 %	$ (4,564,500)

In November 2001, the second plan was amended to provide benefits to sworn police officers that more closely resemble the new retirement benefits provided to members of the Virginia Law Enforcement Officers Retirement System. The effect of those changes is included in the accompanying pension data.

The components of annual pension cost and prepaid pension obligation for the second single-employer noncontributory defined benefit pension plan are as follows:

	2002
Service cost - benefits earned during the year	$ 142,820
Interest cost on projected benefit obligation	44,309
Expected return on assets	13,025
Net amortization and deferral	(6,465)
Annual pension cost	193,689
Contributions made	(209,420)
Additional minimum liability	689,672
Increase in pension obligation	673,941
Pension obligation, beginning of year	193,239
Pension obligation, end of year	$ 867,180

The annual pension cost for the current year was determined as part of the August 2002 actuarial valuation using the aggregate actuarial cost method, which does not identify and separately amortize unfunded actuarial liabilities. Actual value of assets was determined using market value. The discount rate used in determining the actuarial present value of the projected benefit obligation was 7.0 percent in 2002, 7.5 percent in 2001, and 8.0 percent in 2000. The expected long-term rate of return on assets used in determining net periodic pension cost was 8.0 percent.

The following table sets forth the plan's funded status and the related amounts recorded in the Authority's balance sheets at June 30, 2002.

Trend Information

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
2002	$ 193,689	108 %	$ 867,180
2001	$ 166,256	112 %	$ 193,239
2000	$ 59,116	87 %	$ 260,672

The Authority also sponsors two noncontributory supplemental plans covering certain key employees. The Authority's current policy is not to fund the costs of these plans. The plans had assets of $1,493,462 and an accrued liability of $1,838,332.

The Virginia Resources Authority sponsors a retirement savings plan whereby 12 percent of eligible employees' salary is contributed on an annual basis. Total retirement savings expense was $77,233 for the year ended June 30, 2002, a portion of which is reimbursed.

The Virginia Equine Center Foundation has a defined contribution plan which covers all full-time employees of the Foundation who have one year of service and are age twenty-one or older. The plan is subject to the provisions of the Employee Retirement Income Security Act of 1974. Contributions to the plan are discretionary and the Foundation will determine the amount to contribute to the plan each year. Total contributions for the year ended June 30, 2002, were $44,000.

11. OTHER EMPLOYMENT BENEFITS

In addition to the pension plans, the Commonwealth participates in three other employment benefit plans, Group Life Insurance, Retiree Health Insurance Credit, and Virginia Sickness and Disability Program, which are administered by the Virginia Retirement System (VRS). The VRS administers a fourth other employment benefit plan, the Volunteer Firefighters' and Rescue Squad Workers' Fund, in which the Commonwealth does not participate, but may provide funding. The significant accounting policies for all four plans are the same as those described in Note 10 for pension plans. A separately issued financial report that includes financial statements for Group Life Insurance, Retiree Health Insurance Credit, and Virginia Sickness and Disability Program is publicly available. Copies may be obtained by writing to Virginia Retirement System, P. O. Box 2500, Richmond, Virginia 23218-2500.

Group Life Insurance

The Group Life Insurance Plan provides life insurance benefits for State employees, teachers, employees of political subdivisions participating in the VRS, State police officers, judges, and other qualifying employees. In fiscal year 2002 there were approximately 97,857 state employees and retirees in the program.

As part of this plan, the State provides life insurance benefits for retired employees in accordance with Title 51.1 of the *Code of Virginia*. To be eligible, the employee must have retired or terminated employment after age 55 and have had five years of continuous service or retired because of disability. At retirement or termination, natural death coverage starts to reduce by 25 percent each year until coverage reaches 25 percent of its value at retirement or termination.

Postemployment life insurance benefits are advance funded on an actuarially determined basis using the aggregate cost actuarial method. Rates were determined in a June 30, 2000, actuarial valuation using the same actuarial assumptions used for determining pension plan contribution rates. The modified market value of plan assets was used for valuation purposes. Retirees are not required to contribute to the group life plan. The Commonwealth's actuarially required contribution rate for the current year was 0.98 percent of payroll. Contributions were suspended by the General Assembly effective April 1, 2002. This contribution covers premiums for active employees and actual death claims for retirees.

The accrued liabilities for postemployment death benefits actuarially determined through an actuarial valuation performed as of June 30, 2001, were $1,657.4 million. The actuarial value of the program's assets available for benefits on that date was $994.4 million, leaving a present value of future contributions of $663.0 million. In April 2002, the General Assembly suspended contributions for the remainder of fiscal year 2002 through fiscal year 2004.

Retiree Health Insurance Credit

The Retiree Health Insurance Credit Plan provides health insurance credits against the monthly health insurance premiums for retired State employees, State police officers, and judges with at least 15 years of creditable service on the current disbursement basis. Benefit provisions and eligibility requirements are established by Title 51.1-1400 of the *Code of Virginia*. Approximately 26,725 state retirees were receiving health insurance credits at June 30, 2002.

The monthly credit amounts to $4.00 per year of service not to exceed a maximum allowance of $120.00. The contribution rate was determined as part of the June 30, 2000, actuarial valuation that determined the pension plan contribution rates. The Commonwealth's actuarially required contribution rate for the current year was 1.21 percent of payroll. The Commonwealth recognized Retiree Health Insurance Credit expenses of $57.6 million during the fiscal year ended June 30, 2002.

Virginia Sickness and Disability Program

The Virginia Retirement System (System) administers the Virginia Sickness and Disability Program to provide income protection for absences due to sickness or disability from the first day on the job. After a seven calendar-day waiting period following the first incident of

disability, eligible employees receive short-term disability benefits ranging from 60 to 100 percent of compensation up to a maximum of 125 work days, based upon months of State service. After a 180 calendar-day waiting period (125 work days of short-term disability), eligible employees receive long-term disability benefits equal to 60 percent of compensation until they return to work, until age 65 (age 60 for State police officers), or until death.

The VSDP was established on January 1, 1999, for all full-time, classified State employees, including State police officers and other State law enforcement and corrections officers, hired on or after January 1, 1999. Part-time, classified employees who work at least 20 hours a week on a salaried basis and who accrue leave are also covered. Eligible State employees and State police officers of the Commonwealth employed prior to January 1, 1999, had the option to elect to participate in the VSDP or to remain in the Commonwealth's existing disability retirement and sick leave program (see Notes 10 and 14). Eligible employees enrolled in the VSDP are not eligible for disability retirement benefits under the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers Retirement System (VaLORS).

Faculty of Virginia institutions of higher education, hired or appointed on or after January 1, 1999, who elected the VRS as their retirement plan, must make an irrevocable election to participate in the VSDP or in the institution's disability program. If there is no institution program, the faculty is covered under this program.

All State agencies are required to contribute to the cost of providing long-term disability benefits. Initial contribution requirements to fund the program were determined by the System's actuary based on an estimate of the amount of the liability for disability benefits that would transfer from the VRS and SPORS to the VSDP for the anticipated new participants in the VSDP. This contribution requirement was 0.83 percent of payroll for State and VaLORS employees and 1.10 percent of payroll for State police officers during the fiscal year. The Commonwealth recognized long-term disability expenses of $11.6 million during the fiscal year. As of June 30, 2002, there were approximately 47,499 participants.

Volunteer Firefighters' and Rescue Squad Workers' Fund

Volunteer firefighters and rescue squad workers may participate in an optional postemployment benefit plan. This optional plan is authorized by the *Code of Virginia*. The Board of Trustees of the VRS manages the investments of the Fund as custodian. Members of the plan contribute $30 per quarter. The Commonwealth will contribute an amount determined by the Board and appropriated by the General Assembly, if such funds are appropriated, for a period not to exceed twenty years. There was no appropriation in fiscal year 2002. At June 30, 2002, there were 624 workers participating in the Fund.

12. DEFERRED COMPENSATION PLANS

The Commonwealth offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Virginia Retirement System (VRS) administers the deferred compensation plan, pursuant to the Government Employees Deferred Compensation Plan Act, Section 51.1, Chapter 6 et seq. of the *Code of Virginia*. The VRS contracts with private corporations or institutions subject to the standards set forth in the *Code* to provide investment products as well as any other goods and services related to the administration of the deferred compensation plan. The Department of Accounts is responsible for the accounting, reconciliations, and record keeping associated with State employees' enrollment, payment to the plan through payroll deductions, and timely transfer of withheld funds to the trustee designated by the VRS for investment. The plan provides a number of investment options and is designed so that each participant retains investment control of his/her individual account. The plan, available to all State employees, permits them to defer a portion of their salary until future years. The deferred compensation is held in trust for the exclusive benefit of plan participants and their beneficiaries and is not available to employees until termination, retirement, death, or unforeseeable emergency. Since the VRS has no fiduciary relationship with plan participants, plan assets of $438.3 million are not included in the financial statements.

In addition, the Commonwealth provides a cash match under Internal Revenue Code Section 401(a) for employees participating in the deferred compensation plan who have been employed at least one year. The match amount for an employee was established at 50 percent of the voluntary contributions to the deferred compensation plan. During the current fiscal year, the maximum match was $20 per pay period or $40 per month. The fair value of assets in the cash match savings plan at June 30, 2002, was $17.9 million, which is also excluded from the financial statements.

The Virginia Housing Development Authority (Major Component Unit) and the Virginia Resources Authority (Nonmajor Component Unit) have a deferred compensation plan available to all employees created in accordance with Internal Revenue Section 457. The Plan permits participants to defer a portion of their salary or wage until future years. The deferred compensation is not available to employees until termination, retirement, or death. The assets of the Plan are in an irrevocable trust with an external trustee and, accordingly, no assets or liabilities are reflected in the financial statements.

The Virginia Port Authority (VPA) (Nonmajor Component Unit) offers three deferred compensation plans and two matching savings plans under Internal Revenue Code Sections 457 and 401(a), respectively. Employees who maintain status under VRS are covered under the Deferred Compensation Plan administered by the VRS as discussed above. The VPA Deferred Compensation Plan covers all employees hired after July 1, 1997, and those employees electing coverage under the Authority's deferred compensation plan. The VPA also offers a matching savings plan that covers

substantially all employees. The matching savings plan requires the VPA to match contributions in an amount equal to 50 percent of the first 6 percent of the participant's base pay contributed to the plan. VPA's total contribution to the matching savings plan was $93,679 for the fiscal year ended June 30, 2002. Further, the right to modify, alter, amend or terminate the Deferred Compensation Plan and Matching Savings Plan vests with the VPA Board of Commissioners. Effective January 1, 2002, the plans were amended in order to comply with the provisions in the Economic Growth and Tax Relief Reconciliation Act.

The third deferred compensation plan and second matching savings plan covers substantially all nonunion employees with 90 days or more of service. The matching savings plan requires the VPA to match employee contributions in an amount equal to 50 percent of the first 3 percent of the participant's base pay contributed to the deferred compensation plan. VPA's total contribution to the matching savings plan was $247,649 for the fiscal year ended June 30, 2002.

13. COMMITMENTS

A. Construction Projects

Highway Projects

At June 30, 2002, the Department of Transportation (Primary Government) had contractual commitments of approximately $1,942.0 million for construction of various highway projects. Funding for these expenditures is expected to be provided as follows: (1) Federal Funds – approximately 33.3 percent or $647.5 million, (2) State Funds – approximately 59.8 percent or $1,159.8 million, and (3) Proceeds from Bonds – approximately 6.9 percent or $134.7 million.

Mass Transit Projects

At June 30, 2002, the Department of Rail and Public Transportation (Primary Government) had contractual commitments of approximately $113.3 million for various public transportation and rail preservation projects. Funding of the future expenditures is expected to be as follows: (1) Federal Funds – approximately 11 percent or $12.8 million, and (2) State Funds – approximately 89 percent or $100.5 million.

Port Projects

At June 30, 2002, the Virginia Port Authority (Nonmajor Component Unit) was committed to construction contracts totaling $73.4 million.

Sanitation District Project

At June 30, 2002, the Hampton Roads Sanitation District Commission (Nonmajor Component Unit) was committed to construction programs totaling $50.4 million.

Higher Education Institutions

Many of the colleges and universities are committed to construction contracts. As of June 30, 2002, these commitments totaled approximately $333.9 million.

B. Operating Leases

The Commonwealth has entered into numerous agreements to lease land, buildings, and equipment. Most of the operating leases contain the provision that the Commonwealth may renew the operating leases at the expiration date of the lease on a month–to–month basis. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases of a similar nature. Rental expense for the primary government under these operating leases for the year ended June 30, 2002, was $63.3 million for governmental activities (including Internal Service Funds) and $14.6 million for business-type activities. Rental expense for the discrete component units for the year ended June 30, 2002, was $59.6 million. The Commonwealth has, as of June 30, 2002, the following minimum rental payments due under the above leases (dollars shown in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
2003	$ 51,864	$ 9,647	$ 30,905
2004	41,440	5,823	23,352
2005	33,100	4,641	19,692
2006	20,372	3,190	15,741
2007	11,899	1,355	12,205
2008-2012	31,768	113	31,997
2013-2017	9,180	-	23,307
2018-2022	2,361	-	1,980
2023-2027	784	-	-
2028-2032	527	-	-
Total	$ 203,295	$ 24,769	$ 159,179

Lease agreements are for various terms and all leases contain nonappropriation clauses indicating that continuation of the lease is subject to funding by the General Assembly.

C. Investment Commitments – Virginia Retirement System

The Virginia Retirement System extends investment commitments in the normal course of business, which, at June 30, 2002, amounted to $1.6 billion.

14. ACCRUED LIABILITY FOR COMPENSATED ABSENCES

Employees accrue annual leave at a rate of four to nine hours semimonthly, depending on their length of service. The maximum leave accumulation is dependent upon years of service, but in no case may it exceed 432 hours. The maximum compensation for annual leave

balances is also dependent upon years of service, but in no case may an employee be compensated for more than 336 hours.

All employees hired after January 1, 1999, are required to enroll in the Virginia Sickness and Disability Program (VSDP) (see Note 11). Under the VSDP, employees receive a specified number of sick and personal leave hours, depending on their length of service, and any balances at the end of the calendar year revert. Individuals employed at January 1, 1999, had the option of converting to the VSDP or remaining in the original sick leave plan. If converting, the employee's sick leave balance could be used to purchase retirement credits or be converted to disability credits. If an employee opted to remain in the original sick leave program, sick leave accrues at a rate of five hours semimonthly. Employees who leave State service after a minimum of five years employment receive the lesser of 25 percent of the value of their disability credits or accumulated sick leave at their current earnings rate or $5,000. All employees leaving State service are paid for accrued annual leave up to the maximum calendar year limit at their current earnings rate.

In conformance with Section C60 of GASB Codification, the monetary value of accumulated annual and sick leave and disability credits payable upon termination is included in the accompanying financial statements. In the government-wide statements, proprietary fund statements, and discrete component unit fund statements, amounts are segregated into two components – the amount due within one year and the amounts due in more than one year. In the governmental fund statements, amounts to be paid from expendable resources are recognized as fund liabilities in the applicable governmental fund types as long-term liabilities and represent payments for separations that occurred prior to June 30. Amounts not payable from expendable resources are reflected in the governmental activities column in the Government-wide Statement of Net Assets (see Note 17). All amounts related to the fiduciary funds are recognized in those funds.

The liability at June 30, 2002, was computed using salary rates effective at that date, and represents vacation, compensatory and sick leave earned or disability credits held up to the allowable ceilings. In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, an additional liability amount has been included for those employees remaining in the original sick leave program with less than 5 years of service based on the probability that they will eventually become vested. Also included in the liability is the Commonwealth's share of FICA taxes on leave balances for which employees will be compensated.

15. INSURANCE

A. Self–Insurance

The Commonwealth maintains two types of self-insurance plans. The first type of self-insurance is a health care plan administered by the Department of Human Resource Management for State employees. The plan is accounted for in the Health Care – Internal Service Fund. Interfund premiums are accounted for as internal activity receipts from other funds. At June 30, 2002, $79.6 million is reported as the estimated claims payable for this fund. The estimated liability is based upon actual claims that have been submitted as well as actuarially determined claims incurred but not reported as described in Note 1.P. Changes in the balances of claims liabilities (reported in thousands of dollars) during the current and prior fiscal years are as follows:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2001-2002	$ 74,044	$ 536,562	$ (530,998)	$ 79,608
2000-2001	$ 57,084	$ 483,924	$ (466,964)	$ 74,044

The second type of plan, risk management insurance, is administered by the Department of Treasury, Division of Risk Management and the Department of Human Resource Management, Worker's Compensation Program. This plan is accounted for in the Risk Management – Internal Service Fund. Interfund premiums are accounted for as internal activity receipts from other funds. Risk management insurance includes workers' compensation, property, general (tort) liability, medical malpractice, and automobile plans. At June 30, 2002, $178.3 million is reported as the estimated claims payable for these self-insurance plans. The estimated losses are based upon actual claims that have been submitted, as well as claims incurred but not reported. Changes in the balances of claims liabilities (reported in thousands of dollars) during the current and prior fiscal years are as follows:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2001-2002	$ 180,429	$ 50,912	$ (53,013)	$ 178,328
2000-2001	$ 173,721	$ 51,837	$ (45,129)	$ 180,429

For workers' compensation, the Commonwealth assumes the full risk of claims filed. For tort, including general and automobile liability, liability is assumed to $2,000,000 per occurrence. Medical malpractice liability is assumed to $1,000,000 per occurrence. For property damage, Risk Management purchases $400,000,000 of insurance with a $1,000,000 deductible.

The Commonwealth has not had any insurance settlements exceed the coverage during the past three years.

The Virginia Port Authority (Nonmajor Component Unit) is partially self-insured for certain workers' compensation claims. The Authority maintains insurance coverage of $5,000,000 per claim, but is

obligated to pay the first $1,000,000 of any individual's claims per incident. The Authority is also partially self-insured for employee health coverage. The Authority is responsible for actual claim costs up to $75,000 per individual per calendar year. Insurance coverage is maintained for claims in excess of the individual employee limit and for aggregate claims in excess of $3,390,295.

B. Public Entity Risk Pools

The Commonwealth administers two types of public entity risk pools for the benefit of local governmental units: health care and risk management insurance. The Local Choice Health Care plan was established to make comprehensive health care insurance available to localities and political subdivisions at affordable rates and with stable premiums. During the fiscal year, there were 218 local government units participating in the pool. This includes 22 school districts, 27 counties, 82 cities/towns, and 87 other subdivisions. This program is accounted for in the Local Choice Health Care Enterprise Fund (nonmajor).

The Department of Human Resource Management, under Section 2.2-1204 of the *Code of Virginia*, has the authority to design, set rates, and administer the Local Choice Health Care fund. The pool's standard contract period is one year. However, a member group may withdraw on the last day of any month with three month's written notice. Contributions are based on the current necessary contribution and the amortization of experience adjustments in the pool. At June 30, 2002, $14.9 million is reported as the actuarially determined estimated claims payable for this fund based on claims incurred but not reported.

The actuarial liability is determined for the membership pool in total and then adjusted for each locality based on individual historic and demographic data. If the pool's assets were to be exhausted, the program participants would share the responsibility for any liabilities or deficits.

The Department of Treasury, Division of Risk Management administers risk management pools for errors and omissions liability insurance and law enforcement professional liability insurance in accordance with Section 2.2–1839 of the *Code of Virginia*. They also administer a commuter rail liability pool for both the Northern Virginia and the Potomac & Rappahannock Transportation Commissions. These pools were established to provide an economical low-cost, internally managed alternative to the commercial insurance market for the Commonwealth's political subdivisions. These risk programs are accounted for in the Risk Management Enterprise Fund (nonmajor). The pool is established subject to the approval of the Governor. It may be insurance, self-insurance, or any combination thereof, and must provide protection and legal defense against liability. Local participation is voluntary and open to any political subdivision. As of June 30, 2002, there were 515 units of local government in the pool. This includes 6 cities, 50 towns, and 42 counties. The balance includes a large variety of boards, commissions, authorities, and special districts.

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

The pool is actuarially valued annually and is considered sound. Investment income is considered in the anticipation of premium deficiencies. No excess insurance or reinsurance is provided, but a "stability fund" is incorporated into the actuarially determined required reserves. If, however, the plan assets and reserves were to be exhausted, the members would be responsible for any deficits or liabilities.

For the liability insurance pool, local participation is voluntary and open to any political subdivision. The risk assumed by the local public entity pool for member liability is $1,000,000 per occurrence. The commuter rail liability pool was established to fulfill the liabilities of the Commissions. As a result of the Commissions' agreement with several localities, participating localities contribute to the pool based on the number of residents riding the commuter rail and their total population. This pool assumes liability up to $5,000,000 per occurrence, and commercial insurance has been purchased to pay larger claims subject to an annual aggregate limit of $200,000,000.

At June 30, 2002, $10.9 million is reported as estimated claims payable for these programs. This figure is actuarially determined for the fund in total and is reported at gross and does not reflect possible reimbursements for insurance recoveries.

The following schedule (reported in thousands of dollars) shows the changes in claims liabilities for the past two fiscal years.

	Local Choice Health Care		Risk Management	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
Unpaid Claims and Claim Adjustment Expenses at Beginning of Fiscal Year	$ 12,643	$ 8,480	$ 10,951	$ 9,011
Incurred Claims and Claim Adjustment Expenses:				
Provision for Insured Events of the Current Fiscal Year	95,860	87,222	5,700	4,417
Changes in Provision for Insured Events of Prior Fiscal Years	-	-	(2,530)	1,008
Total Incurred Claims and Adjustment Expenses	95,860	87,222	3,170	5,425
Payments:				
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Fiscal Year	93,617	83,059	550	336
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Prior Fiscal Year	-	-	3,283	3,767
Total Payments	93,617	83,059	3,833	4,103
Change in Provision for Discounts	-	-	590	618
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Discounted)	$ 14,886	$ 12,643	$ 10,878	$ 10,951
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Undiscounted)	$ 14,886	$ 12,643	$ 11,499	$ 11,673

16. OTHER LIABILITIES

The following table (reported in thousands of dollars) summarizes Other Liabilities as of June 30, 2002.

	Primary Government			
	General Fund	Federal Trust Fund	State Lottery	Virginia College Savings Plan
Lottery Prizes Payable	-	-	43,205	-
Due to Program Participants, Escrows, and Providers	-	-	-	65
Medicaid Payable	184,352	193,970	-	-
Family Access to Medical Insurance Security Payable	2,069	4,009	-	-
Tuition Benefits Payable	-	-	-	-
Accrued Interest Payable	-	-	-	-
Tax Refunds Payable	226,549	-	-	-
Other Liabilities	-	-	-	-
Deposits Pending Distribution	2,346	12	-	-
Car Tax Refund Payable	30,032	-	-	-
Matured Debt Payable	-	-	-	-
Matured Principal and Interest Payable	-	-	-	-
Grants Payable	-	-	-	-
Total Other Liabilities	$ 445,348	$ 197,991	$ 43,205	$ 65

	Primary Government (continued)				
	Pocahontas Parkway (2)	Unemployment Compensation Fund	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Internal Service Funds
Lottery Prizes Payable	-	-	-	-	-
Due to Program Participants, Escrows, and Providers	-	30,868	-	-	-
Medicaid Payable	-	-	-	-	-
Family Access to Medical Insurance Security Payable	-	-	-	-	-
Tuition Benefits Payable	-	-	-	-	-
Accrued Interest Payable	3,420	-	-	-	-
Tax Refunds Payable	-	-	-	-	-
Other Liabilities	15,715	-	596	88	1,251
Deposits Pending Distribution	-	-	1,768	101	-
Car Tax Refund Payable	-	-	-	-	-
Matured Debt Payable	-	-	15	-	-
Matured Principal and Interest Payable	-	-	-	-	-
Grants Payable	-	-	-	-	-
Total Other Liabilities	$ 19,135	$ 30,868	$ 2,379	$ 189	$ 1,251

	Primary Government (continued)				
	Private Purpose Funds	Pension Trust Funds	Investment Trust Funds	Agency Funds	Total Primary Government (1)
Lottery Prizes Payable	-	-	-	-	43,205
Due to Program Participants, Escrows, and Providers	73	11	-	387,237	418,254
Medicaid Payable	-	-	-	-	378,322
Family Access to Medical Insurance Security Payable	-	-	-	-	6,078
Tuition Benefits Payable	-	-	-	-	-
Accrued Interest Payable	-	-	-	-	3,420
Tax Refunds Payable	-	-	-	-	226,549
Other Liabilities	-	918	1,512	5,430	25,510
Deposits Pending Distribution	-	-	-	12,197	16,424
Car Tax Refund Payable	-	-	-	-	30,032
Matured Debt Payable	-	-	-	-	15
Matured Principal and Interest Payable	-	-	-	-	-
Grants Payable	-	-	-	-	-
Total Other Liabilities	$ 73	$ 929	$ 1,512	$ 404,864	$ 1,147,809

(Continued on next page)

Note (1): Fiduciary liabilities of $407,378 (dollars in thousands) are not included in the Government-wide Statement of Net Assets. In addition, General Fund and Commonwealth Transportation Fund liabilities of $501,766 and $15,603, respectively, (dollars in thousands) are included in the Government-wide Statement of Net Assets, but excluded from the above amounts.
Note (2): The $15,715 represents an interfund liability to the Commonwealth Transportation Fund that will not be repaid within one year. This amount is reclassified to an internal balance on the Government-wide Statement of Net Assets.

Other Liabilities (continued)

	Component Units				
	Virginia Housing Development Authority	Virginia Public School Authority	University of Virginia	Virginia Polytechnic Institute & State University	Virginia Commonwealth University
Lottery Prizes Payable	-	-	-	-	-
Due to Program Participants, Escrows, and Providers	-	-	-	-	-
Medicaid Payable	-	-	-	-	-
Family Access to Medical Insurance Security Payable	-	-	-	-	-
Tuition Benefits Payable	-	-	-	-	-
Accrued Interest Payable	95,326	46,193	-	-	-
Tax Refunds Payable	-	-	-	-	-
Other Liabilities	11,972	7,473	12,440	23,525	61,743
Deposits Pending Distribution	-	-	133,744	4,629	23,799
Car Tax Refund Payable	-	-	-	-	-
Matured Debt Payable	-	-	-	-	-
Matured Principal and Interest Payable	-	-	-	-	2,755
Grants Payable	-	-	-	-	-
Total Other Liabilities	$ 107,298	$ 53,666	$ 146,184	$ 28,154	$ 88,297

	Component Units (continued)	
	Nonmajor Component Units	Total Component Units
Lottery Prizes Payable	-	-
Due to Program Participants, Escrows, and Providers	-	-
Medicaid Payable	-	-
Family Access to Medical Insurance Security Payable	-	-
Tuition Benefits Payable	-	-
Accrued Interest Payable	15,235	156,754
Tax Refunds Payable	-	-
Other Liabilities	66,558	183,711
Deposits Pending Distribution	10,692	172,864
Car Tax Refund Payable	-	-
Matured Debt Payable	-	-
Matured Principal and Interest Payable	11,337	14,092
Grants Payable	462	462
Total Other Liabilities	$ 104,284	$ 527,883

Medicaid Payable

Medicaid Payable represents services rendered but not billed by providers and potential liability resulting from cost reports not settled as of year-end. Providers subject to cost settlement are paid in the interim based on established per diem or diagnosis related group rates for services.

The Department of Medical Assistance Services (DMAS) estimates, based on past experience, the total amount of Medicaid claims that will be paid from the Medicaid program in the future which relate to services provided before year-end. At June 30, 2002, the estimated liability related to Medicaid claims totaled $378.4 million. Of this amount $184.4 million is reflected in the General Fund (major) and $194.0 million in the Federal Trust Special Revenue Fund (major).

Family Access to Medical Insurance Security Payable

DMAS estimates the total amount of claims that will be paid from the Family Access to Medical Insurance Security program in the future which relate to services provided before year-end. At June 30, 2002, the estimated liability related to claims totaled $6.1 million. Of this amount, $2.1 million is reflected in the General Fund (major) and $4.0 million in the Federal Trust Special Revenue Fund (major).

Tax Refunds Payable

Tax refunds payable represent refunds due on individual tax returns filed for the calendar year ended December 31, 2001, and on business tax returns filed for corporate fiscal years ending on or before June 30, 2002. The individual tax return filing deadline is May 1 of each year for the preceding calendar year. The corporate tax return filing deadline is the 15th day of the fourth month following the close of the corporate fiscal year.

Car Tax Refund Payable

During the year ended June 30, 1998, the General Assembly passed the Personal Property Tax Relief Act. Under the terms of this legislation, the Commonwealth will assume financial responsibility for the personal property taxes assessed by localities over a five-year period beginning in 1998. The amount reported on the balance sheet represents personal property taxes assessed by the localities before June 30, 2002, and paid by the Commonwealth after June 30, 2002. The majority of the amount pertains to the 2002 personal property taxes. However, some prior year reimbursements are also included due to delinquent taxpayer payments. The tax years and applicable rates are as follows:

2002	70.0%
2001	70.0%
2000	47.5%
1999	27.5%
1998	12.5%

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

17. LONG–TERM LIABILITIES

Commonwealth bonds are issued pursuant to Section 9 of Article X of the Constitution of Virginia. Section 9(a) bonds have been issued to redeem previous debt obligations. Section 9(b) bonds have been authorized by the citizens of Virginia through bond referenda to finance capital projects. These bonds are retired through the use of State appropriations. Section 9(c) bonds are issued to finance capital projects which, when completed, will generate revenue to repay the debt. Section 9(a), 9(b), and 9(c) bonds are tax-supported general obligation bonds and are backed by the full faith, credit, and taxing power of the Commonwealth. No other long-term debt or obligations are backed by the full faith, credit, and taxing power of the Commonwealth.

Section 9(d) bonds are revenue bonds and are not backed by the full faith, credit and taxing power of the Commonwealth. These bonds are not general obligation bonds and are not deemed to constitute a legal liability of the Commonwealth. This debt may be supported by State appropriations in whole or in part, as in the case of certain debt of the VPA (Nonmajor Component Unit), VPBA (Primary Government), ITA (Nonmajor Component Unit), and VCBA (Nonmajor Component Unit). Other 9(d) revenue bonds are payable from general revenues of the component units, or from revenues of specific revenue-producing capital projects such as the teaching hospitals, dormitories, student centers, and dining halls at the various State colleges and universities (Component Units). Additionally, the 9(d) Transportation Bonds (Primary Government) are payable solely from revenues or earnings, and other available sources of funds appropriated by the General Assembly. The 9(d) Pocahontas Parkway Association Bonds (Primary Government) are special, limited obligations of the Association, secured by a gross revenue pledge and payable solely from revenues prior to payment of current expenses and from monies held in certain funds and accounts held in trust.

Certain 9(d) bonds are considered, with 9(a), 9(b), and 9(c) bonds, to be tax-supported debt of the Commonwealth. Tax-supported debt includes all bond issues and short-term debt supported by State tax revenues (net of sinking fund requirements), for which debt service payments are made or are ultimately pledged to be made from general governmental funds.

Other 9(d) revenue bonds are considered debt not supported by taxes. For this debt, the Commonwealth has no direct or indirect pledge of tax revenues. However, in some cases, the Commonwealth has made a moral obligation pledge. A government's moral obligation pledge provides a deficiency make-up for bondholders should underlying project revenues prove insufficient. The mechanics involve funding a debt service reserve fund when the bonds are issued. If a revenue deficiency exists, reserve fund monies are used to pay bondholders. The issuer then informs the legislative body requesting that it replenish the reserve

fund before subsequent debt service is due. The legislative body may, but is not legally required to, replenish the reserve fund. These bonds are considered to be moral obligation debt.

The following schedule presents the total long–term liabilities of the Commonwealth, and the portion of these amounts which are due within one year, as reported on the Government-wide Statement of Net Assets.

Total Long-Term Liabilities

(Dollars in Thousands)		**Amount Due Within One Year (11)**
Primary Government:		
Governmental Activities:(1)		
General Obligation Bonds (7)		
9(b) Transportation Facilities	$ 52,695	$ 4,115
9(b) Public Facilities	399,005	30,750
9(c) Parking Facilities	9,605	765
9(c) Transportation Facilties (2)	117,992	9,804
Bond Anticipation Notes Payable	-	-
Total General Obligation Bonds	579,297	45,434
Non-General Obligation Bonds - 9(d)		
Transportation Debt (3)	1,418,900	66,640
Virginia Public Building Authority (2) (10)	958,141	65,465
Total Non-General Obligation Bonds	2,377,041	132,105
Other Long-Term Obligations:		
Pension Liability	302,664	-
Compensated Absences	306,972	141,553
Capital Lease Obligations	202,265	13,412
Regional Jail Financing Payable	28,974	2,092
Notes Payable	34,285	1,955
Installment Purchases Obligations	32,182	8,563
Industrial Development Authority Obligations	37,800	3,390
Other Liabilities	20,284	3,500
Total Other Long-Term Obligations	965,426	174,465
Total Governmental Activities (2)	3,921,764	352,004
Business-Type Activities: (2)		
Non-General Obligation Bonds - 9(d)		
Pocahontas Parkway Association Bonds (2) (6)	418,850	-
Other Long-Term Obligations:		
Pension Liability	6,389	-
Compensated Absences	8,084	3,301
Installment Purchases Obligations	17,861	3,776
Tuition Benefits Payable	781,827	20,300
Lottery Prizes Payable	449,694	57,151
Other	112	-
Total Other Long-Term Obligations	1,263,967	84,528
Total Business-Type Activities (2)	1,682,817	84,528
Total Primary Government	5,604,581	436,532

Total Long-Term Liabilities

(Dollars in Thousands)		Amount Due Within One Year (11)
Component Units:		
General Obligation Bonds (7)		
Higher Education Fund - 9(c) Bonds (1)	376,462	34,997
Non-General Obligation Bonds		
Higher Education Institutions - 9(d) (6) (12)	430,290	31,318
Virginia College Building Authority	354,890	46,615
Innovative Technology Authority	10,590	625
Virginia Port Authority (4)	187,385	10,710
Virginia Housing Development Authority (2) (5)	6,056,542	434,818
Virginia Resources Authority (2) (5)	758,573	25,641
Virginia Public School Authority (5)	2,090,485	135,481
Hampton Roads Sanitation District Commission (6)	152,978	15,121
Virginia Equine Center Foundation (6)	16,145	175
Virginia Biotechnology Research Park Authority (8)	102,210	3,610
Total Non-General Obligation Bonds	10,160,088	704,114
Other Long-Term Obligations:		
Pension Liability	136,708	-
Compensated Absences	182,603	94,124
Capital Lease Obligations	45,810	2,701
Notes Payable (6)	494,689	79,076
Installment Purchase Obligations	23,347	7,369
Bond Anticipation Notes (6)	895	-
Other Liabilities (6)	332,142	37,072
Total Other Long-Term Olbigations	1,216,194	220,342
Total Component Units	11,752,744	959,453
Total Long-Term Liabiltiies	$ 17,357,325	$ 1,395,985

1. Pursuant to GASB Statement No. 34, governmental activities include Internal Service Funds. Business-Type Activities are considered Enterprise Funds.
2. Net of unamortized discounts.
3. This debt includes $375.0 million that is not supported by taxes
4. This debt includes $93.3 million that is not supported by taxes.
5. This debt is not supported by taxes; however, $1.278 billion from VHDA, $432.1 million from VPSA, and $534.7 million from VRA is considered moral obligation debt.
6. This debt is not supported by taxes.
7. Total general obligation debt of the Commonwealth is $955.8 million.
8. This debt includes $15.0 million that is not supported by taxes.
9. This includes pension obligations that do not relate to the Virginia Retirement System from Virginia Commonwealth University of $2.1 million and Virginia Port Authority of $2.7 million. It does not include pension obligations from fiduciary funds of $910,000.
10. This is net of the deferral of debt defeasance of $12.478 million.
11. Amounts include any amortized discounts, premiums, and deferrals.
12. This amount includes VCBA's Equipment Leasing Program of $9.165 million. The program is allocated to various higher education institutions.

Primary Government

Transportation Facilities Debt

Transportation Facilities Bonds include $52,695,000 of 9(b) general obligation bonds, $117,992,438 of 9(c) general obligation bonds, and $1,418,900,000 of 9(d) revenue bonds. Principal and interest requirements for the current year totaled $130,885,475. The Section 9(b) transportation facilities bonds represent Powhite Refunding Bonds, Series 1993A, which were issued to refund Series 1986 9(c) Transportation Facilities Bonds. The Section 9(c) Transportation Facilities Bonds were issued to fund the construction and improvement of the Omer L. Hirst - Adelard L. Brault Expressway and the George P. Coleman Bridge. The Section 9(d) Transportation Facilities Bonds were issued to fund the construction of State Route 28, U. S. Route 58, the Northern Virginia Transportation District Program, and the Oak Grove Connector (Chesapeake). The interest rates for these bonds range from 2.4 percent to 7.25 percent and the issuance dates range from June 28, 1989, to November 1, 2000.

The Commonwealth of Virginia Transportation Revenue Bonds, Series 2001A, 9(d) and Series 2001B, 9(d) were issued on October 10, 2001 in the amounts of $58,650,000 and $102,165,000, respectively. The Series 2001A Bonds were issued to fund construction of the Northern Virginia Transportation District Program. Series 2001B Bonds were issued to fund construction and improvement of U.S. Route 58. The interest rates for these Bonds range from 4.5 percent to 5.5 percent. Bonds mature on May 15 in the years 2002 through 2026.

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

9(b) TRANSPORTATION FACILITIES BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2003	$ 4,115,000	$ 2,575,993	$ 6,690,993
2004	4,310,000	2,375,850	6,685,850
2005	4,550,000	2,160,935	6,710,935
2006	4,815,000	1,929,085	6,744,085
2007	5,065,000	1,682,085	6,747,085
2008-2012	29,840,000	4,070,428	33,910,428
Total	$ 52,695,000	$ 14,794,376	$ 67,489,376

9(c) TRANSPORTATION FACILITIES BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2003	$ 9,804,000	$ 5,170,570	$ 14,974,570
2004	10,234,000	4,837,845	15,071,845
2005	10,619,000	4,479,974	15,098,974
2006	10,919,000	4,101,586	15,020,586
2007	10,934,000	3,701,220	14,635,220
2008-2012	32,628,000	13,562,920	46,190,920
2013-2017	25,420,000	6,901,738	32,321,738
2018-2022	12,255,000	1,608,994	13,863,994
Less: Unamortized Discount	(4,820,562)	-	(4,820,562)
Total	$ 117,992,438	$ 44,364,847	$ 162,357,285

9(d) TRANSPORTATION FACILITIES DEBT
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2003	$ 66,640,000	$ 75,353,986	$ 141,993,986
2004	70,045,000	71,826,269	141,871,269
2005	73,805,000	68,038,099	141,843,099
2006	77,770,000	63,998,343	141,768,343
2007	82,040,000	59,690,319	141,730,319
2008-2012	427,585,000	227,868,091	655,453,091
2013-2017	312,390,000	134,663,949	447,053,949
2018-2022	236,425,000	50,579,057	287,004,057
2023-2027	72,200,000	7,816,300	80,016,300
Total	$ 1,418,900,000	$ 759,834,413	$ 2,178,734,413

Pocahontas Parkway Association Bonds

The $168,862,562 Pocahontas Parkway Association Route 895 Connector Toll Road Revenue Bonds, Senior Current Interest Bonds, Series 1998A were issued on July 9, 1998. Bonds mature in annual installments on August 15 in the years 2005 through 2011, and 2026 through 2028. Interest is payable on each February 15 and August 15 beginning in 1999 at rates varying from 5.0 percent to 5.5 percent.

The Pocahontas Parkway Association Route 895 Connector Toll Road Revenue Bonds, Senior Capital Appreciation Bonds, Series 1998B were issued on July 9, 1998 in the principal amount of $148,310,627 and the maturity value of $690,200,000. Bonds mature in annual installments on August 15 in the years 2012 through 2025, and 2029 through 2035. The Senior Capital Appreciation Bonds were issued at a discount to yield, approximately, 5.50 percent to 5.95 percent. Principal accreted for the year ended June 30, 2002, was $10,379,301.

The Pocahontas Parkway Association Route 895 Connector Toll Road Revenue Bonds, First Tier Subordinate Capital Appreciation Bonds, Series 1998C were issued on July 9, 1998 in the principal amount of $35,867,236 and the maturity value of $137,300,000. Bonds mature in annual installments on August 15 in the years 2005 through 2035. The First Tier Subordinate Capital Appreciation Bonds were issued at a discount to yield, approximately, 5.40 percent to 6.25 percent. Principal accreted for the year ended June 30, 2002, was $2,571,198.

The Second Tier Subordinate Toll Road Revenue Bond, Series 1998D was issued on July 9, 1998 in the principal amount of $18,000,000 to the Commonwealth Transportation Board (CTB). The Series 1998D Bond was issued in exchange for $18,000,000 loaned to the Association for paying certain non-construction costs of the Project, and shall mature on August 15, 2028. The Series 1998D Bond shall bear interest at a floating rate equal to the Commonwealth's Transportation Trust Fund Earnings Rate, compounded semiannually. The Series 1998D Bond shall bear interest from the date that amounts are advanced from the Series 1998D Bond Proceeds Account for application to non-construction costs of the Project on the amount of such advances until paid. Also earnings on the Series 1998D Bond Proceeds Account shall be transferred monthly to the Virginia Department of Transportation. The original proceeds disbursed for non-construction costs as of June 30, 2002, were $17,600,000 and accrued interest was $3,723,455. The monthly interest rate at June 30, 2002, was 5.36 percent.

During 2002, the Association issued a non-interest bearing Second Tier Subordinate Bond, Series 2001A to the Commonwealth for $443,386. This amount represented previously incurred operating expenses for which the Association was to reimburse the Commonwealth. This Bond is being issued on a parity in terms of payment with other Second Tier Subordinate Bonds. This Bond is subordinate to the Senior Bonds and First Tier Subordinate Bonds and will be payable only after all payments of principal, accreted value, premium, if any, and interest on the Senior Bonds and First Tier Subordinate Bonds then due have been paid.

The Route 895 Connector Toll Road Revenue Bonds are special limited obligations of the Association, secured by a gross revenue pledge and payable solely from revenues and other property included in the Trust Estate. The Association is a private, non-stock, nonprofit corporation and has no taxing powers. Neither the 1998 nor the 2001 Bonds are a debt of the Commonwealth, the Virginia Department of Transportation, the CTB, or any other agency, instrumentality or political subdivision of the Commonwealth, moral or otherwise. And neither the full faith and credit nor taxing power of the Commonwealth, the Department, the CTB, or any agency is pledged to the payment of the principal of and interest of the 1998 nor 2001 Bonds.

The following schedule details the annual funding requirements necessary to repay the Series 1998A, 1998B, 1998C, 1998D, and 2001A bonds:

POCAHONTAS PARKWAY ASSOCIATION
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2003	$ -	$ 9,121,250	$ 9,121,250
2004	-	9,121,250	9,121,250
2005	-	9,121,250	9,121,250
2006	5,300,000	9,046,250	14,346,250
2007	8,000,000	8,841,250	16,841,250
2008-2012	61,200,000	38,568,125	99,768,125
2013-2017	102,700,000	32,037,500	134,737,500
2018-2022	140,400,000	32,037,500	172,437,500
2023-2027	185,500,000	31,039,250	216,539,250
2028-2032	269,243,386	4,488,000	273,731,386
2033-2037	243,300,000	-	243,300,000
Less: Unamortized Discount	(837,468)	-	(837,468)
Unaccreted Capital Appreciation Bonds	(595,955,938)	-	(595,955,938)
Total	$ 418,849,980	$ 183,421,625	$ 602,271,605

Public Facilities Bonds

Section 9(b) general obligation bonds consist of Public Facilities Bonds, Series 1993 A and B, Series 1994, Series 1996, Series 1996 refunding, Series 1997, Series 1998 refunding, and Series 1998 bonds. Series 1993, 1994, 1996, 1997, 1998, and 1999A bonds were issued to fund construction projects for higher educational institutions, mental health, and park facilities. Principal and interest requirements for the current year totaled $52,386,859. The interest rates for these bonds range from 3.2 percent to 6.4 percent and the issuance dates range from January 1, 1993, to October 20, 1999. The following schedule details the annual funding requirements necessary to repay these bonds:

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

Maturity	*Principal*	*Interest*	*Total*
2003	$ 30,750,000	$ 20,095,776	$ 50,845,776
2004	30,785,000	18,513,354	49,298,354
2005	30,825,000	16,885,966	47,710,966
2006	30,865,000	15,246,716	46,111,716
2007	30,910,000	13,572,181	44,482,181
2008-2012	152,840,000	45,034,128	197,874,128
2013-2017	90,970,000	10,452,755	101,422,755
2018-2022	1,060,000	55,650	1,115,650
Total	$ 399,005,000	$ 139,856,526	$ 538,861,526

Parking Facilities Bonds

Section 9(c) general obligation bonds consist of Parking Facilities Bonds, Series 1993B refunding bonds, Series 1996 and Series 1996 refunding bonds. Series 1991A bonds were issued to fund the State Corporation

Commission and the Bank Street parking decks operated by the Department of General Services. Series 1993B bonds were issued to advance refund outstanding 1991A series bonds. Series 1996 bonds were issued to fund the renovation of the Seventh and Marshall Street parking deck. The interest rates for these bonds range from 3.5 percent to 5.7 percent and the issuance dates range from December 8, 1993, to June 6, 1996. Current year principal and interest requirements totaled $1,239,560.

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

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

Maturity	*Principal*	*Interest*	*Total*
2003	$ 765,000	$ 479,795	$ 1,244,795
2004	800,000	442,733	1,242,733
2005	835,000	404,809	1,239,809
2006	880,000	365,028	1,245,028
2007	920,000	322,196	1,242,196
2008-2012	4,385,000	873,809	5,258,809
2013-2017	1,020,000	140,556	1,160,556
Total	$ 9,605,000	$ 3,028,926	$ 12,633,926

Virginia Public Building Authority

The Virginia Public Building Authority (VPBA) has issued Section 9(d) revenue bonds for the purpose of constructing, improving, furnishing, maintaining, and acquiring public buildings for the use of the Commonwealth and also to reimburse localities, regional jail authorities or other combination of localities under the Regional Jail Financing Program. The interest rates for these bonds range from 3.75 percent to 6.6 percent and the issuance dates range from February 6, 1992, to August 8, 2001. Current year principal and interest requirements totaled $111,814,480. The following schedule details the annual funding requirements necessary to repay these bonds:

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

Maturity	*Principal*	*Interest*	*Total*
2003	$ 67,780,000	$ 44,777,752	$ 112,557,752
2004	71,600,000	41,111,906	112,711,906
2005	61,430,000	38,048,924	99,478,924
2006	63,785,000	35,641,333	99,426,333
2007	66,255,000	33,108,688	99,363,688
2008-2012	347,130,000	122,793,060	469,923,060
2013-2017	242,030,000	50,029,731	292,059,731
2018-2022	76,405,000	7,050,606	83,455,606
Less: Unamortized Discount	(25,796,323)	-	(25,796,323)
Deferral on Debt Defeasance	(12,477,727)	-	(12,477,727)
Total	$ 958,140,950	$ 372,562,000	$ 1,330,702,950

Regional Jail Financing Program

The Regional Jail Financing Program of the Commonwealth of Virginia Treasury Board was created during the 1993 Session of the General Assembly to establish a method of reimbursing localities, regional jail authorities or other combination of localities for a portion of the capital and financing costs of a jail project, made pursuant to Sections 53.1-80, 53.1-81, or 53.1-82 of the *Code of Virginia.* The General Assembly, upon recommendation from the Department of Planning and Budget, may determine to reimburse localities for approved capital costs over time through a contractual Reimbursement Agreement between the localities or authority and the Treasury Board. The Board of Corrections determines the amount of reimbursable capital costs. If approved for reimbursement over time, the Treasury Board determines the amount of reimbursable financing costs and calculates the periodic reimbursement payments.

In 1996, the General Assembly adopted legislation that authorized funding of jail project reimbursements through bonds issued by the Virginia Public Building Authority (VPBA). As of June 30, 1998, all future jail reimbursements were approved for funding through the VPBA as opposed to the Treasury Board. All reimbursements, whether up front or over time, are subject to appropriation by the General Assembly. The VPBA Bonds, Series 2001A were issued on August 1, 2001 in the amount of $35,830,000. Interest rates for these Bonds range from 4.0 percent to 5.0 percent. Bonds mature on February 1 and August 1 in the years of 2002 through 2021.

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

REGIONAL JAILS FINANCING
Financial Obligations to Maturity

Calendar Year Obligations	*Capital Costs*	*Financing Costs*	*Total*
2003	$ 2,092,123	$ 1,545,018	$ 3,637,141
2004	2,138,126	1,496,360	3,634,486
2005	2,189,198	1,444,844	3,634,042
2006	2,240,357	1,394,559	3,634,916
2007	2,296,599	1,336,041	3,632,640
2008-2012	12,564,814	5,603,978	18,168,792
2013-2017	5,453,174	377,551	5,830,725
Total	$ 28,974,391	$ 13,198,351	$ 42,172,742

Industrial Development Authority Obligations

The Newport News Industrial Development Authority (IDA) issued Section 9(d) revenue bonds to pay a portion of the cost of construction and equipping of the Virginia Advanced Shipbuilding and Carrier Integration Center for use by the Newport News Shipbuilding and Dry Dock Company. The Commonwealth's obligation is set out in a payment agreement between Newport News IDA and the Treasury Board, in which the Treasury Board agrees to make payments equal to the debt service from amounts appropriated by the General Assembly. The interest rates for these bonds range from 2.75 percent to 5.03 percent and the issue date is

July 27, 2000. Current year principal and interest requirements totaled $6,792,103. The following schedule details the annual funding requirements necessary to repay these bonds:

NEWPORT NEWS INDUSTRIAL DEVELOPMENT AUTHORITY
Debt Service Requriements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2003	$ 3,390,000	$ 1,900,684	$ 5,290,684
2004	3,565,000	1,727,809	5,292,809
2005	3,745,000	1,545,296	5,290,296
2006	3,940,000	1,352,190	5,292,190
2007	4,150,000	1,144,390	5,294,390
2008-2012	19,010,000	2,157,770	21,167,770
Total	$ 37,800,000	$ 9,828,139	$ 47,628,139

Component Units

Higher Education Institution Bonds

Higher Educational Institution Bonds are comprised of both 9(c) general obligation bonds and 9(d) revenue bonds. Section 9(d) bonds are from several sources as shown on the following schedule (in thousands):

College and university bonds backed by pledge of general revenue or revenue from specific revenue-producing capital projects	$ 261,135
College and university debt backed exclusively by pledged revenues of an institution	159,990
Virginia College Building Authority Equipment Leasing Program	9,165
Total Higher Educational Institutional 9(d) debt	$ 430,290

The interest rates for these bonds range from 2.4 percent to 9.25 percent and the issuance dates range from July 17, 1973, to October 16, 2001. The following schedules detail the annual funding requirements necessary to amortize Higher Educational Institution 9(c) and 9(d) bonds:

9(c) HIGHER EDUCATIONAL INSTITUTION BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2003	$ 34,457,000	$ 18,140,569	$ 52,597,569
2004	34,087,000	16,668,040	50,755,040
2005	29,606,000	15,218,050	44,824,050
2006	27,941,000	13,907,605	41,848,605
2007	27,506,000	12,700,580	40,206,580
2008-2012	126,498,000	42,329,350	168,827,350
2013-2017	70,690,000	17,123,406	87,813,406
2018-2022	25,965,000	4,020,925	29,985,925
2023-2027	3,110,000	223,250	3,333,250
Less: Unamortized Discount	(3,398,154)	-	(3,398,154)
Total	$ 376,461,846	$ 140,331,775	$ 516,793,621

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

Maturity	*Principal*	*Interest*	*Total*
2003	$ 31,318,288	$ 21,594,225	$ 52,912,513
2004	26,466,259	20,556,437	47,022,696
2005	19,269,319	19,433,353	38,702,672
2006	20,212,472	18,477,555	38,690,027
2007	21,255,721	17,433,848	38,689,569
2008-2012	121,475,871	69,589,624	191,065,495
2013-2017	115,048,138	35,947,930	150,996,068
2018-2022	62,373,842	12,284,660	74,658,502
2023-2027	12,870,000	851,256	13,721,256
Total	$ 430,289,910	$ 216,168,888	$ 646,458,798

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

Maturity	*Principal*	*Interest*	*Total*
2003	$ 46,615,000	$ 15,759,361	$ 62,374,361
2004	48,380,000	15,043,404	63,423,404
2005	41,580,000	12,619,959	54,199,959
2006	19,745,000	10,460,346	30,205,346
2007	20,600,000	9,609,829	30,209,829
2008-2012	58,920,000	38,349,844	97,269,844
2013-2017	75,110,000	22,155,939	97,265,939
2018-2022	43,940,000	5,792,525	49,732,525
Total	$ 354,890,000	$ 129,791,207	$ 484,681,207

Innovative Technology Authority

The Innovative Technology Authority (ITA) has issued Taxable Lease Revenue Bonds, Series 1989, and Series 1997 refunding. The Series 1989 bonds were issued to cover a portion of the costs related to the construction of a software development center and office building. Series 1997 bonds were issued to advance refund $11.2 million of the outstanding 1989 bonds.

The 1989 bonds had an average interest rate of 10.3 percent and the 1997 bonds have an average interest rate of 7.4 percent. The bonds were issued on March 1, 1989, and May 1, 1997, respectively. The following schedule details the annual funding requirements necessary to amortize ITA bonds:

9(d) INNOVATIVE TECHNOLOGY AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2003	$ 625,000	$ 780,337	$ 1,405,337
2004	620,000	736,587	1,356,587
2005	710,000	692,691	1,402,691
2006	700,000	641,855	1,341,855
2007	790,000	591,525	1,381,525
2008-2012	4,770,000	2,008,735	6,778,735
2013-2017	2,375,000	270,345	2,645,345
Total	$ 10,590,000	$ 5,722,075	$ 16,312,075

Governmental Funds – Discrete Component Units

Virginia Port Authority

The Virginia Port Authority (VPA) has issued Section 9(d) revenue bonds and notes pursuant to powers provided to its Board of Commissioners by the *Code of Virginia.* The interest rates for these bonds range from 4.6 percent to 6.0 percent and the issuance dates range from October 23, 1996, to April 2, 1998. Series 1998 bonds were issued to advance refund $71.0 million of the outstanding 1988 bonds. The following schedule details the annual funding requirements necessary to amortize VPA bonds:

9(d) VIRGINIA PORT AUTHORITY DEBT
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2003	$ 10,710,000	$ 9,866,116	$ 20,576,116
2004	11,225,000	9,343,227	20,568,227
2005	11,760,000	8,786,725	20,546,725
2006	12,335,000	8,163,725	20,498,725
2007	13,010,000	7,474,256	20,484,256
2008-2012	42,780,000	28,296,906	71,076,906
2013-2017	30,225,000	19,881,264	50,106,264
2018-2022	21,170,000	12,527,618	33,697,618
2023-2027	27,680,000	5,834,595	33,514,595
2028-2032	6,490,000	181,720	6,671,720
Total	$ 187,385,000	$ 110,356,152	$ 297,741,152

Proprietary Funds – Discrete Component Units

The Virginia Housing Development Authority (VHDA), the Virginia Resources Authority (VRA) and the Virginia Public School Authority (VPSA) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 2.10 percent to 10.88 percent and the origination dates range from December 1, 1973, to June 27, 2002. The following schedules detail the annual funding requirements necessary to amortize these bonds:

9(d) VIRGINIA HOUSING DEVELOPMENT AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	*Principal (1)*	*Interest*	*Total*
2003	$ 221,888,494	$ 331,733,381	$ 553,621,875
2004	264,792,999	317,640,138	582,433,137
2005	281,545,087	302,780,641	584,325,728
2006	291,715,900	286,264,742	577,980,642
2007	292,447,259	269,341,606	561,788,865
2008-2012	1,420,984,628	1,098,683,661	2,519,668,289
2013-2017	1,319,701,195	685,668,228	2,005,369,423
2018-2022	799,904,556	362,041,593	1,161,946,149
2023-2027	367,242,199	184,198,246	551,440,445
2028-2032	117,881,641	103,507,938	221,389,579
2033-2037	121,977,933	73,807,172	195,785,105
2038-2042	56,059,828	56,032,110	112,091,938
2043-2047	536,342,594	45,785,728	582,128,322
Less: Unamortized Discount	(41,598,516)	-	(41,598,516)
Add: Accretion on Zero Coupon Bonds	4,985,088	-	4,985,088
Compound Interest Payable on Capital Appreciation Bonds	671,082	-	671,082
Total	$ 6,056,541,967	$ 4,117,485,184	$ 10,174,027,151

9(d) VIRGINIA RESOURCES AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2003	$ 22,905,000	$ 38,512,012	$ 61,417,012
2004	37,445,000	36,268,183	73,713,183
2005	30,265,000	34,868,174	65,133,174
2006	31,555,000	33,504,464	65,059,464
2007	32,360,000	32,129,139	64,489,139
2008-2012	175,540,000	136,274,920	311,814,920
2013-2017	176,240,000	91,219,322	267,459,322
2018-2022	162,070,000	46,373,164	208,443,164
2023-2027	75,725,000	15,143,444	90,868,444
2028-2032	26,765,000	2,642,192	29,407,192
Less: Unamortized Discounts and Issuance Expenses	(10,893,520)	-	(10,893,520)
Unaccreted Capital Appreciation Bonds	(1,403,458)	-	(1,403,458)
Total	$ 758,573,022	$ 466,935,014	$ 1,225,508,036

9(d) VIRGINIA PUBLIC SCHOOL AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2003	$ 138,710,000	$ 107,232,409	$ 245,942,409
2004	145,805,000	99,451,385	245,256,385
2005	141,440,000	92,077,266	233,517,266
2006	140,465,000	84,776,610	225,241,610
2007	137,890,000	77,554,460	215,444,460
2008-2012	649,410,000	282,762,110	932,172,110
2013-2017	493,804,060	129,670,168	623,474,228
2018-2022	248,170,000	29,418,450	277,588,450
2023-2027	19,700,000	1,893,000	21,593,000
Less: Discount on Debt	(24,908,700)	-	(24,908,700)
Total	$ 2,090,485,360	$ 904,835,858	$ 2,995,321,218

The Hampton Roads Sanitation District Commission issued bonds under a Master Trust Indenture and a Trust Agreement dated December 1, 1993, and December 1, 1995. The original interest cost for these bonds ranged from 2.5 percent to 5.07 percent. The following schedule details the annual funding requirements necessary to amortize these bonds:

HAMPTON ROADS SANITATION DISTRICT COMMISSION
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2003	$ 15,121,000	$ 6,924,000	$ 22,045,000
2004	11,156,000	6,411,000	17,567,000
2005	10,289,000	5,932,000	16,221,000
2006	10,645,000	5,441,000	16,086,000
2007	11,125,000	4,922,000	16,047,000
2008-2012	39,846,000	18,459,000	58,305,000
2013-2017	32,405,000	9,069,000	41,474,000
2018-2022	15,409,000	3,967,000	19,376,000
2023-2027	6,982,000	352,000	7,334,000
Total	$ 152,978,000	$ 61,477,000	$ 214,455,000

The Virginia Equine Center Foundation issued Series 1992, 1993, and 2001 IDA of Rockbridge County Virginia Horse Center Revenue Bonds. Coupon interest rates range from 4.0 percent to 8.0 percent.

VIRGINIA EQUINE CENTER FOUNDATION
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2003	$ 175,000	$ 543,717	$ 718,717
2004	195,000	537,795	732,795
2005	205,000	531,167	736,167
2006	1,535,000	524,186	2,059,186
2007	515,000	476,426	991,426
2008-2012	3,135,000	2,099,146	5,234,146
2013-2017	4,330,000	1,496,383	5,826,383
2018-2022	6,055,227	646,126	6,701,353
Total	$ 16,145,227	$ 6,854,946	$ 23,000,173

(1) Interest information is not available.

The Virginia Biotechnology Research Park Authority issued Series 1996, 1998, 1999A, 1999B, and 2001 Commonwealth of Virginia Lease Revenue bonds. Coupon interest rates range from 4.0 percent to 6.4 percent.

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2003	$ 3,610,000	$ 5,079,253	$ 8,689,253
2004	3,780,000	4,903,612	8,683,612
2005	3,975,000	4,717,394	8,692,394
2006	4,185,000	4,516,773	8,701,773
2007	4,405,000	4,303,530	8,708,530
2008-2012	25,920,000	18,066,268	43,986,268
2013-2017	31,210,000	10,406,904	41,616,904
2018-2022	25,125,000	2,950,400	28,075,400
Total	$ 102,210,000	$ 54,944,134	$ 157,154,134

Total principal outstanding at June 30, 2002, on all Component Unit bonds amounted to $10.5 billion.

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

Schedule of Changes in Long-term Debt and Obligations (1) (3)

(Dollars in Thousands)

	Balance July 1, as restated (2)	Issuances and Other Increases	Retirements and Other Decreases	Balance June 30	Due Within One Year
Primary Government					
Governmental Activities:					
Long-term Debt Bearing the Pledge of the Full Faith and Credit of the Commonwealth:					
General Obligation Bonds - 9(b), and 9(c):					
Public Facilities Bonds	$ 429,725	$ -	$ (30,720)	$ 399,005	$ 30,750
Parking Facilities Bonds, Series 1991A	10,325	-	(720)	9,605	765
Transportation Facilities Bonds (Net of Unamortized Discount of $4,821)	182,904	1,262	(13,479)	170,687	13,919
Total General Obligation Bonds	622,954	1,262	(44,919)	579,297	45,434
Long-term Debt / Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:					
Debt:					
Non-General Obligation Bonds - 9(d)					
Transportation Facilities Bonds	1,291,835	160,815	(33,750)	1,418,900	66,640
Virginia Public Building Authority Bonds (Net of Unamortized Discount of $25,796)	994,801	35,830	(72,490)	958,141	65,465
Regional Jails Financing Payable	31,017	-	(2,043)	28,974	2,092
Industrial Development Authority Obligations	42,490	-	(4,690)	37,800	3,390
Installment Purchases	33,160	15,042	(16,020)	32,182	8,563
Notes Payable - Virginia Public Broadcasting Board	23,840	-	(1,880)	21,960	1,955
Notes Payable - Transportation	12,325	-	-	12,325	-
Obligations:					
Compensated Absences	301,182	9,302	(3,512)	306,972	141,553
Capital Lease Obligations	211,422	3,606	(12,763)	202,265	13,412
Pension Liability	182,081	120,583	-	302,664	-
Other	20,104	180	-	20,284	3,500
Total Long-Term Debt / Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth	3,144,257	345,358	(147,148)	3,342,467	306,570
Total Governmental Activities	3,767,211	346,620	(192,067)	3,921,764	352,004
Business-type Activities:					
Long-term Debt / Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:					
Debt:					
Non-General Obligation Bonds - 9(d)					
Pocahontas Parkway Association Bonds	405,460	13,390	-	418,850	-
Installment Purchases	11,398	8,679	(2,216)	17,861	3,776
Obligations:					
Compensated Absences	7,764	3,850	(3,530)	8,084	3,301
Pension Liability	3,926	2,463	-	6,389	-
Lottery Prizes Payable	461,643	13,348	(25,297)	449,694	57,151
Tuition Benefits Payable	530,970	261,683	(10,826)	781,827	20,300
Other	-	112	-	112	-
Total Business-Type Activities	1,421,161	303,525	(41,869)	1,682,817	84,528
Total Primary Government	$ 5,188,372	$ 650,145	$ (233,936)	$ 5,604,581	$ 436,532

(1) Pursuant to GASB Statement No. 34, governmental activities include Internal Service Funds. Business-Type Activities are considered Enterprise Funds.

(2) Beginning balance has been adjusted for internal service funds (for governmental activities) and enterprise funds (for business-type activities).

(3) Payments on bonded debt that pertain to the Commonwealth's governmental activities are made through the debt service funds. Payments for installment purchases, compensated absences, capital leases, pension, and other obligations that pertain to the Commonwealth's governmental activities are made through the general and special revenue funds. Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for these funds are included as part of the totals for governmental activities schedules above. Enterprise funds, or business-type activities, are self supporting funds. Accordingly, long-term liabilities are paid from each respective fund.

Schedule of Changes in Long-term Debt and Obligations

(Dollars in Thousands)

	Balance July 1, as restated (1)	Issuances and Other Increases	Retirements and Other Decreases	Balance June 30	Due Within One Year
Component Units					
Long-term Debt Bearing the Pledge of the Full Faith and Credit of the Commonwealth:					
General Obligation Bonds - Higher Education 9(c):	$ 345,154	$ 65,635	$ (34,327)	$ 376,462	$ 34,997
Long-Term Debt / Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:					
Debt:					
Bonds	9,458,451	2,305,698	(1,604,061)	10,160,088	704,114
Installment Purchase Obligations	26,449	7,792	(10,894)	23,347	7,369
Capital Lease Obligations	45,439	3,259	(2,888)	45,810	2,701
Notes Payable	402,327	147,403	(55,041)	494,689	79,076
Obligations:					
Compensated Absences	177,159	116,179	(110,735)	182,603	94,124
Pension Liability	101,517	35,698	(507)	136,708	-
Bond Anticipation Notes	-	895	-	895	-
Other	328,623	171,696	(168,177)	332,142	37,072
Total Component Units	$ 10,885,119	$ 2,854,255	$ (1,986,630)	$ 11,752,744	$ 959,453

(1) Beginning balances have been restated to reflect higher education and proprietary component units.

Bond Defeasance

GASBS No. 7, *Advance Refundings Resulting in Defeasance of Debt*, provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of June 30, 2002, there were $308.2 million in bonds from Primary Government that have been refunded and defeased in-substance from the governmental activities column by placing existing assets and the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments. In addition, there were $323.9 million in bonds outstanding considered defeased from the Component Units.

Arbitrage Rebate

The Tax Reform Act of 1986 requires that governmental entities issuing tax-exempt debt subsequent to August 1986, calculate and rebate arbitrage earnings to the Federal government. The U. S. Treasury has issued regulations on calculating the rebate amount and complying with the provisions of the Tax Reform Act of 1986. Governmental issuers must comply with the rebate regulations in order for their bonds to maintain tax–exempt status. The regulations require the excess of the aggregate amount earned on investments purchased with bond proceeds over the amount that would have been earned if the proceeds were invested at a rate equal to the bond yield, to be rebated to the Federal government. Income earned on excess earnings is also subject to rebate. Rebate payments, if required, are due at least once every five years over the life of the bonds. Some bonds may be exempt from the rebate requirements if they qualify for certain regulatory exceptions. Governmental issuers may elect to pay a penalty in lieu of rebate. In either case if the issuer meets the applicable spending schedule, the issuer retains any arbitrage earnings. Rebate and penalty payments are calculated and paid as required by law on bond issues that do not qualify for an exception.

Amounts remitted to the Federal government for rebate liability are generally paid from earnings derived from the issue. However, if all proceeds (including earnings) have been expended and depending on the type of issue, it may be necessary to use project revenues or general or non-general fund appropriations to satisfy any rebate liability. During the year, the Commonwealth paid $347,002 to the Federal government for rebate liability on Commonwealth general obligation bonds. The Virginia Public Building Authority made no rebate payments during the year. The Virginia College Building Authority remitted $119,763 in rebate liability on its Series 1996 bonds.

Rebate liability on bonds of the Virginia Public School Authority (Component Unit) is payable from earnings on related bond funds and from local issuers whose local school bonds were purchased by the VPSA. During the year, $2,034,298 was paid to the Federal government for rebate on various VPSA School Financing Bonds.

Capital Leases

The Commonwealth leases buildings and equipment under various agreements that are accounted for as capital leases. The lease agreements are for various terms and all leases contain nonappropriation clauses indicating that continuation of the lease is subject to funding by the General Assembly.

Gross minimum lease payments, together with the present value of the net minimum lease payments as of June 30, 2002, are shown in the following table (dollars

shown in thousands). There were no capital lease amounts associated with business-type activities.

	Governmental Activities	Component Units
2003	$ 28,275	$ 5,339
2004	24,608	5,331
2005	23,746	5,246
2006	23,061	4,868
2007	22,464	4,836
2008-2012	104,076	22,371
2013-2017	88,103	16,241
2018-2022	8,819	3,695
Total Gross Minimum Lease Payments	323,152	67,927
Less: Amount Representing Executory Costs	3,857	9
Net Minimum Lease Payments	319,295	67,918
Less: Amount Representing Interest	117,030	22,108
Present Value of Net MinimumLease Payments	$ 202,265	$ 45,810

At June 30, 2002, fixed assets purchased under capital leases were included in depreciable capital assets as follows (dollars shown in thousands). The amounts are net of accumulated depreciation where applicable. For a portion of these assets, ownership will pass to the Commonwealth at the end of the lease term.

Fund/Account Group	Buildings	Equipment	Total
Governmental Activities:			
Gross Capital Assets	$ 248,525	$ 572	$ 249,097
Less: Accumulated Depreciation	50,506	323	50,829
Total Governmental Activities	$ 198,019	$ 249	$ 198,268
Component Units:			
Gross Capital Assets	$ 27,911	$ 26,876	$ 54,787
Less: Accumulated Depreciation	2,900	8,856	11,756
Total Component Units	$ 25,011	$ 18,020	$ 43,031

Notes Payable

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

Primary Government	
Transportation Note	$ 12,325
Virginia Public Broadcasting Board Note	21,960
Installment Notes	50,043
Total Primary Government	84,328
Component Units	
Virginia Public School Authority	151,195
University of Virginia	80,990
Virginia Polytechnic Institute and State University	50,385
Virginia Commonwealth University	47,940
Nonmajor Component Units	164,179
Installment Notes	23,347
Total Component Units	518,036
Total Notes Payable	$ 602,364

The Transportation (Primary Government) Note listed above represents an interest free note payable to Fairfax County, Virginia, of $4,325,000 which was issued pursuant to the State Revenue Bond Act, Article 5, Title 33.1, *Code of Virginia* to pay for the acquisition and construction of the Omer L. Hirst - Adelard L. Brault Expressway. This note is to be repaid on December 1, 2008. Additionally, the Virginia Department of Transportation (Primary Government) entered into an interest free note payable to Chesterfield County, Virginia, of $8,000,000 for the repayment of the Powhite Parkway Extension Toll Road from surplus net revenues of the project prior to the retirement of all the bonds issued.

The Virginia Public Broadcasting Board (Primary Government) note listed above represents a loan agreement entered into with the Harrisonburg Industrial Development Authority for $23,840,000. The purpose of the loan was to grant funds to Virginia's public television stations to assist with the cost of conversion to the Federal Communication Commission's new digital standard. The agreement was entered into February 27, 2001 and has a variable rate of interest. The General Assembly authorized these grants in Chapter 1073 of the 2000 Appropriation Act.

The Virginia Public School Authority (Major Component Unit) notes of $151,195,000 are for the School Equipment Financing Notes Educational Technology program. The note proceeds were used to make grants to school divisions for the purchase of educational technology equipment. The notes will be repaid from appropriations to be made by the Virginia General Assembly from the Literary Fund (Major Special Revenue Fund).

An additional amount of $343,494,000 is comprised primarily of Higher Education (Component Unit) promissory notes with the Virginia College Building Authority (Nonmajor Component Unit) to finance the

construction of various higher education facilities. The principal amount of $311,285,000 with interest rates ranging from 3.0 percent to 6.0 percent shall be paid semi-annually. The final principal payment is due in 2026. Further, the Virginia Biotechnology Research Park Authority (Nonmajor Component Unit) has a note payable to private parties for $125,000 for the purchase of property. The interest rate is 7.0 percent, and the note is due in 2005.

The Higher Education (Component Unit) also has notes payable. Virginia Commonwealth University (Major Component Unit) has a $23,000,000 line of credit with First Union National Bank. The line of credit expires in 2003 and has an interest rate of LIBOR plus 0.75 percent or 2.5887 percent. The College of William and Mary (Nonmajor Component Unit) has a note payable of $6,311,700 with SunTrust Bank to partially finance the multi-year implementation of a new administrative and financial system. This note matures in 2008 and has an interest rate of 5.82 percent. Virginia State University (Nonmajor Component Unit) has a note payable of $2,629,472, which is the result of a loan agreement with the U.S. Department of Housing and Urban Development to repair seven dormitories. The loan is to be repaid over 30 years at 3.0 percent interest per annum, and is secured by a lien on the net revenues from the ownership, operation, and use of the seven dormitories under repair. Norfolk State University (Nonmajor Component Unit) has a note payable of $144,418, which is the result of an agreement with the City of Norfolk to purchase the Brambleton Center. The loan is payable in six full scholarships each year varying from $4,593 to $16,998 with the final amount due in 2020.

Installment notes have been entered into by agencies and institutions of the Commonwealth. These agreements, other than those in the component units and certain institutions of higher education, contain nonappropriation clauses indicating that continuation of the installment note is subject to funding by the General Assembly. Installment notes represent $73,390,339 of the total outstanding debt of the Commonwealth. Presented in the following tables are repayment schedules for installment notes.

Installment Purchases - Governmental Funds

June 30, 2002

Maturity	Principal	Interest	Total
2003	$ 8,562,218	$ 1,340,493	$ 9,902,711
2004	6,288,756	1,014,549	7,303,305
2005	4,509,182	785,544	5,294,726
2006	4,134,201	590,946	4,725,147
2007	3,669,025	397,129	4,066,154
2008-2012	4,993,075	537,395	5,530,470
2013-2017	25,575	317	25,892
Total	$ 32,182,032	$ 4,666,373	$ 36,848,405

Installment Purchases - Business Type Activities

June 30, 2002

Maturity	Principal	Interest	Total
2003	$ 3,776,262	$ 703,143	$ 4,479,405
2004	3,943,731	530,990	4,474,721
2005	4,118,641	356,081	4,474,722
2006	4,301,326	173,395	4,474,721
2007	1,721,318	35,838	1,757,156
Total	$ 17,861,278	$ 1,799,447	$ 19,660,725

Installment Purchases - Component Units

June 30, 2002

Maturity	Principal	Interest	Total
2003	$ 7,368,436	$ 946,396	$ 8,314,832
2004	6,264,694	633,182	6,897,876
2005	4,253,506	361,475	4,614,981
2006	2,739,355	193,576	2,932,931
2007	2,093,877	80,547	2,174,424
2008-2012	627,161	9,781	636,942
Total	$ 23,347,029	$ 2,224,957	$ 25,571,986

Lottery Prizes Payable

Lottery prizes are paid in 20, 25, 26, or 30 installments. The first installment is paid on the day the prize is claimed. The subsequent annual payments are funded with U.S. Treasury STRIPS purchased by the Virginia Lottery. For Life prizes payable represent estimated prizes payable monthly, quarterly or annually for the life of the winner based on life expectancy tables from the Virginia Bureau of Insurance, and funded with a pool of U.S. Treasury STRIPS.

Lottery prizes payable represent the future annual prize payments valued at cost plus accrued interest (present value of securities held to maturity) of the investment securities funding the payments.

Lottery prizes payable for the fiscal year ended June 30, 2002 are shown in the following table:

	Lottery	For Life	Total
Due within one year	$ 56,003,064	$ 1,148,390	$ 57,151,454
Due in subsequent years	378,670,483	13,872,028	392,542,511
Total (present value)	434,673,547	15,020,418	449,693,965
Add:			
Interest to Maturity	203,925,453	15,065,582	218,991,035
Lottery Prizes Payable at Maturity	$ 638,599,000	$ 30,086,000	$ 668,685,000

Tuition Benefits Payable

The Virginia College Savings Plan administers the Virginia Prepaid Education Program (VPEP). VPEP offers contracts which, for actuarially determined amounts, provide for guaranteed full future tuition payments at State higher education institutions. The contract provisions also allow the benefits to be used for private or out-of-state institutions at a prorated amount based upon the amounts charged by the State's higher education institutions.

At June 30, 2002, tuition benefits payable of $781.8 million have been recorded for the VPEP program on the balance sheet for the actuarially determined present value of future obligations anticipated for payment of benefits and administrative expenses for the VPEP program. In addition, a receivable in the amount of $282.0 million has been recorded to reflect the actuarially determined present value of future payments anticipated from contract holders.

18. OTHER REVENUE

The following table summarizes Other Revenue as of June 30, 2002.

(Dollars in Thousands)

	Assessments and Receipts for Support of Special Services	Fines, Forfeitures, Court Fees, Penalties, and Escheats	Receipts from Cities Counties, and Towns	Private Gifts, Grants, and Contracts
Primary Government:				
General Fund	$ 406	$ 142,036	$ 9,059	$ -
Major Special Revenue Funds:				
Commonwealth Transportation Trust	22,745	12,101	49,008	-
Federal Trust	-	32	-	-
Literary	-	140,207	-	-
Major Enterprise Funds:				
Pocahontas Parkway	-	-	-	-
Nonmajor Governmental Funds	76,092	35,485	54,370	3,620
Nonmajor Enterprise Funds	-	2,783	-	-
Internal Service Funds	-	-	-	-
Private Purpose	-	-	-	-
Pension Trust	-	-	-	-
Total Primary Government	$ 99,243	$ 332,644	$ 112,437	$ 3,620

Sales of Property	Contributions	Tobacco Master Settlement	Taxes	Other	Total Other Revenue
$ 281	$ -	$ 59,846	$ -	$ 39,599	$ 251,227
2,102	-	-	-	27,466	113,422
100	-	-	-	49,819	49,951
-	-	-	-	29	140,236
-	-	-	-	550	550
25,543	-	-	-	808,199	1,003,309
-	1,319	-	2,821	1,211	8,134
-	-	-	-	27	27
258	-	-	-	738	996
-	-	-	-	286	286
$ 28,284	$ 1,319	$ 59,846	$ 2,821	$ 927,924	$ 1,568,138

19. PRIZES AND CLAIMS

The following table summarizes Prizes and Claims Expense as of June 30, 2002.

(Dollars in Thousands)

	Insurance Claims	Lottery Prize Expense	Total Prizes and Claims
Business-type Activities:			
Major Enterprise Funds:			
State Lottery	$ -	$ 604,534	$ 604,534
Unemployment Compensation	656,332	-	656,332
Nonmajor Enterprise Funds	100,069	-	100,069
Internal Service Funds	586,579	-	586,579
Total Business-type Activities	$ 1,342,980	$ 604,534	$ 1,947,514

20. DEPRECIATION AND AMORTIZATION

The following table summarizes Depreciation and Amortization Expense as of June 30, 2002.

(Dollars in Thousands)

	Depreciation	Amortization	Total Depreciation and Amortization
Business-type Activities:			
Major Enterprise Funds:			
State Lottery	$ 5,795	$ 66	$ 5,861
Virginia College Savings Plan	45	-	45
Pocahontas Parkway	-	306	306
Nonmajor Enterprise Funds	5,216	-	5,216
Internal Service Funds	16,540	-	16,540
Total Business-type Activities	$ 27,596	$ 372	$ 27,968

21. OTHER EXPENSES

The following table summarizes Other Expenses as of June 30, 2002.

(Dollars in Thousands)

	Grants and Distributions to Localities	Expendable Equipment	Other	Total Other Expenses
Business-type Activities:				
Major Enterprise Funds:				
State Lottery	$ -	$ 265	$ -	$ 265
Virginia College Savings Plan	-	26	121	147
Nonmajor Enterprise Funds	128	1,822	996	2,946
Internal Service Funds	1,250	2,163	711	4,124
Total Business-type Activities	$ 1,378	$ 4,276	$ 1,828	$ 7,482

22. OTHER NON-OPERATING REVENUE/EXPENSES

The following table summarizes Other Non-Operating Revenue/Expenses as of June 30, 2002.

(Dollars in Thousands)

	Gain (Loss) on Sale of Fixed Assets	Reed Act Receipts	Reimbursement to Federal Government	Other	Total Non-Operating Revenue/ Expenses
Business-type Activities:					
Major Enterprise Funds:					
State Lottery	$ -	$ -	$ -	$ 210	$ 210
Unemployment Compensation	-	216,527	-	-	216,527
Nonmajor Enterprise Funds	(3)	-	-	(379)	(382)
Internal Service Funds	(1,829)	-	(1,271)	(258)	(3,358)
Total Business-type Activities	$ (1,832)	$ 216,527	$ (1,271)	$ (427)	$ 212,997

23. APPROPRIATION ACT TRANSFERS

Chapter 814, 2002 Acts of Assembly, requires certain amounts to be transferred to or from the General Fund during the year from or to the nongeneral funds. Some of these transfers are to reimburse the General Fund for expenses incurred on behalf of those nongeneral funds. Other transfers are mandated in order to shift amounts between nongeneral funds and the General Fund. Most Appropriation Act transfers are included in Operating Transfer activity. Following is a schedule of the major items that make up Appropriation Act Transfers (dollars in millions):

	Amount Transferred To (From) General Fund
Lottery Profits	$ 366.7
Medicaid Intergovernmental Transfers	259.1
ABC Transfer and Net Profits	39.9
VRS Rate Savings and Dormant Accounts	26.2
Public School Literary Fund	9.2
Central Services Agencies	7.2
Chesapeake Bay Improvement	6.4
Contract Prisoners Special Revenue Fund	5.9
Local Sales Tax Compliance	5.4
Other Transfers	38.2
Transfer to the Game Protection Fund	(17.7)
Family Access to Medical Insurance Security	(14.1)
Deficit Loan Repayment	(5.0)
Total Appropriation Act Transfers	$ 727.4

24. SPECIAL ITEMS

Special items are significant transactions or other events that are either unusual in nature or infrequent in occurrence and within management's control. During the fiscal year, the University of Virginia (Major Component Unit) recognized a loss on sale of an affiliated company of $4.8 million. The College of William & Mary (Nonmajor Component Unit) recognized a $5.9 million asset impairment loss resulting from the termination of a software development project. James Madison University (Nonmajor Component Unit) recognized a $3.0 million loss resulting from the sale of a capital asset.

25. ON-BEHALF PAYMENTS - HIGHER EDUCATION (COMPONENT UNIT)

Higher Education recognized various foundation and association on-behalf payments for fringe benefits and salaries during fiscal year 2002 totaling $1,652,674. This activity was recorded as General Revenue - Unrestricted Grants and Contributions in the amount of $846,927; Program Revenue - Operating Grants and Contributions in the amount of $762,310; and Program Revenue - Charges for Services in the amount of $43,437, with corresponding expenditures.

26. RESTATEMENT OF BEGINNING BALANCES

The Commonwealth implemented the following new accounting standards during the fiscal year:

- GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*;
- GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*;
- GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and,
- GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

GASB Statements No. 34, 35 and 37 establish new financial reporting standards for governments and public higher education institutions. The new requirements represent significant changes in the financial reporting model used by state governments and public institutions, including numerous changes to the reporting funds and financial statement formats. In addition, the former fixed asset and long-term debt account groups have been eliminated. The data previously reported in these account groups are now reported in the Government-wide statements. As a result of the fund reclassifications, numerous adjustments were required to the prior period balances.

GASB Statement No. 38 requires certain note disclosures to accompany financial statements prepared in conformance with GASB Statement No. 34.

The provisions of the new reporting standards have been incorporated into the financial statements and accompanying notes. The following tables summarize the changes in fund equities as previously reported on the Combined Balance Sheet in the column entitled, "Change in Reporting Requirements."

The beginning fund balance/net assets restatements resulted from the following:

- The General Fund has been restated due to a change in estimate related to tax refund payable calculations.
- As a result of the GASB Statement No. 34 implementation, all Commonwealth funds were evaluated to ensure appropriate fund classifications had been applied. As a result of this analysis, several funds were improperly segregated between the Other and Dedicated Special Revenue Funds. The remaining restatements are due to individually insignificant errors.
- The Special Revenue and Capital Projects Funds have been restated to reflect the elimination of VPBA's (Blended Component Unit) general fund. Effective for fiscal year 2002, all activity previously

reported as a Special Revenue Fund will be reported as a Capital Projects Fund.

- The Enterprise Fund was restated due to an error for the Risk Management Fund.
- The Internal Service Fund was restated due to errors discovered with the transfer of Fleet Management from the Virginia Department of Transportation to the Department of General Services. The remaining restatement is due to an error for the Risk Management Fund.
- The Investment Trust Fund was restated due to the improper classifications of three accounts.
- The change in reporting entity resulted from an organizational restructure affecting the Virginia Commonwealth University (University) and the Virginia Commonwealth University Health Systems Authority (Authority). The University's Board assumed statutory responsibility for the Authority, and as a result, the Authority became a component unit of the University. The Authority's information has been incorporated with the University data, and the net assets have been restated to reflect this reporting change.

Beginning Fund Balance Restatement
Governmental Funds

(Dollars in Thousands)

	Balance as of June 30, 2001	Change in Estimate	Change in Reporting Requirements (GASB 34)	Change in Reporting Entity	Balance June 30, 2001 as restated
Major Governmental Funds:					
General Fund	$ 553,759	$ 8,773	$ -	$ -	$ 562,532
Special Revenue Funds:					
Commonwealth Transportation Fund	964,512	-	197	-	964,709
Federal Trust Fund	15,833	-	-	-	15,833
Literary Fund	510,127	-	-	-	510,127
Total Major Funds	2,044,231	8,773	197	-	2,053,201
Nonmajor Governmental Funds:					
Special Revenue Funds:					
Dedicated Special Revenue Fund	208,863	-	(14,174)	-	194,689
Other Special Revenue Fund	237,211	-	91,212	-	328,423
Virginia Public Building Authority Fund	89,785	-	(89,785)	-	-
Virginia Land Conservation Foundation Fund	4,240	-	-	-	4,240
Virginia Historic Preservation Foundation	-	-	4	-	4
Virginia State Parks Foundation	-	-	332	-	332
Total Special Revenue	540,099	-	(12,411)	-	527,688
Debt Service Funds:					
Primary Government	18,530	-	-	-	18,530
Virginia Public Building Authority	58	-	-	-	58
Total Debt Service	18,588	-	-	-	18,588
Capital Project Funds:					
Primary Government	11,070	-	3,757	-	14,827
Virginia Public Building Authority	23,651	-	89,785	-	113,436
Total Capital Projects	34,721	-	93,542	-	128,263
Permanent Funds:					
Commonwealth Health Research Fund	-	-	27,642	-	27,642
Mental Health Endowment Funds	-	-	263	-	263
Virginia Arts Foundation	-	-	96	-	96
Total Permanent Funds	-	-	28,001	-	28,001
Total Non-Major Funds	593,408	-	109,132	-	702,540
Total Governmental Funds	$ 2,637,639	$ 8,773	$ 109,329	$ -	$ 2,755,741

(Continued on next page)

Restatement of Beginning Balances (continued)

Beginning Net Assets Restatement
Business-Type Activities

(Dollars in Thousands)

	Balance as of June 30, 2001	Correction of Prior Year Errors	Change in Reporting Requirements (GASB 34)	Change in Reporting Entity	Balance June 30, 2001 as restated
Major Enterprise Funds:					
State Lottery Department	$ (1,029)	$ -	$ -	$ -	$ (1,029)
Virginia College Savings Plan	33,413	-	8,000	-	41,413
Pocahontas Parkway Association	(28,271)	-	-	-	(28,271)
Unemployment Compensation Fund	-	-	1,061,717	-	1,061,717
Nonmajor Enterprise Funds:					
Department of Alcoholic Beverage Control	(3,336)	-	1,600	-	(1,736)
Risk Management	23,872	(89)	-	-	23,783
Local Choice Health Care Program	1,622	-	-	-	1,622
Virginia Industries for the Blind	2,778	-	1,740	-	4,518
Consolidated Laboratory	(16)	-	340	-	324
eVA Procurement System	1	-	-	-	1
Department of Environmental Quality	8,961	-	-	-	8,961
Wireless E-911 Service Board	41,114	-	-	-	41,114
Virginia Museum of Fine Arts	1,457	-	-	-	1,457
Science Museum of Virginia	179	-	-	-	179
Mental Health Local Funds	-	328	-	-	328
Division of Legislative Services	9	-	-	-	9
Virginia School for the Deaf and Blind - Staunton	3	-	-	-	3
Virginia Historic Preservation Foundation	4	(4)	-	-	-
Virginia State Parks Foundation	318	(318)	-	-	-
Total Nonmajor Enterprise Funds	76,966	(83)	3,680	-	80,563
Total Enterprise Funds	$ 81,079	$ (83)	$ 1,073,397	$ -	$ 1,154,393
Internal Service Funds:					
Department of Information Technology	$ 20,159	$ -	$ 251	$ -	$ 20,410
Virginia Correctional Enterprises	15,450	-	5,834	-	21,284
Health Care	16,719	-	-	-	16,719
Fleet Management	31,293	(990)	-	-	30,303
Maintenance and Repair	349	-	-	-	349
Virginia Distribution Center	7,210	-	-	-	7,210
Risk Management	(116,295)	89	-	-	(116,206)
Consolidated Laboratory	419	-	-	-	419
Federal Surplus Property	605	-	-	-	605
State Surplus Property	213	-	-	-	213
Graphic Communications	76	-	-	-	76
Property Disposal	89	-	-	-	89
Virginia Sickness and Disability Program	46,137	-	(46,137)	-	-
Total Internal Service Funds	$ 22,424	$ (901)	$ (40,052)	$ -	$ (18,529)

Beginning Net Assets Restatement
Fiduciary Funds

(Dollars in Thousands)

	Balance as of June 30, 2001	Correction of Prior Year Errors	Change in Reporting Requirements (GASB 34)	Change in Reporting Entity	Balance June 30, 2001 as restated
Private Purpose Funds					
Unclaimed Property	$ -	$ -	$ 43,641	$ -	$ 43,641
Virginia College Savings Plan	-	-	62,268	-	62,268
Loan Servicing Reserve	-	-	545	-	545
Edvantage Reserve	-	-	1,538	-	1,538
Virginia Farm Loan Revolving	-	-	5,459	-	5,459
Miscellaneous Trust	-	-	66	-	66
Total Private Purpose Funds	-	-	113,517	-	113,517
Pension Trust Funds					
Virginia Retirement System	35,619,067	-	-	-	35,619,067
State Police Officers' Retirement System	464,208	-	-	-	464,208
Judicial Retirement System	259,346	-	-	-	259,346
Virginia Law Officers' Retirement System	350,132	-	-	-	350,132
Political Appointees	2,095	-	-	-	2,095
Other Employment Benefits:					
Retiree Health Insurance Credit	53,974	-	-	-	53,974
Group Life	938,093	-	-	-	938,093
Virginia Sickness and Disability Program	-	-	46,137	-	46,137
Volunteer Firefighters and Rescue Squad Workers	25	-	-	-	25
Total Pension Trust Funds	37,686,940	-	46,137	-	37,733,077
Investment Trust Funds					
Local Government Investment Pool (LGIP)	2,023,636	207	-	-	2,023,843
State Non-Arbitrage Pool (SNAP)	973,715	108	-	-	973,823
SNAP Individual Investment Accounts	36,964	-	-	-	36,964
Total Investment Trust Funds	3,034,315	315	-	-	3,034,630
Nonexpendable Trust Funds					
Commonwealth Health Research Board	27,642	-	(27,642)	-	-
Mental Health Endowment Funds	263	-	(263)	-	-
Virginia Arts Foundation Fund	96	-	(96)	-	-
Total Nonexpendable Trust Funds	28,001	-	(28,001)	-	-
Expendable Trust Funds	1,191,919	(6,319)	(1,185,600)	-	-
Total Fiduciary Funds	$ 41,913,174	$ (6,004)	$ (1,025,946)	$ -	$ 40,881,224

(Continued on next page)

Restatement of Beginning Balances (continued)

Beginning Net Assets Restatement
Component Units

(Dollars in Thousands)

	Balance as of June 30, 2001	Change in Reporting Requirements (GASB 34)	Change in Reporting Entity	Balance June 30, 2001 as restated
Major Component Units				
Virginia Housing Development Authority	$ 1,226,927	$ -	$ -	$ 1,226,927
Virginia Public School Authority	25,954	-	-	25,954
University of Virginia	3,927,199	(786,512)	-	3,140,687
Virginia Polytechnic Institute and State University	848,815	(429,459)	-	419,356
Virginia Commonwealth University	570,958	(8,488)	66,497	628,967
Total Major Component Units	6,599,853	(1,224,459)	66,497	5,441,891
Nonmajor Component Units				
Virginia Economic Development Partnership	2,295	(150)	-	2,145
Virginia Outdoors Foundation	2,189	6,786	-	8,975
Virginia Port Authority	76,090	209,953	-	286,043
Virginia Resources Authority	276,574	459,836	-	736,410
Virginia Tourism Authority	1,348	(368)	-	980
Virginia Tobacco Settlement Foundation	29,940	(3)	-	29,937
Tobacco Indemnification and Community Revitalization Commission	14,524	(1)	-	14,523
Hampton Roads Sanitatio District Commission	114,204	225,921	-	340,125
Virginia Biotechnology Research Park Authority	1,410	11,526	-	12,936
Virginia Small Business Financing Authority	35,211	1,000	-	36,211
Virginia School for the Deaf and Blind Foundation	2,862	-	-	2,862
A. L. Philpott Manufacturing Extension Partnership	478	-	-	478
Virginia Equine Center Foundation	(2,309)	6,748	-	4,439
Certified Nursing Facility Education Initiative	40	2	-	42
College of William and Mary	384,189	(117,222)	-	266,967
Virginia Military Institute	126,645	(55,952)	-	70,693
Virginia State University	141,994	(77,390)	-	64,604
Norfolk State University	118,998	(79,031)	-	39,967
Mary Washington College	109,001	(38,196)	-	70,805
James Madison University	327,495	(133,284)	-	194,211
Radford University	156,104	(72,921)	-	83,183
Old Dominion University	318,163	(157,367)	-	160,796
George Mason University	339,470	(155,317)	-	184,153
Virginia Community College System	580,884	(223,618)	-	357,266
Christopher Newport University	77,434	(25,171)	-	52,263
Longwood College	102,754	(59,609)	-	43,145
Southwest Virginia Higher Education Center	11,680	(3,433)	-	8,247
Roanoke Higher Education Authority	12,666	(136)	-	12,530
Innovative Technology Authority	26,787	(7,619)	-	19,168
Medical College of Virginia Hospitals Authority	66,497	-	(66,497)	-
Virginia College Building Authority	(229,074)	13,851	-	(215,223)
Total Nonmajor Component Units	3,226,543	(271,165)	(66,497)	2,888,881
Total Component Units	$ 9,826,396	$ (1,495,624)	$ -	$ 8,330,772

As a result of the GASB Statement No. 34 implementation, all Commonwealth funds were evaluated to ensure appropriate fund classifications had been applied. As a result of this analysis, several agency funds were identified that had previously been reported as Expendable Trust Funds. These restatements of beginning balances are summarized below:

Beginning Balance Restatement
Agency Funds

(Dollars in Thousands)

	Balance as of July 1, 2001	Correction of Prior Year Errors	Balance July 1, 2001 as restated
Agency Funds			
Funds for the Collection of Taxes and Fees	$ 167,637	$ -	$ 167,637
Employee Benefits Fund	2,611	-	2,611
Mined Land Deposits Fund	3,732	6,153	9,885
Deposits of Insurance Carriers Fund	330,957	-	330,957
Inmate and Ward Fund	4,272	-	4,272
Child Support Collections Fund	11,950	-	11,950
Mental Health Patient Fund	2,346	21	2,367
Optional Life Insurance Fund	2,949	-	2,949
Comptroller's Debt Setoff Fund	1,302	-	1,302
Main Street Station Property Fund	1,640	-	1,640
Unclaimed Property of Other States	-	508	508
Legal Settlement Fund	613	2	615
Consumer Services Fund	474	2	476
Emergency Management Donation Fund	80	-	80
Federal Aviation Fund	33	(33)	-
Virginia Department of Transportation Fund	55	-	55
Virginia School for the Deaf and Blind Fund	39	-	39
Woodrow Wilson Rehabilitation Center Fund	7	-	7
Dog and Cat Sterilization Fund	-	3	3
Milk Commission Fund	2	-	2
Total Agency Funds	$ 530,699	$ 6,656	$ 537,355

(Continued on next page)

Restatement of Beginning Balances (continued)

There were numerous adjustments required to the July 1, 2001, cash and cash equivalent amounts reported on the Combined Statement of Cash Flows. These prior period adjustments for the Primary Government are summarized in the table below:

Beginning Cash and Cash Equivalents Restatement
Business-Type Activities

(Dollars in Thousands)

	Balance as of July 1, 2001	Correction of Prior Year Errors	Change in Reporting Requirements (GASB 34)	Balance July 1, 2001 as restated
Major Enterprise Funds:				
State Lottery Department	$ 23,419	$ -	$ -	$ 23,419
Virginia College Savings Plan	110,380	-	(1,745)	108,635
Pocahontas Parkway Association	10,720	-	-	10,720
Unemployment Compensation Fund	-	-	1,048,078	1,048,078
Nonmajor Enterprise Funds:				
Department of Alcoholic Beverage Control	454	-	-	454
Risk Management	25,747	-	-	25,747
Local Choice Health Care Program	7,894	-	-	7,894
Virginia Industries for the Blind	2,457	-	-	2,457
Consolidated Laboratory	1,569	-	-	1,569
eVA Procurement System	1	-	-	1
Department of Environmental Quality	10,806	-	-	10,806
Wireless E-911 Service Board	38,936	-	-	38,936
Virginia Museum of Fine Arts	1,157	-	-	1,157
Science Museum of Virginia	68	-	-	68
Mental Health Local Funds	-	403	-	403
Division of Legislative Services	9	-	-	9
Virginia School for the Deaf and Blind - Staunton	3	-	-	3
Virginia Historic Preservation Foundation	4	(4)	-	-
Virginia State Parks Foundation	343	(343)	-	-
Total Nonmajor Enterprise Funds	89,448	56	-	89,504
Total Enterprise Funds	$ 233,967	$ 56	$ 1,046,333	$ 1,280,356
Internal Service Funds:				
Department of Information Technology	10,213	-	-	10,213
Virginia Correctional Enterprises	7,564	-	-	7,564
Health Care	72,065	-	-	72,065
Fleet Management	1,486	211	-	1,697
Maintenance and Repair	2,534	-	-	2,534
Virginia Distribution Center	2,146	-	-	2,146
Risk Management	83,278	1,575	-	84,853
Consolidated Laboratory	213	-	-	213
Federal Surplus Property	381	-	-	381
State Surplus Property	250	-	-	250
Graphic Communications	93	-	-	93
Property Disposal	129	-	-	129
Virginia Sickness and Disability Program	126	-	(126)	-
Total Internal Service Funds	$ 180,478	$ 1,786	$ (126)	$ 182,138

Note: In prior years, cash flows were reflected for Proprietary Component Units. However, with the implementation of GASB Statement No. 34, these amounts are no longer reflected.

27. DEFICIT FUND BALANCE / NET ASSETS

The General Fund ended fiscal year 2002 with a deficit fund balance of $216.7 million on a modified accrual basis of accounting. This is the result of accrued expenditures exceeding accrued revenues and beginning fund balance.

The State Lottery Department (Major Enterprise Fund), Department of Alcoholic Beverage Control (Nonmajor Enterprise Fund) and Maintenance and Repair (Internal Service Fund) ended the year with deficit net assets of $1.4 million, $3.7 million, and $102,888, respectively. This was solely attributable to the net pension obligation resulting from GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. Since the Commonwealth is the employer, the agencies do not report this liability in their individually published financial statements.

The Virginia College Savings Plan (Major Enterprise Fund) ended the year with a deficit net assets balance of $58.0 million. This is attributable to a projected unfunded actuarial liability caused by the severe downturn in the stock market, coupled with significant current and projected tuition increases, including unprecedented mid-year tuition increases in the 2002-2003 academic year. In response to the projected increases in tuition and mandatory fees, the Board has elected to increase program prices for VPEP contracts for the 2003 enrollment period by 25 percent. Further, given the long-term nature of the program, it is anticipated that tuition increases will moderate over time, and that investment returns will also improve as the stock market recovers.

The Pocahontas Parkway Association (Major Enterprise Fund) ended the year with a deficit net assets balance of $48.0 million. This is attributable to debt service and operating expenses exceeding revenues and a deficit in beginning net assets.

The eVA Procurement System (Nonmajor Enterprise Fund) ended the year with a deficit net assets balance of $2.0 million. This is attributable to operating expenses exceeding revenues and the net pension obligation resulting from GASB Statement No. 27, as previously explained.

The Health Care (Internal Service Fund) ended the year with a deficit net assets balance of $18.4 million. The deficit is attributable to increased health care costs and health care premiums lower than the actuarially determined rates.

The Risk Management (Internal Service Fund) ended the year with a deficit net assets balance of $117.6 million. The deficit was the result of estimated claims payable exceeding the available equity in the fund. Claims are paid on a pay-as-you-go basis. To the extent that claims exceed current resources, they will ultimately become a liability of the fund from which the claim originated.

The Virginia College Building Authority (Nonmajor Component Unit) ended the year with a deficit net assets balance of $275.4 million. This deficit occurs because the Authority issues 21st Century and Equipment Notes subject to future appropriations from the General Fund of the Commonwealth without any other security.

28. ENDOWMENTS

Donor restricted endowments reside primarily within the higher education institutions and the Virginia Museum of Fine Arts. The net appreciation available for expenditure is $513,874,157, and of this amount, $510,554,157 is reported as restricted net assets and $3,320,000 is reported as unrestricted net assets. The *Code of Virginia* authorizes acceptance of donations. The governing boards of these entities and the donor agreements determine whether net appreciation can be spent and the accepted spending rate. These policies are entity specific and vary with each institution. Most of the institutions have the policy that spending be limited to approximately 5 percent of investment income on donor restricted assets.

29. CASH FLOWS – ADDITIONAL DETAILED INFORMATION

The following table (reported in thousands) summarizes specific cash flows as of June 30, 2002.

	State Lottery	Virginia College Savings Plan	Unemployment Compensation Fund
Cash Flows Resulting from:			
Payments for Prizes, Claims, and Loss Control			
Lottery Prizes	$ (663,645)	$ -	$ -
Claims and Loss Control	-	-	(648,502)
Total	$ (663,645)	$ -	$ (648,502)
Other Operating Revenues:			
Other Operating Revenue	$ -	$ -	$ -
Total	$ -	$ -	$ -
Other Operating Expenses:			
Payments for Contractual Services	$ (34,791)	$ (2,784)	$ -
Other Operating Expenses	-	(6)	-
Total	$ (34,791)	$ (2,790)	$ -
Other Noncapital Financing Receipt Activities:			
Advances/Contributions from the Commonwealth	$ -	$ -	$ -
Reed Act Receipts	-		216,527
Receipts from Taxes	-	-	-
Other Noncapital Financing Receipt Activities	1,201	-	-
Total	$ 1,201	$ -	$ 216,527
Other Noncapital Financing Disbursement Activities:			
Other Noncapital Financing Disbursement Activities	-	-	-
Total	$ -	$ -	$ -
Other Capital and Related Financing Receipt Activities:			
Other Capital and Related Financing Receipt Activities	-	-	-
Total	$ -	$ -	$ -

Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
$ -	$ (663,645)	$ -
(98,370)	(746,872)	(574,912)
$ (98,370)	$ (1,410,517)	$ (574,912)
$ 7,229	$ 7,229	$ 1
$ 7,229	$ 7,229	$ 1
$ (20,388)	$ (57,963)	$ (108,448)
(644)	(650)	-
$ (21,032)	$ (58,613)	$ (108,448)
$ 2,204	$ 2,204	$ 2
-	216,527	-
101,155	101,155	-
-	1,201	229
$ 103,359	$ 321,087	$ 231
-	-	(214)
$ -	$ -	$ (214)
-	-	1
$ -	$ -	$ 1

30. TOBACCO SETTLEMENT

On November 23, 1998, 46 states' Attorneys General and the major tobacco companies signed a proposed settlement that reimburses states for smoking-related medical expenses paid through Medicaid and other health care programs. Virginia could receive approximately $4.1 billion over the next 25 years. The settlement was approved in a Consent Decree in December 1998. On March 29, 1999 the General Assembly enacted a law approving the establishment of the Virginia Tobacco Indemnification and Community Revitalization Commission, in compliance with the Consent Decree, to help communities in Virginia hurt by the decline of tobacco.

The Commission is established for the purposes of determining the appropriate recipients of moneys in the Tobacco Indemnification and Community Revitalization Fund. The moneys are to be used to provide payments to tobacco farmers as compensation for the tobacco equipment and barns and lost tobacco production opportunities associated with a decline in quota. The moneys are also to be used to revitalize tobacco dependent communities.

The General Assembly also created The Virginia Tobacco Settlement Foundation (Foundation). The purpose of the Foundation is to determine the appropriate recipients of monies in the Virginia Tobacco Settlement Fund. The Foundation will also be responsible for distributing monies for the purposes provided in the legislation. Disbursements can be made to assist in financing efforts to restrict the use of tobacco products by minors, through educational and awareness programs describing the health effects of tobacco use on minors, and laws restricting the distribution of tobacco products to minors. The Virginia Tobacco Indemnification and Community Revitalization Commission and the Virginia Tobacco Settlement Foundation are included in the Comprehensive Annual Financial Report as governmental component units.

Additionally, the General Assembly created two special non-reverting funds. The Tobacco Settlement monies will be deposited to these funds and the General Fund. Fifty percent of the Settlement monies will be deposited into the Tobacco Indemnification and Community Revitalization Fund. Ten percent of the Settlement monies will be deposited into the Virginia Tobacco Settlement Fund. The remaining 40 percent will be deposited to the General Fund.

31. PUBLIC-PRIVATE PARTNERSHIP

The Department of Taxation (Department) has entered into a partnership agreement with the American Management Systems, Inc. (AMS). The purpose of this partnership is to finance the Department's technology needs. The agreement stipulates that AMS will be paid 90 percent of the new revenue generated from the system enhancements, even if this amount is insufficient to cover the total contract cost. Accordingly, AMS has created a dynamic environment that has made it easier for taxpayers to understand and comply with Virginia's tax requirements. As of June 30, 2002, the Department has paid AMS $76.9 million towards the $155.9 million contract cost.

32. CONTINGENCIES

A. Grants and Contracts

The Commonwealth has received Federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable Federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a Federal audit may become a liability of the Commonwealth.

Institutions of higher education (Component Units) and other State agencies are required to comply with various Federal regulations issued by the Office of Management and Budget, if such agencies are recipients of Federal grants, contracts, or other sponsored agreements. Failure to comply with certain requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. It is believed that the ultimate disallowance pertaining to these regulations, if any, will be immaterial to the overall financial condition of the Commonwealth.

The U.S. Department of Health and Human Services (DHHS) Office of the Inspector General conducted a review and indicated that the Commonwealth's Statewide Indirect Cost Allocation Plan rates have allowed over-recoveries in the Internal Service Funds. The U.S. DHHS has not yet audited the fiscal year 2003 cost allocation plan, which is based on state fiscal year 2001 data. The Commonwealth believes this liability has the potential to total $439 thousand as of June 30, 2002.

Virginia's combined overpayment and underpayment food stamp error rate for federal fiscal year 2001 was 8.07 percent. The national average combined error rate was 8.66 percent. States whose error rate exceeds the national average are subject to a penalty. Since Virginia's combined error rate was below the national average, liabilities of $7.2 million were waived. The Commonwealth is subject to a cumulative potential liability of $4.8 million during the period beginning October 1, 2002 through September 30, 2005.

B. Litigation

The Commonwealth is named as a party in legal proceedings and investigations that occur in the normal course of governmental operations, some involving substantial amounts. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the Commonwealth in respect to the various proceedings; however, it is believed that any ultimate liability resulting from these suits or

investigations will not have a material, adverse effect on the financial condition of the Commonwealth.

The Virginia Biotechnology Research Park Authority (Authority) (Nonmajor Component Unit) is involved in a dispute brought by the Economic Development Administration (EDA) related to grant funds received for construction costs. The Authority lost the first of two possible appeals with the EDA; however, the Authority was allowed to submit additional information in a second and final appeal filed in September 2002. The maximum liability of the Authority related to this dispute is $1,000,000.

C. Subject to Appropriation

Both the primary government and the discretely presented component units enter into agreements and issue debt secured solely by future appropriations from the General Fund of the Commonwealth. The primary government has leases and other agreements of such debt of $1.1 billion. The discretely presented component units have such debt of $354.9 million.

33. SUBSEQUENT EVENTS

Primary Government

In compliance with the Flow of Funds in the Indenture, balances in the Pocahontas Parkway Major Enterprise Fund revenue account in excess of the required deposits to the debt service and reserve accounts are transferred to the Department of Transportation (VDOT). These amounts are to first be used to reimburse VDOT's operating expenses and then to reduce other obligations. Since no amounts were due to be deposited into the debt service or other reserve accounts on July 31, 2002, $804,556 representing the toll collections for June and July and the liquidated damages received for June was transferred to VDOT. With the reduction in the debt service account associated with the August 15 interest payment, liquidated damages for the month of July forward and toll receipts will be required to replenish the debt service account until increased tolls are received.

On August 28, 2002, the Department of Medical Assistance Services received notice that the U. S. Department of Health and Human Service (DHHS) Board had ruled in favor of the Commonwealth and reinstated all amounts previously disallowed. This ruling was in response to the November 2001 notification from the DHHS that $62.0 million in disproportionate share hospital payments were disallowed. An additional $12.1 million was disallowed during the first quarter of FY 2002.

In September 2002, the Commonwealth Transportation Board issued $523,320,000 in Commonwealth of Virginia Federal Highway Reimbursement Anticipation Notes, Series 2002 to finance various Commonwealth transportation projects.

In September 2002, the Virginia Public Building Authority issued $55,000,000 in Public Facilities Revenue Bonds, Series 2002A to fund capital projects for use by the Commonwealth.

In October 2002, the Commonwealth Transportation Board issued $120,643,667 in bonds consisting of $83,820,000 in Commonwealth of Virginia Transportation Contract Revenue Refunding Bonds (Route 28 Project), Series 2002 and $36,823,667 in Commonwealth of Virginia Transportation Contract Revenue Bonds (Route 28 Project), Series 2002, respectively. The bond proceeds are being used to redeem outstanding principal balances and fund various transportation improvement projects.

In October 2002, the Commonwealth issued $223,730,000 in General Obligation Bonds, Series 2002 to finance capital projects at certain higher education institutions.

In November 2002, the citizens of Virginia authorized the issuance of General Obligation bonds in amounts not to exceed $900,488,645 and $119,040,000 for capital projects at higher education institutions and at parks and other recreational facilities, respectively. These bonds will be issued during fiscal year 2003.

In November 2002, the Commonwealth Transportation Board issued $223,705,000 in Transportation Revenue and Refunding Bonds consisting of $153,035,000 in Series 2002A and $70,670,000 in Series 2002B sold for the Northern Virginia Transportation District Program and the U.S. Route 58 Corridor Development Program, respectively. Net proceeds were used to redeem a portion of the outstanding balances and finance various transportation projects.

Component Units

On July 1, 2002, the Hampton Road Sanitation District Commission (Commission) adopted a post-retirement health benefit plan for qualifying employees. The program will furnish health and dental benefits for life for all employees with at least 15 years of service at the Commission and also qualify for an unreduced retirement benefit through the Virginia Retirement System.

Subsequent to year-end, the Virginia Resources Authority (Authority) issued a total of $11,575,000 in Series 2002A Non-AMT, Series 2002B AMT, and Series 2002C Taxable Airport Revolving Fund Revenue Bonds with interest rates ranging from 3.0 to 6.35 percent. The Authority also issued $62,747,167 in Water and Sewer System Revenue Bonds with interest rates ranging from 4.14 to 5.59 percent.

In July 2002, the Virginia Housing Development Authority redeemed $4,070,000 in Multi-Family Housing Bonds and $103,995,000 in Commonwealth Mortgage Bonds.

In July 2002, the Virginia Port Authority issued $135,000,000 in Commonwealth Port Fund Revenue Bonds (2002 Resolution), Series 2002 to finance

improvements to the Authority's Norfolk International Terminal and various security and protection equipment.

In September 2002 the Virginia Housing Development Authority redeemed an additional $104,865,000 in Commonwealth Mortgage Bonds.

In November 2002, the Virginia College Building Authority issued $134,945,000 in Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 2002A to finance capital projects at various higher education institutions.

In November 2002, the Virginia Public School Authority issued $155,545,000 in School Financing Bonds (1997 Resolution), Series 2002B to purchase local school bonds to finance capital projects for public schools.