

FINANCIAL SECTION

Independent Auditor's Report
Management's Discussion and Analysis
Basic Financial Statements
Required Supplementary Information
Combining and Individual Fund Statements and Schedules



Commonwealth of Virginia

**Auditor of Public Accounts
P. O. Box 1295
Richmond, Virginia 23218**

Walter J. Kucharski, Auditor

December 14, 2004

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Virginia, as of and for the year ended June 30, 2004, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth of Virginia's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Pocahontas Parkway Association major enterprise fund. We did not audit the financial statements of the State Non-Arbitrage Pool, which represents 2.48 percent and 5.82 percent, respectively, of the assets and revenues of the aggregate remaining fund information. We did not audit the financial statements of certain Component Units of the Commonwealth discussed in Note 1.B., which represent 34.46 percent and 9.12 percent, respectively, of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Pocahontas Parkway Association, State Non-Arbitrage Pool, and certain Component Units discussed in Note 1.B. is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Pocahontas Parkway Association, Hampton Roads Sanitation District Commission, Certified Nursing Facility Education Initiative, Science Museum of Virginia Foundation, Virginia Museum of Fine Arts Foundation, and State Non-Arbitrage Pool, which were audited by other auditors upon whose reports we are relying, were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Virginia as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1.B to the financial statements, the Commonwealth has implemented the provisions of Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*, as of June 30, 2004.

The management's discussion and analysis, budgetary comparison information, funding progress for defined benefit pension plans, and claims development information on pages 31 through 41 and 158 through 168 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth of Virginia's basic financial statements. The introductory section; combining and individual financial statements for the nonmajor funds, fiduciary funds, and the discretely presented component units; debt schedules; and statistical tables are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual financial statements for the nonmajor funds, fiduciary funds, and discretely presented component units and debt schedules have been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, in our opinion based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statement taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with Government Auditing Standards, our report on our consideration of the Commonwealth's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters is issued under separate cover in the Commonwealth of Virginia Single Audit Report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Walter J. Kucharski

AUDITOR OF PUBLIC ACCOUNTS

