

# Management's Discussion and Analysis

The following is a discussion and analysis of the Commonwealth of Virginia's (Commonwealth) financial performance, including an overview and analysis of the financial activities of the Commonwealth for the fiscal year ended June 30, 2006. Readers should consider this information in conjunction with the transmittal letter, which is located in the Introductory Section of this report, and the Commonwealth's financial statements, including the notes to the financial statements, which are located after this analysis.

## FINANCIAL HIGHLIGHTS

### Government-wide Highlights

The Primary Government's assets exceeded its liabilities at June 30, 2006, by \$16.9 billion. Net assets of governmental activities increased by \$1.9 billion and net assets of business-type activities increased by \$420.6 million. Component units reported an increase in net assets of \$1.3 billion from June 30, 2005.

### Fund Highlights

At the end of the fiscal year, the Commonwealth's governmental funds reported a combined ending fund balance of \$5.2 billion, an increase of \$1.5 billion in comparison with the prior year. Of this total fund balance, \$3.9 billion represents unreserved fund balance and the remaining \$1.3 billion represents amounts reserved for specific purposes, such as the Revenue Stabilization Fund and education. The enterprise funds reported net assets at June 30, 2006, of \$839.9 million, an increase of \$422.4 million during the year.

### Long-term Debt

The Commonwealth's total debt rose during the fiscal year to \$21.6 billion, an increase of \$1.3 billion or 6.5 percent. During fiscal year 2006, the Commonwealth issued new debt in the amount of \$963.3 million for the primary government and \$2.8 billion for the component units. More detailed information regarding these activities begins on page 125.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

### Government-wide Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Commonwealth's finances in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the Commonwealth's financial position which helps readers determine whether the Commonwealth's financial position has improved or deteriorated during the fiscal year. These statements include all non-fiduciary financial activity on the full accrual basis of accounting. This means that all revenue and expenditures are reflected in the financial statements even if the related cash has not been received or paid as of June 30.

The Statement of Net Assets (pages 40 and 41) presents information on all of the Commonwealth's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may indicate whether the financial position of the Commonwealth is improving or deteriorating.

The Statement of Activities (pages 42 through 44) presents information showing how the Commonwealth's net assets changed during fiscal year 2006. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

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

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

**Discretely Presented Component Units** – account for functions of legally separate entities for which the Commonwealth is financially accountable. The Commonwealth has 22 non-higher education component units and 21 higher education institutions that are reported as discretely presented component units. Information regarding the individual financial statements of the component units is presented in the notes to the financial statements.

This report includes two schedules (pages 48 and 52) that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities on the appropriate government-wide statements (full accrual accounting). The following indicates some of the reporting differences between the government-wide financial statements and the fund financial statements.

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

## Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the Commonwealth’s funds can be divided into three categories: governmental, proprietary, and fiduciary. Each of these categories uses different accounting approaches. Fund financial statements begin on page 46 and provide detailed information about the major individual funds.

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

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

The Commonwealth reports 12 individual governmental funds. Information is presented separately in the governmental fund statements for the General, Commonwealth Transportation, Federal Trust, and Literary funds, which are all considered major funds. Data from the other 8 governmental funds are aggregated into a single column on the fund statements. Individual fund data for these nonmajor governmental funds is provided in the combining financial statements immediately following the Required Supplementary Information.

- **Proprietary funds** – The Commonwealth maintains two different types of proprietary funds, enterprise and internal service. These funds report activities that operate more like those of private sector business and use the full accrual basis of accounting. Enterprise funds report activities that charge fees for supplies or services to the general public like the State Lottery. Enterprise funds are reported as business-type activities on the government-wide financial statements. The enterprise funds use the full accrual basis of accounting and the only differences between amounts reported on the government-wide statements and the Enterprise Fund statements are due to internal service fund activity (see reconciliations on pages 54 and 56). Internal Service funds report activities that charge fees for supplies and services to other Commonwealth agencies, like Fleet Management. Internal Service funds are reported as governmental activities in the government-wide statements because these types of services predominantly benefit governments rather than business-type functions.

The Commonwealth reports 25 individual proprietary funds. Information is presented separately in the proprietary fund statements for the State Lottery Department, Virginia College Savings Plan, and Unemployment Compensation Funds, all of which are considered major funds. In previous years, Pocahontas Parkway Association has been reported as a major fund. Due to changes in the fund's activity, it is no longer a major fund (see Note 29). Data from the other enterprise funds are aggregated into a single column on the fund statements. All internal service funds are aggregated into a single column on the fund statements. Individual fund data for all nonmajor proprietary funds is provided in the combining financial statements immediately following the Required Supplementary Information.

- **Fiduciary funds** – These funds are used to account for resources held for the benefit of parties outside the government and use the full accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because the resources of these funds are restricted and cannot be used to finance the Commonwealth's operations. The Commonwealth's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets beginning on page 64.

The Commonwealth's fiduciary funds are the:

- Private-purpose Trust, which reports the activities for 6 separate funds and accounts for transactions of trust arrangements in which the principal and income benefit individuals, private organizations, or other governments;
- Pension and Other Employee Benefit Trust, which reports the activities of 11 separate pension and other employment retirement plans for employees;
- Investment Trust, which accounts for the activities of the external investment pool; and,
- Agency, which accounts for assets held on behalf of others in 19 separate funds.

Individual fund data for all fiduciary funds is provided in the combining financial statements immediately following the Required Supplementary Information.

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

## Notes to the Financial Statements

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

## Required Supplementary Information

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

## Other Information

The combining statements referred to earlier in connection with nonmajor funds and component units can be found beginning on page 163 of this report. The individual fund information is aggregated into a single total on the combining financial statements, which carries forward to the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Primary Government's assets exceeded its liabilities by \$16.9 billion during the fiscal year. The net assets of the governmental activities increased \$1.9 billion or 13.2 percent. Business-type activities had an increase of \$420.6 million or 100.3 percent, primarily due to increases for the Pocahontas Parkway Association and the Unemployment Compensation Fund. The government-wide beginning balance was restated for correction of prior year errors to arrive at a restated beginning balance of \$14.6 billion.

Figure 13  
**Net Assets as of June 30, 2006 and 2005**  
(Dollars in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 10,444,470	\$ 7,899,174	\$ 3,350,846	\$ 2,878,094	\$ 13,795,316	\$ 10,777,268
Capital assets	16,118,258	15,139,966	38,288	339,440	16,156,546	15,479,406
Total assets	<u>26,562,728</u>	<u>23,039,140</u>	<u>3,389,134</u>	<u>3,217,534</u>	<u>29,951,862</u>	<u>26,256,674</u>
Long-term liabilities outstanding	5,347,968	4,773,133	1,992,856	2,299,339	7,340,824	7,072,472
Other liabilities	5,116,126	4,040,783	556,420	498,919	5,672,546	4,539,702
Total liabilities	<u>10,464,094</u>	<u>8,813,916</u>	<u>2,549,276</u>	<u>2,798,258</u>	<u>13,013,370</u>	<u>11,612,174</u>
Net assets:						
Invested in capital assets, net of related debt	11,636,516	12,139,329	32,322	(132,310)	11,668,838	12,007,019
Restricted	1,588,038	1,252,362	790,087	600,218	2,378,125	1,852,580
Unrestricted	2,874,080	833,533	17,449	(48,632)	2,891,529	784,901
Total net assets	<u>\$ 16,098,634</u>	<u>\$ 14,225,224</u>	<u>\$ 839,858</u>	<u>\$ 419,276</u>	<u>\$ 16,938,492</u>	<u>\$ 14,644,500</u>

The largest portion of the Primary Government's net assets (68.9 percent) reflects its investment in capital assets (e.g., land, buildings, equipment, construction in progress, and infrastructure), less any related outstanding debt used to acquire those assets. These assets are recorded net of depreciation in the financial statements. The Primary Government uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the Primary Government's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities (see **Figure 13**).

An additional portion of the Primary Government's net assets (14.0 percent) represents restricted net assets. These resources are subject to external restrictions or constitutional provisions specifying how they may be used. The remaining balance of \$2.9 billion is unrestricted net assets (see **Figure 13**).

Approximately 97.7 percent of the Primary Government's total general revenue came from taxes. While the Primary Government's expenses cover many services, the largest expenses are for Education, Individual and Family Services, and Transportation. General revenues normally fund governmental activities. For fiscal year 2006, governmental activity program and general revenues exceeded expenses by \$1.9 billion. Program revenues exceeded expenses from business-type activities by \$812.1 million. The following condensed financial information (**Figure 14**) was derived from the Government-wide Statement of Activities and provides detail regarding the change in net assets (see page 42).

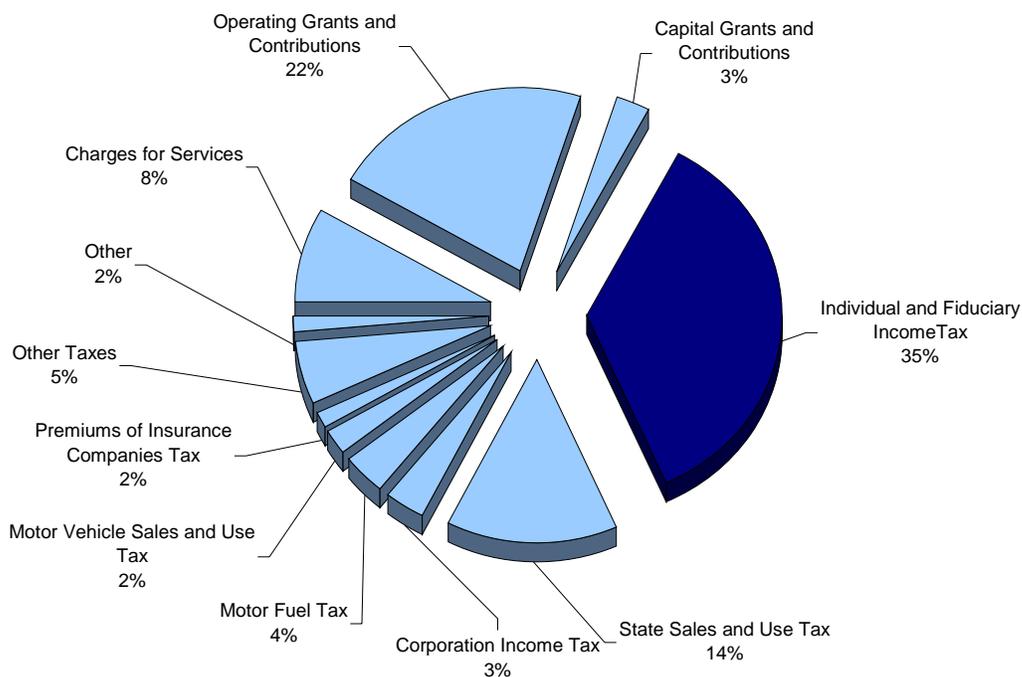
Figure 14  
**Changes in Net Assets for the Fiscal Years Ended June 30, 2006 and 2005**  
(Dollars in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program Revenues:						
Charges for Services	\$ 2,122,637	\$ 1,999,510	\$ 2,990,035	\$ 3,008,729	\$ 5,112,672	\$ 5,008,239
Operating Grants and Contributions	5,670,650	5,262,170	26,508	19,205	5,697,158	5,281,375
Capital Grants and Contributions	706,661	578,416	-	-	706,661	578,416
General Revenues:						
Taxes:						
Individual and Fiduciary Income	9,206,525	8,356,263	-	-	9,206,525	8,356,263
State Sales and Use	3,678,736	3,578,159	-	-	3,678,736	3,578,159
Corporation Income	837,917	651,170	-	-	837,917	651,170
Public Service Corporations	91,000	89,091	-	-	91,000	89,091
Motor Fuel	937,614	912,035	-	-	937,614	912,035
Motor Vehicle Sales and Use	593,092	598,741	-	-	593,092	598,741
Premiums of Insurance Companies	373,781	373,571	-	-	373,781	373,571
Alcoholic Beverage Sales Tax	94,364	88,730	-	-	94,364	88,730
Deeds, Contracts, Wills, and Suits	695,711	597,041	-	-	695,711	597,041
Beer and Beverage Excise	44,035	42,901	-	-	44,035	42,901
Estate	166,573	160,686	-	-	166,573	160,686
Tobacco Products	189,492	122,070	-	-	189,492	122,070
Bank Stock	12,405	9,800	-	-	12,405	9,800
Wine and Spirits/ABC Liter	16,372	14,304	-	-	16,372	14,304
Other Taxes	77,241	72,044	12,159	12,096	89,400	84,140
Unrestricted Grants and Contributions	48,109	52,703	-	-	48,109	52,703
Investment Earnings	221,533	154,306	12,179	9,913	233,712	164,219
Miscellaneous	114,732	291,025	584	662	115,316	291,687
<b>Total Revenues</b>	<b>25,899,180</b>	<b>24,004,736</b>	<b>3,041,465</b>	<b>3,050,605</b>	<b>28,940,645</b>	<b>27,055,341</b>
Expenses:						
General Government	2,014,875	2,029,571	-	-	2,014,875	2,029,571
Education	7,925,717	7,272,856	-	-	7,925,717	7,272,856
Transportation	2,558,787	2,197,889	-	-	2,558,787	2,197,889
Resources and Economic Development	835,382	750,595	-	-	835,382	750,595
Individual and Family Services	8,569,741	7,994,073	-	-	8,569,741	7,994,073
Administration of Justice	2,492,864	2,261,787	-	-	2,492,864	2,261,787
Interest and Charges on Long-term Debt	209,116	166,491	-	-	209,116	166,491
State Lottery	-	-	908,040	908,021	908,040	908,021
Virginia College Savings Plan	-	-	238,158	310,967	238,158	310,967
Pocahontas Parkway	-	-	-	38,797	-	38,797
Unemployment Insurance	-	-	338,624	359,189	338,624	359,189
Alcoholic Beverage Control	-	-	408,099	-	408,099	-
Local Choice Health Care	-	-	164,526	-	164,526	-
Nonmajor	-	-	146,940	653,259	146,940	653,259
<b>Total Expenses</b>	<b>24,606,482</b>	<b>22,673,262</b>	<b>2,204,387</b>	<b>2,270,233</b>	<b>26,810,869</b>	<b>24,943,495</b>
Excess/deficiency before transfers	1,292,698	1,331,474	837,078	780,372	2,129,776	2,111,846
Transfers	580,712	535,130	(580,712)	(535,130)	-	-
Special Items	-	-	164,216	-	164,216	-
Increase in net assets	1,873,410	1,866,604	420,582	245,242	2,293,992	2,111,846
Net assets, July 1, as restated	14,225,224	12,358,620	419,276	174,034	14,644,500	12,532,654
<b>Net assets, June 30</b>	<b>\$ 16,098,634</b>	<b>\$ 14,225,224</b>	<b>\$ 839,858</b>	<b>\$ 419,276</b>	<b>\$ 16,938,492</b>	<b>\$ 14,644,500</b>

## Governmental Activities Revenues

**Figure 15** is a graphical representation of the Statement of Activities revenues for governmental activities. Governmental activities revenues increased by \$1.9 billion, or 7.9 percent. This increase is mainly attributable to activities of the General Fund which are discussed further below.

Figure 15  
Revenues by Source – Governmental Activities  
Fiscal Year 2006



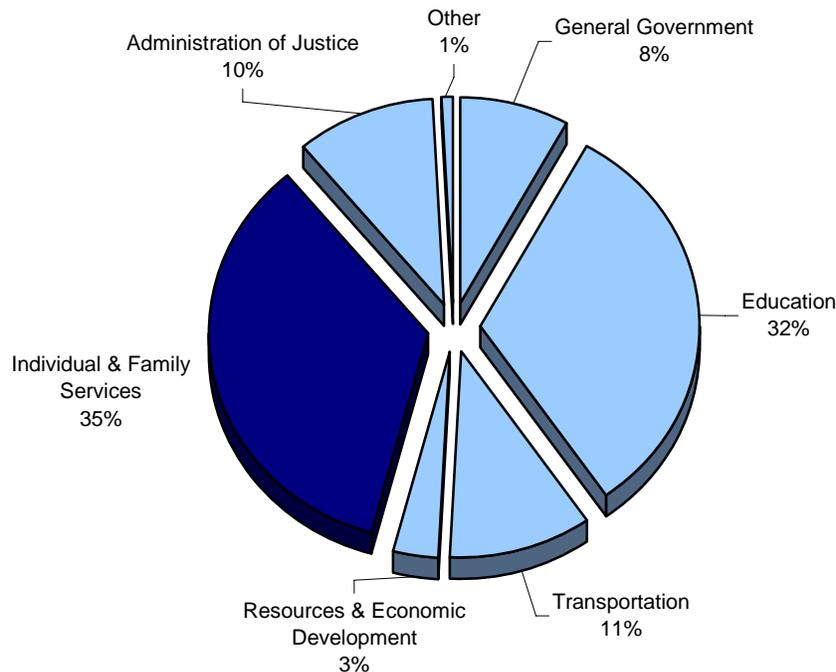
The Commonwealth's overall financial position increased in fiscal year 2006 when compared to fiscal year 2005, due to the continuing economic expansion providing additional tax revenue from individuals and corporations. In addition, fiscal year 2006 was the first full year the Commonwealth collected increased taxes pursuant to the 2004 tax reform legislation. Net tax collections increased 7.8 percent as high-income individuals and large corporations had higher tax liabilities.

General Fund revenue collections increased by \$1.2 million or 8.4 percent in fiscal year 2006 when compared to fiscal year 2005. Both individual income tax final payments and corporate income tax payments were the second strongest on record over the last 15 years after last year's record setting growth in each revenue source.

## Governmental Activities Expenses

**Figure 16** is a graphical representation of the Statement of Activities expenses for governmental activities. Governmental activities expenses increased by \$1.9 billion or 8.5 percent. The majority of the increase is related to the General Fund which is discussed further on page 36.

Figure 16  
**Expenses by Type – Governmental Activities**  
**Fiscal Year 2006**

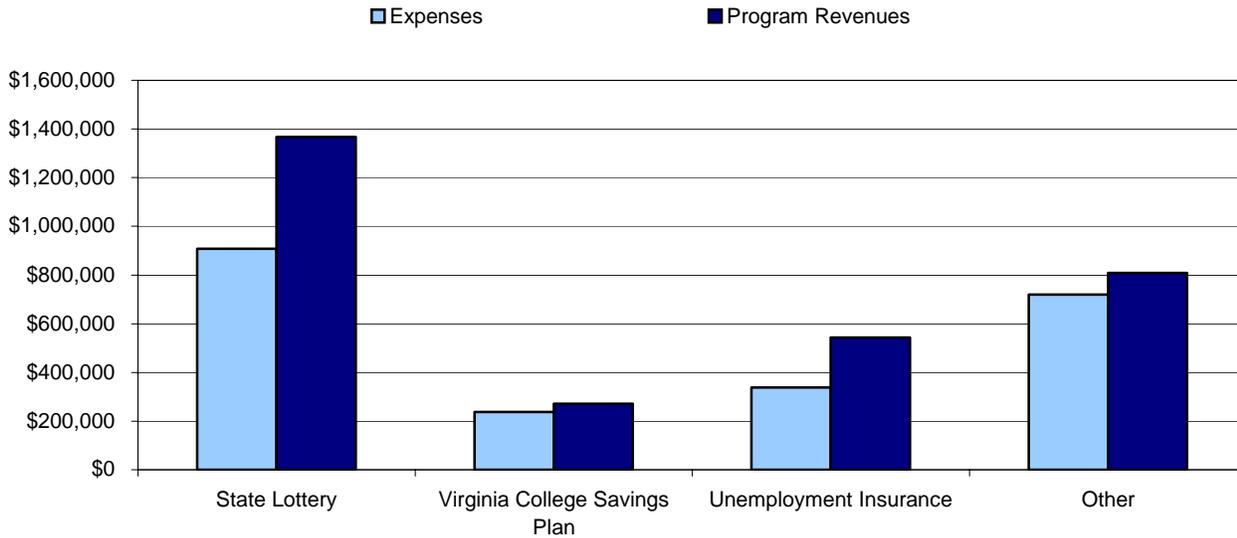


## Net Assets of Business-type Activities

Net assets of business-type activities increased by \$420.6 million during the fiscal year. Factors contributing to this change were:

- Lottery sales increased by \$31.3 million (2.4 percent) over last year to a record \$1.4 billion. Net income was a record \$468.8 million, an increase of \$36.1 million (8.4 percent) from fiscal year 2005. Sales of scratch games increased by \$9.7 million (1.4 percent) and online sales increased by \$21.6 million (3.3 percent).
- Virginia College Savings Plan's net assets increased by \$33.5 million (55.6 percent), from a deficit of \$60.2 million to a deficit of \$26.8 million. This improvement in financial position is primarily attributable to better than anticipated investment performance and sound pricing pertaining to the issuance of approximately 5,700 new contracts during the fiscal year. Continued favorable market conditions generated greater than anticipated interest income as well as increased the fair value of investments. These market conditions, combined with an increased actuarial reserve resulting from the new contract sales, account for the increase.
- Unemployment Compensation Fund net assets increased by \$224.5 million during fiscal year 2006. This increase is due primarily to operating income of \$204.4 million and interest income of \$25.6 million. This operating income reflects the continued strong employment conditions in the Commonwealth as demonstrated by premium revenues exceeding claim benefits by \$204.4 million. Unemployment benefit claims were slightly lower than those of 2005. The average insurance rate for 2006 was 1.45 percent, including pool charge of .19 percent, versus a fiscal year 2005 average rate of 1.66 percent. Unemployment rates of 3.2 percent in fiscal year 2006 versus 3.6 percent in fiscal year 2005 show the continued economic expansion.

Figure 17  
**Business-type Activities**  
**Program Revenues and Expenses**  
**For the Fiscal Year Ended June 30, 2006**  
(Dollars in Thousands)




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## FUND STATEMENTS FINANCIAL ANALYSIS

As of the end of the fiscal year, the Primary Government's governmental funds reported combined ending fund balances of \$5.2 billion. Of this total amount, \$3.9 billion, or 73.9 percent, constitutes unreserved fund balance. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to a variety of other restricted purposes, such as the Revenue Stabilization Fund, outstanding debt and capital outlay.

### General Fund Highlights

The General Fund is the chief budgetary operating fund of the Primary Government. At the end of the current fiscal year, unreserved fund balance of the general fund was \$973.5 million and reserved fund balance was \$1.2 billion. Total fund balance of the General Fund increased by \$910.6 million during the fiscal year. The fiscal year 2006 General Fund revenues were 8.4 percent greater than the fiscal year 2005 revenues. Significant increases in expenditures took place in public education (\$487.2 million or 7.8 percent) and individual and family services (\$293.5 million or 8.7 percent) representing primarily the General Fund's share of increased Medicaid expenditures.

### Budget Highlights

The final budget amounts include a \$1.4 billion increase in revenue from that originally adopted by the General Assembly. This change is primarily attributable to the following changes:

- Individual and Fiduciary Income Taxes (\$835.7 million) and Corporation Income Taxes (\$343.3 million) have increased due to continued strength in the economy.
- Sales and Use Tax (\$43.4 million decrease) includes the net effect of the elimination of the accelerated sales tax offset by increased collections pursuant to the 2004 tax reform legislation.
- Other Taxes increase of \$233.2 million is attributable to recordation taxes resulting from continued strength in the housing market that exceeded the original duration estimates.
- Interest, Dividends and Rents increase is due to increased principal balances and higher interest rates.

The final expenditure budgets include a \$342.8 million increase over that originally adopted by the General Assembly. This change is primarily attributable to the following changes:

- Individual and Family Services expenditures increased by \$110.2 million primarily due to increases in the Medicaid program.
- Administration of Justice expenditures increased by \$161.4 million primarily due to payroll charges associated with salary adjustments and an additional payroll being paid during fiscal year 2006.

### Major Special Revenue Fund Highlights

The Commonwealth Transportation Fund ended the fiscal year with a fund balance of \$1.8 billion, an increase of \$469.6 million from the prior year. Of this amount, \$1.6 billion is committed for various highway, public transportation, and rail preservation projects (see Note 17). The increase in fund balance was primarily the result of the following activities: in fiscal year 2006, revenues increased by \$219.5 million or 7.1 percent, expenditures decreased by \$33.9 million or 1.1 percent and other financing sources increased by \$164.4 million. The increase in revenues is mostly attributable to a 5 percent increase in federal revenues in addition to a 40 percent increase in toll revenues collected. The decrease in expenditures is attributed to the decline in highway system acquisition and construction costs of 11.4 percent and a decline in highway system maintenance costs of 6.0 percent. This decrease in expenditures resulted from the ongoing management plan of completing projects on time and under budget in addition to a mild winter.

The Federal Trust Fund balance decreased by \$12.6 million or 20.2 percent. This decrease is primarily due to a decrease of \$19 million in the advance funded grant associated with the Help America Vote Act offset by an advance funded grant for Juvenile Assistance of \$6 million. As a result of an increase in expenditures for the Medicaid program, federal reimbursements increased in excess of \$200 million. This increase is consistent with the rate of growth in recent years. Additionally, elementary and secondary education expenditures increased resulting in additional federal reimbursements in excess of \$100 million.

The Literary Fund's fund balance decreased by \$18.3 million or 5.7 percent in fiscal year 2006 from fiscal year 2005. The decrease is the result of net disbursements exceeding net receipts by \$32.3 million, offset by a cash transfer in of \$14.0 million from the State Lottery representing unclaimed prizes.

### Capital Asset and Long-term Debt

**Capital Assets.** The Primary Government's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$16.1 billion (net of accumulated depreciation totaling \$10.3 billion). This investment in capital assets includes land, buildings, improvements, equipment, construction in progress, and infrastructure. Infrastructure assets are items that are normally immovable such as roads, bridges, drainage systems, and other similar assets. The increase in the Primary Government's investment in governmental capital assets was primarily attributable to infrastructure increases of \$350.2 million. The Primary Government reports equipment with a value of \$50,000 or greater and an expected useful life of two or more years. The Primary Government capitalizes all property, plant, and infrastructure that have a cost or value greater than \$100,000.

Additional information on the Primary Government's capital assets can be found in Note 12, "Capital Assets."

Figure 18  
**Capital Assets as of June 30, 2006**  
 (Net of Depreciation)  
 (Dollars in Thousands)

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Land	\$ 1,756,900	\$ 1,977	\$ 1,758,877
Buildings	1,420,689	6,795	1,427,484
Equipment	293,452	29,155	322,607
Infrastructure	9,774,994	-	9,774,994
Construction in Progress	2,872,223	361	2,872,584
<b>Total</b>	<b>\$ 16,118,258</b>	<b>\$ 38,288</b>	<b>\$ 16,156,546</b>

**Long-term Debt.** The Commonwealth does not issue general obligation bonds for operating purposes. At the end of the current fiscal year, the Commonwealth had total debt outstanding of \$21.6 billion including total tax supported debt of \$6.4 billion and total debt not supported by taxes of \$15.2 billion. Bonds backed by the full faith and credit of the government and tax-supported total \$1.0 billion. An additional \$1.2 billion is considered moral obligation debt which is not tax-supported. The remainder of the Commonwealth's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

During fiscal year 2006, the Commonwealth issued \$3.8 billion of new debt for various projects. \$963.3 million of the new debt was for the primary government and \$2.8 billion for the component units. Additional information on the Commonwealth's outstanding debt can be found in Note 22. The Commonwealth maintains a "triple A" bond rating for general obligation debt from the three rating agencies: Moody's Investors Service, Standard & Poor's Ratings Group, a division of The McGraw Hill Companies, Inc., and Fitch, Inc.

State statutes limit the amount of general obligation debt the Commonwealth may issue for each specific type of debt. The 9(a) bonds, which have been issued to redeem previous debt obligations, are limited to 30 percent of 1.15 times the annual tax revenues for fiscal year 2006. The 9(b) bonds, which have been authorized by the citizens of Virginia through bond referenda to finance capital projects, are limited to 1.15 times the average of selected tax revenues for fiscal years 2004, 2005, and 2006. The 9(c) bonds, which have been issued to finance capital projects that will generate revenue upon their completion, are limited to 1.15 times the average of selected tax revenues for fiscal years 2004, 2005, and 2006. The current debt limitation for the Commonwealth is \$4.6 billion, \$13.1 billion, and \$13.3 billion, respectively, for the 9(a), 9(b), and 9(c) general obligation bond issues. These limits significantly exceed the Commonwealth's outstanding general obligation debt.

Figure 19  
**Outstanding Debt as of June 30, 2006**  
**General Obligation and Revenue Bonds**  
(Dollars in Thousands)

	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
General obligation bonds				
9(b)	\$ 626,124	\$ -	\$ 626,124	\$ -
9(c)	90,374	-	90,374	325,969
Revenue bonds	-	-	-	-
<b>Total</b>	<b>\$ 716,498</b>	<b>\$ -</b>	<b>\$ 716,498</b>	<b>\$ 325,969</b>

## Economic Factors and Outlook

In fiscal year 2006, Virginia's economy continued to expand, however this growth has slowed when compared to recent fiscal years. On average, the year-over-year quarterly growth rate in real wages and salaries reached 3.6 percent in fiscal year 2006, a decrease from 4.3 in fiscal year 2005. Retail sales amounted to \$80.6 billion in fiscal year 2006, a 3.3 percent decrease from fiscal year 2005. New housing in Virginia fell slightly (6.9 percent), however, personal income and employment have helped the Commonwealth continue its economic expansion during fiscal year 2006. For a more in-depth discussion on the Commonwealth's economy see "Economic Outlook" on page 10.

## Requests for Information

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

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