Index to the Notes to the Financial Statements

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 of Virginia's (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. GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* (GASB Statement No. 39) requires the inclusion of numerous organizations that raise and hold funds for the direct benefit of the primary government.

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 for financial reporting purposes. The basic criteria include appointing a voting majority of an organization's governing body, and the Commonwealth's ability to impose its will on that organization or 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. The Commonwealth's only blended component unit is:

Virginia Public Building Authority (VPBA) (nonmajor governmental fund) – 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 audits the Authority, and a separate report is issued from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218-1879.

(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.

GASB Statement No. 39 generally requires any organization that raises and holds economic resources for the direct benefit of the reporting entity to be reported as a component unit, even if the reporting entity is not financially accountable for the organization. The entities are included in the Commonwealth's reporting entity as non-profit charitable organizations and exist solely to support the Commonwealth's higher education institutions, museums, and the Library of Virginia. The higher education institution non-profit organizations are included in the applicable higher education institution's column in the accompanying financial statements. The museum foundations and the Library of Virginia Foundation, which are discretely presented, are more fully described later in this footnote. In all instances where separate disclosure of these non-profit organizations is required in the accompanying footnotes, the entities' totals are aggregated and disclosed as "foundations."

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 Commonwealth provides funding for, and construction of, major academic plant facilities for the institutions. Institutions reported Operating Appropriations from Primary Government of approximately $1.65 billion and Program Revenue Capital Grants and Contributions of approximately $36.5 million from the primary government. Institutions paid the Commonwealth approximately $86.7 million. 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 Commonwealth. The major higher education institutions are: University of Virginia, including the University of Virginia Hospital and the University of Virginia's College at Wise; Virginia Polytechnic Institute and State University; and Virginia Commonwealth University, including the Virginia Commonwealth University Health System 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; University of Mary Washington; 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, Roanoke Higher Education Authority, Institute for Advanced Learning and Research, Southern Virginia Higher Education Center, and New College Institute 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. As previously noted, certain foundations are considered component units of the higher education institutions, and are included in the accompanying financial statements as well as the higher education institutions' individually published financial statements. The Auditor of Public Accounts (APA) does not audit the Roanoke Higher Education Authority, the Institute for Advanced Learning and Research, and the component units of the higher education institutions, including foundations, but relies on the reports issued by other auditors to render his opinion.

The APA audits 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 23219-3638.

Innovation and Entrepreneurship Investment Authority (IEIA) (nonmajor) – The Authority (formerly the Innovative Technology 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. In addition, the Authority serves to promote the economic development of the Commonwealth by attracting and retaining high technology jobs and businesses in Virginia. The Governor and General Assembly appoint the 13-member board, 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 non-stock, 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, 2214 Rock Hill Road, Herndon, Virginia 20170-4228. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

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 audits the Authority, and a separate report is issued from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218-1879.

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 state-supported colleges and universities reported revenue from the Authority of $496.0 million as Program

Revenue Capital Grants and Contributions for the 21st Century Program and $60.9 million as Program Revenue Operating Grants and Contributions for equipment. The Authority reported approximately $18.8 million in payments from the state-supported colleges and universities for debt service costs. 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 primary government nor the Authority, but are payable solely from the revenues pledged by the respective private institution. This indebtedness, totaling $524.6 million, is not included in the financial statements.

Virginia Housing Development Authority (VHDA) (major) – The Authority was created as a political subdivision and instrumentality of the Commonwealth and is granted both politic and corporate powers by the *Code of Virginia*. The Governor appoints a majority of the Authority's board members and the remaining board members are ex-officio. 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 Commonwealth is not legally obligated by the debt of the Authority. The Authority was created in the public interest to provide investment in and stimulate construction of low to 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 audits the Authority, and a separate report is issued.

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. The Auditor of Public Accounts audits the Authority, and a separate report is issued from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218-1879.

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-member board, 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 audits the Partnership, and a separate report is issued.

Virginia Outdoors Foundation (nonmajor) – The Foundation was created as a body politic and is administratively assigned to the Department of Conservation and Recreation (part of primary government) and charged with promoting preservation through the acceptance of donated conservation easements and raising funds for the purchase of preservation land. The Governor appoints the seven-member board of trustees, and the primary government can impose its will on the Foundation. The administrative offices of the Foundation are located at 900 South Main Street, Blacksburg, Virginia 24060. Goodman and Company, LLP, audits the Foundation, and a separate report is issued.

Virginia Port Authority (VPA) (nonmajor) – The Authority was established as a corporate body and operates to serve the citizens and promote commerce through the harbors and ports of Virginia. The Governor appoints a majority of the 12-member board, 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 audits the Authority, and a separate report is issued.

Virginia Resources Authority (VRA) (nonmajor) – The Authority was created as a statewide public body corporate political subdivision of the Commonwealth to provide financing of infrastructure projects for water supply, wastewater, storm water, solid waste treatment, airports, public safety, brownfields remediation and redevelopment, and recycling. The Governor appoints the 11-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 1111 East Main Street, Suite 1920, Richmond, Virginia 23219. Clifton Gunderson, LLP, audits the Authority, and a separate report is issued.

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 all of the board members, and there is a financial benefit/burden to the primary government. The administrative offices are located at 901 East Byrd Street, 19th Floor, Richmond, Virginia 23218-0798. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia Foundation for Healthy Youth (formerly 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 monies in the Virginia Tobacco Settlement Fund and to distribute monies 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, Suite 501, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Foundation, and a separate report is issued.

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 monies 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, and lost tobacco production opportunities. It also provides monies 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 audits the Commission, and a separate report is issued.

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 17 localities in the Chesapeake Bay area. The address for the administrative offices of the Commission is 1436 Air Rail Avenue, Virginia Beach, Virginia 23455. KPMG, LLP, audits the Commission, and a separate report is issued.

Virginia Biotechnology Research Partnership 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 appoints 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 audits the Authority, and a separate report is issued.

The Authority issued two series of revenue bonds for specific customers, the 2002 series and the 2006 series. The 2002 series variable rate revenue bonds were for a facility built specifically for the United Network for Organ Sharing organization. The 2006 Series variable rate revenue bonds were for the Virginia Blood Services project. The bonds are secured by a letter of credit and are payable solely from the payments made by the borrower under the loan agreement. Neither of these bonds constitute a debt or pledge of the Authority or the Commonwealth. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

Virginia 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 11-member board, 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. The Authority can loan money to local governments as defined by the *Code of Virginia* for economic development purposes. The Authority also guarantees loans made to small businesses by banks. The administrative offices of the Authority are located at 707 East Main Street, Suite 300, Richmond, Virginia

23219. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

The Authority has issued Industrial Development Revenue Bonds to provide financial assistance to private sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private sector entity served by the bond issuance. Neither the Small Business Financing Authority, nor the Commonwealth are obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities on the accompanying financial statements.

Virginia School for the Deaf and Blind Foundation (nonmajor) – The Foundation operates as a non-private educational and fundraising organization solely in connection with, and exclusively for the benefit of the Virginia School for the Deaf and Blind (School) (part of primary government). 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, 25th Floor, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Foundation along with the audit of the School, and a separate report is issued.

Science Museum of Virginia Foundation (nonmajor) – The Foundation is a non-stock, non-profit corporation established to implement and fund programs, projects, and operations that are authorized and approved by the trustees of the Science Museum of Virginia (part of primary government). The administrative offices of the Foundation are located at the Science Museum of Virginia, Post Office Box 11624, Richmond, Virginia 23230. Cherry, Bekaert, & Holland, LLP, audits the Foundation, and a separate report is issued.

Virginia Commercial Space Flight Authority (VCSFA) (nonmajor) – The Authority is a legally separate, political subdivision of the Commonwealth created by the General Assembly to facilitate and coordinate scientific and technological research and development and to promote the industrial and economic development of the Commonwealth. There is a potential financial benefit/burden to the primary government. The Commonwealth provided $26 million in bond offerings through the Virginia Public Building Authority (VPBA) to the VCSFA in fiscal year 2009. Per a memorandum of understanding between the Commonwealth and the VCSFA, the VCSFA will provide 75 percent of the related debt service payments. The administrative offices of the Authority are located at 4111 Monarch Way, Suite 201, Norfolk, Virginia 23508. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Danville Science Center, Inc. (nonmajor) – The Center is non-profit corporation formed for the purpose of implementing and funding those programs, projects and operations which are authorized and approved by the trustees of the Science Museum of Virginia. The administrative offices of the Center are located at 657 Craghead Street, Post Office Box 167, Danville, Virginia 24541. Goodman and Company, LLP, audits the Center, and a separate report is issued.

Virginia Museum of Fine Arts Foundation (nonmajor) – The Foundation operates as a non-profit corporation under the laws of Virginia to fund exhibitions, programs, and capital asset expansion to ensure that the Virginia Museum of Fine Arts (part of primary government) has the space and resources for art to help improve the quality of life for many. The administrative offices of the Foundation are located at 200 North Boulevard, Richmond, Virginia 23220. Goodman and Company, LLP, audits the Foundation, and a separate report is issued.

A. L. Philpott Manufacturing Extension Partnership (nonmajor) – The Partnership has the mission to foster economic growth by enhancing the competitiveness of Virginia's manufacturers. The Partnership provides manufacturing firms with fee-based 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 23-member board of trustees. The board consists of the presidents of two public four-year institutions of higher education; three community college presidents; the director of Virginia's Center for Innovative Technology; Virginia's Secretary of Commerce and Trade; and fifteen citizen members, representing manufacturing industries, 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, Martinsville, Virginia 24112-6693. The Auditor of Public Accounts audits the Partnership, and a separate report is issued.

Virginia Horse Center Foundation (nonmajor) – The Foundation operates the Virginia Horse Center for the benefit of the equine and tourism industries. The Foundation is a discrete component unit of the Commonwealth due to the limited ability of the Foundation to incur additional debt without the Commonwealth's approval. In addition, the Governor appoints one member of the Foundation's board of directors, and this member must approve any changes to the Foundation's by-laws or conveyance of property. The address for the administrative offices of the Foundation is 487 Maury River Road, Lexington, Virginia 24450. The accounting firm of Raetz and Hawkins, P.C., audits the Foundation, and a separate report is issued.

Virginia University Research Partnership (nonmajor) – The Partnership was created as a non-profit, non-stock corporation to receive grant monies appropriated by the General Assembly and to oversee the administration of those grant payments for use by a non-profit, public benefit research institute that conducts research and development for government agencies, commercial businesses, foundations, and other organizations as well as commercializes technology. Due to the primary government being the sole source of funding, it is able to impose its will on the Partnership. The administrative offices are located at 901 East Byrd Street, Post Office Box 798, Richmond, Virginia 23218-0798.

Fort Monroe Federal Area Development Authority (nonmajor) – The Authority is a legally separate, political subdivision of the Commonwealth created by the General Assembly to assist in formulating a reuse plan for Fort Monroe. The Governor appoints a majority of the 18-member board and there is a potential financial benefit/burden to the primary government. The administrative offices of the Authority are located at Old Quarters #1, 151 Bernard Road, Fort Monroe, Virginia 23651. Cherry, Bekaert, & Holland, LLP, audits the Authority, and a separate report is issued.

Assistive Technology Loan Fund Authority (nonmajor) – The Authority was created as a political subdivision and public body corporate by the *Code of Virginia*. The Governor appoints the board of directors as directed by the *Code*. The Authority manages a fund to provide loans to individuals to acquire assistive technology, other equipment, or other authorized purposes designed to help disabled individuals become more independent. The administrative offices are located at 1602 Rolling Hills Drive, Suite 107, Richmond, Virginia 23229. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia National Defense Industrial Authority (nonmajor) – The Authority was created as a public body corporate and as a political subdivision of the Commonwealth. The Authority fosters and promotes business, technology, transportation, education, economic development and other efforts in support of the mission, execution, and transformation of the United States military and national defense activities located in the Commonwealth. The Governor appoints a majority of the 16-member board, 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 audits the Authority, and a separate report is issued.

Virginia Sesquicentennial of the American Civil War Commission (nonmajor) – The Commission was established to prepare for and commemorate the sesquicentennial of Virginia's participation in the American Civil War. The Commission was formed under the Virginia Nonstock Corporation Act. The economic resources received or held by the Commission are entirely or almost entirely for the direct benefit of the primary government. The administrative offices are located at 910 Capitol Street, Richmond, Virginia 23219. Brown, Edwards & Company, LLP, audits the Commission, and a separate report is issued.

Virginia Land Conservation Foundation (nonmajor) – The Foundation was created as a body politic and corporate to serve the Department of Conservation and Recreation (part of 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 302, 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) – The Foundation was created as a body politic and corporate to serve the Virginia Commission for the Arts (part of primary government) by promoting the arts in the Commonwealth. The Governor appoints the board of trustees for the Virginia Commission for the Arts, which also serves as the board for the Virginia Arts Foundation. 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, Virginia 23219. The Auditor of Public Accounts audits the Foundation as part of the Virginia Commission for the Arts.

Library of Virginia Foundation (nonmajor) – The Foundation was created as a private, non-profit 501 (c) (3) corporation supporting the Library of Virginia. The Foundation was established upon receipt of a major bequest. The articles of incorporation stipulate that the Foundation shall at all times be operated solely in connection with, and exclusively for the benefit of the Library of Virginia. The Foundation is governed by a separate board of directors and promotes and supports the Library of Virginia in all activities. The administrative offices of the Foundation are located at 800 East Broad Street, Richmond, Virginia 23219. Barcalow & Hart, PLLC, audits the Foundation, and a separate report is issued.

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

Tobacco Settlement Financing Corporation – The Corporation was created by the Tobacco Settlement Financing Corporation Act, Chapters 482 and 488 of the Acts of the General Assembly during the 2002 General Assembly Session. The Corporation is a public body corporate entity and an independent instrumentality of the Commonwealth, managed by a six-member board, including the State Treasurer. The Corporation purchased all of the future tobacco settlement revenue allocated to the Tobacco Indemnification and Community Revitalization Commission, a discrete component unit of the Commonwealth. Neither the Commonwealth's nor the Virginia Foundation for Healthy Youth (formerly the Virginia Tobacco Settlement Foundation, component unit) tobacco revenue was securitized. The administrative offices of the Corporation are located at 101 N. 14th Street, 3rd Floor, Post Office Box 1879 Richmond, Virginia 23218-1879. Clifton Gunderson, LLP, audits the Corporation, and a separate report is issued.

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-member board of directors. The Authority operates educational programs, tourism, and commerce in the Roanoke Valley. The address for the administrative offices of the Authority is 5204 Bernard Drive SW, Post Office Box 29800, Roanoke, Virginia 24018. Robinson, Farmer, Cox Associates audits the Authority, and a separate report is issued.

Jamestown-Yorktown Foundation, Inc. – The non-profit corporation was created by the *Code of Virginia* to assist the Jamestown-Yorktown Foundation (Foundation). The corporation board consists of five members selected from the Foundation's board of trustees. Several Commonwealth officials serve as ex-officio members of the Foundation's board, and the Governor appoints 12 members. The Corporation's basic activities consist of soliciting and collecting contributions, purchasing artifacts, sponsoring events and exhibits, and overseeing investments. The administrative offices of the Corporation are located at 2207 Colonial Parkway, Post Office Box 3605, Williamsburg, Virginia 23187. Cherry, Bekaert & Holland, LLP, audits the Corporation, and a separate report is issued.

Jamestown-Yorktown Educational Trust – The Trust was created as a non-profit corporation by the *Code of Virginia* to assist the Jamestown-Yorktown Foundation (Foundation). The Trust board consists of six members selected from the Foundation's board of trustees. Several Commonwealth officials serve as ex-officio members of the Foundation's board, and the Governor appoints 12 members. The Trust operates the Jamestown Settlement and Yorktown Victory Centers' gift shops and café. The address for the administrative offices of the Trust is 2207 Colonial Parkway, Post Office Box 3605, Williamsburg, Virginia 23187. Goodman and Company, LLP, audits the Trust, and a separate report is issued.

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 7501 Boulders View Drive, Suite 210, Richmond, Virginia 23225. KPMG, LLP, audits the Program, and a separate report is issued.

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 11 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 32386 Lankford Highway, Cape Charles, Virginia 23310. KPMG, LLP, audits the Commission, and a separate report is issued.

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, contributions, and investment income 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 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. Some institutions of higher education may follow a different policy.

Separate financial statements are provided for governmental funds, proprietary funds, fiduciary funds, and 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 full 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 primary government 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. Income tax revenues for tax underpayments are only recognized to the extent of the primary government's estimated refunds for tax overpayments received. Revenues that the primary government 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 full accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when the payment is due.

The primary government 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, and 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 full 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. Agency funds have no measurement focus since they only report assets and liabilities.

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 enterprise funds (including component units reporting as business-type activities). All enterprise funds reported herein, with the exception of the State Lottery (major enterprise fund), Department of Alcoholic Beverage Control (nonmajor enterprise fund), Behavioral Health Local Funds (nonmajor enterprise fund), the Virginia Biotechnology Research Partnership Authority (nonmajor component unit), the A. L. Philpott Manufacturing Extension Partnership (nonmajor component unit), the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University – major component unit), and the Innovation and Entrepreneurship Investment 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 State Lottery (major enterprise fund), Department of Alcoholic Beverage Control (nonmajor enterprise fund), Behavioral Health Local Funds (nonmajor enterprise fund), the Virginia Biotechnology Research Partnership Authority (nonmajor component unit), the A. L. Philpott Manufacturing Extension Partnership (nonmajor component unit), the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University – major component unit), and the Innovation and Entrepreneurship Investment Authority (nonmajor component unit) 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.

Foundations' (component units) financial statements are prepared using the economic resources measurement focus and the full accrual basis of accounting. The financial statements are prepared under FASB rather than GASB standards. In some instances, activities of the foundations (component units) are reported separately within the footnotes because of the different reporting standards. Also, some foundations (component units) have a December 31st or March 31st year-end rather than a fiscal year-end. Foundations (component units) with different year-ends are included in these financial statements for the year ending December 31, 2009, or March 31, 2010. Significant intrafund activity/balances between each higher education institution and their foundations have been eliminated. However, Old Dominion University (nonmajor component unit) reported the following intrafund balances that could not be eliminated because of differing year-ends: institution assets of $73.8 million and liabilities of $71.2 million, and foundation assets of $64.8 million and liabilities of $79.5 million. Longwood University (nonmajor component unit) reported the following intrafund balances that could not be eliminated because of differing year-ends: institution expenses of $2.8 million and foundation assets of $0.2 million and revenues of $2.7 million.

The primary government 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.

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

Additionally, the primary government 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.

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 and energy performance contracts. 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, the Prescription Monitoring Fund, and the Behavioral Health Endowment Funds whose principal must remain 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 primary government 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 primary government to other agencies and institutions of the Commonwealth. Activities include the provision of information technology, manufacturing activities, insurance programs, fleet services, facilities and property management, and engineering services.

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 plan, and others.

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

Investment Trust Fund – Accounts for the external portion of the Local Government Investment Pool that is sponsored by the Commonwealth.

Agency Funds – Account for amounts held in trust by the primary government 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 and Schedules 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 Commonwealth, 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) – Special Revenue Fund. Formal budgetary integration is not employed for the Capital Projects (nonmajor), Debt Service (nonmajor), Permanent Funds (nonmajor), and the Literary – Special Revenue (major) 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, 2010, the General Fund had a negative cash balance of $3.9 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 6).

Cash Equivalents

Cash equivalents are investments with an original maturity of 90 days or less.

Investments

Investments are principally comprised of monies held by component units, Pension and Other Employee Benefit 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 which approximates fair value. 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 (the System) 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 System's share of their earnings (losses) for the period is included in investment income using the equity method.

Investments of higher education institutions (component units) 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 financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes (see Note 13).

G. Receivables

Receivables in the governmental funds consist primarily of the accrual of taxes, as well as receivables of the primary government's Medicaid program. Receivables in the proprietary funds consist primarily of tuition contribution receivables. Receivables of fiduciary funds are primarily the accrual of security transactions in the Pension and Other Employee Benefit Trust Funds and the accrual of local sales taxes in the Agency Funds. Receivables of the component units consist primarily of mortgage receivables, loan receivables, patient receivables, and student receivables. Receivables are recorded net of allowances for doubtful accounts (see Note 7).

H. Contributions Receivable, Net

Contributions Receivable reported by the foundations (component units) represents pledges or unconditional promises to give that have been discounted (see Note 8).

I. 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 (see Note 9).

J. Inventory

Inventories consist of materials and supplies and 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 State Police (VSP)
- Virginia Department of Transportation (VDOT)
- Department of Health (VDH)
- Department for the Blind and Vision Impaired (DBVI)

VSP inventories are recorded in the General (major) and Other Special Revenue (nonmajor) Funds using the average cost methodology and are maintained at cost. VDOT inventories are recorded in the Commonwealth Transportation Fund (major) using the FIFO and average cost methodologies and are maintained at either cost or average cost. VDH inventories are recorded in the General (major), Health and Social Services Special Revenue (nonmajor), and Federal Trust (major) Funds. These inventories are maintained at cost based on either FIFO or the average cost methodology. DBVI inventories are maintained at cost or average cost based on the FIFO methodology and are recorded in the General (major) and Health and Social Services Special Revenue (nonmajor) Funds.

In addition to inventories maintained as stated above, the following agencies reported donated inventory on hand at June 30, 2010:

- Department of Health (VDH)
- Department of Corrections (DOC)
- Department of Behavioral Health and Developmental Services (DBHDS)
- Department of Juvenile Justice (DJJ)

Inventories maintained by Correctional Enterprises (internal service fund) are stated at the lower of cost or market using FIFO. Inventories maintained by the Virginia Museum of Fine Arts (nonmajor enterprise fund), the Science Museum of Virginia (nonmajor enterprise fund), and the Consolidated Laboratory (nonmajor enterprise fund) are stated at cost using FIFO. Inventories maintained by the internal service funds except for Correctional Enterprises are stated at cost using FIFO.

Inventories maintained by the Department of Alcoholic Beverage Control (nonmajor enterprise fund) are stated at average cost using FIFO.

The Virginia Industries for the Blind (nonmajor enterprise fund) maintains inventories at cost using the average cost methodology.

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. Inventories maintained by the Virginia Horse Center Foundation (nonmajor component unit) are stated at the lower of cost or market using FIFO. Inventories maintained by the Virginia Port Authority (nonmajor component unit) are reported using the moving average unit cost methodology. Inventories at the gift shop run by the Library of Virginia Foundation are stated at net realizable value.

K. Prepaid Items

Prepaid assets for rent, insurance, and similar items are recognized when purchased and expensed when used.

L. Interfund Loans Receivable/Payable

Loans Receivable/Payable represents working capital advances from one fund to another (see Note 9).

M. Other Assets

Other Assets include those balances of a miscellaneous nature that are not specifically classified elsewhere (see Note 10).

N. Capital Assets

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 12).

Capital assets are stated at historical cost or, in some instances, estimated historical cost. Donated capital assets from entities external to the reporting entity are stated at fair market value at the time of donation. Asset transfers or donations from within the reporting entity are recorded at the carrying value of the transferring entity as required by GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. The primary government capitalizes all equipment that has a cost or value greater than $50,000 and expected useful life of greater than two years. The primary government capitalizes all land, water rights/easements, buildings, infrastructure, and software that have a cost or value greater than $100,000 and an expected useful life of greater than two years. Selected agencies, business-type entities, and component units utilize a capitalization limit lower or higher than the primary government's established thresholds for various reasons. Accordingly, reported capital assets may include some items that cost less than those thresholds. Infrastructure, including highways, bridges, and rights-of-way, is capitalized using the historical approach and includes any assets acquired prior to fiscal year 1980.

The primary government'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 primary government capitalizes construction-in-progress when project expenditures, including construction of intangible assets, exceed $100,000. 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 capital assets are as follows:

	Years
Buildings	10–75
Equipment	2–50
Infrastructure	5–50
Software	5–35

Selected agencies, business-type entities, and component units may utilize estimated lives and policies that differ from the above for various reasons.

O. 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 includes payments for nonexchange transactions that met eligibility requirements prior to year-end (see Note 23).

P. Unearned and Deferred Revenue

Unearned revenue represents monies received or revenues accrued but not earned as of June 30, 2010. Deferred revenue represents revenues accrued but not available to finance expenditures of the current fiscal period. The majority of unearned revenue 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, 2010. In the Special Revenue Funds, unearned revenue is composed primarily of federal grant money received but not spent. In the enterprise funds, a majority of unearned revenue represents on-line ticket monies received by the State Lottery (major) for which corresponding drawings have not been held and unearned revenues of Consolidated Laboratory (nonmajor). In the internal service funds, it represents primarily unearned premiums for the Risk Management Fund and prepaid rent and work orders for the Property Management Fund. Additionally, in the Virginia Information Technologies Agency internal service fund, unearned revenue relates to the transfer and purchase of assets for transition agencies and advanced customer receipts. Unearned revenues in the other component units consist primarily of the deferral of fees related to various activities.

Q. Deferred Taxes

Deferred taxes represent the deferral of income taxes withheld or received for the period January through June 2010. This amount is the estimate to be refunded (overpayments by taxpayers) reduced by the estimate to be received (underpayments from taxpayers) that will be finalized when income tax returns are filed in subsequent years. Individual income tax estimated overpayments total $855,115,266 and estimated underpayments total $290,900,524. This results in deferred taxes of $564,214,742.

Corporate income tax estimated overpayments total $62,966,911 and estimated underpayments total $60,282,315. This results in deferred taxes of $2,684,596.

R. 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 securities lending transactions.

S. 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 24).

T. Claims Payable

Claims payable, reported in the proprietary funds of the primary government, represent both health and liability insurance claims payable at June 30, 2010. This includes both actual claims submitted, as well as actuarially determined claims incurred but not reported. Claims relating to the primary government'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 Notes 22.A. and 22.B.). Claims payable reported by the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University – major component unit) represents estimated malpractice, workers' compensation, and medical claims payable amounts. Accrued workers' compensation costs for the Virginia International Terminals (a discrete component unit of the Virginia Port Authority – nonmajor component unit) represent accrued costs for the Company's estimate of its continuing liability for injuries which occurred during periods of self-insurance.

U. 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 that represent payments to employees for separations that occurred prior to June 30. 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 26).

Bond premiums and discounts, as well as significant 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 26).

V. 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.

W. Unreserved, Designated Fund Balances

Designations of fund balance, as shown in Note 4, are established to reflect tentative plans for future utilization of current financial resources. It is the policy of the primary government 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 primary government to limit such designations in the event that their accumulation and presentation would cause a negative unreserved, undesignated fund balance to occur.

X. 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.V. and 1.W. above.

Y. 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 March 31, 2011. 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 average of the bond equivalent rates of 13-week Treasury Bills auctioned during the annual reporting period as calculated by FMS.

Z. Investment Income

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, all investment income reported in the accompanying financial statements include changes in the fair value of investments and the amount reported may be negative. Additionally, the Commonwealth's policy is to record all unrealized gains or losses for the Treasurer's Portfolio in the General Fund.

AA. 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.

BB. 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 the movement of resources between funds. For example, transfers are recorded when a fund receives revenue and subsequently disburses the resources to another fund for expenditure.

2. RESTATEMENT OF BEGINNING BALANCES

The government-wide beginning balance restatements resulted from the following:

GOVERNMENTAL ACTIVITIES:

- The Commonwealth implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* effective for the fiscal year ending June 30, 2010. Accordingly, Governmental Activities have been restated by $32.0 million to record intangible capital assets. Additionally, balances were previously understated by $0.9 million due to various agencies' failure to record capital assets at the time of acquisition.

- As discussed on pages 34 and 91, the Communications Sales and Use Tax Fund is included in the General Fund for fiscal year 2010. While there is no beginning balance impact, this change does affect the comparability of revenue and expenses between fiscal years 2010 and 2009.

COMPONENT UNITS

- The Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University – major component unit) has a restatement of $28.8 million for the implementation of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. In addition, a restatement of $12.8 million is for the inclusion of the Children's Hospital. The Authority became the sole corporate member of the Children's Hospital, a not-for-profit corporation, effective June 30, 2010 and this merger qualified and was accounted for under the pooling-of-interests accounting method.

- Radford University (nonmajor component unit) has a restatement of $5.2 million for the implementation of GASBS No. 51, *Accounting and Financial Reporting for Intangible Assets*.

- George Mason University (nonmajor component unit) has been restated for $10.9 million for an unreported liability of a foundation.

FUND STATEMENTS

The fund statement beginning balance restatements resulted from the following:

- The Private Purpose Trust Funds have been restated by $21.1 billion due to a reporting change with the Education Savings Trust Funds. Since the Commonwealth does not control the daily activities nor bear fiduciary responsibility for these amounts, the CollegeAmerica and CollegeWealth savings plans are no longer reported in the accompanying financial statements.

Beginning Balance Restatement

(Dollars in Thousands)

	Balance as of June 30, 2009	GASBS No. 51 Intangible Assets	GASBS No. 53 Derivatives	Change in Reporting Entity	Correction of Prior Year Errors	Balance June 30, 2009 as restated
Government-wide Activities:						
Primary Government:						
Governmental Activities	$ 16,075,111	$ 32,087	$ -	$ -	$ 857	$ 16,108,055
Business-type Activities	215,509	-	-	-	-	215,509
Total Primary Government	$ 16,290,620	$ 32,087	$ -	$ -	$ 857	$ 16,323,564
Component Units	$ 18,006,029	$ 5,199	$ 28,780	$ 12,837	$ (10,967)	$ 18,041,878
Fund Statements - Fiduciary Funds						
Private Purpose Funds	$ 22,437,535	$ -	$ -	$ (21,120,845)	$ -	$ 1,316,690
Pension Trust Funds	$ 42,588,649	$ -	$ -	$ -	$ -	$ 42,588,649
Investment Trust Funds	$ 3,703,191	$ -	$ -	$ -	$ -	$ 3,703,191
Fund Statements - Component Units:						
Virginia Housing Development Authority	$ 2,119,413	$ -	$ -	$ -	$ -	$ 2,119,413
Virginia Public School Authority	149	-	-	-	-	149
University of Virginia	5,627,764	-	-	-	-	5,627,764
Virginia Polytechnic Institute and State University	1,491,987	-	-	-	-	1,491,987
Virginia Commonwealth University	1,760,827	-	28,780	12,837	-	1,802,444
Nonmajor Component Units	7,005,889	5,199	-	-	(10,967)	7,000,121
Total Component Units	$ 18,006,029	$ 5,199	$ 28,780	$ 12,837	$ (10,967)	$ 18,041,878

3. DEFICIT FUND BALANCES / NET ASSETS

The General Fund ended fiscal year 2010 with a deficit fund balance of $674.3 million on a modified accrual basis of accounting. This is due primarily to the effects of accrual items. These accruals generally result in decreases to fund balance and are similar in nature to previous years.

The State Lottery (major enterprise fund) and Department of Alcoholic Beverage Control (nonmajor enterprise fund) ended the year with deficit net assets of $5.7 million and $16.6 million, 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* and the net other postemployment benefits (OPEB) obligation resulting from GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* 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 $209.3 million. This deficit is mostly attributable to the projected unfunded actuarial liability calculated by the plan's actuary.

The Unemployment Compensation Fund (major enterprise fund) ended the year with a deficit net assets balance of $36.3 million. The deficit was the result of benefits paid to claimants in accordance with the Virginia Unemployment Compensation Act exceeding employer contributions and reserve balances in the Unemployment Trust Fund.

The Wireless E-911 Service Board (nonmajor enterprise fund) ended the year with a deficit net assets balance of $435 thousand. The deficit was a result of the Wireless E-911 service board issuing more grants in fiscal year 2010 than in previous years that consumed the beginning retained earnings.

The Virginia Information Technologies Agency (internal service fund) ended the year with a deficit net assets balance of $35.1 million. The deficit was a result of operating expenses exceeding revenues.

The Property Management Fund (internal service fund) ended the year with a deficit net assets balance of $11.1 million. This deficit was the result of the purchase of a leasehold interest in a state-owned building in fiscal year 2006. Also, the Property Management Fund incurred additional capital lease liabilities due to transfers of leases from other state agencies in fiscal year 2009.

The Risk Management Fund (internal service fund) ended the year with a deficit net assets balance of $357.4 million. The deficit was the result of the Worker's Compensation Program having 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 Payroll Service Bureau (internal service fund) ended the year with a deficit net assets balance of $299 thousand. The deficit was the result of liabilities exceeding the available equity in the fund.

The Virginia Public School Authority (major component unit) ended the year with a deficit net assets balance of $25.2 million. This deficit is the result of an accrued credit against future debt service payments on Local School Bonds due from the localities subsequent to June 30.

The Virginia Economic Development Partnership (nonmajor component unit) ended the year with a deficit net assets balance of $288 thousand. This deficit occurs because the partnership's Statement of Net Assets reflects $3.3 million in non-current liabilities related to compensated absences, net pension obligation, and net other postemployment benefit obligation. The Partnership is funded mainly by state appropriation, which show current funding only.

The Virginia College Building Authority (nonmajor component unit) ended the year with a deficit net assets balance of $1.64 billion. This deficit occurred because the Authority issued bonds for the 21st Century College and Equipment programs subject to future appropriations from the General Fund of the Commonwealth without any other security.

4. GENERAL FUND ANALYSIS – BASIS OF BUDGETING

The following schedule represents reservations and designations of General Fund balance on the basis of budgeting.

Reservations and Designations of Fund Balance
General Fund, Basis of Budgeting
June 30, 2010

(Dollars in Thousands)

Reserved Fund Balance:		
Revenue Stabilization Reserve Fund	$ 295,159	
Payroll Reserve for July 1, 2010 Payroll	83,051	
Lottery Proceeds Fund	1,421	
Total Reserved Fund Balance		379,631
Unreserved Fund Balance:		
Designated:		
Amount Required for Reappropriation of 2010 Unexpended Balances for Capital Outlay	6,099	
Central Capital Planning Fund	3,285	
Communication Sales and Use Tax	37,492	
3% Bonus for State Employees	82,200	
Natural Disaster Sum Sufficient	23,851	
Amount Required by Chapter 874	49,159	
Amount Required for Mandatory Reappropriation	103,557	
Accelerated Sales Tax for Transportation Trust Fund	27,748	
Federal Portion of Dominion Resources Refund	1,243	
Virginia Water Quality Improvement Fund - Part A	23,091	
Virginia Water Quality Improvement Fund - Part B	13,352	
Amount Required for Discretionary Reappropriations	71,158	
Transportation Trust Fund	32,673	
Nonrecurring Expenditures	16,336	
Total Designated Fund Balance		491,244
Fund Balance, June 30, 2010		$ 870,875

Note: Effective for fiscal year 2010, statutory changes required the Communication Sales and Use Tax Fund to be reported as part of the General Fund for reporting purposes. This reporting change affects the General Fund balances reported in all financial statements and required supplementary schedules. Refer to page 34 for additional information.

5. 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 2010, in accordance with the provisions of Article X, Section 8 of the *Constitution* and Section 2.2-1830 of the *Code of Virginia*, a withdrawal of $295 million was made from the fund.

The *Constitution* requires a deposit based on growth in income and retail sales tax revenue and allows revenue growth from increases in tax rates or the repeal of exemptions to be excluded, in whole or part, from the deposit calculation for up to six years. A deposit is not required based on fiscal year 2010 revenue collections when revenue increases from tax reform were included or excluded, including those derived from estimates.

Section 2.2-1829(b) of the *Code of Virginia* requires an additional deposit into the fund when specific criteria have been met. No such designation is required since the specified criteria were not met for fiscal year 2010.

The Revenue Stabilization Fund has principal and interest on deposit of $295 million reserved as a part of General Fund balance. 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 deposit limit allowed is $1.38 billion and $1.35 billion, respectively, for fiscal year 2010 and fiscal year 2011.

In November 2010, the Virginia voters approved increasing the maximum deposit limit allowed from 10 percent to 15 percent of the average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years.

6. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2010, the carrying amount of cash for the primary government was $3,166,164,244 and the bank balance was $80,824,175. The carrying amount of cash for component units was $1,203,580,552 and the bank balance was $649,120,470. Cash equivalents are investments with an original maturity of 90 days or less. Cash and cash equivalents for foundations (component units) totaled $409,014,672 as of year-end. A portion of this amount and some balances during the year exceeded Federal Deposit Insurance Corporation (FDIC) insurance coverage. Foundation investments are disclosed in the Interest Rate Risk section of this note.

For purposes of this note, primary government includes governmental, business-type activities, and fiduciary funds. The deposits of the primary government and the component units, excluding foundations (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. As stated in Note 1.Z., unrealized gains or losses for the Treasurer's Portfolio are recorded in the General Fund.

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 the FDIC.

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 public funds in the following:

- U.S. Treasury and agency securities
- Corporate debt securities
- Asset–backed securities
- Mortgage–backed securities
- Municipal 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, corporate or private label mortgage-backed securities, and asset-backed securities 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.

Public funds held by the Commonwealth, public officers, municipal corporations, political subdivisions, and any other public body of the Commonwealth shall be held in trust for the citizens of the Commonwealth. Any investment of such funds pursuant to the provisions of this chapter shall be made solely in the interest of the citizens of the Commonwealth and 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.

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 (the System) (part of 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 System does not have investment policies that place specific restrictions on investments related to custodial risk, interest rate risk, credit risk, or foreign currency risk. The System investment portfolio is intended to be managed through diversification and prudent judgment, rather than through specific policy restrictions.

The information presented for the external investment pool was obtained from audited financial statements. 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 this pool is voluntary.

Custodial Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Commonwealth may not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Policies related to credit risk pertaining to the Commonwealth's securities lending program are found in the securities lending section of this note.

As of June 30, 2010, the primary government had $709,564,278 of cash equivalents and investments that were exposed to custodial risk as uninsured and uncollateralized. The System had $704,008,000 of this amount that consisted of various types of debt and equity securities that were held by counterparties' trust departments or agents, but not in the System's name. Common and preferred stocks represented $565,278,933 and mortgage-backed securities represented $110,066,000 of the total. The remainder was for various types of debt and equity securities. The component units had $20,903,260 of cash equivalents and investments that were exposed to custodial risk as uninsured and uncollateralized. Mutual and money market funds represented $17,996,812 and common and preferred stocks represented $1,347,440 of the total and the remainder was for various types of debt and equity securities.

As of June 30, 2010, the investments of the Pension and Other Employee Benefit Trust Funds were approximately 78 percent of the primary government investments, and 99 percent of those that were exposed to custodial risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Commonwealth has elected the Segmented Time Distribution method of disclosure.

The State Treasurer's guidelines limit the following maximum durations for any single security of the following investment types:

Security Type	Maximum Duration
Corporate Security	15 years
Asset-Backed Securities	5 years
Sovereign Government Obligations (excluding U.S.)	5 years
Negotiable Certificates of Deposit and Negotiable Bank Notes	5 years

The State Treasurer's guidelines further describe target durations for the overall general account portfolio of 1.7 years.

The System manages the risk within the portfolio using the effective duration or option-adjusted methodology. It is widely used in the management of fixed income portfolios in that it quantifies, to a much greater degree, the risk of interest rate changes. The methodology takes into account optionality on bonds and scales the risk of price changes on bonds depending upon the degree of change in rates and the slope of the yield curve. All of the System's fixed income portfolios are managed in accordance with the System's investment guidelines, most of which are specific as to the degree of interest rate risk that can be taken.

At June 30, 2010, the Commonwealth had the following investments and maturities:

Primary Government Investments

(Dollars in Thousands)

Investment Type	Fair Value	Investment Maturities (in years) Less Than 1	1-5	6-10	More Than 10
Debt Securities					
U. S. Treasury and Agency Securities	$ 1,845,088	$ 453,605	$ 792,616	$ 311,635	$ 287,232
Corporate Notes	2,172,698	2,090,892	79,034	449	2,323
Corporate Bonds	644,478	32,300	336,313	198,892	76,973
Corporate and Other Credit	11,027,589	4,500,737	3,888,272	2,129,362	509,218
Corporate Mortgage-Backed Securities	68,186	-	-	502	67,684
Commercial Paper	1,506,187	1,506,187	-	-	-
Banker's Acceptance	41,046	41,046	-	-	-
Negotiable Certificates of Deposit	1,693,646	1,693,419	227	-	-
Reverse Repurchase Agreements	600,474	600,474	-	-	-
Repurchase Agreements	2,544,114	2,544,114	-	-	-
Municipal Securities	242,436	12,166	44,990	49,924	135,356
Asset-Backed Securities	1,022,034	369,216	354,556	24,264	273,998
Agency Mortgage-Backed Securities	1,849,216	69,171	1,567,670	22,842	189,533
Agency Unsecured Bonds and Notes	2,905,898	1,883,414	853,596	68,322	100,566
Mutual and Money Market Funds (Includes SNAP)	1,133,788	1,133,613	175	-	-
The Boston Company Pooled Employee Trust Fund	7,203	7,203	-	-	-
Guaranteed Investment Contracts	261,342	-	261,342	-	-
Fixed Income and Commingled Funds	1,824,870	140,168	219,566	1,465,136	-
Deposits with the U.S. Treasury for Unemployment Compensation	230,476	230,476	-	-	-
Investments held by broker-dealers under securities loans					
U. S. Government and Agency Securities	1,793,571	-	1,112,764	354,037	326,770
Corporate Bonds	669	-	216	453	-
Corporate and Other Credit	354,311	25,396	160,703	149,016	19,196
Other Debt Securities	26,195	-	-	26,195	-
Other	1,027,983	498,606	347,627	83,204	98,546
Total	$ 34,823,498	$ 17,832,203	$ 10,019,667	$ 4,884,233	$ 2,087,395

Component Unit Investments

(Dollars in Thousands)

Investment Type	Fair Value	Investment Maturities (in years) Less Than 1	1-5	6-10	More Than 10
Debt Securities					
U. S. Treasury and Agency Securities	$ 756,969	$ 392,383	$ 139,352	$ 55,202	$ 170,032
Corporate Notes	73,513	24,916	39,320	7,582	1,695
Corporate Bonds	273,004	35,674	170,821	59,424	7,085
Corporate Mortgage Backed Securities	13,868	-	-	-	13,868
Commercial Paper	170,630	170,470	160	-	-
Negotiable Certificates of Deposit	63,706	60,861	2,845	-	-
Repurchase Agreements	44,272	44,272	-	-	-
Municipal Securities	3,567,389	25,254	113,624	82,252	3,346,259
Asset Backed Securities	166,393	19,520	67,408	22,564	56,901
Agency Unsecured Bonds and Notes	111,522	39,476	72,046	-	-
Agency Mortgage Backed	271,650	17,331	20,155	11,159	223,005
Mutual and Money Market Funds (Includes SNAP)	1,824,055	1,749,286	13,921	55,903	4,945
Guaranteed Investment Contracts	110,536	11,147	1,514	-	97,875
Fixed Income and Commingled Funds	3,001	3,001	-	-	-
Other	337,054	328,293	1,064	969	6,728
Total	$ 7,787,562	$ 2,921,884	$ 642,230	$ 295,055	$ 3,928,393

Foundation Investments

(Dollars in Thousands)

Investment Type	Fair Value
U.S. Treasury and Agency Securities	$ 594,765
Common & Preferred Stocks	806,608
Corporate Notes	5,241
Corporate Bonds	200,772
Negotiable Certificates of Deposit	7,742
Municipal Securities	3,525
Asset Backed Securities	3,935
Agency Mortgage Backed	24,800
Mutual Funds	407,896
Real Estate	213,723
Index Funds	329
Others	4,959,470
Total	$ 7,228,806

Note: Foundations represent FASB reporting entities defined in Note 1.B. A portion of these amounts are reported at cost rather than fair value because fair value was not available or readily determinable.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State Treasurer of the Commonwealth places emphasis on securities of high credit quality and marketability. At the time of purchase, the following limitations are in place:

- Bankers acceptances: P-1, Moody's and A-1, S&P
- Negotiable CDs and bank notes:
  - maturities of one year or less: P-1, Moody's and A-1, S&P
  - maturities over one year: Aa, Moody's and AA, S&P
- Commercial paper: P-1, Moody's and A-1, S&P
- Corporate Notes and Bonds: A3/A- or equivalent by two nationally recognized rating agencies, one of which must be Moody's or S&P. However, each external investment manager may invest up to ten percent of their portfolio in Baa2/BBB rated bonds which, at a minimum, must be rated Baa2/BBB by two nationally recognized rating agencies (one of which must be either Moody's or S&P).
- Municipal Bonds: A3/A- or equivalent by two nationally recognized rating agencies, one of which must be Moody's or S&P
- Asset-backed securities: AAA by two nationally recognized rating agencies, one of which must be Moody's or S&P
- Dollar denominated obligations of sovereign governments: Aaa, Moody's and AAA, S&P
- Commercial Mortgage-Backed Securities (CMBS) and Collateralized Mortgage Obligations (CMOs): AAA by two nationally recognized rating agencies, one of which must be Moody's or S&P

The following tables present the credit ratings for the majority of the investments of the primary government and component units as of June 30, 2010. The ratings presented below are using Standard & Poor's (S&P) and Moody's Investors Service (Moody's) rating scales. Within the primary government, the investments presented in the table represented 68.1 percent of the total debt securities, 8.9 percent of which were invested in corporate investments rated Aaa by Moody's. Within the component units, the investments presented in the table represented 86.5 percent of the total debt securities, 41.3 percent of which were invested in unrated Municipal Securities.

Credit risk for derivative instruments held by the Commonwealth results from counterparty risk assumed by the Commonwealth. This is essentially the risk that the borrower will be unable to meet its obligation. Information regarding the Commonwealth's credit risk related to derivatives is found in the Derivative Financial Instruments section of this note.

Policies related to credit risk pertaining to the Commonwealth's securities lending program are found in the Securities Lending section of this note.

Credit Rating - Primary Government
(Dollars in Thousands)

Investment	Amount	Rating Agency	Rating	Percent of Portfolio
Corporate and Other Credit	$ 3,083,821	Moody's	Aaa	8.86%
Agency Unsecured Bonds and Notes	2,630,921	Standard & Poor's	AAA	7.56%
Corporate and Other Credit	1,924,854	Moody's	NR	5.53%
U. S. Treasury and Agency Securities	1,845,088	N/A	N/A	5.30%
Investments held by broker-dealers under securities loans (U.S. Government and Agency Securities)	1,781,323	N/A	N/A	5.12%
Agency Mortgage Backed Securities	1,607,916	N/A	N/A	4.62%
Repurchase Agreements	1,600,000	Standard & Poor's	AAA	4.59%
Commercial Paper	1,372,302	Moody's	P-1	3.94%
Negotiable Certificates of Deposit	1,052,052	Moody's	P-1	3.02%
Fixed Income and Commingled Funds	654,817	Moody's	Baa1	1.88%
Mutual and Money Market Funds (Include SNAP)	647,684	Standard & Poor's	AAA	1.86%
Corporate and Other Credit	646,449	Moody's	B1	1.86%
Repurchase Agreements	638,630	Standard & Poor's	A-1	1.83%
Reverse Repurchase Agreements	600,474	Moody's	NR	1.72%
Corporate and Other Credit	593,211	Moody's	Baa2	1.70%
Corporate and Other Credit	536,060	Moody's	Baa1	1.54%
Asset Backed Securities	531,939	Standard & Poor's	AAA	1.53%
Corporate and Other Credit	514,240	Moody's	A2	1.48%
Corporate Notes	498,026	Moody's	Aa2	1.43%
Corporate and Other Credit	487,442	Moody's	B3	1.40%
Corporate Notes	466,321	Moody's	Aa3	1.34%

Credit Rating - Component Units
(Dollars in Thousands)

Investment	Amount	Rating Agency	Rating	Percent of Portfolio
Municipal Securities	$ 3,212,680	N/A	N/A	41.25%
Mutual and Money Market Funds (Include SNAP)	895,228	Moody's	P-1	11.50%
U. S. Treasury and Agency Securities	756,969	N/A	N/A	9.72%
Mutual and Money Market Funds (Include SNAP)	730,756	Standard & Poor's	AAA	9.38%
Other Debt Securities	328,711	N/A	N/A	4.22%
Mutual and Money Market Funds (Include SNAP)	141,242	N/A	N/A	1.81%
Agency Mortgage Backed Securities	140,057	Standard & Poor's	AAA	1.80%
Agency Mortgage Backed Securities	112,226	Moody's	Aaa	1.44%
Commercial Paper	106,481	Standard & Poor's	A-1+	1.37%
Municipal Securities	84,704	Standard & Poor's	AAA	1.09%
Agency Unsecured Bonds and Notes	81,259	Standard & Poor's	AAA	1.04%
Guaranteed Investment Contracts	79,961	Moody's	Aa3	1.03%
Negotiable Certificates of Deposit	63,706	N/A	N/A	0.82%

Concentration of Credit Risk

Concentration of credit risk is related to the risk of loss that may be attributed to the magnitude of a government's investment in a single issuer. The Commonwealth holds no investment in the securities of a single issuer that is more than five percent of the total market value of its investments. In addition, the Treasury and the System have individual investment policies limiting the amounts that may be invested in any single issuer.

It is the State Treasurer's policy that each portfolio will be diversified with no more than four percent of the value of the fund invested in the securities of any single issuer. This limitation shall not apply to the U.S. Government, or agency thereof, or U.S. Government sponsored corporation securities and fully insured and/or collateralized certificates of deposit. Certain portfolios are limited to amounts less than four percent of the value of the fund invested in the securities of any single issuer.

The System investment guidelines for each specific portfolio also limit investments in any corporate entity to no more than five percent of the market value of the account for both the internally and externally managed portfolios. There is no concentration of investments in any one organization that represents five percent or more of plan net assets available for benefits.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. All investments exposed to foreign currency risk were part of the System portfolio at June 30, 2010.

The System's currency risk exposure, or exchange rate risk, primarily exists in the international and global equity investment holdings. From time to time, the System's external managers may hedge their portfolios' foreign currency exposures with currency forward contracts. This will depend upon their views about a specific foreign currency relative to the U.S. dollar. The System's exposure to foreign currency risk is highlighted in the following table.

Currency Exposures by Asset Class

(Dollars in Thousands)

Currency	Cash & Cash Equivalents	Equity	Corporate Bonds	Private Equity	Real Estate	International Funds	Total
U.S. Dollar	$ -	$ -	$ -	$ -	$ -	$ 805,464	$ 805,464
British Pound Sterling	2,517	668,482	105,636	1,824	7,122	-	785,581
Japanese Yen	233	679,249	15,140	-	2	-	694,624
Hong Kong Dollar	5,659	543,176	-	-	-	-	548,835
South Korean Won	1,974	392,201	-	-	-	-	394,175
Swedish Krona	1,598	114,525	209,487	426	-	-	326,036
Indian Rupee	5,610	286,810	-	-	-	-	292,420
Euro Currency Unit	24,783	603,278	(381,322)	22,482	-	-	269,221
Canadian Dollar	1,713	286,749	(21,871)	-	-	-	266,591
New Taiwan Dollar	8,157	245,168	-	-	-	-	253,325
Swiss Franc	4,839	154,580	65,434	-	-	-	224,853
Brazil Real	4,939	212,113	782	-	-	-	217,834
South African Comm Rand	873	108,362	-	-	-	-	109,235
New Turkish Lira	561	94,558	-	-	-	-	95,119
New Zealand Dollar	501	35,011	54,218	-	-	-	89,730
Australian Dollar	1,932	59,475	16,728	-	-	-	78,135
Mexican New Peso	234	76,000	-	-	-	-	76,234
Thailand Baht	75	74,207	-	-	-	-	74,282
Malaysian Ringgit	73	70,814	-	-	-	-	70,887
Singapore Dollar	425	52,700	-	-	-	-	53,125
Indonesian Rupian	432	37,739	-	-	-	-	38,171
Norwegian Krone	285	36,367	(10,109)	-	-	-	26,543
Polish Zloty	247	25,177	888	-	-	-	26,312
Danish Krone	782	24,448	-	-	-	-	25,230
Israeli Shekel	269	14,478	-	-	-	-	14,747
Egyptian Pound	34	13,207	-	-	-	-	13,241
Russian Ruble (New)	-	9,937	-	-	-	-	9,937
Philippines Peso	989	7,467	-	-	-	-	8,456
Turkish Lira	7,189	-	-	-	-	-	7,189
Hungarian Forint	58	5,036	-	-	-	-	5,094
Czech Koruna	257	4,032	-	-	-	-	4,289
Omani Rial	-	1,919	-	-	-	-	1,919
UAE Dirham	-	1,636	-	-	-	-	1,636
Moroccan Dirham	42	1,104	-	-	-	-	1,146
Chilean Peso	-	522	-	-	-	-	522
Pakistan Rupee	-	296	-	-	-	-	296
Total	$ 77,280	$ 4,940,823	$ 55,011	$ 24,732	$ 7,124	$ 805,464	$ 5,910,434

Securities Lending

The State Treasury's securities lending program is managed by Deutsche Bank AG, New York (Deutsche Bank), under a contract dated March 31, 2006 and Novation Agreement dated November 23, 2009. The enabling legislation for the securities lending program is Section 2.2-4506 of Chapter 45 of the *Code of Virginia*, as amended. No violations of legal or contractual provisions were noted during the year. The general account participated in a 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 or are term loans with the right of substitution. Per the contract with Deutsche Bank, all cash reinvestment securities attributable to loans made on the Commonwealth's behalf shall be maintained by Deutsche Bank, and Treasury cannot pledge or sell such collateral absent a default.

The State Treasury's contract with Deutsche Bank provides for loss indemnification against insolvency default with respect to lending transactions and in the case of reverse transactions as defined in the applicable Agency Securities Lending and Repurchase Agreement. Additionally, Deutsche Bank AG 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 Agency Securities Lending and Repurchase Agreement. During the past year, Treasury disposed of $7.6 million of an asset-backed security in default. The sale price for the security was $0.415 per dollar of par, and total losses realized were $4.4 million.

When securities are loaned, the collateral received is at least 100 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 effectively restricts the maximum percentage of the portfolio that may be loaned. During the past fiscal year, approximately 33 percent of the general account securities were on loan.

During the past year, a combination of U.S. Treasury, agency, agency mortgage and corporate securities have been loaned, with the majority of the loaned securities being U.S. Treasury and agency securities. At June 30, 2010, all collateral received was in the form of cash.

Securities loaned for the Treasurer's cash collateral reinvestment pool, which consisted of 87.6 percent general account funds and 12.4 percent State Lottery funds as of June 30, 2010, had a carrying value of $1,437,690,921 and a fair value of $1,447,169,057. The fair value of the collateral received was $1,464,962,429 providing for coverage of 101.23 percent. As a result, the State Treasury assumes no credit risk on securities loaned. The carrying value of the cash collateral reinvestment pool received was $1,464,975,546 and the fair value of the investments purchased with the cash collateral was $1,452,206,741. As of June 30, 2010, the Treasurer's cash collateral reinvestment pool had an unrealized loss of $12.8 million, and is recorded in the General Fund as stated in Note 1.Z. This amount is included in the total Treasurer's Portfolio discussed earlier in this note.

Current cash reinvestment guidelines allow for a maximum weighted-average portfolio maturity of up to 60 days. At June 30, 2010, the cash reinvestment portfolio had a weighted average maturity of 14 days using the next interest reset date as the maturity date for floating rate securities. Using the expected maturity date, the weighted average maturity was 1.7 years and using the final maturity date, which assumes no pay downs on any asset-backed or mortgage-backed securities, the weighted average maturity was in excess of six years.

Treasury's current cash reinvestment guidelines allow for investment in government securities, AAA rated sovereign governments, asset-backed (including mortgage-backed) securities, commercial paper and corporate notes, negotiable certificates of deposit, liquid master notes and promissory notes, bank notes, repurchase agreements and registered money market funds. At June 30, 2010, the majority of cash reinvestments were in indemnified repurchase agreements and asset-backed (including mortgage-backed) floating rate securities. In order to ensure adequate liquidity and to reduce the reinvestment portfolio risk profile, all cash reinvestments made since August 2007 have been in overnight or short-term indemnified repurchase agreements.

At June 30, 2010, $31.0 million or 2.1 percent of the total cash reinvestment portfolio was out of compliance with Treasury's securities lending cash collateral investment guidelines due to various security ratings downgrades during the past few years. Included in the $31.0 million of out of compliance securities is a $15.0 million asset-backed security that Treasury has reason to believe is other than temporarily impaired therefore, Treasury has written off $1.2 million or $0.08 per dollar of par value of this security as of June 30. Subsequent to June 30, an additional $1,050,000 loss was realized for this security. Approximately 87.6 percent of these out of compliance securities are part of the general account portion of the securities lending program and the other 12.4 percent is the State Lottery's portion of the securities lending program. The Commonwealth regularly evaluates these positions to determine the most beneficial course of action going forward.

Under authorization of the Board of Trustees, the Virginia Retirement System (the System) lends its fixed income and equity securities to various broker-dealers on a temporary basis. This program is administered through an agreement with the System's custodial agent bank. All security loan agreements are collateralized by cash, securities, or an irrevocable letter of credit issued by a major bank, and have a market value equal to at least 102 percent of the market value for domestic securities and 105 percent for international securities. Securities received as collateral cannot be pledged or sold by the System unless the borrower defaults. Contracts require the lending agents to indemnify the System if the borrowers fail to return the securities lent and related distributions, and if the collateral is inadequate to replace the securities lent. All securities loans can be terminated on demand by either the System or the borrowers. The majority of loans are open loans, meaning the rebate is set daily. This results in a maturity of one or two days on average, although securities are often on loan for longer periods. The maturity of loans generally does not match the maturity of collateral investments, which averages 24 days. At year-end, the System has no credit risk exposure to borrowers because the amounts it owes the borrowers exceed the amounts the borrowers owe it. The market value of securities on loan at June 30, 2010, was $4,603,717,000. The June 30, 2010, balance was composed of U.S. Government and agency securities of $1,792,822,000, corporate and other bonds of $380,507,000 and common and preferred stocks of $2,430,388,000. The value of collateral (cash and non-cash) at June 30, 2010, was $4,813,736,000.

At June 30, 2010, the invested cash collateral had a market value of $4,084,119,000 and was composed of commercial paper of $1,038,472,000, time deposits of $235,193,000, certificates of deposit of $448,683,000, floating rate notes of $1,747,969,000, asset backed securities of $13,328,000, and repurchase agreements of $600,474,000. As of June 30, 2010, the System's cash collateral reinvestment pool had an unrealized loss of $24 million.

Securities on loan are included with investments on the Statement of Net Assets. The invested cash collateral is included in the Statement of Net Assets as an asset and corresponding liability.

A foundation of the University of Virginia (major component unit) reports an obligation under securities lending of approximately $5.8 million. Since this foundation follows FASB rather than GASB reporting requirements, disclosures can be found in the individually published financial statements of the foundation.

7. RECEIVABLES

The following schedule (dollars in thousands) details the accounts, loans, interest, taxes, prepaid tuition contributions, security transactions, 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, 2010:

	Accounts Receivable	Loans / Mortgage Receivable	Interest Receivable	Taxes Receivable	Prepaid Tuition Contributions Receivable
Primary Government:					
General	$ 820,443	$ 197	$ 464,449	$ 1,590,939	$ -
Major Special Revenue Funds:					
Commonwealth Transportation	197,687	27,770	-	128,324	-
Federal Trust	771,157	228	-	-	-
Literary	224,784	297,014	17,640	-	-
Nonmajor Governmental Funds	150,350	-	2,364	2,627	-
Major Enterprise Funds:					
State Lottery	54,838	-	-	-	-
Virginia College Savings Plan	6,577	-	4,440	-	266,457
Unemployment Compensation	148,233	-	-	-	-
Nonmajor Enterprise Funds	37,985	-	-	-	-
Internal Service Funds	12,243	-	-	-	-
Private Purpose	-	7	1,362	-	-
Pension and Other Employee Benefit Trust (1)	76,007	-	191,856	-	-
Investment Trust Fund	-	-	1,405	-	-
Agency Funds	208	-	-	109,003	-
Total Primary Government (2)	$ 2,500,512	$ 325,216	$ 683,516	$ 1,830,893	$ 266,457
Discrete Component Units:					
Virginia Housing Development Authority (3)	$ -	$ 8,076,234	$ 39,110	$ -	$ -
Virginia Public School Authority	-	-	44,884	-	-
University of Virginia	473,770	42,554	1,246	-	-
Virginia Polytechnic Institute and State University	55,144	33,259	860	-	-
Virginia Commonwealth University	341,867	29,595	729	-	-
Nonmajor Component Units	170,520	3,161,581	54,173	5,506	-
Total Component Units	$ 1,041,301	$ 11,343,223	$ 141,002	$ 5,506	$ -

Note (1): Other Receivables of the Pension and Other Employee Benefit Trust Fund of $586,247 (dollars in thousands) are made up $578,714 (dollars in thousands) in pending investment transactions, including the offsetting entries for $576,538 (dollars in thousands) in the investment overlay and swaps, $1,423 (dollars in thousands) in securities lending, and $753 (dollars in thousands) in other investment receivable; as well as $7,533 (dollars in thousands) in other receivables related to benefit plans.

Note (2): Fiduciary net receivables in the amount of $2,713,931 (dollars in thousands) are not included in the Government-wide Statement of Net Assets.

Note (3): VHDA reports $8,021,822 (dollars in thousands) as Restricted Loans Receivable, $37,714 (dollars in thousands) as Restricted Interest Receivable, and $6,749 (dollars in thousands) as Restricted Other Receivables.

Security Transactions	Other Receivables	Allowance for Doubtful Accounts	Net Accounts Receivable	Amounts to be Collected Greater than One Year
$ -	$ -	$ (1,855,842)	$ 1,020,186	$ 9,167
-	-	(27,081)	326,700	27,823
-	-	(14,559)	756,826	341
-	-	(216,861)	322,577	271,159
-	-	(96,866)	58,475	1,038
-	-	-	54,838	-
-	-	-	277,474	205,083
-	-	(34,212)	114,021	-
-	-	(1,991)	35,994	-
-	7,824	(332)	19,735	-
-	-	-	1,369	-
1,813,792	586,247	-	2,667,902	-
-	-	-	1,405	-
-	-	(65,956)	43,255	145
$ 1,813,792	$ 594,071	$ (2,313,700)	$ 5,700,757	$ 514,756
$ -	$ 12,772	$ -	$ 8,128,116	$ 7,916,701
-	-	-	44,884	44,884
-	28,649	(276,462)	269,757	49,958
-	33	(3,063)	86,233	38,792
-	82,829	(146,843)	308,177	23,391
-	86,048	(15,304)	3,462,524	3,040,527
$ -	$ 210,331	$ (441,672)	$ 12,299,691	$ 11,114,253

8. CONTRIBUTIONS RECEIVABLE, NET

The following schedule details the contributions receivable for foundations[1] included with the major component units, and aggregated nonmajor component units, as of June 30, 2010:

(Dollars in Thousands)

	Due in Less Than One Year	Due Between One and Five Years	Due in More Than Five Years	Subtotal	Present Value Discount (2)	Allowance for Doubtful Accounts	Contributions Receivable, Net
Discrete Component Units:							
University of Virginia	$ 50,726	$ 59,467	$ 12,352	$ 122,545	$ (6,403)	$ (9,139)	$ 107,003
Virginia Polytechnic Institute & State University	26,236	35,928	8,490	70,654	(1,284)	(1,220)	68,150
Virginia Commonwealth University	8,545	13,303	1,074	22,922	(1,986)	(790)	20,146
Nonmajor Component Units	44,280	78,519	31,518	154,317	(11,972)	(4,884)	137,461
Total Component Units	$ 129,787	$ 187,217	$ 53,434	$ 370,438	$ (21,645)	$ (16,033)	$ 332,760

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.
Note (2): The discount rate used to determine present value ranges from 0.29 percent to 9.00 percent.

9. INTERFUND AND INTER-ENTITY 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 Due from Other Funds are “Due from Other Funds,” “Due from Internal Parties (governmental funds and business-type activities),” and “Due from External Parties (fiduciary funds).” Included in the category Due to Other Funds are “Due to Other Funds,” “Due to Internal Parties (governmental funds and business-type activities),” and “Due to External Parties (fiduciary funds).” The following schedule shows the Due from/to Other Funds as of June 30, 2010.

Schedule of Due from/to Other Funds

June 30, 2010

(Dollars in Thousands)

Due From	Amount	Due To	Amount
Primary Government		**Primary Government**	
General Fund	$ 6,391	Major Enterprise Funds:	
		State Lottery	$ 51
		Nonmajor Enterprise Funds	5,606
		Internal Service Funds	734
Major Special Revenue Funds:			
Commonwealth Transportation	28,116	General Fund	27,748
		Internal Service Funds	368
Nonmajor Governmental Funds	9,101	Major Special Revenue Funds:	
		Commonwealth Transportation	6,181
		Federal Trust	2,194
		Major Enterprise Funds:	
		Unemployment Compensation	239
		Nonmajor Enterprise Funds	487
Major Enterprise Funds:			
Unemployment Compensation	1,157	General Fund	568
		Major Special Revenue Funds:	
		Commonwealth Transportation	259
		Federal Trust	134
		Nonmajor Governmental Funds	155
		Major Enterprise Funds:	
		State Lottery	4
		Nonmajor Enterprise Funds	24
		Internal Service Funds	13
Nonmajor Enterprise Funds	6	General Fund	6
Internal Service Funds	38,109	General Fund	19,530
		Major Special Revenue Funds:	
		Commonwealth Transportation	7,030
		Federal Trust	5,028
		Nonmajor Governmental Funds	4,735
		Major Enterprise Funds:	
		State Lottery	170
		Virginia College Savings Plan	28
		Nonmajor Enterprise Funds	1,235
		Internal Service Funds	353
Pension Trust	38	Private Purpose Trust	38
Total Primary Government	$ 82,918	Total Primary Government	$ 82,918

Schedule of Due from/to Internal/External Parties
June 30, 2010

(Dollars in Thousands)

Due From		Amount	Due To		Amount
Primary Government			**Primary Government**		
General Fund	$	15	Investment Trust	$	15
Nonmajor Governmental Funds		281	Agency		281
Internal Service Funds		121	Pension and Other Employee Benefit Trust		103
			Private Purpose Trust Funds		18
Pension and Other Employee Benefit Trust		48,107	General Fund		27,466
			Major Special Revenue Funds:		
			Commonwealth Transportation		7,592
			Federal Trust		4,171
			Nonmajor Governmental Funds		6,862
			Major Enterprise Funds:		
			State Lottery		254
			Virginia College Savings Plan		91
			Nonmajor Enterprise Funds		950
			Internal Service Funds		721
Total Primary Government	$	48,524	Total Primary Government	$	48,524

Interfund Receivables/Payables

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

The following schedule shows the Interfund Receivables/Payables for the primary government as of June 30, 2010. There were no Interfund Receivables/Payables for the component units as of June 30, 2010.

Interfund Receivables/Payables
June 30, 2010

(Dollars in Thousands)

Receivable From:		Amount	Payable To:		Amount
Primary Government			**Primary Government**		
Nonmajor Governmental Funds	$	110,202	General Fund	$	13,151
			Major Special Revenue Funds:		
			Commonwealth Transportation		6,000
			Federal Trust		8,746
			Major Enterprise Funds:		
			State Lottery		9,000
			Nonmajor Enterprise Funds		32,781
			Internal Service		40,524
Total	$	110,202	**Total**	$	110,202

Note: The loan payable to the General Fund will not be repaid within one year.

Due from/to Primary Government and Component Units

Included in this category is activity between the Commonwealth and its component units, as well as activity between component units.

The following due from primary government amounts represent General Fund (major governmental fund) appropriation available amounts that are due from the General Fund: University of Virginia (major component unit) - $7.0 million, Virginia Polytechnic Institute and State University (major component unit) - $0.1 million, Virginia Commonwealth University (major component unit) - $0.7 million, and nonmajor component units - $4.9 million. The General Fund reports $0.6 million of the due to component units in the governmental funds and the entire amount of $12.7 million is reported in the government-wide financial statements.

The following due from primary government amounts represent amounts due from the General Fund (major governmental fund) related to interest/rebate allocations: University of Virginia (major component unit) - $0.1 million, Virginia Polytechnic Institute and State University (major component unit) - $0.1 million, Virginia Commonwealth University (major component unit) - $0.2 million, and nonmajor component units - $7.6 million. In addition, a due from primary government amount due from the Federal Trust Special Revenue Fund (major governmental fund) to the Virginia College Building Authority (nonmajor component unit) of $3.6 million is for interest on BABs.

A $6.0 million due from primary government amount represents an amount due from a nonmajor governmental fund related to the Department of the Treasury's reimbursement programs primarily to nonmajor component units.

A $1.3 million due from primary government amount represents an amount due from a nonmajor governmental fund related to the pledging of monies towards an acquisition for the Virginia Museum of Fine Arts Foundation (nonmajor component unit). The entire nonmajor governmental amount is reported in the government-wide financial statements.

An $11.8 million due from component units in the Health Care Fund (internal service fund) represents amounts due from the following: University of Virginia (major component unit) - $0.1 million, Virginia Polytechnic Institute and State University (major component unit) - $2.4 million, Virginia Commonwealth University (major component unit) - $2.3 million, and nonmajor component units - $7.0 million.

A $0.4 million due from component units represents monies owed for administrative expenses from the Science Museum of Virginia Foundation (nonmajor component unit) to a nonmajor governmental fund. The entire nonmajor governmental amount is reported in the government-wide financial statements.

The following due from component units amounts represent amounts due from the Virginia College Building Authority (nonmajor component unit) related to the Department of the Treasury's reimbursement programs: University of Virginia (major component unit) - $6.8 million, Virginia Polytechnic Institute and State University (major component unit) - $12.7 million, Virginia Commonwealth University (major component unit) - $8.2 million, and nonmajor component units - $71.9 million. There is a due to component units of $9.7 million from the Virginia Commercial Space Flight Authority (nonmajor component unit) to a foundation of the Old Dominion University (nonmajor component unit). There is a $0.2 million due to component units from the Virginia Economic Development Partnership (nonmajor component unit) to the Virginia National Defense Industrial Authority (nonmajor component unit).

Due from/to Component Units and Fiduciary Funds

A $23.5 million due from component units in the Pension and Other Employee Benefit Trust Funds (fiduciary funds) represents amounts due from the following: University of Virginia (major component unit) - $5.3 million, Virginia Polytechnic Institute and State University (major component unit) - $3.6 million, Virginia Commonwealth University (major component unit) - $2.9 million, and nonmajor component units - $11.7 million.

Loans Receivable/Payable Between Primary Government and Component Units

The Virginia Commonwealth University (major component unit) loan of $6.2 million, the Norfolk State University (nonmajor component unit) loan of $8.5 million, and the George Mason University (nonmajor component unit) loan of $0.1 million were used to fund programs until bonds were issued. The Virginia Community College System (nonmajor component unit) loan of $1.6 million was used to advance fund federally-funded grant programs.

The $168.7 million in loans receivable from primary government represents loans from the Virginia Public School Authority (VPSA) to the Literary Special Revenue Fund (major governmental fund). The VPSA makes grants to local school divisions to finance the purchase of educational technology equipment. The VPSA 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 Special Revenue Fund (major governmental fund).

10. OTHER ASSETS

The following table summarizes Other Assets as of June 30, 2010:

(Dollars in Thousands)

	Cash and Travel Advances	Unamortized Bond Issuance Expense	Other Assets	Total Other Assets
Primary Government:				
General	$ 2,431	$ -	$ -	$ 2,431
Major Special Revenue Funds:				
Commonwealth Transportation	316	-	-	316
Federal Trust	2,017	-	-	2,017
Nonmajor Governmental Funds	835	-	1,020	1,855
Major Enterprise Funds:				
State Lottery	1	-	-	1
Nonmajor Enterprise Funds	168	-	-	168
Internal Service Funds (1)	104	-	7,678	7,782
Agency Funds (2)	-	-	6	6
Total Primary Government	$ 5,872	$ -	$ 8,704	$ 14,576
Discrete Component Units:				
Virginia Housing Development Authority	$ -	$ 6,749	$ 34,443	$ 41,192
University of Virginia	1,537	494	17,982	20,013
Virginia Polytechnic Institute and State University	-	1,158	4,942	6,100
Virginia Commonwealth University	363	4,243	13,650	18,256
Nonmajor Component Units	6,559	64,452	16,882	87,893
Total Component Units	$ 8,459	$ 77,096	$ 87,899	$ 173,454

Note (1): The $7,678 (dollars in thousands) shown above represents a Virginia Information Technologies Agency interfund asset due from various governmental funds that will not be received within 60 days. This amount is reclassified to an internal balance on the Government-wide Statement of Net Assets.

Note (2): Other Assets of the Agency Funds represent prepaid expenses and advances to third party agents. The $6 (dollars in thousands) shown above is not included in the Government-wide Statement of Net Assets.

11. RESTRICTED ASSETS

Restricted assets represent monies or other resources that must be used for specific legal or contractual requirements. The Commonwealth Transportation Fund (major special revenue) and Debt Service and Capital Projects (nonmajor governmental funds) reported $575.4 million in restricted assets related to bond agreements. The Virginia Housing Development Authority (major component unit) reported restricted assets totaling $1.4 billion. The Virginia Public School Authority (major component unit) reported restricted assets of $82.6 million. Both major component unit's assets are restricted for debt service under a bond indenture agreement or other agreements. The Virginia Port Authority (nonmajor component unit) reported restricted assets of $115.0 million. Of this amount, $40.0 million are assets placed in an escrow account for construction projects, $45.3 million for debt service under a bond indenture agreement, $1.3 million for securities lending transactions, $19.1 million reserved as part of the Port Facility Revenue Bond requirement, $4.1 million for current expenses, and $5.2 million for other restrictions. The Virginia Resources Authority (nonmajor component unit) reported restricted assets of $688.9 million. Of this amount, $681.6 million is restricted for loans to local governments, bond indentures, or federal and state regulations for various revolving funds, and $7.3 million is restricted for the Operating Reserve Fund for the Virginia Pooled Financing Program. Hampton Roads Sanitation District Commission (nonmajor component unit) reported restricted assets of $141.4 million. Of this amount, $12.3 million is for debt service and $129.1 million is revenue bond construction funds. The Tobacco Indemnification and Community Revitalization

Commission (nonmajor component unit) reported restricted assets of $355.8 million to be used for financial aid to tobacco growers and to foster community economic growth.

The higher education institutions (component units) reported restricted assets totaling approximately $3.7 billion primarily for endowment and other contractual obligations. Included in this amount is approximately $2.8 billion of foundations' restricted assets. The two museum foundations, the Virginia Museum of Fine Arts Foundation (nonmajor component unit) and the Science Museum of Virginia Foundation (nonmajor component unit) had restricted assets of $150.3 million and $14.0 million, respectively, primarily for donor-imposed restricted endowments.

The remaining $23.6 million is spread among the Virginia Outdoors Foundation (nonmajor component unit), the Virginia Horse Center Foundation (nonmajor component unit), the Virginia Small Business Financing Authority (nonmajor component unit), the Virginia National Defense Industrial Authority (nonmajor component unit), the Virginia Arts Foundation (nonmajor component unit), the Library of Virginia Foundation (nonmajor component unit) and the Danville Science Center (nonmajor component unit).

12. CAPITAL ASSETS

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 (1)	Increases	Decreases	Balance June 30
Nondepreciable Capital Assets:				
Land	$ 2,063,282	$ 279,824	$ (54,698)	$ 2,288,408
Water Rights and / or Easements	5,136	13,616	-	18,752
Construction in Progress	3,191,829	1,418,593	(1,461,927)	3,148,495
Total Nondepreciable Capital Assets	5,260,247	1,712,033	(1,516,625)	5,455,655
Depreciable Capital Assets:				
Buildings (2)	3,015,747	90,322	(37,433)	3,068,636
Equipment	848,953	38,843	(16,454)	871,342
Infrastructure	21,811,151	1,918,228	(195,835)	23,533,544
Software	226,208	47,117	-	273,325
Total Capital Assets being Depreciated	25,902,059	2,094,510	(249,722)	27,746,847
Less Accumulated Depreciation for:				
Buildings	982,169	74,619	(31,708)	1,025,080
Equipment	466,208	53,606	(17,206)	502,608
Infrastructure	9,915,914	581,656	(40,409)	10,457,161
Software	73,500	17,099	-	90,599
Total Accumulated Depreciation	11,437,791	726,980	(89,323)	12,075,448
Total Depreciable Capital Assets, Net	14,464,268	1,367,530	(160,399)	15,671,399
Total Capital Assets, Net	$ 19,724,515	$ 3,079,563	$ (1,677,024)	$ 21,127,054

Note 1: Beginning balances have been restated by $32,944 (dollars in thousands) due to the implementation of GASBS No. 51, *Accounting and Financial Reporting for Intangible Assets*, and the correction of prior year errors, as discussed in Note 2. Additionally, there have been reclassifications in the beginning balances of certain line items above.

Note 2: Includes a temporarily impaired asset with a carrying value of $2.97 million.

Depreciation Expense Charged to Functions of the Primary Government
June 30, 2010

(Dollars in Thousands)

Governmental Activities:		
General Government	$	15,399
Education		13,850
Transportation		604,886
Resources and Economic Development		22,342
Individual and Family Services		22,105
Administration of Justice		35,736
Capital Assets held by the Internal Service		
Funds are charged to various functions		12,662
Total	$	726,980

Schedule of Changes in Capital Assets

Business-type Activities

(Dollars in Thousands)

	Balance July 1	Increases	Decreases	Balance June 30
Nondepreciable Capital Assets:				
Land	$ 1,977	$ -	$ -	$ 1,977
Construction in Progress	336	7,190	-	7,526
Total Nondepreciable Capital Assets	2,313	7,190	-	9,503
Depreciable Capital Assets:				
Buildings	18,320	949	-	19,269
Equipment	94,084	4,173	(27,629)	70,628
Infrastructure	1	-	(1)	-
Software	413	691	-	1,104
Total Capital Assets being Depreciated	112,818	5,813	(27,630)	91,001
Less Accumulated Depreciation for:				
Buildings	11,130	697	(66)	11,761
Equipment	78,138	5,518	(27,291)	56,365
Infrastructure	1	-	(1)	-
Software	122	135	-	257
Total Accumulated Depreciation	89,391	6,350	(27,358)	68,383
Total Depreciable Capital Assets, Net	23,427	(537)	(272)	22,618
Total Capital Assets, Net	$ 25,740	$ 6,653	$ (272)	$ 32,121

Note: There have been reclassifications in the beginning balances of certain line items above due to the implementation of GASBS No. 51, *Accounting and Financial Reporting for Intangible Assets*.

Schedule of Changes in Capital Assets

Component Units

(Dollars in Thousands)

	Balance July 1 as restated (1)	Increases	Decreases	Subtotal June 30	Foundations (2)	Total June 30
Nondepreciable Capital Assets:						
Land	$ 459,724	$ 26,761	$ (8,023)	$ 478,462	$ 263,549	$ 742,011
Construction in Progress	1,813,989	1,311,366	(1,584,150)	1,541,205	132,628	1,673,833
Inexhaustible Works of Art / Historical Treasures	73,896	1,342	-	75,238	16,950	92,188
Livestock	636	-	(57)	579	1,713	2,292
Total Nondepreciable Capital Assets	2,348,245	1,339,469	(1,592,230)	2,095,484	414,840	2,510,324
Depreciable Capital Assets:						
Buildings	8,798,278	1,247,890	(16,645)	10,029,523	903,290	10,932,813
Infrastructure	2,094,594	279,091	(2,756)	2,370,929	-	2,370,929
Equipment	2,459,200	214,578	(91,563)	2,582,215	116,649	2,698,864
Improvements Other Than Buildings	361,963	19,638	(2,506)	379,095	58,550	437,645
Library Books	695,441	34,866	(6,030)	724,277	-	724,277
Software	206,996	27,818	(3,735)	231,079	-	231,079
Other Intangible Assets	2,000	-	-	2,000	-	2,000
Total Capital Assets being Depreciated	14,618,472	1,823,881	(123,235)	16,319,118	1,078,489	17,397,607
Less Accumulated Depreciation for:						
Buildings	2,765,587	263,810	(9,417)	3,019,980	179,302	3,199,282
Infrastructure	1,040,288	67,987	(2,205)	1,106,070	-	1,106,070
Equipment	1,499,398	207,275	(80,059)	1,626,614	79,207	1,705,821
Improvements Other Than Buildings	198,949	15,966	(1,945)	212,970	24,470	237,440
Library Books	563,052	33,038	(5,815)	590,275	-	590,275
Software	121,067	21,747	(3,223)	139,591	-	139,591
Other Intangible Assets	667	133	-	800	-	800
Total Accumulated Depreciation	6,189,008	609,956	(102,664)	6,696,300	282,979	6,979,279
Total Depreciable Capital Assets, Net	8,429,464	1,213,925	(20,571)	9,622,818	795,510	10,418,328
Total Capital Assets, Net	$ 10,777,709	$ 2,553,394	$ (1,612,801)	$ 11,718,302	$ 1,210,350	$ 12,928,652

Note (1): Beginning balances have been restated for a change in reporting entity by the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University – major component unit) and for the implementation of GASBS No. 51, *Accounting and Financial Reporting for Intangible Assets*, as discussed in Note 2. Additionally, there have been reclassifications in the beginning balances of certain line items above.

Note (2): Foundations represent FASB reporting entities defined in Note 1.B. Since foundations follow FASB rather than GASB reporting requirements, no amounts are reported in the software and other intangible assets categories for foundations.

13. DERIVATIVES

The Government Accounting Standards Board (GASB) issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* which requires additional reporting and disclosures for derivative instruments. The statement became effective with fiscal year 2010.

Primary Government

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 and 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 (CMOs), which are sensitive to changes in interest rates and prepayments. Futures, forwards, options and swaps generally are not recorded on the financial statements, whereas structured notes and asset-backed investments generally are recorded.

The Virginia Retirement System (the System) is a party, both directly and indirectly, to various derivative financial investments that may or may not appear on the financial statements and that are used in the normal course of business to enhance returns on investments and manage risk exposure to changes in value resulting from 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.

At June 30, 2010, the System had four types of derivative financial instruments – futures, currency forwards, options and swaps. Futures, currency forwards and options contracts provide the System 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 exercised over-the-counter. Market risks arise from adverse changes in market prices, interest rates and foreign exchange rates.

Futures Contracts – Futures contracts are contracts to deliver or receive securities at a specified future date and at a specified price or yield. Futures contracts are traded on organized exchanges (exchange-traded) and require an 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. The net gains or losses resulting from the daily settlements are included in the System's financial statements. 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 posed by nonperformance of counterparties to futures contracts is minimal. At June 30, 2010, the notional value of the System's investment in futures contracts is $3,188,352,000.

Currency Forwards – Currency forwards represent foreign exchange contracts and are used by the System 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. A forward foreign currency exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated price. 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 usually is 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. At June 10, 2010, the market value of the System's currency forwards contracts is ($5,786,000).

Options Contracts – 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 (call) or sell (put) 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 System typically pays a premium at the outset. This premium is reflected as an asset on the financial statements. The System then retains the right, but not the obligation, to exercise the options 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 System receives a premium at the outset. This premium is reflected as a liability on the financial statements, and the System bears the risk of an unfavorable change in the price of the financial instrument underlying the option. At June 30, 2010, the System's options balances had a notional value of ($8,738,000).

Swap Agreements – Swap agreements are negotiated contracts between two counterparties for the exchange of payments at certain intervals over a predetermined timeframe. 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. Swaps are used to manage risk and enhance returns. To reduce the risk of counterparty nonperformance, the System generally requires collateral on any material gains from these transactions. During fiscal year 2010, the System entered into various swap agreements with a total notional value and fair value at June 30, 2010, of $2,227,116,000 and ($12,123,000), respectively. Credit defaults swaps balances had a notional value of $614.9 million and fair value of ($9.2 million). Inflation rate swaps had a notional value of $34.8 million and fair value of $1.3 million. Interest rate swaps had a notional value of $980.7 million and fair value of ($4.5 million). Total return swaps had a notional value of $596.7 million and fair value of $280 thousand. Additional information is available in the Systems' separately issued financial statements which may be obtained from the Virginia Retirement System at P.O. Box 2500, Richmond, Virginia 23218-2500.

Component Units

Hedging Derivative Instruments

In December 2005, Virginia Commonwealth University (VCU) (major) entered into an interest rate swap agreement in anticipation of the issuance of General Revenue Pledge Bonds, Series 2006A and Series 2006B, which carry variable interest rates. The swap has a notional amount of $75,000,000, which declines over time to $5,035,000 at the termination date of November 1, 2030. VCU pays a fixed rate of 3.436 percent and the counterparty pays 67 percent of LIBOR (0.23 percent as of June 30, 2010). The payments are settled monthly at the first of each month. In December 2005, the Medical College of Virginia Hospitals (MCVH) which is a division of the Virginia Commonwealth University Health System Authority (a blended component unit of VCU), entered into an interest rate swap agreement in conjunction with the issuance of its Series 2005 tax-exempt bonds. The swap has a notional amount of $75,000,000, which declines over time to $8,000,000 at the maturity date of July 1, 2030. MCVH pays a fixed rate of 3.499 percent and the counterparty pays 67 percent of LIBOR (0.23 percent as of June 30, 2010). The payments are settled monthly at the first of each month. In June 2007, the MCVH entered into two interest rate swap agreements in anticipation of the issuance of the Series 2008 tax-exempt bonds. The swaps have a combined notional amount of $125,000,000, which declines over time to $15,700,000 at the termination date of July 1, 2037. MCVH pays a fixed rate of 3.84 percent and the counterparty pays 67 percent of LIBOR (0.23 percent as of June 30, 2010). The payments are settled monthly at the first of each month. At June 30, 2010, the negative fair market value of VCU's swap of $9,522,930 and MCVH's swaps of $39,292,301 are included in other liabilities in the accompanying financial statements. For the year ended June 30, 2010, the change in fair value of VCU's swap was $2,949,071 and MCVH's swaps was approximately $10,511,000 and is included in deferred outflows in the accompanying financial statements.

The fair value of VCU's derivative was calculated by Deutshe Bank using undisclosed proprietary methods. The fair values of MCVH's derivatives were calculated by Wells Fargo and Bank of America using undisclosed proprietary pricing models.

VCU and MCVH use interest rate swap agreements to limit exposure to rising interest rates on its variable rate debt. VCU and MCVH are exposed to interest rate risk on the interest rate swaps. On the pay-fixed, receive-variable interest rate swaps, as the LIBOR index decreases, VCU and MCVH's net payments on the swaps increase.

At June 30, 2010, the University of Virginia (UVA) (major) had two fixed-payer interest rate swaps totaling $100 million in notional amount. The swaps are used as cash flow hedges by UVA in order to provide a cash flow hedge against changes in interest rates on approximately $82.0 million of the variable rate Series 2003A Bonds maturing in June 2034 and a portion of approximately $20.0 million of outstanding commercial paper which may have various maturities of no greater than 270 days each. UVA pays fixed rates of 4.154 percent and 4.066 percent and the underlying index for the swaps is the Securities Industry and Financial Markets Municipal Swap Index (SIFMA). The floating rate on June 30, 2010 was 0.295 percent. The payments are settled monthly at the first of each month. The swaps were entered into in January 2007 and February 2007 and both swaps mature June 1, 2038. The swaps were entered into at a zero market value and no payments were made or received when they were initiated. At June 30, 2010, the negative market value of the swap of $13,775,850 is in other liabilities in the accompanying financial statements. The market value of the swaps has fallen by approximately $6.5 million over the reporting period and is included in deferred outflows in the accompanying financial statements.

The fair value was determined by using the quoted SIFMA index curve at the time of market valuation. UVA would be exposed to the credit risk of its swap counterparties any time the swaps had a positive market value. At June 30, 2010, UVA had no credit risk related to its swaps. As of June 30, 2010, UVA's swap counterparties were rated A from Standard & Poor's and A2 by Moody's. To mitigate credit risk, UVA limits market value exposure and requires the posting of collateral based on the credit rating of the counterparty. All counterparties are required to have at least an A-/A3 rating by Standard & Poor's and Moody's, respectively. As of June 30, 2010, no collateral was required to be posted by the counterparties.

Interest rate risk is the risk that an unexpected change in interest rates will negatively affect the collective value of a hedge and a hedged item. When viewed collectively, the hedges and the hedged item are subject to interest rate risk in that a change in interest rate will impact the collective market value of both the hedge and hedged item. Conversely, the collective effect of the hedges and the hedged item serve to reduce cash flow variability caused by changes in interest rates. Basis risk arises when different indexes are used in connection with a derivative resulting in the hedge and hedged item not experiencing price changes in entirely opposite directions from each other. UVA's swaps are deemed to be effective hedges of its variable rate debt with an amount of basis risk that is within the guidelines for establishing hedge effectiveness. Termination risk arises when the unscheduled termination of a derivative could have an adverse effect on UVA's strategy or could lead to potentially significant unscheduled payments. UVA's derivative contracts use the International Swap

Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an additional termination event. That is, the swap may be terminated by either party if the counterparty's credit rating falls below BBB/Baa2 in the case of Standard & Poor's and Moody's, respectively. UVA or the counterparty may also terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination the swap has a negative market value, UVA would be liable to the counterparty for a payment equal to the swaps' market value.

The following schedule shows debt service requirements of VCU, MCVH, and UVA's bonds payable debt and net receipts/payments on associated derivative instruments. These amounts assume that current variable and reference rates on the hedging instruments will remain the same for their terms. As these rates vary, net receipt/payments on the hedging instruments will vary.

Maturity	Principal	Variable Interest	Derivative Instruments, Net	Total
2011	$ 4,920,000	$ 680,102	$ 12,289,305	$ 17,889,407
2012	5,110,000	670,444	12,123,792	17,904,236
2013	5,230,000	660,267	11,954,571	17,844,838
2014	5,530,000	649,724	11,775,861	17,955,585
2015	5,735,000	638,833	11,590,275	17,964,108
2016-2020	32,195,000	3,013,773	54,901,758	90,110,531
2021-2025	44,280,000	2,637,360	48,465,255	95,382,615
2026-2030	76,575,000	1,977,875	38,195,101	116,747,976
2031-2035	151,890,000	1,100,443	22,349,569	175,340,012
2036-2040	45,370,000	26,690	1,680,099	47,076,789
Total	$ 376,835,000	$ 12,055,511	$ 225,325,586	$ 614,216,097

Various foundations of higher education institutions have derivative instruments. The **foundations** follow FASB rather than GASB reporting requirements. Disclosures for the foundations' derivatives can be found in the individually published financial statements of the foundations.

14. 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. Administration

The Virginia Retirement System (the System) is an independent agency of the Commonwealth that administers defined benefit pension plans, other employee benefit plans and other funds for Commonwealth employees, teachers, political subdivision employees, and other qualifying employees. The Board of Trustees is responsible for the general administration and operation of the plans. The Board consists of five members appointed by the Governor and four members appointed by the Joint Rules Committee, all subject to confirmation by the General Assembly. The Board of Trustees appoints a director to serve as the chief administrative officer of the System and a chief investment officer to direct, manage and administer the investment of the System's funds. The Board of Trustees has appointed Mellon Trust as the custodian of designated assets of the System.

The System administers four defined benefit pension plans: the Virginia Retirement System (VRS); State Police Officers' Retirement System (SPORS); Virginia Law Officers' Retirement System (VaLORS); and the Judicial Retirement System (JRS). In addition to the pension plans, the System administers three Other Employee Benefit Plans: Group Life Insurance Fund; Retiree Health Insurance Credit Fund; and the Virginia Sickness and Disability Program (VSDP).

B. Summary of Significant Accounting Policies (Virginia Retirement System)

Basis of Accounting

The financial statements of the pension and other employee benefit trust funds are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Employee and employer contributions are recognized when due, pursuant to formal commitments, as well as statutory or contractual requirements. Investment income is recognized as earned by the plans. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Method Used to Value Investments

Investments are reported at fair value as determined by the System's master custodian, Mellon Trust, from its Global Pricing System. This pricing 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.

When a pricing 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 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 (CMOs), adjustable rate mortgages (ARMs) 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.

The System's investment guidelines for each specific portfolio limits investments in any corporate entity to no more than 5.0 percent of the market value of the account for both the internally and externally managed portfolios. There is no concentration of investments in any one organization that represents 5.0 percent or more of plan net assets available for benefits.

C. Plan Description

Retirement Plans

The Virginia Retirement System is a qualified governmental retirement plan that provides defined benefit coverage for state employees, public school board employees, employees of participating political subdivisions and other qualifying employees. VRS is a mixed-agent and cost-sharing, multiple-employer retirement plan. The plan's accumulated assets may legally be used to pay all plan benefits provided to any of the plan members or beneficiaries. Contributions for fiscal year 2010, were $1.8 billion with a reserve balance available for benefits of $44.6 billion. At June 30, 2010, the VRS had 826 contributing employers.

Single-employer Retirement Plans

The Commonwealth administers the following single-employer retirement plans:

- State Police Officers' Retirement System (SPORS)
- Virginia Law Officers' Retirement System (VaLORS)
- Judicial Retirement System (JRS)

All full-time, salaried permanent employees of VRS participating employers are automatically covered under VRS, SPORS, VaLORS or JRS with the following exceptions: (1) certain full-time faculty and administrative staff of public colleges and universities; and (2) eligible classified employees of the two state teaching hospitals. These employees have the option to elect not to participate in the Virginia Retirement System. Benefit provisions and all other requirements are established by Title 51.1 of the *Code of Virginia*, as amended.

Benefits vest for all plans after five years of service. Vested VRS members are eligible for an unreduced retirement benefit at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit as elected by the employer. Vested SPORS and VaLORS members are eligible for an unreduced benefit at age 60 with at least five years of hazardous duty service credit or age 50 with at least 25 years of total service credit.

Annual retirement benefits are payable monthly for life in an amount equal to 1.7 percent of eligible members' average final compensation (AFC) for each year of service credit. AFC is the average of the member's 36 consecutive months of highest creditable compensation. The benefit for members of SPORS is calculated using a 1.85 percent multiplier. Members of SPORS also are eligible for a hazardous duty supplement, paid monthly, until they reach full Social Security retirement age.

Members of VaLORS hired before July 1, 2001, were allowed to make a one-time election to increase the multiplier from 1.7 to 2.0 percent instead of receiving a monthly hazardous duty supplement. VaLORS members who elected to retain the 1.7 percent multiplier are eligible for the supplement until age 65. Members of VaLORS hired after June 20, 2001, have their benefit computed using the 2.0 percent multiplier and are not eligible for the supplement.

Members of JRS receive weighted years of service credit for each year of actual service under JRS. VRS, SPORS, VaLORS, and JRS also provide death and disability benefits. A cost-of-living adjustment, based on changes in the Consumer Price Index and limited to 5.0 percent per year, is granted on July 1 of the second calendar year after retirement and is effective each July 1 thereafter.

Benefits for all vested members are actuarially reduced if they retire before becoming eligible for an unreduced retirement benefit, provided they meet age requirements for a reduced retirement benefit.

As required by Title 51.1 of the *Code of Virginia*, as amended, members contribute 5.0 percent of their annual compensation to the defined benefits plans. Employers may assume the 5.0 percent member contribution. If a member leaves covered employment, the accumulated contributions plus earned interest may be refunded to the member. Each participating employer is required by state statute to contribute the remaining amounts necessary to fund the retirement plans using the entry age normal actuarial cost method adopted by the board of trustees. Contributions for fiscal year 2010, were \$20.7 million, \$56.3 million, \$20.2 million and reserved balances available for benefits of \$533.9 million, \$792.3 million, and \$314.7 million for SPORS, VaLORS and JRS, respectively. State statute may be amended only by the General Assembly.

D. Funding Policy

The funding policy of the retirement plans provides for periodic employer contributions at actuarially determined rates, which will remain relatively level over time as a percentage of payroll and will accumulate sufficient assets to meet the cost of all basic benefits when due. Contribution rates are developed using the entry age normal cost method for both normal cost and amortization of the unfunded actuarial accrued liability. Gains and losses are reflected in the unfunded actuarial accrued liability that is being amortized as a level percentage of payroll within 30 years or less.

The System's former actuary, Wachovia Retirement Services, computed the amount of contributions to be provided by state agency employers, state police and other Virginia law employers. The contribution rates for fiscal year 2010 were based on the actuary's valuation as of June 30, 2007. Employer contributions by the Commonwealth to VRS, SPORS, VaLORS, and JRS were 6.26 percent, 20.05 percent, 14.23 percent, and 34.51 percent, respectively, of covered payrolls. These rates were lower than the actuary's recommended rates to VRS, SPORS, VaLORS, and JRS of 8.02 percent, 24.09 percent, 16.78 percent, 38.04 percent, respectively. Additionally, employer contributions were suspended for April, May and the first half of June 2010.

In addition to determining contribution requirements, the actuarial computations present an estimate of the discounted present value of the prospective accrued liability contributions that employers will have to pay in the future so that such contributions, together with the assets on hand, the normal contributions to be made in the future by employers and members and the income earned by investing funds, will be sufficient to provide all benefits to be paid to present members in the future as well as the annuitants and their designated beneficiaries.

E. Annual Pension Cost and Net Pension Obligation

The following table (dollars in thousands) 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		
	2010	2009	2008	2010	2009	2008
Annual required contribution	$ 360,232	$ 355,608	$ 316,649	$ 32,341	$ 31,894	$ 29,718
Interest on net pension obligation	71,709	62,199	54,933	8,075	7,227	6,587
Adjustment to annual required contribution	(75,995)	(65,798)	(56,436)	(8,550)	(7,653)	(6,777)
Annual pension cost	355,946	352,009	315,146	31,866	31,468	29,528
Contributions made	(176,189)	(225,079)	(218,256)	(15,730)	(20,175)	(20,990)
Increase in net pension obligation	179,757	126,930	96,890	16,136	11,293	8,538
Net pension obligation, beginning of year	956,186	829,256	732,366	107,662	96,369	87,831
Net pension obligation, end of year	$ 1,135,943	$ 956,186	$ 829,256	$ 123,798	$ 107,662	$ 96,369
Percentage of annual pension cost contributed	49.5%	63.9%	69.3%	49.4%	64.1%	71.1%

	JRS			VaLORS		
	2010	2009	2008	2010	2009	2008
Annual required contribution	$ 29,483	$ 28,427	$ 28,284	$ 80,603	$ 80,509	$ 79,420
Interest on net pension obligation	5,520	4,985	4,553	21,446	19,313	17,589
Adjustment to annual required contribution	(5,845)	(5,279)	(4,684)	(22,708)	(20,450)	(18,096)
Annual pension cost	29,158	28,133	28,153	79,341	79,372	78,913
Contributions made	(17,065)	(21,000)	(22,387)	(39,027)	(50,932)	(55,929)
Increase in net pension obligation	12,093	7,133	5,766	40,314	28,440	22,984
Net pension obligation, beginning of year	73,605	66,472	60,706	285,946	257,506	234,522
Net pension obligation, end of year	$ 85,698	$ 73,605	$ 66,472	$ 326,260	$ 285,946	$ 257,506
Percentage of annual pension cost contributed	58.5%	74.6%	79.5%	49.2%	64.2%	70.9%

The amounts in the previous table include governmental and component unit activity for which the Commonwealth is considered the employer. It does not include the VRS liability for the Virginia Economic Development Partnership (component unit), the Virginia Tourism Authority (component unit), the Fort Monroe Federal Area Development Authority (component unit), and the Virginia National Defense Industrial Authority (component unit) of $2.2 million, $1.1 million, $154,802, and $86,091, respectively. The table also excludes the non-VRS pension liability of $91.5 million for all other component units and includes the fiduciary pension liability of $6.7 million.

The contribution rates were determined during the actuarial valuation conducted as of June 30, 2007. These valuations were prepared using the entry age normal cost method. The actuarial assumptions included (a) 7.5 percent investment rate of return, per year compounded annually; (b) projected salary increases ranging from 3.5 percent to 5.6 percent, including a 2.5 percent inflation component; and (c) 2.5 percent 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 closed amortization period at June 30, 2010, was 20 years. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

F. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2010, was as follows:

(Dollars in Millions)

Actuarial Valuation Date June 30	Actuarial Value of Assets [a]	Actuarial Accrued Liability (AAL) Entry Age [b]	Unfunded AAL (UAAL) [b-a]	Funded Ratio [a/b]	Covered Payroll [c]	UAAL as a Percentage of Covered Payroll [b-a]/[c]
			Virginia Retirement System (VRS)			
2009	$ 53,185	$ 66,323	$ 13,138	80.2%	$ 14,948	87.9%
			State Police Officers' Retirement System (SPORS)			
2009	$ 647	$ 879	$ 232	73.6%	$ 101	230.0%
			Virginia Law Officers' Retirement System (VaLORS)			
2009	$ 913	$ 1,412	$ 499	64.7%	$ 359	138.9%
			Judicial Retirement System (JRS)			
2009	$ 378	$ 521	$ 143	72.6%	$ 63	228.4%

Actuarial valuations of ongoing plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plans and the annual contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information following the notes to the financial statements presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

G. 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 ING Institutional Plan Services (ING). This is a defined contribution plan where the retirement benefits are based upon the Commonwealth's (6.26 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, 2010, the total contributions to this plan were $726,109.

The summary of significant accounting policies for the plan is in accordance with those discussed in Note 14. B.

H. Defined Contribution Plan for Public School Superintendents

The Public School Superintendent Plan is a defined contribution pension plan that provides optional postemployment benefits for school superintendents. This plan is authorized by the *Code of Virginia*. The Board of Trustees of the System manages the investments of the fund as custodian. School boards may elect to offer this plan as an option to the standard VRS plan that is available for school board members. Contributions are provided by the school board for credit to the member. At June 30, 2010, there were two participants in this plan. Total contributions to the plan for fiscal year 2010 were $29,279.

I. Virginia Supplemental Retirement Plan

The Virginia Supplemental Retirement Plan is a defined contribution pension plan established by the Department of Education to provide an optional postemployment benefit plan for turnaround specialists in the public school system. This plan is utilized as an incentive to attract highly skilled teachers for participating public schools pursuant to the *Code of Virginia* by Title 51.1-617. The Board of Trustees of the System manages the investments of the fund as custodian. School boards may elect to offer this plan as an option to the standard VRS plan that is available for school board members. Contributions are provided by the school boards for credit to the members. At June 30, 2010, there were two participants in this plan. There were no contributions to the plan for fiscal year 2010.

J. 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 System 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., Vanguard, and others. Overall, 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, 2010, the total contributions to these plans were:

TIAA-CREF	$	95,291,471
VALIC		2,772,914
Fidelity Investments		56,392,319
Vanguard		5,243,241
Others		1,352,398
Total	$	161,052,343

The Virginia Commonwealth University Health System Authority (Authority) (a blended component unit of the Virginia Commonwealth University – major) contributes to the VRS. The System 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, excluding house staff, working at least 20 hours per week in a benefit eligible position are eligible to participate in the plan. Per the plan document as approved by the Authority's Board of Directors, the Authority contributes up to ten percent of the participant's salary to the plan not to exceed the lesser of (a) the amount in accordance with Internal Revenue Code 415(d), or (b) 100 percent of the participant's compensation for such limitation year. Total contributions for the year ended June 30, 2010, were approximately $14,577,000. 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 were eligible to participate in the HCP plan. At June 30, 2010, there were five actively employed participants in the HCP plan. Total contributions to the HCP plan for the year ended June 30, 2010, were approximately $36,000.

Previously, the MCV Associated Physicians (MCVAP) (a component unit of the Authority) sponsored the MCVAP 403(b) Retirement Fund (the 403(b) Plan), a defined contribution plan which covered substantially all non-medical employees of MCVAP. As of January 1, 2002, no additional contributions were made to this plan.

MCVAP also sponsors the VCUHS 401(a) Retirement Plan, a defined contribution plan which covers all non-medical employees of MCVP and the VCUHS 457(b) Savings Plan, a salary reduction plan that represents employee contributions. These plans became effective on January 1, 2002, and replaced the MCVAP 403 (b) plan for all non-medical staff. The contributions to the VCUHS 401(a) for the period ended June 30, 2010, were approximately $1,864,000.

MCVAP also sponsors the MCVAP 401(a) Retirement Plan (the 401(a) plan), a noncontributory, defined contribution plan which covers substantially all full-time eligible clinical providers of MCVAP. Contributions to the 401(a) plan, as determined annually at the discretion of the board of directors were approximately $10,524,000 for the year ended June 30, 2010.

VA Premier (a component unit of the Authority) adopted a 401(k) plan sponsored by Fidelity Investments. Employees become eligible to participate in the plan after completing one year of service. There is no minimum service or age requirement to be in the 401(k) plan. Employees may contribute one percent to 15 percent of their compensation. VA Premier will match 50 percent of the employees' contributions up to four percent of the employees' compensation. Matching will occur based on the bi-weekly pay periods. In addition, VA Premier contributes three 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 fiscal year 2010 was approximately $921,000.

Effective June 2007, the Carolina Crescent Health Plan (a component unit of the Authority) (CCHP) adopted a 401(k) plan, for which Fidelity Investments is the trustee. All terms are consistent with the VA Premier 401(k) plan. CCHP's expense for its contributions to this plan was approximately $196,000 for the year ended June 30, 2010.

Effective January 1, 1997, James Madison University (nonmajor) established a Supplemental Retirement Plan for tenured faculty members. The plan was designed to provide flexibility in the allocation of faculty positions. The plan is a qualified plan within the meaning of section 401(c) of the Internal Revenue Code of 1986 (the Code) and is a governmental plan within the meaning of section 414(d) of the Code. Since it is a governmental plan, the plan is not subject to the Employee Retirement Income Security Act of 1974 as amended. Since inception, 175 faculty members have elected to enroll in the plan. As of June 30, 2010, 63 participants remain, including 15 new participants who retired under this plan during fiscal year 2010 and 1 new participant who is scheduled to retire under this plan during fiscal year 2011. In order to satisfy IRS requirements, a trust fund has been established as a means to make the payments to the plan participants. The University prepaid $1,561,504 of the fiscal year 2011 plan contribution in 2010. The remaining 2011 plan contribution of $83,800 will be paid in 2011.

The Center for Innovative Technology (CIT) is a blended component unit of the Innovation and Entrepreneurship Investment Authority (nonmajor). The CIT 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. Contributions for the plan totaled $378,622 in fiscal year 2010.

K. Other Component Units

Note 1.B. outlines the component units included in the Commonwealth's reporting entity. The Virginia Public Building Authority (blended - primary government), the Virginia Public School Authority (major), the Virginia College Building Authority (nonmajor), the Virginia University Research Partnership (nonmajor), and the Virginia Schools for the Deaf and Blind Foundation (nonmajor) have no employees. The Virginia Economic Development Partnership, the Small Business Financing Authority, the Hampton Roads Sanitation District Commission, the Virginia Biotechnology Research Partnership Authority, the A. L. Philpott Manufacturing Extension Partnership, the Virginia Tourism Authority, the Tobacco Indemnification and Community Revitalization Commission, the Virginia Foundation for Healthy Youth (formerly the Virginia Tobacco Settlement Foundation), the Virginia Land Conservation Foundation, the Virginia Arts Foundation, the Virginia National Defense Industrial Authority, and the Library of Virginia Foundation (all nonmajor) contribute solely to the VRS, a mixed-agent and cost-sharing multiple-employer retirement plan. The System 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 eight percent of full-time employees' compensation. Total retirement savings expense under this plan was $1,820,678 in fiscal year 2010.

The Virginia Outdoors Foundation (nonmajor) maintains a 401(k) contribution plan and provides an employer contribution to all eligible employees of two percent of their salary. Employees can contribute to the plan up to the IRS limit and the Foundation will match up to four percent of an employees' contribution.

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 plan was restated October 1, 2001, to ensure compliance with additional regulations.

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

Trend Information

	2010	2009	2008
Service cost - benefits earned during the year	$ 2,834,000	$ 2,234,100	$ 2,136,300
Interest cost on projected benefit obligation	4,762,200	3,976,700	3,660,500
Expected return on assets	(3,535,600)	(4,027,000)	(4,286,500)
Net amortization and deferral	3,205,400	1,446,200	779,200
Annual pension cost	7,266,000	3,630,000	2,289,500
Contributions made	(7,920,000)	(2,482,000)	(1,640,100)
Increase (Decrease) in prepaid pension obligation	(654,000)	1,148,000	649,400
Prepaid pension obligation, beginning of year	(7,592,800)	(8,740,800)	(9,390,200)
Prepaid pension obligation, end of year	$ (8,246,800)	$ (7,592,800)	$ (8,740,800)

Costs have been computed in accordance with the aggregate cost method. Changes in plan provisions and actuarial assumptions, and actuarial gains and losses are not separately amortized under this method. Rather the impact is spread through the nominal cost component over the future working lifetime of participants. The actuarial present value of accumulated plan benefits is determined by an actuary from New York Life Benefit Services, LLC using end of year benefit information as of September 30, 2009 and 2008, respectively, and is the amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money and the probability of payment between the valuation date and the expected date of payment.

The following table sets forth the plan's funded status and the related amounts recorded in the Authority's balance sheets at June 30, 2010, 2009, and 2008.

Trend Information

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
2010	$ 7,266,000	109 %	$ (8,264,800)
2009	$ 3,630,000	68 %	$ (7,592,800)
2008	$ 2,289,500	72 %	$ (8,740,800)

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 shown in the following schedule.

Trend Information

	2010	2009	2008
Service cost - benefits earned during the year	$ 1,111,163	$ 655,361	$ 642,254
Interest cost on projected benefit obligation	83,337	435,006	356,456
Expected return on assets	(135,251)	1,096,215	260,403
Net amortization and deferral	208,410	(1,310,223)	(458,630)
Annual pension cost	1,267,659	876,359	800,483
Contributions made	(923,681)	(1,185,944)	(1,166,439)
Additional minimum liability	-	-	-
Increase (Decrease) in pension obligation	343,978	(309,585)	(365,956)
Pension obligation, beginning of year	(1,803,344)	(1,493,759)	(1,127,803)
Prepaid pension obligation, end of year	$ (1,459,366)	$ (1,803,344)	$ (1,493,759)

The annual pension cost for the current year was determined as part of the July 2010 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 7.50 percent in 2010, 6.82 percent in 2009, and 6.92 percent in 2008.

The following table sets forth the plan's funded status and the related amounts recorded in the Authority's balance sheets at June 30, 2010, 2009, and 2008.

Trend Information

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
2010	$ 1,267,659	73 %	$ (1,459,366)
2009	$ 876,359	135 %	$ (1,803,344)
2008	$ 800,483	146 %	$ (1,493,759)

The Authority also sponsors two noncontributory supplemental plans covering certain key employees. The plans had assets of $5,490,968 and an accrued liability of $6,312,214. Contributions made to the plans were $2,500,000 for the year ended June 30, 2010.

As of January 1, 2005, the Virginia Resources Authority began mandatory participation for all new employees and optional participation for then-current employees who chose to enroll in the VRS.

For the year ended June 30, 2010, the Authority's annual pension cost of $98,593 was equal to the Authority's required and actual contributions.

The Assistive Technology Loan Fund Authority sponsors a Simple Employee Plan (SEP) for all of its employees. The Authority contributes five percent of each employee's wages, which is paid into their account managed by American Funds each pay period.

Employees of the Virginia Museum of Fine Arts Foundation who are age 21 or older are eligible to participate in the Employee's Savings Plan (the plan), a 401(k) defined contribution profit sharing plan. Under the plan, the Foundation may make a discretionary contribution. For the plan years ended June 30, 2010, and 2009, the Foundation contributed 8.4 percent of employees' gross income to the plan. In addition, contributions made by an employee up to 3 percent are matched 100 percent and contributions between 3 and 5 percent of the employee's gross income are matched 50 percent by the Foundation. Employees may contribute up to 100 percent of gross income each year as long as it is within the IRS limitation. Contributions paid to the plan by the Foundation on behalf of its employees were $99,579 for the fiscal year ended June 30, 2010. Also, the Foundation entered into a supplemental retirement agreement to pay a key employee of the Museum upon retirement the difference between the amount accrued under the VRS defined benefit plan, based on salary, and the amount based on the supplemental salary. The plan vests July 31, 2011. Therefore, no liability was recorded in the financial statements in fiscal year 2010. Contributions made to the plan began in 2010 totaling $22,170 as of June 30, 2010.

The Science Museum of Virginia Foundation has a 403(b) defined contribution pension plan through the Teachers Insurance and Annuity Association (TIAA) and the College Retirement Equities Fund (CREF) Retirement Plan for employees meeting age and service requirements. The Foundation contributes an amount not to exceed three percent of the regular salary of each participant. The Foundation's employer contributions totaled $8,751 in 2010.

15. OTHER EMPLOYMENT BENEFITS

In addition to the pension plans, the Commonwealth participates in two other employment benefit plans, Group Life Insurance and the Virginia Sickness and Disability Program, which are administered by the Virginia Retirement System (the System). The System administers a third 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 three plans are the same as those described in Note 14 for pension plans. A separately issued financial report that includes financial statements for the Group Life Insurance and Virginia Sickness and Disability Program is publicly available. Copies may be obtained by writing to the Virginia Retirement System, P. O. Box 2500, Richmond, Virginia 23218-2500.

Group Life Insurance

The Group Life Insurance Plan was established for Commonwealth employees, teachers, employees of political subdivisions participating in the VRS, state police officers, other state law enforcement and correctional officers, judges, and other qualifying employees. The program provides life insurance for natural death coverage equal to a members' annual compensation rounded to the next highest $1,000 and then doubled. Accidental death coverage is double the natural death benefit. The program also provides coverage for accidental dismemberment and accidental blindness, a safety belt benefit, a repatriation benefit, a felonious assault benefit and an accelerated death benefit for terminal conditions. Approximately 358,562 members participate in the program at June 30, 2010.

Participating employers and their covered employees are required by Title 51.1 of the *Code of Virginia*, as amended, to contribute to the cost of group life insurance benefits. Employers may assume the employees' contributions.

An optional Group Life Insurance Fund was established for members covered under the group life program as a supplement to that plan. Members may purchase optional life insurance coverage for themselves, their spouses and/or their dependent children. The optional program provides natural death coverage equal to one, two, three or four times the member's annual compensation rounded to the next highest $1,000, up to a maximum of $600,000. Spouse coverage is available for up to one-half of the member's optional insurance amount. Minor children who are at least 15 days old can be insured for $10,000, $20,000 or $30,000, depending on the option chosen by the member. An additional accidental death and dismemberment benefit is payable for death or bodily injuries. Approximately 63,643 members were covered under this program at June 30, 2010.

Optional group life insurance coverage ends for members when they retire or terminate their employment, or when their basic coverage ends. Members who retire on disability may continue their optional coverage until age 65 provided they continue to pay the required insurance premiums. Spouse coverage terminates should a couple divorce or when the member leaves employment. Children's coverage ends with the termination of the member's coverage or when the child marries or turns 21 years of age (25 years of age for full-time college students).

Employers of members who elect optional life insurance coverage deduct the premiums from the members' paychecks, as required by Title 51.1 of the *Code of Virginia*, as amended. Premiums are based on the member's age and determined by the Board of Trustees. Because optional life insurance is an insured product, the carrier bills each employer directly, and the employer makes the contribution payments to the carrier. Any differences and adjustments are settled between the employer and the carrier.

Virginia Sickness and Disability Program

The System administers the Virginia Sickness and Disability Program (VSDP) to provide income protection in the event of a disability for eligible state employees hired on or after January 1, 1999. State agencies are required by Title 51.1 of the *Code of Virginia* to contribute to the cost of providing long-term disability benefits and administering the program.

VSDP benefits include sick, family and personal leave and short-term and long-term disability benefits. After a seven-calendar day waiting period following the first day of disability, eligible employees receive short-term disability benefits from 60 percent to 100 percent of their compensation depending on their months of state service. After 125 work days of short-term disability, eligible employees receive long-term disability benefits equal to 60 percent of their compensation. If the employee's condition becomes catastrophic, income replacement increases to 80 percent until the condition is no longer catastrophic. Long-term disability benefits continue until employees either return to work, retire or reach age 65 (age 60 for state police officers and other state law enforcement and correctional officers) or die.

Full-time permanent salaried state employees, including state police officers and other Virginia law and correctional officers, are automatically enrolled in the VSDP. Part-time permanent salaried state employees who work at least 20 hours a week and accrue leave also are automatically enrolled. Teaching, administrative and research faculty of Virginia public colleges and universities who elect VRS as their retirement plan must make an irrevocable election to participate in either the VSDP or the institution's disability program. If there is no institution program, the faculty member is covered under VSDP.

Eligible state employees and state police officers employed before January 1, 1999 had the option to elect to participate in the VSDP or remain under the Commonwealth's existing sick leave program and retain their eligibility for disability retirement benefits under VRS and SPORS. (Members of VaLORS have been automatically enrolled in the VSDP since October 1, 1999 when VaLORS was created.) Eligible employees enrolled in the VSDP are not eligible for disability retirement benefits under VRS, SPORS, or VaLORS. Approximately 73,569 members were covered under the program at June 30, 2010.

Volunteer Firefighters' and Rescue Squad Workers' Fund

Volunteer firefighters and rescue squad workers may participate in an optional employment benefit plan. This optional plan is authorized by the *Code of Virginia*. The Board of Trustees of the System 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 20 years. For fiscal year 2010, there were no monies appropriated for administration of the program. At June 30, 2010, there were 1,530 workers participating in the fund.

16. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. Virginia Retirement System (The System) Administered Plans

The Government Accounting Standards Board (GASB) issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which requires additional reporting and disclosures for OPEB plans. The statement became effective for System-administered OPEB plans beginning with the fiscal year ended June 30, 2007. The assets and actuarial accrued liabilities for the following other postemployment benefits were determined through an actuarial valuation performed as of June 30, 2009, by Cavanaugh Macdonald Consulting, LLC, and are presented in the Required Supplemental Schedule of Funding Progress for Other Postemployment Benefit Plans. The significant accounting policies for all three plans are the same as those described in Note 14 for pension plans and a separately issued report is available as previously discussed.

Group Life Insurance Benefits

Employees who retire or terminate from service after age 50 with at least ten years of service credit or at age 55 with at least five years of service credit (age 50 for vested state police officers, other state law enforcement and correctional officers and hazardous duty employees of participating political subdivisions), or who retire because of disability, are entitled to postemployment group life insurance benefits. At retirement or termination, accidental death benefits cease and natural death coverage reduces at a rate equal to 25 percent on January 1 of the first full calendar year following retirement or termination and on January 1 of each year thereafter, until it reaches 25 percent of its original value. These group life insurance benefit provisions and requirements are established by Title 51.1 of the *Code of Virginia*. There were approximately 130,912 retirees in the Basic Group Life Insurance Program and 1,836 retirees were covered under the Optional Group Life Insurance Program in fiscal year 2010.

Since 1960, when the group life insurance program was established, a portion of the premium contributions collected during members' active careers has been placed in an advance premium deposit reserve. This reserve was established to pre-fund death benefits to members after retirement.

Employers providing life insurance benefits are part of a cost-sharing pool. Therefore, separate measurements of assets and actuarial accrued liabilities are not made for individual employers participating in the program.

Retiree Health Insurance Credit Program

The Retiree Health Insurance Credit Fund was established on January 1, 1990, to provide benefits for retired state employees, state police officers, other state law enforcement and correctional officers and judges who have at least 15 years of service credit under the retirement plans. The program provides a credit reimbursement of $4 per month per year of service credit against the monthly health insurance premiums of eligible retirees.

A similar program was established on July 1, 1993, to provide a health insurance credit for retired teachers and employees of participating political subdivisions with at least 15 years of service credit under the retirement plans. Retired teachers are eligible for a monthly credit of $4 per month per year of service credit. Local government retirees may receive a maximum credit of $1.50 per month per year of service with a maximum monthly credit of $45.

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 of the *Code of Virginia*. The amount required to fund all credits is financed by the employers based on contribution rates determined by the system's actuary. Approximately 92,126 retired members were covered under this program at June 30, 2010. The Retiree Health Insurance Credit Program is a cost-sharing, multiple-employer defined benefit OPEB plan.

Disability Insurance Trust Fund

The Commonwealth provides OPEB disability insurance benefits, in accordance with state statutes, to eligible retired and terminated employees. State agencies are required by Title 51.1 of the *Code of Virginia* to contribute to the cost of providing long-term disability benefits and administering the program. There were approximately 2,592 former members receiving benefits from the program during fiscal year 2010. The Disability Insurance Trust Fund is a single-employer defined benefit OPEB plan.

The employer contributions for the Group Life Insurance Fund, Retiree Health Insurance Credit Fund, and Disability Insurance Trust Fund were suspended for April, May and the first half of June 2010.

B. Other Plans

The Commonwealth administers the following single-employer defined benefit OPEB plans.

Line of Duty Death and Disability

The Commonwealth provides death and health benefits to the beneficiaries of certain law enforcement and rescue personnel disabled or killed in the line of duty. A trust fund has been established to account for this activity. Benefit provisions and eligibility requirements are established by Title 9.1 Chapter 4 of the *Code of Virginia*. The significant accounting policies for this plan are the same as those described in Note 14 for pension plans. The Line of Duty Death and Disability is administered by the Department of Accounts. There were approximately 662 retirees and 612 other participants in the program in fiscal year 2010.

Pre-Medicare Retiree Healthcare

The Commonwealth provides a healthcare plan established by Title 2.2, Chapter 28 of the *Code of Virginia* for retirees who are not yet eligible to participate in Medicare. For a retiree to participate in the Plan, the participant must be eligible for a monthly annuity from the VRS or a periodic benefit from one of the qualified Optional Retirement Plan (ORP) vendors, and:

- be receiving (not deferring) the annuity or periodic benefit immediately upon retirement;
- have his or her last employer before retirement be the state;
- be eligible for coverage as an active employee in the State Health Benefits Program until his or her retirement date (not including Extended Coverage); and,
- have submitted within 31 days of his or her retirement date an Enrollment Form to his or her Benefits Administrator to enroll.

This fund is reported as part of the Commonwealth's Healthcare Internal Service Fund. The significant accounting policies for this plan are the same as those described in Note 14 for pension plans. The Pre-Medicare Retiree Healthcare is administered by Department of Human Resource Management. There were approximately 8,851 retirees in the program in fiscal year 2010.

C. Annual OPEB Cost and Net OPEB Obligation

The Government Accounting Standards Board (GASB) issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which required additional reporting and disclosures for OPEB plans beginning with the fiscal year ending June 30, 2008. The Commonwealth calculated an OPEB liability as of June 30, 2010, for each of the five OPEB plans. The Retiree Health Insurance Credit Fund, Disability Insurance Trust Fund, Line of Duty Death and Disability, and Pre-Medicare Retiree Healthcare OPEB liabilities were $25.6 million, $75.4 million, $15.6 million, and $309.4 million, respectively. There is no liability for the Group Life Insurance Fund.

The following table (dollars in thousands) shows the Commonwealth's annual OPEB cost and net OPEB obligation (asset) for the current and prior years.

	Group Life Insurance Fund			Retiree Health Insurance Credit Fund		
	2010	2009	2008	2010	2009	2008
Annual required contribution	$ 28,887	$ 40,248	$ 48,000	$ 66,510	$ 66,979	$ 62,387
Interest on net OPEB obligation	-	-	-	165	-	-
Adjustment to annual required contribution	-	-	-	(143)	-	-
Annual OPEB cost	28,887	40,248	48,000	66,532	66,979	62,387
Contributions made	(28,887)	(40,248)	(48,000)	(43,094)	(64,783)	(62,387)
Increase in net OPEB obligation	-	-	-	23,438	2,196	-
Net OPEB obligation (asset), beginning of year	-	-	-	2,196	-	-
Net OPEB obligation (asset), end of year	$ -	$ -	$ -	$ 25,634	$ 2,196	$ -
Percentage of annual OPEB cost contributed	100.0%	100.0%	100.0%	64.8%	96.7%	100.0%

	Disability Insurance Trust Fund			Line of Duty Death and Disability		
	2010	2009	2008	2010	2009	2008
Annual required contribution	$ 78,117	$ 79,450	$ 97,689	$ 16,901	$ 16,523	$ 9,786
Interest on net OPEB obligation	2,080	1,467	-	386	(12)	-
Adjustment to annual required contribution	(1,808)	(1,552)	-	(367)	11	-
Annual OPEB cost	78,389	79,365	97,689	16,920	16,522	9,786
Contributions made	(30,771)	(71,142)	(78,151)	(9,084)	(8,511)	(10,026)
Increase in net OPEB obligation	47,618	8,223	19,538	7,836	8,011	(240)
Net OPEB obligation (asset), beginning of year	27,761	19,538	-	7,771	(240)	-
Net OPEB obligation (asset), end of year	$ 75,379	$ 27,761	$ 19,538	$ 15,607	$ 7,771	$ (240)
Percentage of annual OPEB cost contributed	39.3%	89.6%	80.0%	53.7%	51.5%	102.5%

	Pre-Medicare Retiree Healthcare		
	2010	2009	2008
Annual required contribution	$ 136,426	$ 131,654	$ 127,156
Interest on net OPEB obligation	9,751	4,733	-
Adjustment to annual required contribution	(9,265)	(4,489)	-
Annual OPEB cost	136,912	131,898	127,156
Contributions made	(23,780)	(30,722)	(32,056)
Increase in net OPEB obligation	113,132	101,176	95,100
Net OPEB obligation (asset), beginning of year	196,276	95,100	-
Net OPEB obligation (asset), end of year	$ 309,408	$ 196,276	$ 95,100
Percentage of annual OPEB cost contributed	17.4%	23.3%	25.2%

The amounts in the previous table include Governmental and Component Unit activity for which the Commonwealth is considered the employer. It does not include the OPEB liability for the Virginia Economic Development Partnership (component unit), the Virginia Tourism Authority (component unit), Fort Monroe Federal Area Development Authority (component unit), Virginia Outdoors Foundation (component unit) and the Virginia National Defense Industrial Authority (component unit) of $565,930, $287,814, $39,112, $7,242, and $21,707, respectively. The table also excludes non-Commonwealth sponsored OPEB liabilities of $14.2 million for all other component units and includes the fiduciary OPEB liability of $1.7 million.

The annual required contributions for the current year were determined during the actuarial valuations conducted as of June 30, 2007, as that is the most recent report that reflects the current funding policies. For fiscal year 2010, employer contributions by the Commonwealth for Group Life Insurance, Retiree Health Insurance Credit and Disability Insurance were 0.79 percent, 1.00 percent, and 1.00 percent, respectively, of covered payrolls. The valuations were prepared using the entry age normal cost method for all plans except for the Disability Insurance and Line of Duty Death and Disability trust funds for which the Projected Unit Credit actuarial cost method was used. The Line of Duty Death and Disability use a 4.97 percent investment rate of return while the Pre-Medicare Retiree Healthcare plan uses a 4.97 percent investment rate of return, per year compounded annually, which approximates the projected rate of return on the Treasurer's Portfolio. The Group Life Insurance, Retiree Health Insurance Credit and Disability Insurance use a 7.5 percent investment rate of return, per year compounded annually. The actuarial assumptions for all but the Pre-Medicare Retiree Healthcare plan included a projected salary increase of 3.0 percent, including a 2.5 percent inflation component. Valuation techniques were applied to smooth the effects of short-term volatility in the market value of investments over a five year period. The remaining closed amortization period at June 30, 2010, was 30 years. The actuarial assumptions for the Pre-Medicare Retiree Healthcare plan as to current claim cost, projected increases in health insurance costs, mortality, turnover, retirement, disability and discount rate include (a) projected salary increases ranging from 3.75 percent to 5.6 percent, including a 2.5 percent inflation component; and, (b) assumption that there is no liability associated with those retirees eligible for Medicare, as costs for members aged 65 and older are not subsidized by the active population (no implicit subsidy), participants pay 100 percent of the costs, and the liability associated with the health insurance credit is measured and held by the Virginia Retirement System. Initial healthcare costs trend rates used were 10.0 percent, 11.0 percent, and 6.0 percent for medical, pharmacy, and dental benefits, respectively. The ultimate trend rates used were 5.0 percent, 5.0 percent, and 4.0 percent for medical, pharmacy, and dental benefits, respectively. The remaining closed amortization period at June 30, 2010 is 30 years.

D. Funded Status and Funding Progress

The funded status of the plans as of June 30, 2010, was as follows:

(Dollars in Millions)

Actuarial Valuation Date June 30	Actuarial Value of Assets [a]	Actuarial Accrued Liability (AAL) [b]	Unfunded AAL (UAAL) [b-a]	Funded Ratio [a/b]	Covered Payroll [c]	UAAL as a Percentage of Covered Payroll [b-a]/[c]
			Group Life Insurance Fund			
2009	$ 967	$ 1,995	$ 1,028	48.5%	$ 16,728	6.1%
			Retiree Health Insurance Credit Fund			
2009	$ 294	$ 1,976	$ 1,682	14.9%	$ 13,589	12.4%
			Disability Insurance Trust Fund			
2009	$ 267	$ 268	$ 1	99.6%	$ 4,080	-
			Line of Duty Death and Disability			
2009	$ -	$ 373	$ 373	-	N/A	-
			Pre-Medicare Retiree Healthcare			
2009	$ -	$ 1,218	$ 1,218	-	$ 3,170	38.4%

Actuarial valuations of ongoing plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future and reflect a long-term perspective. Amounts determined regarding the funded status of the plans and the annual contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The schedule of funding progress presented as required supplementary information following the notes to the financial statements presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

E. Higher Education Fund (Component Unit)

The University of Virginia (major) has a Retiree Health Plan that covers employees who retire before becoming eligible for Medicare until they reach age 65 and can then participate in the Commonwealth's Medicare Supplement Plan. Additional information on this plan can be found in the individually published financial statements of the University.

F. Other Component Units

The Virginia Housing Development Authority (major) has a Retiree Health Care Plan, a single-employer defined benefit plan which is administered through the Virginia Housing Development Authority Retiree Health Care Plan Trust, an irrevocable trust to be used solely for providing benefits to eligible participants. Effective January 1, 2006, eligible retirees must be at least 55 years of age with 15 years of service or at least 55 years of age with 10 years of service if employed by the Authority prior to such date. For the year ended June 30, 2010, the Authority's Annual OPEB cost was $962,413; the percentage of Annual OPEB Cost Contributed was 93 percent; and the ending Net OPEB asset was $39,238.

Hampton Roads Sanitation District Commission (nonmajor) provides other postemployment benefits for its employees through a single employer defined benefit plan. The plan was established and may be amended by the Commission. The plan furnishes health and dental benefits for life for all employees with at least 15 years of service and who also qualify for an unreduced retirement benefit through the VRS. The plan allows the retiree at their expense to cover their spouse and dependent under the district's health care provider. Contribution requirements are actuarially determined and funding is subject to approval by the Commission. The current rate is 7.6 percent of annual covered payroll. For 2010, the Commission's annual OPEB cost was $2.4 million; the percentage of annual OPEB cost contributed was 100 percent.

The Virginia Port Authority (nonmajor) offers post retirement medical and dental benefits to employees who retire under either VRS or the VPA pension plan. For employees and their spouses, who are participants in the VPA medical plan, not participants under the state health care plan VRS, benefit provisions and obligations are established and may be amended by the board of commissioners of the Authority. For the year ended June 30, 2010, the Authority's annual OPEB cost was $44,628; contribution towards OPEB cost was $16,361; the percentage of annual OPEB cost contributed was 36.7 percent; and the ending net OPEB obligation was $113,346.

17. DEFERRED COMPENSATION PLANS

The Commonwealth offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457(b). The Virginia Retirement System (the System) 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 System 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, reconciliation, payment to the plan through payroll deductions, and timely transfer of withheld funds to the trustee designated by the System 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, unforeseeable emergency, or an in-service distribution at age 70 ½ or later. Since the System has no fiduciary relationship with plan participants, plan assets of $1,170.9 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. 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, 2010, was $194.6

million, which is also excluded from the financial statements.

The Virginia Housing Development Authority (major component unit) and the Virginia Resource Authority (nonmajor component unit) have deferred compensation plans available to all employees created in accordance with Internal Revenue Section 457. The plans permit 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 plans are in irrevocable trusts 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 System 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 six percent of the participant's base pay contributed to the plan. VPA's total contribution to the matching savings plan was $136,561 for the fiscal year ended June 30, 2010. Further, the right to modify, alter, amend, or terminate the deferred compensation plan and matching savings plan rests with the VPA Board of Commissioners.

The third deferred compensation plan and second matching savings plan covers substantially all non-union 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 three percent of the participant's base pay contributed to the deferred compensation plan. VPA's total contribution to the matching savings plan was $297,242 for the fiscal year ended June 30, 2010.

18. STATE NON-ARBITRAGE POOL

The Commonwealth sponsors the Virginia State Non-Arbitrage Program (SNAP) for use by the Commonwealth and local governments to invest bond proceeds. The Commonwealth's responsibility is limited to hiring service providers to manage SNAP. The investment manager and the custodian have the fiduciary responsibility for SNAP.

The SNAP fund is a class of the PFM Funds Prime Series, a money market mutual fund registered with the Securities and Exchange Commission. PFM Funds is a diversified, open-end management investment company organized as a Virginia business trust. Shares of the SNAP fund are solely available to investors participating in the SNAP program. The PFM Funds Board of Trustees has overall responsibility for supervising the SNAP fund's business and affairs, including the oversight of organizations providing investment advisory, administration, and distribution services to the SNAP fund. PFM Asset Management LLC serves as the investment adviser of the SNAP fund. The SNAP individual investment portfolios are the responsibility of the SNAP investment manager and the governments investing proceeds in the portfolios. These investments are held solely in the SNAP participants' names. Since the Commonwealth has no fiduciary relationship with local governmental entities participating in the plan, these assets of $2.1 billion are not included in the financial statements.

19. COMMITMENTS

A. Construction Projects

Highway Projects

At June 30, 2010, the Department of Transportation (part of primary government) had contractual commitments of approximately $1.9 billion for construction of various highway projects. Funding for these expenditures is expected to be provided as follows: (1) federal funds – approximately 58 percent or $1.1 billion, (2) state funds – approximately 40 percent or $791 million, and (3) Proceeds from Bonds – approximately 2 percent or $47 million.

Mass Transit Projects

At June 30, 2010, the Department of Rail and Public Transportation (part of primary government) had contractual commitments of approximately $313.5 million for various public transportation, rail preservation, and rail enhancement projects. Funding of the future expenditures is expected to be as follows: (1) state funds - approximately 85.5 percent or $267.9 million, and (2) federal funds - approximately 14.5 percent or $45.6 million.

Wastewater Treatment Projects

At June 30, 2010, the Department of Environmental Quality (part of primary government) was committed to grant contracts with localities to reimburse a portion of construction costs for nutrient reduction facilities at wastewater treatment plants totaling $260.5 million.

Port Projects

At June 30, 2010, the Virginia Port Authority (nonmajor component unit) was committed to construction contracts totaling $246.6 million.

Sanitation District Project

At June 30, 2010, the Hampton Roads Sanitation District Commission (nonmajor component unit) was committed to construction programs totaling $189.1 million.

Higher Education Institutions

Colleges and universities (component units) had contractual commitments as of June 30, 2010, of approximately $938.6 million primarily for construction contracts. Higher education foundations' commitments total approximately $59.5 million and are primarily for construction contracts.

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, 2010, was $68.9 million for governmental activities (including internal service funds) and $20.8 million for business-type activities. Rental expense for the discrete component units (excluding foundations) for the year ended June 30, 2010, was $89.6 million. The Commonwealth has, as of June 30, 2010, the following minimum rental payments due under the above leases (dollars in thousands):

	Primary Government		
	Governmental Activities	Business-type Activities	Component Units (1)
2011	$ 61,132	$ 18,948	$ 60,225
2012	48,753	15,668	46,689
2013	37,375	11,652	35,639
2014	29,795	7,334	22,702
2015	26,399	4,239	19,296
2016-2020	57,612	2,261	46,097
2021-2025	8,850	-	14,483
2026-2030	6,696	-	823
2031-2035	551	-	823
2036-2040	462	-	823
2041-2045	-	-	823
2046-2050	-	-	659
Total	$ 277,625	$ 60,102	$ 249,082

Note (1): The above amounts exclude operating lease obligations of foundations.

	Foundations (2)
2011	$ 2,364
2012	1,976
2013	1,638
2014	1,180
2015	1,005
Thereafter	5,152
Total	$ 13,315

Note (2): Foundations represent FASB reporting entities defined in Note 1.B. Rental expense for the year ended June 30, 2010, was approximately $1.5 million.

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, 2010, amounted to $3.7 billion.

D. Tobacco Grants

The Tobacco Indemnification and Community Revitalization Commission (Commission) (nonmajor component unit) has $200.0 million in grant award commitments not reflected in the accompanying financial statements since eligibility requirements were not met as of June 30, 2010, in accordance with GASB Statement No. 33. The Commission awarded an additional $14.8 million in grants in July 2010 that are also not reflected in the accompanying financial statements.

The Virginia Foundation for Healthy Youth (nonmajor component unit) has $13.3 million in grant commitments and outstanding contracts not reflected in these statements since eligibility requirements were not met as of June 30, 2010, in accordance with GASB Statement No. 33.

E. Other Commitments

The Virginia Land Conservation Foundation (nonmajor component unit) has $1.8 million in grant award commitments, which were not dispersed since eligibility requirements were not met as of June 30, 2010, in accordance with GASB Statement No. 33.

The Virginia University Research Partnership (nonmajor component unit) has $3.0 million in grant award commitments not reflected in these statements since eligibility requirements were not met as of June 30, 2010, in accordance with GASB Statement No. 33.

The Virginia Small Business Financing Authority (nonmajor component unit) has $3.1 million in loan commitments in the Federal Economic Development Loan Fund as of June 30, 2010. In addition, the Child Care Financing Program had $787,770 in loan commitments in accordance with GASB Statement No. 33.

20. 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 15). 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 the 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 amount 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 to employees 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 26). All amounts related to the fiduciary funds are recognized in those funds.

The liability at June 30, 2010, 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.

21. POLLUTION REMEDIATION OBLIGATIONS

The Commonwealth implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* during fiscal year 2009.

The Commonwealth has pollution remediation obligations of $4.0 million of which $3.5 million is due within one year. With the exception of the Department of Environmental Quality (DEQ), agencies estimated future obligations based on professional consultant estimates and/or historical project expenses of similar projects; however, there is the potential for change in estimates due to price increase or reductions, technology, or applicable laws and regulations. Remediations for DEQ are not estimates but contractual obligations between the Commonwealth and the U.S. Environmental Protection Agency (EPA), and any change due to a reconciliation of incurred costs requires mutual consent and contract amendment.

The estimated Commonwealth pollution remediation liability relates to the anticipated cost of hazardous waste removal, cleanup relating to leakage of underground storage tanks, soil and groundwater contaminations, dump site cleanups, asbestos abatement, lead contamination and remediation relating to superfund state contracts.

Agencies involved in remediation include:

- Department of Environmental Quality (DEQ)
- Department of Transportation (VDOT)
- Department of Corrections (DOC)
- Department of Juvenile Justice (DJJ)
- Department of Behavioral Health & Developmental Services (DBHDS)

A Facility Lead Agreement was signed between the EPA and VDOT to resolve an issue concerning the storage of lab wastewater in an outdoor lined surface impoundment that operated between 1979 and 1983 for which contamination is present in soil and groundwater. VDOT is expected to recover $168,939 to offset remediation costs related to two contaminated groundwater sites. VDOT can only estimate interim remedial activities; additional estimates cannot be made beyond one year at this time. DOC is expected to recover $23,000 to offset remediation costs related to lead contamination. DOC was fined by the EPA in September/October 2003. DOC proposed to conduct a Supplemental Environmental Project (SEP) which included the formation of the Pollution Prevention Section of the Environmental Services Unit, disclosure of all environmental deficiencies to both the EPA and DEQ and corrections of those deficiencies. DJJ has a pollution remediation project to remove asbestos due to imminent endangerment.

The following pollution remediation outlays could not reasonably be estimated as of June 30, 2010:

- Department of Emergency Management (VDEM) relating to a fuel storage facility;
- Department of State Police (DSP) relating to gasoline tank leakage;
- Department of Behavioral Health and Developmental Services (DBHDS) relating to groundwater contamination;
- Department of Transportation (VDOT) relating to groundwater contamination.

22. 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 Commonwealth 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, 2010, $94.4 million is reported as the estimated claims payable for this fund, which is undiscounted as nearly all health care claims are current in nature. 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.T. Changes in the balances of claims liabilities (dollars in thousands) during the current and prior fiscal years are as follows:

	Balance July 1,	Current Year Claims and Changes in Estimates	Claim Payments	Balance June 30, (1)
2009-2010	$ 104,911	$ 918,686	$ (929,221)	$ 94,376
2008-2009	$ 97,631	$ 903,616	$ (896,336)	$ 104,911

(1) Of the balance shown above, $94.4 million is due within one year.

The second type of plan, Risk Management, is administered by the Department of the Treasury, Division of Risk Management and the Department of Human Resource Management, Worker's Compensation Program. These plans are accounted for in the Risk Management - internal service fund. The Department of the Treasury administers risk management programs providing property, general (tort) liability, medical malpractice, automobile and surety bond exposures for the Commonwealth of Virginia as provided in Sections 2.2-1834 through 1838 and Section 2.2-1840 of the *Code of Virginia*. Established subject to the approval of the Governor, risk management plans provide state agencies with protection through purchased insurance, self insurance or a combination thereof. Interfund premiums for the fund are accounted for as internal activity receipts from other funds. The claims payable is an estimated liability based upon actual claims that have been submitted as well as actuarially determined claims incurred but not reported. At June 30, 2010, $444.5 million is reported as the estimated claims payable for the risk management plan. This amount is discounted to present value at a rate of three percent. Undiscounted claims payable at June 30, 2010, is $520.6 million. 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 (dollars in thousands) during the current and prior fiscal years are as follows:

	Balance July 1,	Current Year Claims and Changes in Estimates	Claim Payments	Balance June 30, (1)
2009-2010	$ 409,056	$ 101,793	$ (66,382)	$ 444,467
2008-2009	$ 375,534	$ 99,680	$ (66,158)	$ 409,056

(1) Of the balance shown above, $65.0 million is due within one year.

For workers' compensation, the Commonwealth assumes the full risk of claims filed. For tort and automobile, liability is assumed at a maximum of $2,000,000 per occurrence. Medical malpractice liability is assumed at the maximum of $2,000,000 per occurrence recovery limit stated in Section 8.01-581.15 of the *Code of Virginia*. Risk Management purchases commercial insurance to protect state-owned property with deductibles as stated in the insurance policies.

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

The Virginia Commonwealth University Health System Authority (Authority) (a blended component unit of the Virginia Commonwealth University – major component unit) is self-insured for medical malpractice and provides for the liability on an undiscounted basis, based on the ultimate cost of known claims and claims incurred but not yet reported. The Authority is also self-insured for workers' compensation and provides for the liability on a blended discounted and undiscounted basis, based on the ultimate cost of known claims and claims incurred but not yet reported. These liabilities include assumptions and factors related to the frequency and severity of claims, claims development history, and claims settlement practices. Estimated losses on malpractice and workers' compensation claims for the current and prior fiscal years are as follows (dollars in thousands):

Estimated Malpractice Losses

		Balance July 1,		Claims Expense		Claims Settled		Balance June 30, (1)
2009-2010	$	30,415	$	788	$	(4,293)	$	26,910
2008-2009	$	31,014	$	1,176	$	(1,775)	$	30,415

(1) Of the balance shown above, $3.4 million is due within one year.

Estimated Workers' Compensation Losses

		Balance July 1,		Claims Expense		Claims Settled		Balance June 30, (1)
2009-2010	$	16,334	$	3,383	$	(2,710)	$	17,007
2008-2009	$	17,802	$	699	$	(2,167)	$	16,334

(1) Of the balance shown above, $2.2 million is due within one year.

In addition, expenses and liabilities arising from services rendered to VA Premier's and Carolina Crescent Health Plan's (component units of the Authority) HMO members are reported when it is probable that services have been provided and the amount of the claim can be reasonably estimated. The claims payable includes an estimate of claims that have been incurred but not reported. At June 30, 2010 the amount of these liabilities is $63,697,510 and is reported as Claims Payable – Due within One Year. This liability is VA Premier's and Carolina Crescent Health Plan's best estimate based on available information.

Additional information on the claims payable amounts reported by the Authority can be found in the individually published financial statements of the Authority.

Virginia International Terminals, Inc., a component unit of 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 $125,000 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 $6,659,696.

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 262 local government units participating in the pool. This includes 28 school districts, 34 counties, 97 cities/towns, and 103 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, 2010, $22.9 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 the Treasury, Division of Risk Management administers risk management programs for political subdivisions, constitutional officers and others in accordance with Section 2.2-1839 of the *Code of Virginia*. These pools were established to provide an economical, low-cost 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 approval by 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, 2010, there were 542 units of local government in the pool, including 4 cities, 36 towns, and 32 counties. The remaining 470 units include 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 30 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, participation is voluntary and open to those identified in Section 2.2-1839 of the *Code of Virginia*. The risk assumed by the local public entity pool for member liability is $1,000,000 per occurrence.

At June 30, 2010, $15.3 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 (dollars in thousands) shows the changes in claims liabilities for the past two fiscal years.

	Local Choice Health Care		**Risk Management**	
	June 30, 2010	**June 30, 2009**	**June 30, 2010**	**June 30, 2009**
Unpaid Claims and Claim Adjustment Expenses at Beginning of Fiscal Year	$ 23,607	$ 19,211	$ 14,550	$ 14,072
Incurred Claims and Claim Adjustment Expenses:				
Provision for Insured Events of the Current Fiscal Year	221,273	211,904	(498)	448
Changes in Provision for Insured Events of Prior Fiscal Years	-	-	1,274	(881)
Total Incurred Claims and Adjustment Expenses	221,273	211,904	776	(433)
Payments:				
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Fiscal Year	222,006	207,508	412	300
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Prior Fiscal Year	-	-	-	-
Total Payments	222,006	207,508	412	300
Change in Provision for Discounts	-	-	375	321
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Discounted) (1) (2) (3)	$ 22,874	$ 23,607	$ 15,289	$ 13,660
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Undiscounted)	$ 22,874	$ 23,607	$ 16,309	$ 14,550

Note (1): The entire balance for Local Choice Health Care, $22,874 (dollars in thousands) is due within one year.

Note (2): Of the balance shown above for Risk Management, $4,939 (dollars in thousands) is due within one year.

Note (3): The interest rate used for discounting is 3.0 percent.

23. ACCOUNTS PAYABLE

The following table (dollars in thousands) summarizes Accounts Payable as of June 30, 2010.

	Vendor	Salary/ Wage	Retainage	Other	Foundations (1)	Total
Primary Government:						
General	$ 135,282	$ 85,744	$ -	$ -	$ -	$ 221,026
Major Special Revenue Funds:						
Commonwealth Transportation	202,214	26,063	4,948	-	-	233,225
Federal Trust	102,561	16,008	140	-	-	118,709
Literary	197	-	-	-	-	197
Nonmajor Governmental Funds	31,714	24,454	8,415	36	-	64,619
Major Enterprise Funds:						
State Lottery (2)	3,348	816	-	4,315	-	8,479
Virginia College Savings Plan (2)	58	282	-	1,089	-	1,429
Unemployment Compensation	191	-	-	-	-	191
Nonmajor Enterprise Funds	23,178	4,539	-	-	-	27,717
Internal Service Funds	57,516	2,688	-	-	-	60,204
Private Purpose	1,763	168	-	-	-	1,931
Pension and Other Employee Benefit Trust (3)	695	1,621	-	36,975	-	39,291
Agency Funds	1,899	-	-	2,016	-	3,915
Total Primary Government (4)	$ 560,616	$ 162,383	$ 13,503	$ 44,431	$ -	$ 780,933
Discrete Component Units:						
Virginia Housing Development Authority	$ 1,473	$ 1,176	$ -	$ -	$ -	$ 2,649
Virginia Public School Authority	206	-	-	-	-	206
University of Virginia	94,914	52,277	898	14,840	40,273	203,202
Virginia Polytechnic Institute and State University	49,204	47,703	6,617	-	14,491	118,015
Virginia Commonwealth University	60,021	75,050	540	-	976	136,587
Nonmajor Component Units	177,048	143,628	29,870	9,318	30,672	390,536
Total Component Units	$ 382,866	$ 319,834	$ 37,925	$ 24,158	$ 86,412	$ 851,195

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.

Note (2): Other Accounts Payable for the State Lottery represents administrative costs payable. Other Accounts Payable for the Virginia College Savings Plan represents investment fees payable.

Note (3): Other Accounts Payable for the Pension and Other Employee Benefit Trust Fund consists of $23,398 (dollars in thousands) in investment management expense, $12,636 (dollars in thousands) in program benefit liabilities, $822 (dollars in thousands) of investment interest payable, and $119 (dollars in thousands) of other investment payables generally related to Futures and month-end rebalancing items.

Note (4): Fiduciary liabilities of $45,137 (dollars in thousands) are not included in the Government-wide Statement of Net Assets. In addition, governmental fund liabilities of $76,994 (dollars in thousands) are included in the Government-wide Statement of Net Assets, but excluded from the above amounts.

24. OTHER LIABILITIES

The following table (dollars in thousands) summarizes Other Liabilities as of June 30, 2010.

	Primary Government				
	General	Commonwealth Transportation	Federal Trust	Nonmajor Governmental Funds	State Lottery
Lottery Prizes Payable	$ -	$ -	$ -	$ -	$ 43,995
Due to Program Participants, Escrows, and Providers	-	-	-	-	-
Medicaid Payable	237,785	-	379,623	-	-
Family Access to Medical Insurance Security Payable	4,120	-	7,651	-	-
Tax Refunds Payable	417,304	-	-	-	-
Insurance Carrier Surety Deposit	-	-	-	-	-
Deposits Pending Distribution	1,918	5,628	-	2,334	-
Car Tax Payable	263,025	-	-	-	-
Title XII Federal Advances	-	-	-	-	-
Other Liabilities	-	-	-	2,541	-
Total Other Liabilities	$ 924,152	$ 5,628	$ 387,274	$ 4,875	$ 43,995

	Primary Government				
	Virginia College Savings Plan	Unemployment Compensation	Nonmajor Enterprise Funds	Internal Service Funds	Private Purpose Funds
Lottery Prizes Payable	$ -	$ -	$ -	$ -	$ -
Due to Program Participants, Escrows, and Providers	58	28,590	-	-	271
Medicaid Payable	-	-	-	-	-
Family Access to Medical Insurance Security Payable	-	-	-	-	-
Tax Refunds Payable	-	-	-	-	-
Insurance Carrier Surety Deposit	-	-	-	-	-
Deposits Pending Distribution	-	-	179	351	-
Car Tax Refund Payable	-	-	-	-	-
Title XII Federal Advances	-	346,876	-	-	-
Other Liabilities	-	-	149	757	-
Total Other Liabilities	$ 58	$ 375,466	$ 328	$ 1,108	$ 271

	Primary Government		
	Pension and Other Employee Benefit Trust Funds (1)	Agency Funds	Total Primary Government (2)
Lottery Prizes Payable	$ -	$ -	$ 43,995
Due to Program Participants, Escrows, and Providers	-	35,037	63,956
Medicaid Payable	-	-	617,408
Family Access to Medical Insurance Security Payable	-	-	11,771
Tax Refunds Payable	-	-	417,304
Insurance Carrier Surety Deposit	-	434,434	434,434
Deposits Pending Distribution	-	34,495	44,905
Car Tax Refund Payable	-	-	263,025
Title XII Federal Advances	-	-	346,876
Other Liabilities	749,188	2,082	754,717
Total Other Liabilities	$ 749,188	$ 506,048	$ 2,998,391

Note (1): Other Liabilities of $749,188 (dollars in thousands) reported in pension and other employee benefit trust funds are made up of $25,762 (dollars in thousands) in funds held for the Commonwealth Health Research Fund; $9,710 (dollars in thousands) in other funds managed by the System; $712,716 (dollars in thousands) in pending investment transactions, including $653,073 (dollars in thousands) for investment overlay and swaps, $30,000 (dollars in thousands) for securities lending, $27,727 (dollars in thousands) for net foreign exchange contracts, $1,916 (dollars in thousands) in other investment payables; and $1,000 (dollars in thousands) in other payable related to the System benefit plans.

Note (2): Fiduciary liabilities of $1,255,507 (dollars in thousands) are not included in the Government-wide Statement of Net Assets. Governmental fund liabilities of $650,370 (dollars in thousands) are included in the Government-wide Statement of Net Assets, but excluded from the above amounts.

	Component Units				
	Virginia Housing Development Authority	Virginia Public School Authority	University of Virginia (3)	Virginia Polytechnic Institute & State University	Virginia Commonwealth University (3)
Accrued Interest Payable	$ 105,980	$ 61,889	$ 2,362	$ 3,634	$ 4,933
Other Liabilities	10,002	2	85,579	28,747	77,494
Deposits Pending Distribution	6,180	-	367,544	13,643	29,241
Short-term Debt	-	-	130,041	2,975	15,000
Grants Payable	-	-	-	-	-
Total Other Liabilities	$ 122,162	$ 61,891	$ 585,526	$ 48,999	$ 126,668

	Component Units	
	Nonmajor Component Units	Total Component Units
Accrued Interest Payable	$ 116,648	$ 295,446
Other Liabilities	40,934	242,758
Deposits Pending Distribution	28,279	444,887
Short-term Debt	10,010	158,026
Grants Payable	10,541	10,541
Total Other Liabilities	$ 206,412	$ 1,151,658

Note (3): Other Liabilities of $13,776 (dollars in thousands) for the University of Virginia and $48,815 (dollars in thousands) for the Virginia Commonwealth University represent hedging derivative instruments reported in accordance with GASBS No. 53 (see Note 13 for additional information).

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, 2010, the estimated liability related to Medicaid claims totaled $617.4 million. Of this amount, $237.8 million is reflected in the General Fund (major) and $379.6 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, 2010, the estimated liability related to claims totaled $11.8 million. Of this amount, $4.1 million is reflected in the General Fund (major) and $7.7 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 on or before December 31, 2009, and on business tax returns filed for corporate fiscal years ending on or before June 30, 2010. 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 assumed financial responsibility for a portion, ranging from 12.5 percent to 70.0 percent, of the personal property taxes assessed by localities.

During 2004, the General Assembly modified this legislation. Chapter 1 of Special Session 1 (2004) established a $950.0 million limit on the amount the Commonwealth would appropriate for personal property tax relief, beginning in tax year 2006. It further established that each county, city, and town would receive a fixed percentage of the $950.0 million, with payments to begin on or after July 1, 2006 (fiscal year 2007). The accrued liability amount of $263.0 million reflects payments owed to localities as of June 30 and paid in July.

Short-term Debt

Short-term debt results from borrowings from anticipation notes, lines of credit, and similar loans with parties external to the primary government. The primary government's policy is to disclose activity related to short-term borrowings occurring during the fiscal year. For fiscal year 2010, the primary government's agencies did not participate in short-term borrowings with external parties.

Various higher education institutions' foundations (component units) have short-term debt. University of Virginia Foundations (major component unit) report approximately $59.3 million and nonmajor component unit foundations report approximately $9.9 million. This short-term debt is for working capital, property acquisition, construction costs, and operating costs. The University of Virginia (major component unit) has commercial paper of $70.7 million and the Virginia Polytechnic Institute and State University (major component unit) reports approximately $3.0 million of commercial paper that provides bridge financing for capital projects. The Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University) reports short-term debt of $15.0 million to meet certain cash reserve requirements. The Virginia Horse Center Foundation (nonmajor component unit) has a $44,000 note with a related party. The Library of Virginia Foundation (nonmajor component unit) has a $60,000 note with a related party.

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

25. TERMINATION BENEFITS

During fiscal year 2010, all Commonwealth employees were aware that required budgetary reductions could result in involuntary employment separations. As of June 30, 2010, the Commonwealth had laid off 820 employees. The affected employees had the option of volunteering for enhanced retirement benefits or severance benefits. The enhanced retirement option was elected by 341 employees, and the remaining 479 employees elected severance benefits. The severance benefits include salary payments based on years of service and insurance premium payments for health and life insurance payments. All severance benefits were initiated during fiscal year 2010 and will end no later than June 30, 2011. The benefit cost expended and the outstanding liability as of June 30, 2010, is $7.2 million and $4.3 million, respectively. Since the severance benefits last for a maximum of 12 months, discounting of future cash flows is unnecessary. Additionally, the estimated payments are calculated using the Department of Human Resources' Termination Benefits Calculator.

26. 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). 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 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.

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 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
June 30, 2010

(Dollars in Thousands)	Balance At June 30	Amount Due Within One Year
Primary Government:		
Governmental Activities:(1)		
General Obligation Bonds: (2)		
9(b) Transportation Facilities (3)	$ 6,469	$ 6,469
9(b) Public Facilities (3)	993,372	75,575
9(c) Parking Facilities (3)	21,151	1,533
9(c) Transportation Facilities (3)	28,394	1,975
Total General Obligation Bonds	1,049,386	85,552
Nongeneral Obligation Bonds - 9(d):		
Transportation Debt (3) (4)	1,843,237	200,810
Virginia Public Building Authority (3)	2,276,819	151,085
Total Nongeneral Obligation Bonds	4,120,056	351,895
Other Long-term Obligations:		
Pension Liability	1,147,163	-
OPEB Liability	214,943	-
Compensated Absences	320,912	164,709
Capital Lease Obligations	97,012	10,985
Pollution Remediation Obligations	4,019	3,451
Regional Jail Financing Payable	6,445	1,828
Notes Payable	93,891	23,276
Installment Purchase Obligations	73,950	6,376
Industrial Development Authority Obligations	5,150	5,150
Economic Development Authority Obligations (3)	89,722	3,690
Other Liabilities	26,041	4,367
Total Other Long-term Obligations	2,079,248	223,832
Total Governmental Activities (3)	7,248,690	661,279
Business-type Activities: (1) (5)		
Other Long-term Obligations:		
Pension Liability	26,379	-
OPEB Liability	5,779	-
Compensated Absences	9,130	4,830
Capital Lease Obligations	1,407	560
Installment Purchase Obligations	187	187
Tuition Benefits Payable	2,095,958	155,582
Lottery Prizes Payable	250,754	51,372
Total Other Long-term Obligations	2,389,594	212,531
Total Business-type Activities	2,389,594	212,531
Total Primary Government	9,638,284	873,810

Continued on next page

Total Long-term Liabilities
June 30, 2010
(continued from previous page)

(Dollars in Thousands)	**Balance At June 30**	**Amount Due Within One Year**
Component Units:		
General Obligation Bonds: (2)		
Higher Education Fund - 9(c) Bonds (3)	631,275	39,820
Nongeneral Obligation Bonds:		
Higher Education Institutions - 9(d) (3) (5)	1,333,083	24,045
Virginia College Building Authority (3)	1,677,617	119,604
Innovation and Entrepreneurship Investment Authority	4,480	1,015
Virginia Port Authority (3) (6)	483,051	12,493
Virginia Housing Development Authority (3) (5)	6,739,603	256,051
Virginia Resources Authority (3) (7)	2,585,556	102,469
Virginia Public School Authority (3) (5)	3,235,947	196,864
Hampton Roads Sanitation District Commission (5)	547,318	16,699
Virginia Biotechnology Research Park Authority (3) (8)	44,005	2,826
Foundations (5) (9)	851,731	15,885
Total Nongeneral Obligation Bonds	17,502,391	747,951
Other Long-term Obligations:		
Pension Liability (10)	506,555	-
OPEB Liability (11)	218,745	-
Compensated Absences	238,916	158,700
Capital Lease Obligations	104,489	6,088
Notes Payable (5)	2,034,214	450,114
Installment Purchase Obligations	141,026	26,581
Trust and Annuity Obligations (5) (12)	1,535	-
Other Liabilities (5)	338,411	82,139
Total Other Long-term Obligations (Excluding Foundations)	3,583,891	723,622
Other Long-term Obligations (Foundations): (5) (9)		
Pension Liability	79,958	-
OPEB Liability	16	-
Compensated Absences	10,044	5,050
Capital Lease Obligations	5,196	509
Notes Payable	194,354	56,790
Installment Purchase Obligations	8	3
Trust and Annuity Obligations (12)	73,286	2,712
Other Liabilities	102,529	1,344
Total Other Long-term Obligations - Foundations	465,391	66,408
Total Other Long-term Obligations	4,049,282	790,030
Total Component Units	22,182,948	1,577,801
Total Long-term Liabilities	$ 31,821,232	$ 2,451,611

1. Pursuant to GASB Statement No. 34, governmental activities include internal service funds. Business-type activities are considered enterprise funds.
2. Total general obligation debt of the Commonwealth is $1.68 billion.
3. Amounts are net of any unamortized discounts, premiums, and deferrals.
4. This debt includes $414.3 million that is not supported by taxes.
5. This debt is not supported by taxes.
6. This debt includes $288.8 million that is not supported by taxes.
7. This debt is not supported by taxes; however, $669.8 million from VRA is considered moral obligation debt.
8. This debt includes $1.3 million that is not supported by taxes.
9. Foundations represent FASB reporting entities defined in Note 1.B.
10. This includes pension obligations that do not relate to the Virginia Retirement System from Virginia Commonwealth University of $5.2 million and Virginia Port Authority of $6.3 million. It does not include pension obligations from fiduciary funds of $6.7 million.
11. This includes OPEB obligations that do not relate to the Virginia Retirement System from University of Virginia of $14.1 million, and Virginia Port Authority of $113,346. It does not include OPEB obligations from fiduciary funds of $1.7 million.
12. These generally represent split-interest agreements that represent donor contributed assets with the requirement that an annual distribution be made to the donor or specified beneficiary. The annual distributions are usually for a fixed dollar amount or a fixed percentage of the trust's fair market value. The present value of these commitments is reported as Trust and Annuity Obligations.

Primary Government

Transportation Facilities Debt

Transportation Facilities Bonds include $6,469,056 of Section 9(b) general obligation bonds, $28,393,839 of Section 9(c) general obligation bonds and $1,428,918,395 of Section 9(d) revenue bonds. The Transportation Facilities Section 9(d) debt of $1,843,237,254 includes $414,318,859 of outstanding Commonwealth of Virginia Federal Highway Reimbursement Anticipation Notes in addition to the outstanding Section 9(d) revenue bonds. 9(b) Principal and interest requirements for the current year totaled $6,301,250. 9(c) Principal and interest requirements for the current year totaled $3,188,600. 9(d) Principal and interest requirements for the current year totaled $244,256,965. The Section 9(b) Transportation Facilities bonds represent Powhite Refunding Bonds. The Section 9(c) Transportation Facilities Bonds were issued to fund the construction and improvement of 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 Commonwealth of Virginia Federal Highway Reimbursement Anticipation Notes were issued to finance various capital transportation projects throughout the Commonwealth. The interest rates for these bonds range from 2.00 percent to 5.95 percent and the issuance dates range from November 1, 2000, to May 15, 2010.

The following schedules detail the annual funding requirements necessary to amortize Transportation Facilities 9(b) and 9(c) bonds and 9(d) debt. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth will receive a 35 percent interest subsidy to reimburse interest payments of $143,108,333 for Build America Bonds (BABs) issued. The BABs are applicable to Commonwealth of Virginia Transportation Series 2010A Capital Project Revenue Bonds and Series 2009A Northern Virginia Transportation District Revenue Bonds.

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

Maturity	Principal	Interest	Total
2011	$ 6,010,000	$ 300,500	$ 6,310,500
Less:			
Deferral on Debt Defeasance	(118,300)	-	(118,300)
Add:			
Unamortized Premium	577,356	-	577,356
Total	$ 6,469,056	$ 300,500	$ 6,769,556

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

Maturity	Principal	Interest	Total
2011	$ 1,975,000	$ 1,212,600	$ 3,187,600
2012	2,080,000	1,113,850	3,193,850
2013	2,185,000	1,009,850	3,194,850
2014	2,290,000	900,600	3,190,600
2015	2,405,000	786,100	3,191,100
2016-2020	13,660,000	2,292,250	15,952,250
2021-2025	3,065,000	122,600	3,187,600
Less:			
Deferral on Debt Defeasance	(58,400)	-	(58,400)
Add:			
Unamortized Premium	792,239	-	792,239
Total	$ 28,393,839	$ 7,437,850	$ 35,831,689

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

Maturity	Principal	Interest	Total
2011	$ 200,810,000	$ 80,725,676	$ 281,535,676
2012	156,340,000	73,089,669	229,429,669
2013	161,590,000	65,319,035	226,909,035
2014	105,650,000	58,958,673	164,608,673
2015	110,780,000	53,710,241	164,490,241
2016-2020	452,443,820	195,259,671	647,703,491
2021-2025	260,870,875	113,572,715	374,443,590
2026-2030	156,377,169	62,974,540	219,351,709
2031-2035	153,511,804	24,450,450	177,962,254
Less:			
Unamortized Discount	(119,655)	-	(119,655)
Deferral on Debt Defeasance	(3,162,300)	-	(3,162,300)
Add:			
Accretion on Capital Appreciation Bonds	17,129,174	-	17,129,174
Unamortized Premium	71,016,367	-	71,016,367
Total	$ 1,843,237,254	$ 728,060,670	$ 2,571,297,924

Fairfax Economic Development Authority Obligations

In fiscal year 2006, the Fairfax County Economic Development Authority (EDA) issued Section 9(d) revenue bonds to pay for the Commonwealth's (VDOT) costs of the planning, design and construction of a transportation infrastructure and related public safety operations complex to be developed on the contiguous sites in the county commonly referred to as “Camp 30” for the joint use of VDOT and the county. The Commonwealth's obligation is set out in a payment agreement between Fairfax County EDA and the Commonwealth of Virginia, Department of Transportation, in which the Commonwealth agrees to make payments equal to the debt service from amounts appropriated by the General Assembly. The interest rates for these bonds range from 4.25 percent to 5.00 percent and the issue date was April 12, 2006. The principal and interest requirements for current year totaled $7,828,438. The following schedule details the annual funding requirements necessary to repay these bonds:

FAIRFAX COUNTY ECONOMIC DEVELOPMENT AUTHORITY
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2011	$ 3,690,000	$ 4,137,688	$ 7,827,688
2012	3,875,000	3,953,188	7,828,188
2013	4,070,000	3,759,438	7,829,438
2014	4,270,000	3,555,938	7,825,938
2015	4,485,000	3,342,438	7,827,438
2016-2020	25,975,000	13,169,488	39,144,488
2021-2025	32,610,000	6,532,888	39,142,888
2026-2030	7,490,000	337,050	7,827,050
Add:			
Unamortized Premium	3,256,636	-	3,256,636
Total	$ 89,721,636	$ 38,788,116	$ 128,509,752

Public Facilities Bonds

Section 9(b) general obligation bonds consist of Public Facilities Bonds, Series 2002 Refunding, Series 2003A Refunding, Series 2004A, Series 2004B Refunding, Series 2005A, Series 2006A Refunding, Series 2006B, Series 2007A, Series 2007B, Series 2008A, Series 2008B, Series 2008B Refunding, Series 2009A, Series 2009D Refunding, and Series 2009E. Bonds were issued to fund construction projects for higher educational institutions, mental health, and/or park facilities. The Series 2003A bonds were issued to advance refund outstanding Series 1993A and B, Series 1994, and Series 1996 bonds. The Series 2004B bonds were issued to advance refund outstanding Series 1997, Series 1998, and Series 1999A bonds. The Series 2006A bonds were issued to advance refund outstanding Series 1996 bonds. The Series 2008B bonds were issued to advance refund outstanding Series 1998 refunding bonds. The Series 2009D Bonds were issued to advance refund outstanding Series 2004A, Series 2005A, and Series 2006B bonds. Principal and interest requirements for the current year totaled $121,215,753. The interest rates for all bonds range from 1.2 percent to 5.5 percent and the issuance dates range from October 23, 2002, to October 21, 2009. The following schedule details the annual funding requirements necessary to repay these bonds. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth will receive a 35 percent interest subsidy to reimburse interest payments of $6,746,565 for Build America Bonds (BABs) issued. The BABs are applicable to Series 2009E Public Facilities Revenue Bonds.

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

Maturity	Principal	Interest	Total
2011	$ 75,575,309	$ 44,006,692	$ 119,582,001
2012	78,721,071	40,597,234	119,318,305
2013	78,507,179	36,888,838	115,396,017
2014	73,465,000	33,226,925	106,691,925
2015	68,410,000	29,756,935	98,166,935
2016-2020	261,810,000	106,457,363	368,267,363
2021-2025	230,945,000	49,201,949	280,146,949
2026-2030	81,630,000	7,325,446	88,955,446
Less:			
Deferral on			
Debt Defeasance	(18,475,100)	-	(18,475,100)
Add:			
Unamortized Premium	62,783,691	-	62,783,691
Total	$ 993,372,150	$ 347,461,382	$ 1,340,833,532

Parking Facilities Bonds

Section 9(c) general obligation bonds consist of Parking Facilities Bonds, 2002 Refunding, 2003A, 2004A, 2009B, and 2009D Refunding. The Series 2002 Refunding bonds were issued to advance refund outstanding Series 1996 and Series 1993 Refunding bonds. The Series 2004A bonds were issued to fund the renovation of the 9th and Franklin Street parking deck. The Series 2009B bonds were issued to fund the construction of a new 1,000 vehicle parking structure at 7th and Franklin Streets. The Series 2009D Refunding bonds were issued to advance refund outstanding Series 2004A and 2006B Refunding bonds. The interest rates for these bonds range from 2.5 percent to 5.5 percent and the issuance dates range from October 23, 2002, to October 21, 2009. Current year principal and interest requirements totaled $1,714,797.

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
2011	$ 1,533,102	$ 916,660	$ 2,449,762
2012	740,000	852,055	1,592,055
2013	770,000	819,855	1,589,855
2014	805,000	781,355	1,586,355
2015	845,000	746,355	1,591,355
2016-2020	4,572,093	3,099,355	7,671,448
2021-2025	5,565,000	1,813,200	7,378,200
2026-2030	4,025,000	515,250	4,540,250
Less:			
Deferral on			
Debt Defeasance	(278,200)	-	(278,200)
Add:			
Unamortized Premium	2,573,613	-	2,573,613
Total	$ 21,150,608	$ 9,544,085	$ 30,694,693

Virginia Public Building Authority

Virginia Public Building Authority (VPBA) Section 9(d) bonds consist of Series 1992B, 2000A, 2001A, 2002A, 2003A Refunding, 2004A Refunding, 2004B, 2004C Refunding, 2004D Refunding, 2005A Refunding, 2005B Refunding, 2005C, 2005D, 2006A, 2006B, 2007A, 2008A Refunding, 2008B, 2009A, 2009B, 2009C, 2009D Refunding and 2010A. All bonds were issued 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 Series 2004C and 2005A bonds were issued to refinance certain capital lease obligations of the Commonwealth. The Series 2004D bonds were issued to advance refund outstanding Series 1997A, Series 1999B, and Series 2000A bonds. The Series 2005B bonds were issued to advance refund outstanding Series 1996A, Series 1998B, and Series 1999A bonds. The Series 2008A bonds were issued to advance refund outstanding series 1998A Refunding bonds. The Series 2009D bonds were issued to advance refund outstanding series 2001A and 2002A Revenue bonds. The interest rates for all fixed rate bonds range from 2.0 percent to 5.75 percent and the issuance dates range from August 1, 1992, to February 24, 2010. The Series 2005D bonds are variable rate bonds and the rates are reset weekly by the remarketing agent. Current year principal and interest requirements totaled $222,383,880. The following schedule details the annual funding requirements necessary to repay these bonds. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth will receive a 35 percent interest subsidy to reimburse interest payments of $65,649,540 for Build America Bonds (BABs) issued. The BABs are applicable to Series 2010 Revenue Bonds.

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

Maturity	*Principal*	*Interest*	*Total*
2011	$ 151,085,000	$ 99,384,333	$ 250,469,333
2012	161,775,000	93,187,193	254,962,193
2013	163,425,000	85,332,997	248,757,997
2014	153,810,000	77,569,643	231,379,643
2015	157,100,000	69,914,888	227,014,888
2016-2020	610,000,000	252,339,784	862,339,784
2021-2025	458,750,000	131,978,008	590,728,008
2026-2030	308,745,000	39,072,658	347,817,658
2031-2035	21,675,000	623,156	22,298,156
Less:			
Deferral on Debt Defeasance	(21,628,979)	-	(21,628,979)
Unaccreted Capital Appreciation Bonds	(40,768)	-	(40,768)
Add:			
Unamortized Premium	112,124,142	-	112,124,142
Total	$ 2,276,819,395	$ 849,402,660	$ 3,126,222,055

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. Current year principal and interest requirements totaled $2,633,289.

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*
2011	$ 1,827,477	$ 808,212	$ 2,635,689
2012	1,869,189	766,526	2,635,715
2013	1,911,009	725,511	2,636,520
2014	837,165	(646,926)	190,239
Total	$ 6,444,840	$ 1,653,323	$ 8,098,163

Industrial Development Authority Obligations

In fiscal year 2002, 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 was July 27, 2000. Current year principal and interest requirements totaled $5,292,183. The following schedule details the annual funding requirements necessary to repay these bonds:

NEWPORT NEWS INDUSTRIAL DEVELOPMENT AUTHORITY
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2011	$ 5,150,000	$ 141,625	$ 5,291,625
Total	$ 5,150,000	$ 141,625	$ 5,291,625

Component Units

Higher Education Institution Bonds

Higher Education 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 (dollars in thousands):

College and university bonds backed by pledge of general revenue or revenue from specific revenue-producing capital projects	$ 1,059,008
College and university debt backed exclusively by pledged revenues of an institution	274,075
Total Higher Education Institution 9(d) debt	$ 1,333,083

The interest rates for these bonds range from 0.14 percent to 6.2 percent and the issuance dates range from November 17, 1981, to October 21, 2009. The VCBA Series 2006B and 2006C bonds, the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University) Series 2005 and 2008 bonds, and the UVA Series 2003A bonds are variable rate bonds and the rates are reset weekly by the remarketing agent.

The following schedules detail the annual funding requirements necessary to amortize Higher Education Institution 9(c) and 9(d) bonds. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth will receive a 35 percent interest subsidy to reimburse interest payments of $93,430,599 for Build America Bonds (BABs) issued. The BABs are applicable to Series 2009F 21st Century Virginia College Building Authority Education Facilities Bonds.

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

Maturity	Principal	Interest	Total
2011	$ 38,508,589	$ 29,170,250	$ 67,678,839
2012	37,343,929	27,308,347	64,652,276
2013	38,342,822	25,479,206	63,822,028
2014	32,770,000	23,621,789	56,391,789
2015	35,080,000	22,017,339	57,097,339
2016-2020	157,817,907	85,581,140	243,399,047
2021-2025	148,300,000	50,122,231	198,422,231
2026-2030	96,595,000	17,768,038	114,363,038
2031-2035	24,765,000	3,175,050	27,940,050
2036-2040	1,830,000	131,338	1,961,338
Deferral on			
Debt Defeasance	(13,623,200)	-	(13,623,200)
Add:			
Unamortized Premium	33,544,607	-	33,544,607
Total	$ 631,274,654	$ 284,374,728	$ 915,649,382

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

Maturity	Principal	Interest	Total
2011	$ 24,514,726	$ 44,636,259	$ 69,150,985
2012	25,478,496	43,849,537	69,328,033
2013	26,492,379	42,940,679	69,433,058
2014	26,376,381	41,979,206	68,355,587
2015	27,590,503	40,946,148	68,536,651
2016-2020	120,348,841	189,882,322	310,231,163
2021-2025	117,528,876	169,692,973	287,221,849
2026-2030	121,500,000	155,922,246	277,422,246
2031-2035	218,400,000	144,908,838	363,308,838
2036-2040	616,500,000	98,930,455	715,430,455
Less:			
Deferral on			
Debt Defeasance	(8,382,841)	-	(8,382,841)
Add:			
Unamortized Premium	16,736,091	-	16,736,091
Total	$ 1,333,083,452	$ 973,688,663	$ 2,306,772,115

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

Maturity	Principal	Interest	Total
2011	$ 112,495,000	$ 74,784,766	$ 187,279,766
2012	105,060,000	67,195,184	172,255,184
2013	91,025,000	62,532,441	153,557,441
2014	94,995,000	58,431,876	153,426,876
2015	103,765,000	54,189,533	157,954,533
2016-2020	445,125,000	207,893,774	653,018,774
2021-2025	384,895,000	116,786,527	501,681,527
2026-2030	263,820,000	37,888,890	301,708,890
Less:			
Deferral on			
Debt Defeasance	(17,668,500)	-	(17,668,500)
Add:			
Unamortized Premium	94,105,300	-	94,105,300
Total	$ 1,677,616,800	$ 679,702,991	$ 2,357,319,791

Various higher education institutions' foundations (component units) and a museum foundation (component unit) have bonds outstanding as of year-end. The purpose of a majority of these bonds is for construction, property acquisition, and defeasance of prior debt. The following schedule details the future principal payments. :

FOUNDATIONS' BONDS (1)
Debt Service Requirements to Maturity

Maturity	*Principal*
2011	$ 15,884,857
2012	14,413,622
2013	16,114,946
2014	28,470,878
2015	17,732,976
Thereafter	756,741,549
Mark-to-market estimate of bank swap transactions	2,372,462
Total	$ 851,731,290

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.

Innovation and Entrepreneurship Investment Authority

The Innovation and Entrepreneurship Investment Authority (IEIA) 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) INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2011	$ 1,015,000	$ 336,896	$ 1,351,896
2012	1,090,000	260,568	1,350,568
2013	1,155,000	178,600	1,333,600
2014	1,220,000	91,744	1,311,744
Total	$ 4,480,000	$ 867,808	$ 5,347,808

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 3.375 percent to 5.5 percent and the issuance dates range from July 23, 2002, to May 6, 2010. Series 2006A bonds were issued to advance refund $22.9 million of outstanding Series 1996 bonds. Series 2010 bonds were issued to currently refund in full the outstanding principal amount of the Authority's Series 2009 Bond Anticipation Note. 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*
2011	$ 11,760,000	$ 23,396,465	$ 35,156,465
2012	12,330,000	22,287,428	34,617,428
2013	12,935,000	21,647,813	34,582,813
2014	13,575,000	20,977,708	34,552,708
2015	14,250,000	20,225,658	34,475,658
2016-2020	77,990,000	89,130,367	167,120,367
2021-2025	96,205,000	67,105,283	163,310,283
2026-2030	102,635,000	41,056,229	143,691,229
2031-2035	78,070,000	20,638,138	98,708,138
2036-2040	47,445,000	3,938,500	51,383,500
2041-2045	4,590,000	229,500	4,819,500
Less: Deferral on Debt Defeasance	(914,048)	-	(914,048)
Add: Unamortized Premium	12,180,380	-	12,180,380
Total	$ 483,051,332	$ 330,633,089	$ 813,684,421

Virginia Housing Development Authority

The Virginia Housing Development Authority (VHDA) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 0.151 percent to 8.18 percent and the origination dates range from August 3, 2000, to February 10, 2010. The following schedule details the annual funding requirements necessary to amortize these bonds:

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

Maturity	*Principal*	*Interest*	*Total*
2011	$ 256,051,478	$ 318,926,180	$ 574,977,658
2012	281,405,000	309,253,733	590,658,733
2013	276,445,000	296,819,715	573,264,715
2014	269,560,000	285,125,765	554,685,765
2015	267,100,000	273,199,664	540,299,664
2016-2020	1,323,510,000	1,176,061,594	2,499,571,594
2021-2025	1,136,945,000	851,627,112	1,988,572,112
2026-2030	1,035,540,872	563,994,000	1,599,534,872
2031-2035	837,446,501	314,237,305	1,151,683,806
2036-2040	611,004,956	110,036,610	721,041,566
2041-2045	420,610,000	10,310,853	430,920,853
Add: Unamortized Premium	23,984,028	-	23,984,028
Total	$ 6,739,602,835	$ 4,509,592,531	$ 11,249,195,366

Virginia Resources Authority

The Virginia Resources Authority (VRA) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 1.00 percent to 8.70 percent and the origination dates range from December 1, 1985, to June 17, 2010. The following schedule details the annual funding requirements necessary to amortize these bonds:

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

Maturity	*Principal*	*Interest*	*Total*
2011	$ 93,828,450	$ 114,352,667	$ 208,181,117
2012	96,083,450	111,484,632	207,568,082
2013	104,236,100	107,279,731	211,515,831
2014	111,123,450	102,916,242	214,039,692
2015	117,330,000	98,257,756	215,587,756
2016-2020	631,470,000	406,567,664	1,038,037,664
2021-2025	566,280,000	263,858,335	830,138,335
2026-2030	513,395,000	133,368,394	646,763,394
2031-2035	223,675,000	41,982,563	265,657,563
2036-2040	66,910,000	6,067,541	72,977,541
2041-2045	890,000	20,563	910,563
Less: Unaccreted Capital Appreciation Bonds	(43,608,808)	-	(43,608,808)
Add: Unamortized Premium	103,943,520	-	103,943,520
Total	$ 2,585,556,162	$ 1,386,156,088	$ 3,971,712,250

Virginia Public School Authority

The Virginia Public School Authority (VPSA) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 2.60 percent to 5.95 percent, and the origination dates range from November 20, 1997, to May 13, 2010. The following schedule details the annual funding requirements necessary to amortize these bonds:

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

Maturity	*Principal*	*Interest*	*Total*
2011	$ 196,210,000	$ 145,425,590	$ 341,635,590
2012	221,750,000	136,606,961	358,356,961
2013	210,185,000	126,175,176	336,360,176
2014	207,180,000	116,283,764	323,463,764
2015	203,520,000	106,351,695	309,871,695
2016-2020	945,187,063	387,116,346	1,332,303,409
2021-2025	709,895,000	185,955,283	895,850,283
2026-2030	432,695,000	54,268,018	486,963,018
2031-2035	61,875,000	8,498,237	70,373,237
2036-2040	7,705,000	344,663	8,049,663
Less: Deferral on Debt Defeasance	(81,549,500)	-	(81,549,500)
Add: Unamortized Premium	121,294,181	-	121,294,181
Total	$ 3,235,946,744	$ 1,267,025,733	$ 4,502,972,477

Hampton Roads Sanitation District Commission

The Hampton Roads Sanitation District Commission issued bonds under a Master Trust Indenture and a Trust Agreement dated December 1, 1993, and March 1, 2003. The interest cost for these bonds range from 2.38 percent to 5.86 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*
2011	$ 16,699,000	$ 22,653,000	$ 39,352,000
2012	18,414,000	23,841,000	42,255,000
2013	19,854,000	24,111,000	43,965,000
2014	20,807,000	24,823,000	45,630,000
2015	21,518,000	23,977,000	45,495,000
2016-2020	87,127,000	108,259,000	195,386,000
2021-2025	91,701,000	87,862,000	179,563,000
2026-2030	95,287,000	63,015,000	158,302,000
2031-2035	94,861,000	36,304,000	131,165,000
2036-2040	81,050,000	10,097,000	91,147,000
Total	$ 547,318,000	$ 424,942,000	$ 972,260,000

Virginia Biotechnology Research Partnership Authority

The Virginia Biotechnology Research Partnership Authority issued Series 1996, 1999A, 1999B, 2001 and 2009 Commonwealth of Virginia Lease Revenue bonds. Coupon interest rates range from 3.0 percent to 6.4 percent. The Series 1996 Virginia Biotechnology Research Partnership Authority Lease Revenue Bonds were refinanced with VPBA Series 2005A bonds on March 1, 2005.

VIRGINIA BIOTECH RESEARCH AUTHORITY
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2011	$ 2,860,000	$ 1,855,776	$ 4,715,776
2012	3,005,000	1,718,938	4,723,938
2013	2,105,000	1,609,413	3,714,413
2014	3,560,000	1,518,663	5,078,663
2015	3,700,000	1,386,688	5,086,688
2016-2020	19,195,000	4,578,900	23,773,900
2021-2025	9,055,000	458,375	9,513,375
Less: Unamortized Discount	(692,710)	-	(692,710)
Deferral on Debt Defeasance	(2,939,800)	-	(2,939,800)
Add: Unamortized Premium	4,157,004	-	4,157,004
Total	$ 44,004,494	$ 13,126,753	$ 57,131,247

Total principal outstanding at June 30, 2010, on all component unit bonds amounted to $18.1 billion.

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

Schedule of Changes in Long-term Debt and Obligations (1) (2)

(Dollars in Thousands)

	Balance July 1, 2009	Issuances and Other Increases	Retirements and Other Decreases	Subtotal June 30, 2010
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 (3)	$ 984,077	$ 166,765	$ (201,778)	$ 949,064
Parking Facilities Bonds (3)	6,275	15,877	(3,297)	18,855
Transportation Facilities Bonds (3)	41,285	-	(7,615)	33,670
Add: Unamortized Premium	53,819	24,891	(11,983)	66,727
Less: Deferral on Debt Defeasance	(7,936)	2,449	(13,443)	(18,930)
Total General Obligation Bonds	1,077,520	209,982	(238,116)	1,049,386
Long-term Debt / Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Transportation Facilities Bonds (3)	1,373,344	564,860	(179,830)	1,758,374
Virginia Public Building Authority Bonds (3)	2,005,225	317,230	(136,090)	2,186,365
Regional Jails Financing Payable	8,231	-	(1,786)	6,445
Industrial Development Authority Obligations	10,025	-	(4,875)	5,150
Economic Development Authority Obligations (3)	89,980	-	(3,515)	86,465
Add: Unamortized Premium	191,243	19,378	(24,225)	186,396
Accretion on Capital Appreciation Bonds	14,526	2,603	-	17,129
Less: Unamortized Discount	(582)	540	(116)	(158)
Deferral on Debt Defeasance	(30,336)	5,543	-	(24,793)
Installment Purchase Obligations	61,966	20,679	(8,695)	73,950
Notes Payable - Virginia Public Broadcasting Board	5,830	-	(2,840)	2,990
Notes Payable - Transportation	8,000	-	-	8,000
Notes Payable - Aviation	1,909	-	(286)	1,623
Notes Payable - Tax Refund	81,278	-	-	81,278
Compensated Absences	336,072	3,965	(19,125)	320,912
Capital Lease Obligations	102,913	4,908	(10,809)	97,012
Pension Liability	989,517	157,646	-	1,147,163
OPEB Liability	117,604	97,339	-	214,943
Pollution Remediation Liability	2,472	1,890	(343)	4,019
Other	22,302	6,991	(3,252)	26,041
Total Long-term Debt / Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth	5,391,519	1,203,572	(395,787)	6,199,304
Total Governmental Activities	6,469,039	1,413,554	(633,903)	7,248,690
Business-type Activities:				
Long-term Debt / Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Installment Purchase Obligations	964	-	(777)	187
Capital Lease Obligations	1,919	-	(512)	1,407
Obligations:				
Compensated Absences	8,955	2,157	(1,982)	9,130
Pension Liability	21,368	5,011	-	26,379
OPEB Liability	2,973	2,806	-	5,779
Lottery Prizes Payable	293,165	4,376	(46,787)	250,754
Tuition Benefits Payable	1,909,786	296,158	(109,986)	2,095,958
Total Business-type Activities	2,239,130	310,508	(160,044)	2,389,594
Total Primary Government	$ 8,708,169	$ 1,724,062	$ (793,947)	$ 9,638,284

Foundations (4)	Balance June 30, 2010	Due Within One Year
$ -	$ 949,064	$ 75,575
-	18,855	1,533
-	33,670	8,444
-	66,727	-
-	(18,930)	-
-	1,049,386	85,552
-	1,758,374	200,810
-	2,186,365	151,085
-	6,445	1,828
-	5,150	5,150
-	86,465	3,690
-	186,396	-
-	17,129	-
-	(158)	-
-	(24,793)	-
-	73,950	6,376
-	2,990	2,990
-	8,000	-
-	1,623	286
-	81,278	20,000
-	320,912	164,709
-	97,012	10,985
-	1,147,163	-
-	214,943	-
-	4,019	3,451
-	26,041	4,367
-	6,199,304	575,727
-	7,248,690	661,279
-	187	187
-	1,407	560
-	9,130	4,830
-	26,379	-
-	5,779	-
-	250,754	51,372
-	2,095,958	155,582
-	2,389,594	212,531
$ -	$ 9,638,284	$ 873,810

Continued on next page

Schedule of Changes in Long-term Debt and Obligations (1) (2)
(continued)

(Dollars in Thousands)

	Balance July 1, 2009	Issuances and Other Increases	Retirements and Other Decreases	Subtotal June 30, 2010
Component Units				
Long-term Debt Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
General Obligation Bonds - Higher Education 9(c) (3)	$ 573,550	$ 173,994	$ (116,269)	$ 631,275
Long-term Debt / Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Bonds (3)	15,876,380	3,322,043	(2,547,763)	16,650,660
Installment Purchase Obligations	156,236	8,366	(23,576)	141,026
Capital Lease Obligations	113,687	223	(9,421)	104,489
Notes Payable	1,649,031	721,993	(336,810)	2,034,214
Compensated Absences	237,832	193,649	(192,565)	238,916
Pension Liability	420,996	89,329	(3,770)	506,555
OPEB Liability	121,736	100,383	(3,374)	218,745
Trust and Annuity Obligations	1,106	429	-	1,535
Other	300,535	171,164	(133,288)	338,411
Total Component Units	$ 19,451,089	$ 4,781,573	$ (3,366,836)	$ 20,865,826

(1) Pursuant to GASB Statement No. 34, governmental activities include internal service funds. Business-type activities are considered enterprise funds.

(2) 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 total for governmental activities. Enterprise funds, or business-type activities, are self-supporting funds. Accordingly, long-term liabilities are paid from each respective fund.

(3) Amounts are net of any unamortized discounts, premiums, and deferrals.

(4) Foundations represent FASB reporting entities defined in Note 1.B.

Foundations (4)	Balance June 30, 2010	Due Within One Year
$ -	$ 631,275	$ 39,820
851,731	17,502,391	747,951
8	141,034	26,584
5,196	109,685	6,597
194,354	2,228,568	506,904
10,044	248,960	163,750
79,958	586,513	-
16	218,761	-
73,286	74,821	2,712
102,529	440,940	83,483
$ 1,317,122	$ 22,182,948	$ 1,577,801

Bond Defeasance

Primary Government

In October 2009, the Commonwealth issued $20,270,000 of General Obligation Bonds, Series 2009C, all of which was for the purpose of refunding certain outstanding maturities (“Refunding Bonds”), pursuant to Section 9(c) of Article X of the *Constitution*, with a true interest cost (TIC) of 3.04256 percent to refund $9,025,000 and $11,580,000 of outstanding Commonwealth of Virginia General Obligation Refunding Bonds, Series 2001 and 2002 respectively (the “Refunded Bonds”). The net proceeds from the sale of the Refunding Bonds of $21,926,048 (after payment of underwriter’s fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service and redemption premiums on the Refunded Bonds. The reacquisition price exceeded the net carrying amount of the old debt by $1,321,000. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. It will, however, reduce total debt service payments over the next fifteen years by $1,926,556 resulting in an economic gain of $1,771,876 discounted at the rate of 2.8074104 percent.

In October 2009, the Commonwealth also issued $168,185,000 of General Obligation Bonds, Series 2009D, all of which was for the purpose of refunding certain outstanding maturities (“Refunding Bonds”), pursuant to Sections 9(b) and 9(c) of Article X of the *Constitution*, with a true interest cost (TIC) of 2.89119 percent to refund $66,420,000, $52,560,000 and $52,570,000 of outstanding Commonwealth of Virginia General Obligation Refunding Bonds, Series 2004A, 2005A and 2006B respectively (the “Refunded Bonds”). The net proceeds from the sale of the Refunding Bonds of $198,736,555 (after payment of underwriter’s fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service and redemption premiums on the Refunded Bonds. The reacquisition price exceeded the net carrying amount of the old debt by $19,529,000. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. Total debt service payments over the next thirteen years will be reduced by $7,099,194 resulting in an economic gain of $6,856,779 discounted at the rate of 2.8074104 percent.

Component Units

In October 2009, the Virginia College Building Authority (nonmajor) issued $134,000,000 of Series 2009E-1 and $74,860,000 of Series 2009E-2 21st Century College Program refunding bonds. The bonds refunded with the series 2009E-1 refunding bonds were $87,465,000 of series 2004A, $34,855,000 of series 2005A, and $19,415,000 of series 2007B 21st Century College Program bonds. The bonds refunded with the series 2009E-2 refunding bonds were $10,400,000 of series 2002A and $66,005,000 of series 2003A 21st Century College Program bonds. The net proceeds from the sale of the 2009E-1 refunding bonds of $157,471,383 were deposited in irrevocable trusts with escrow agents to provide for all future debt service on the defeased bonds. This defeasance resulted in an accounting loss of $9,821,000. Total debt service payments over the next 14 years will be reduced by $6,028,993 resulting in a present value savings of $5,954,141 discounted at the rate of 2.7918101 percent. The net proceeds from the sale of the 2009E-2 refunding bonds of $84,301,827 were deposited in irrevocable trusts with escrow agents to provide for all future debt service on the defeased bonds. This defeasance resulted in an accounting loss of $3,995,000. Total debt service payments over the next 13 years will be reduced by $2,924,981 resulting in a present value savings of $2,898,006 discounted at the rate of 2.7918101 percent.

In October 2009, the Virginia Public School Authority (nonmajor) issued $481,285,000 of Series 2009C refunding bonds (“Refunding Bonds”). The bonds refunded were $85,430,000 of series 2001A, $69,230,000 of series 2001B, $33,495,000 of series 2001C, $62,145,000 of series 2002A, $80,665,000 of series 2002B, $45,505,000 of series 2003A, and $122,475,000 of series 2003C bonds. The net proceeds from the sale of the Refunding Bonds were placed with an escrow agent to provide for all future debt service on the defeased bonds. This defeasance resulted in an accounting loss of $53,186,000. Total debt service payments over the next 19 years will be reduced by $29,229,742 resulting in a present value savings of $28,722,072 discounted at the rate of 2.65 percent.

In October 2009, the Virginia Biotechnology Research Partnership Authority (nonmajor) issued $36,740,000 of Series 2009 refunding bonds (“Refunding Bonds”). Proceeds of the Refunding Bonds were used to refund $37,165,000 of Series 2001 bonds. The net proceeds from the sale of the Refunding Bonds of $40,389,571 were deposited with an escrow agent to provide for all future debt service on the defeased bonds. This defeasance resulted in an accounting loss of $3,106,597. Total debt service payments over the next 12 years will be reduced by $2,441,694 resulting in a present value savings of $2,285,977 discounted at the rate of 3.0903635 percent.

In May 2010, the Virginia Port Authority (nonmajor) issued Port Facilities Revenue Refunding Bond Series 2010 (“Refunding Bonds”) in the principal amount of $68,630,000. Proceeds of the Refunding Bonds were used, together with other funds, to currently refund in full the outstanding principal amount of the Authority’s series 2009 $65,000,000 Subordinate Port Facilities Revenue Bond Anticipation Note.

During the fiscal year, the Virginia Resources Authority (nonmajor) issued bond series 2009B and 2010A, from which a portion of proceeds was used to refund or partially refund the following bond series: $3,170,000 of series 2000B, $6,895,000 of series 2001, $17,110,000 of series 2001D, $20,125,000 of series 2002A, and

$137,740,000 of CWSRF series 2004. The refunding resulted in an economic gain of $7,326,832.

GASB Statement 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, 2010, there were $354.9 million in bonds from the 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 $1.4 billion 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 liability, if any, must be paid every five years over the life of the bonds. Governmental issuers may elect to pay a penalty in lieu of rebate. Some bonds may be exempt from the rebate requirements if they qualify for certain regulatory exceptions. If the issuer meets one of the exceptions, 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.

Although rebatable arbitrage need only be calculated for tax purposes every fifth year that debt is outstanding, and consistent with modified accrual basis of accounting, is not recognized as a liability in governmental funds until amounts actually become due and payable, a liability is recognized in accrual basis government-wide statements as soon as the underlying event has occurred. Accordingly, as of June 30, 2010, the Commonwealth has recognized a government-wide liability of $1,620,132 and the Virginia Resources Authority (nonmajor component unit) has recognized a liability of $3,628,572.

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 nongeneral fund appropriations to satisfy any rebate liability. No rebate payments were owed during the year on the Commonwealth's general obligation bonds or bonds of the Virginia Public Building Authority, Virginia College Building Authority or Commonwealth Transportation Board.

Rebate liability on bonds of the Virginia Public School Authority (major 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, $549,399 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, 2010, are shown in the following table (dollars in thousands).

	Governmental Activities	Business-Type Activities	Component Units (1)
2011	$ 17,566	$ 560	$ 10,042
2012	16,716	575	10,148
2013	15,202	588	10,124
2014	15,251	-	9,446
2015	14,761	-	8,695
2016-2020	41,582	-	32,598
2021-2025	12,211	-	25,267
2026-2030	276	-	25,291
2031-2035	-	-	13,600
2036-2040	-	-	744
2041-2045	-	-	684
2046-2050	-	-	622
2051-2055	-	-	518
Total Gross Minimum Lease Payments	133,565	1,723	147,779
Less: Amount Representing Executory Costs	9,426	-	3
Net Minimum Lease Payments	124,139	1,723	147,776
Less: Amount Representing Interest	27,127	316	43,287
Present Value of Net Minimum Lease Payments	$ 97,012	$ 1,407	$ 104,489

Note (1): The above amounts exclude capital lease obligations of foundations.

	Foundations (2)
2011	$ 514
2012	457
2013	442
2014	447
2015	425
Thereafter	6,611
Net Minimum Lease Payments	8,896
Less: Amount Representing Interest	3,700
Present Value of Net Minimum Lease Payments	$ 5,196

Note (2): Foundations represent FASB reporting entities defined in Note 1.B. Land purchased under a capital lease for approximately $4.8 million is not included in the schedule below.

At June 30, 2010, assets purchased under capital leases were included in depreciable capital assets as follows (dollars 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.

	Buildings	Equipment	Total
Governmental Activities:			
Gross Capital Assets	$ 176,056	$ 2,548	$ 178,604
Less: Accumulated Depreciation	58,919	1,059	59,978
Total Governmental Activities	$ 117,137	$ 1,489	$ 118,626
Business-Type Activities:			
Gross Capital Assets	$ 2,347	$ -	$ 2,347
Less: Accumulated Depreciation	861	-	861
Total Business-Type Activities	$ 1,486	$ -	$ 1,486
Component Units:			
Gross Capital Assets	$ 158,168	$ 20,521	$ 178,689
Less: Accumulated Depreciation	26,470	15,762	42,232
Subtotal (excluding Foundations)	131,698	4,759	136,457
Foundations:			
Gross Capital Assets	85	980	1,065
Less: Accumulated Depreciation	2	186	188
Subtotal Foundations	83	794	877
Total Component Units	$ 131,781	$ 5,553	$ 137,334

Notes Payable

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

Primary Government	
Transportation Note	$ 8,000
Virginia Public Broadcasting Board Note	2,990
Aviation Note	1,623
Installment Notes	74,137
Tax Refund Note	81,278
Total Primary Government	168,028
Component Units	
Virginia Public School Authority	168,730
Virginia Housing Development Authority	327,990
University of Virginia	53,843
Virginia Polytechnic Institute and State University	162,866
Virginia Commonwealth University	213,314
Nonmajor Component Units	1,107,471
Installment Notes	141,026
Subtotal (excluding Foundations)	2,175,240
Foundations:	
Notes Payable	194,354
Installment Notes	8
Subtotal - Foundations	194,362
Total Component Units	2,369,602
Total Notes Payable	$ 2,537,630

The Transportation (primary government) Note represents 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 (part of primary government) Note 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 variable interest rates are reset weekly by the remarketing agent. The General Assembly authorized these grants in Chapter 1073 of the 2000 Appropriation Act.

The Aviation (primary government) Note represents a loan agreement with the Virginia Resources Authority in the amount of $6,600,000. The purpose of the loan was to finance and refinance grants-in-aid made to the Peninsula Airport Commission to provide funding for capital improvements at the Newport News/Williamsburg International Airport. The principal amount shall be paid semi-annually with the final payment due in 2017.

The Tax Refund (primary government) Note of $81,278,205 is owed to a taxpayer and will be paid in four equal annual installments. Variable interest not to exceed 4.0 percent will be included in the annual payments.

The Virginia Public School Authority (major component unit) notes of $168,730,000 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).

The Virginia Housing Development Authority (major component unit) has notes payable of $327,990,000, representing a credit agreement with the Federal Home Loan Bank of Atlanta. The proceeds along with the bond proceeds are used to make mortgage loans.

The Virginia Resources Authority (nonmajor component unit) notes of $7,225,165 are Equipment and Term Financing loans.

An additional amount of $1,530,269,000 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 VCBA principal amount net of unamortized accruals is $1,517,349,382. Interest rates range from 2.00 percent to 5.75 percent and shall be paid semi-annually. The final principal payment is due in 2040. The Virginia Biotechnology Research Partnership Authority has notes payable in the amount of $9,446,462 used for refunding the 1998 bonds issued for BioTech One, making tenant improvements to BioTech Six and purchase two pieces of land.

The higher education institutions (component units) also have notes payable. The University of Virginia (major component unit) has notes payable of $601,607 for a GPS system. The College of William and Mary (nonmajor component unit) has notes payable of $24,207 with SunTrust Bank to partially finance the multi-year implementation of the administrative and financial system. This first note matured in 2008 and the second note has an interest rate of 3.75 percent and matures in 2011. Virginia State University (nonmajor component unit) has a note payable of $1,750,883, 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 $57,796, 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 $13,308 with the final amount due in 2019. The Radford University Property Acquisition Foundation (blended component unit of Radford University (nonmajor component unit)) has a notes payable of $1,038,191 to purchase land and a building. The original note was refinanced and the new terms include an interest rate of 5.53 percent, payable in monthly installments with a final payment in 2022.

Various foundations (component units) have notes outstanding as of year-end. The purpose of a majority of these notes is for property acquisition, working capital, and construction. Future principal payments as of June 30, 2010, are shown in the following table (dollars in thousands).

Foundations' Notes Payable (Component Units) (1)
June 30, 2010

Maturity	Principal
2011	$ 56,741
2012	8,366
2013	14,376
2014	8,003
2015	10,335
Thereafter	96,533
Total	$ 194,354

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.

Installment purchase obligations 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 purchase obligations is subject to funding by the General Assembly. Installment purchase obligations represent $215,162,949 of the total outstanding debt of the Commonwealth. The foundations (component units) had installment purchase obligations totaling $7,875 as of year-end. Presented in the following tables are repayment schedules for installment purchase obligations.

Installment Purchase Obligations - Governmental Funds
June 30, 2010

Maturity	Principal	Interest	Total
2011	$ 6,376,082	$ 2,297,719	$ 8,673,801
2012	5,841,031	2,565,015	8,406,046
2013	5,448,421	2,353,726	7,802,147
2014	5,604,539	2,147,401	7,751,940
2015	6,171,475	1,999,988	8,171,463
2016-2020	28,983,278	6,291,019	35,274,297
2021-2025	15,525,272	1,415,091	16,940,363
Total	$ 73,950,098	$ 19,069,959	$ 93,020,057

Installment Purchase Obligations - Business-type Activities
June 30, 2010

Maturity	Principal	Interest	Total
2011	$ 186,944	$ 1,963	$ 188,907
Total	$ 186,944	$ 1,963	$ 188,907

Installment Purchase Obligations - Component Units (1)
June 30, 2010

Maturity	Principal	Interest	Total
2011	$ 26,581,433	$ 6,051,565	$ 32,632,998
2012	17,447,988	3,899,955	21,347,943
2013	16,754,466	3,352,044	20,106,510
2014	15,392,236	2,839,791	18,232,027
2015	13,352,544	2,332,031	15,684,575
2016-2020	43,219,132	5,679,917	48,899,049
2021-2025	8,278,108	777,182	9,055,290
Total	$ 141,025,907	$ 24,932,485	$ 165,958,392

Note (1): The above amounts exclude installment purchase obligations of foundations.

Installment Purchase Obligations - Foundations (2)
June 30, 2010

Maturity	Principal
2011	$ 2,921
2012	1,968
2013	1,968
2014	1,018
Total	$ 7,875

Note (2): Foundations represent FASB reporting entities defined in Note 1.B.

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, 2010, are shown in the following table:

	Jackpot	Win For Life	Total
Due within one year	$ 47,637,175	$ 3,734,531	$ 51,371,706
Due in subsequent years	149,510,800	49,871,326	199,382,126
Total (present value)	197,147,975	53,605,857	250,753,832
Add:			
Interest to Maturity	61,460,025	39,067,143	100,527,168
Lottery Prizes Payable at Maturity	$ 258,608,000	$ 92,673,000	$ 351,281,000

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, 2010, tuition benefits payable of $2.1 billion 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 $266.5 million has been recorded to reflect the actuarially determined present value of future payments anticipated from contract holders.

27. OTHER REVENUE

The following table (dollars in thousands) summarizes Other Revenue for the fiscal year ended June 30, 2010.

	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	Sales of Property
Primary Government:					
General	$ 477	$ 193,763	$ 9,761	$ 137	$ 823
Major Special Revenue Funds:					
Commonwealth Transportation	18,068	11,791	84,390	19,397	949
Federal Trust	-	113	-	62	254
Literary	-	67,974	-	-	-
Nonmajor Governmental Funds	97,823	56,436	73,081	10,939	30,437
Major Enterprise Funds:					
Virginia College Savings Plan	-	-	-	-	-
Nonmajor Enterprise Funds	-	13,153	-	-	-
Private Purpose	-	-	-	-	-
Pension and Other Employee Benefit Trust	-	-	-	-	-
Total Primary Government	$ 116,368	$ 343,230	$ 167,232	$ 30,535	$ 32,463

	Tobacco Master Settlement	Taxes	E-Z Pass	Other (1)	Total Other Revenue
Primary Government:					
General	$ 49,182	$ -	$ -	$ 163,984	$ 418,127
Major Special Revenue Funds:					
Commonwealth Transportation	-	-	11,298	5,007	150,900
Federal Trust	-	-	-	67,956	68,385
Literary	-	-	-	113,925	181,899
Nonmajor Governmental Funds	-	-	-	107,474	376,190
Major Enterprise Funds:					
Virginia College Savings Plan	-	-	-	1	1
Nonmajor Enterprise Funds	-	2,961	-	1,991	18,105
Private Purpose	-	-	-	58	58
Pension and Other Employee Benefit Trust	-	-	-	1,083	1,083
Total Primary Government	$ 49,182	$ 2,961	$ 11,298	$ 461,479	$ 1,214,748

Note (1): $105,000 (dollars in thousands) of the total amount recorded for the Literary fund is related to unclaimed property.

28. PRIZES AND CLAIMS

The following table summarizes Prizes and Claims Expense for the fiscal year ended June 30, 2010.

(Dollars in Thousands)

	Insurance Claims	Lottery Prize Expense	Total Prizes and Claims
Proprietary Funds:			
Major Enterprise Funds:			
State Lottery	$ -	$ 842,417	$ 842,417
Unemployment Compensation	922,952	-	922,952
Nonmajor Enterprise Funds	221,116	-	221,116
Total Enterprise Funds	$ 1,144,068	$ 842,417	$ 1,986,485
Internal Service Funds	$ 999,409	$ -	$ 999,409

29. OTHER EXPENSES

The following table summarizes Other Expenses for the fiscal year ended June 30, 2010.

(Dollars in Thousands)

	Grants and Distributions To Localities	Expendable Equipment/ Improvements	Other (1)	Total Other Expenses
Proprietary Funds:				
Major Enterprise Funds:				
Virginia College Savings Plan	$ -	$ 138	$ 1	$ 139
Nonmajor Enterprise Funds	84	1,994	569	2,647
Total Enterprise Funds	$ 84	$ 2,132	$ 570	$ 2,786
Internal Service Funds	$ 1,694	$ 7,288	$ 7,382	$ 16,364
Pension and Other Employee Benefit Trust (2)	$ -	$ -	$ 4,843	$ 4,843

Note (1): $6,538 (dollars in thousands) can be attributed to expenses related to closing cases in the Risk Management internal service fund.

Note (2): Fiduciary expenses of $4,843 (dollars in thousands) are not included in the Government-wide Statement of Activities.

30. OTHER NON-OPERATING REVENUE/EXPENSES

The following table summarizes Other Non-Operating Revenue/Expenses for the fiscal year ended June 30, 2010.

(Dollars in Thousands)

	Loss on Sale of Capital Assets	Expenses for Securities Lending Transactions	Other	Total Other Non-Operating Revenue/ Expenses
Proprietary Funds:				
Major Enterprise Funds:				
State Lottery	$ -	$ (438)	$ 285	$ (153)
Virginia College Savings Plan	-	(23)	-	(23)
Nonmajor Enterprise Funds	-	(46)	9,868	9,822
Total Enterprise Funds	$ -	$ (507)	$ 10,153	$ 9,646
Internal Service Funds	$ (447)	$ (118)	$ (3,175)	$ (3,740)

31. TRANSFERS

The following table summarizes Transfers In and Transfers Out for the fiscal year ended June 30, 2010 (dollars in thousands).

	Transfers In (Reported In):				
Transfers Out (Reported In):	**General**	**Commonwealth Transportation**	**Federal Trust**	**Literary**	**Nonmajor Governmental Funds**
Primary Government					
General	$ -	$ 106,872	$ -	$ -	$ 437,133
Major Special Revenue Funds:					
Commonwealth Transportation	41,440	-	5,341	-	266,089
Federal Trust	496	9,567	-	-	964
Nonmajor Governmental Funds	139,213	-	780	-	11,610
Major Enterprise Funds:					
State Lottery	430,251	-	-	10,296	-
Virginia College Savings Plan	375	-	-	-	-
Unemployment Compensation	-	-	13,313	-	-
Nonmajor Enterprise Funds	131,079	-	-	12	14,568
Internal Service Funds	489	-	-	-	4,675
Total Primary Government	$ 743,343	$ 116,439	$ 19,434	$ 10,308	$ 735,039

Transfers are used to (1) move revenues from the fund that the *Code of Virginia* or budget requires to collect them to the fund that the *Code of Virginia* or budget requires to expend them; (2) move receipts restricted for debt service from the funds holding the resources to the debt service fund as principal and interest payments become due; (3) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; and (4) reimburse the General Fund for expenses incurred on behalf of nongeneral funds.

During the fiscal year, the following significant transfers were made that do not occur on a routine basis or are inconsistent with the activities of the fund making the transfer.

Nonmajor Enterprise Funds	Internal Service Funds	Total Primary Government
$ -	$ -	$ 544,005
-	330	313,200
18	-	11,045
2,430	-	154,033
-	-	440,547
-	-	375
-	-	13,313
-	-	145,659
-	-	5,164
$ 2,448	$ 330	$ 1,627,341

- Various nongeneral funds transferred approximately $132.0 million to the General Fund as required by Chapter 872, 2010 Acts of Assembly.
- The Department of Motor Vehicles transferred certain fees of approximately $6.4 million to the General Fund as required by Chapter 872, 2010 Acts of Assembly.

32. ON-BEHALF PAYMENTS

Higher education institutions (component units) recognized various foundation and association on-behalf payments for fringe benefits and salaries during fiscal year 2010 totaling $638,080. This activity was recorded as Program Revenue – Operating Grants and Contributions.

33. ENDOWMENTS

Donor restricted endowments reside primarily within the higher education institutions. The net appreciation available for expenditure is $785.7 million. Of this amount, $784.8 million is reported as restricted net assets and $0.9 million 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.

34. CASH FLOWS – ADDITIONAL DETAILED INFORMATION

The following table (dollars in thousands) summarizes specific cash flows for the fiscal year ended June 30, 2010.

	State Lottery	Virginia College Savings Plan	Unemployment Compensation
Cash Flows Resulting from:			
Payments for Prizes, Claims, and Loss Control:			
Lottery Prizes	$ (912,482)	$ -	$ -
Claims and Loss Control	-	-	(950,340)
Total	$ (912,482)	$ -	$ (950,340)
Other Operating Revenue:			
Other Operating Revenue	$ -	$ 1	$ -
Total	$ -	$ 1	$ -
Other Operating Expense:			
Other Operating Expenses (1)	$ -	$ (1)	$ -
Total	$ -	$ (1)	$ -
Other Noncapital Financing Receipt Activities:			
Advances/Contributions from the Commonwealth	$ 9,000	$ -	$ -
Receipts from Taxes	-	-	-
Other Noncapital Financing Receipt Activities (2)	(92)	-	346,876
Total	$ 8,908	$ -	$ 346,876
Other Noncapital Financing Disbursement Activities:			
Repayments of Advances/Contributions from the Commonwealth	$ -	$ -	$ -
Other Noncapital Financing Disbursement Activities	-	-	-
Total	$ -	$ -	$ -

Note (1): $ 6,538 (dollars in thousands) can be attributed to disbursements related to closing cases in the Risk Management internal service fund.

Note (2): $346,876 (dollars in thousands) can be attributed to Federal repayable advances under Title XII of the Social Security Act.

Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
$ -	$ (912,482)	$ -
(226,178)	(1,176,518)	(1,001,579)
$ (226,178)	$ (2,089,000)	$ (1,001,579)
$ 6,380	$ 6,381	$ -
$ 6,380	$ 6,381	$ -
$ (182)	$ (183)	$ (11,131)
$ (182)	$ (183)	$ (11,131)
$ 32,722	$ 41,722	$ 30,000
168,780	168,780	-
231	347,015	209
$ 201,733	$ 557,517	$ 30,209
$ (28,110)	$ (28,110)	$ -
(90)	(90)	-
$ (28,200)	$ (28,200)	$ -

35. TOBACCO SETTLEMENT AND SECURITIZATION

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. The Commonwealth 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 (Commission), in compliance with the Consent Decree, to help communities in Virginia hurt by the decline of tobacco.

The Commission was established for the purposes of determining the appropriate recipients of monies in the Tobacco Indemnification and Community Revitalization Fund. The monies 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 monies are also to be used to revitalize tobacco dependent communities.

The General Assembly also created the Virginia Foundation for Healthy Youth (Foundation) (formerly the Virginia Tobacco Settlement 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 Commission and the Foundation are included in the Comprehensive Annual Financial Report as component units.

Additionally, the General Assembly created two special non-reverting funds. The Tobacco Settlement monies are accounted for in 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 reported in the General Fund.

In May 2005, pursuant to a Purchase and Sale Agreement with the Commonwealth, acting as an agent on behalf of the Tobacco Indemnification and Community Revitalization Commission (Commission), the Commonwealth sold to the Tobacco Settlement Financing Corporation (Corporation) 25 percent of its future right, title and interest in the Tobacco Settlement Revenues (TSRs). In May 2007, pursuant to a Purchase and Sale Agreement with the Commonwealth, acting as an agent on behalf of the Commission, the Commonwealth sold to the Corporation the remaining 25 percent of its future right, title and interest in the TSRs. Specifically, these rights include all of the 50 percent share of the TSRs received by the Commission starting May 15, 2005, and in perpetuity under the Master Settlement Agreement.

Consideration paid by the Corporation to the Commission for TSRs consisted of a cash amount deposited into an endowment to fund the long-term spending plan approved by the Commission. The bonds of the Corporation are asset-backed instruments secured solely by the TSRs, and the Corporation's right to receive TSRs is expected to produce funding for its obligations.

The Commission is a discrete component unit of the Commonwealth and the Corporation is disclosed as a related organization.

36. INFORMATION TECHNOLOGY INFRASTRUCTURE PARTNERSHIP – NORTHROP GRUMMAN

The Comprehensive Infrastructure Agreement (CIA) is a contract, executed on November 13, 2005, between the Commonwealth of Virginia (Commonwealth) acting through the Virginia Information Technologies Agency (VITA) and Northrop Grumman Information Technology, Inc (NG). The Commonwealth's primary goal is to significantly improve the Commonwealth's IT infrastructure and the manner in which such infrastructure is operated, supported, and maintained for the following service towers: Cross-Functional Services, Desktop Computing Services; Data Network Services; Voice and Video Telecom Services; Mainframe and Server Services; Help Desk Services; Messaging Services; Security Services; Internal Application Services; and Data Center facilities.

On March 31, 2010, contract revisions to the CIA were completed between the Commonwealth and Northrop Grumman. As a result of the contract changes, the Commonwealth renewed the contract for an additional three years, the parties established the products and services covered in the contractual cap including the baseline quantities to be billed and the prices at which those quantities will be billed, a shortened formula for contract year ten cost of living adjustment, and increased resolution and disentanglement fees. These contract changes are intended to provide improved performance to the VITA customer agencies, provide greater accountability and operational efficiencies for the services provided, and resolve outstanding financial issues. Expenses associated with the CIA during the fiscal year 2010 totaled $248.8 million, including payments to Northrop Grumman of $190.6 million. The Commonwealth expects to spend an additional $2.2 billion over the next nine fiscal years.

The Commonwealth may terminate the CIA due to a variety of reasons including the Commonwealth's convenience; a significant change of control in the equity interests in NG; NG's failure to implement satisfactory improvements; or, NG's failure to prevent service interruption of 15 days or more. In these instances, the Commonwealth will be required to pay exit and resolution fees as outlined in the CIA. Additional causes for termination that do not require the payment of exit or resolution fees are NG's default on the CIA terms, the Commonwealth's lack of funds, or NG's incurrence of liabilities equal to or more than 75 percent of the direct damages cap. NG may terminate the CIA only if the Commonwealth owes an aggregate amount in excess of $100 million that is more than 30 days past due and not being disputed in good faith. The Commonwealth may be required to pay exit and resolution fees, as outlined in the CIA, if NG terminates the CIA. Fees resulting from the termination of the agreement are expected to be significant to the Commonwealth. However, exit fees are subject to the appropriation, allocation and availability of Commonwealth funds. Further, if the Commonwealth and NG terminate the business relationship at the conclusion of the CIA term, the Commonwealth will incur significant costs to reacquire and transition the IT infrastructure and staff necessary to continue the Commonwealth's operations.

37. 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 received the 2011 cost allocation plan, which is based on fiscal year 2009 data. The Commonwealth believes this liability has the potential to total $856,487 as of June 30, 2010.

Virginia's combined overpayment and underpayment Supplemental Nutrition Assistance Program (SNAP) error rate for federal fiscal year 2009 was 5.74 percent. The national average combined error rate was 4.36 percent. A liability amount is established when, for the second or subsequent consecutive fiscal year, the USDA determines that there is a 95 percent probability that a State's payment error rate exceeds 105 percent of the national performance measure. Virginia fell within the tolerance level for 2009 and therefore 2009 does not count as a first year of potential liability.

The Virginia Tourism Authority had unclaimed awards totaling $1,368,125 payable to awardees upon submission of proper claims for reimbursement for the Marketing Leverage Program. Also, the Authority received a donation of land from King George County to be used as the Gateway Welcome Center on highway U.S. 301 at the Virginia Maryland border. The deed requires the land revert to the U.S. government if needed for national defense. The book value of the land is $826,900.

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 the 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.

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 $2.5 billion. The discretely presented component units have such debt of $1.7 billion.

D. Bailment Inventory

The Department of Alcoholic Beverage Control (ABC) houses and controls bailment inventory in the warehouse and is therefore responsible for the exercise of reasonable care to preserve the inventory until it is purchased by ABC or returned to the supplier. ABC uses the bailment system for payment of merchandise for resale. ABC initiates payments to the vendors based on shipments from the ABC warehouse to the retail stores, rather than receipt of invoice from the vendor. At June 30, 2010, the bailment inventory was valued at $36.1 million.

E. Loan Guarantees

The Virginia Small Business Financing Authority (VSBFA) (nonmajor component unit) has a loan guaranty program which provides guarantees up to the lesser of $500,000 or 75 percent of a bank loan for lines of credit and short-term working capital loans for small businesses. In addition, the Department of Minority Business Enterprise (DMBE) fund provides loan guarantees up to 90 percent of a bank loan for lines of credit and short-term working capital loans for minority businesses. The VSBFA administers this program for DMBE. As of June 30, 2010, the loan guaranty program has guarantees outstanding of $1.5 million.

The Assistive Technology Loan Fund Authority (nonmajor component unit) has an alternative financing program which provides guarantees of loans issued by its financial partner, SunTrust Bank. As of June 30, 2010, there was approximately $712,957 of loans issued in which it was the guarantor.

F. Other

The Virginia Horse Center Foundation (nonmajor component unit) is in default of a loan with the U.S. Department of Agriculture. The amount of default is $161,036. Further, the Foundation incurred new debt without express permission as prescribed in loan agreement from the U.S. Department of Agriculture or the memorandum of understanding with the Commonwealth. The outstanding balance as of June 30, 2010 is $322,825. While the Foundation has prepared a plan to restructure the debt and address other matters, the Foundation's auditor has expressed concern regarding the Foundation's continued operational viability.

38. SUBSEQUENT EVENTS

Primary Government

Other

On July 22, 2010, Congress passed an extension of federally-funded unemployment compensation benefits that had previously expired on May 23, 2010. The extension was applied retroactively to include claimants who would have had available EUC08 Tiers or EB had the previous law not expired. As a result of this extension, payments totaling approximately $14.4 million were made during August 2010 for benefit weeks prior to June 30, 2010. Federal revenue was received to fund 100 percent of these payments. These retroactive payments are not accrued liabilities in the financial statement attachments, since as of June 30, federal extensions were in an expired status. These payments were accounted for in a non-ARRA federal Unemployment Compensation Benefits Fund.

Debt

On October 27, 2010, the Commonwealth issued a total of $171,270,000 in General Obligation Bonds, comprised of $21,720,000 Series 2010A-1 (Tax-Exempt) and $149,550,000 Series 2010A-2 (Taxable-Build America Bonds). Build America Bonds (BABs) were authorized under the America Recovery and Reinvestment Act of 2009 (the ARRA) as an alternative to traditional tax-exempt bonds. BABs are issued on a taxable basis, and the issuer is eligible to receive a subsidy payment from the Federal government equal to 35 percent of each interest payment. Interest paid to bondholders on these bonds will be subject to federal income tax, but will be exempt from Commonwealth income tax. The Series 2010A Bonds were issued to finance revenue-producing capital projects at various institutions of higher education pursuant to Article X, Section 9(c) of the *Constitution of Virginia*.

On November 23, 2010, the Virginia Public Building Authority (VPBA) issued its $333,600,000 Public Facilities Revenue Bonds and Revenue Refunding Bonds Series 2010B-1, 2010B-2 and 2010B-3. Its $87,510,000 Series 2010B-1 (Tax-Exempt) Bonds and its $195,310,000 Series 2010B-2 (Taxable BABs) will provide funding for authorized VPBA projects and reimbursement of the Commonwealth's share of regional and local jail costs. The $50,780,000 Series 2010B-3 Refunding Bonds were issued to refinance portions of the VPBA's Series 2002A and 2004B bonds for debt service savings.

Component Units

Debt

Subsequent to June 30, 2010, the Virginia Resources Authority as part of the Virginia Pooled Financing Program issued bonds in the amount of $41,230,000, dated August 18, 2010. The interest rates range from 3.1 percent to 5.0 percent with a final due date of November 1, 2040.

On July 6, 2010, the Virginia Port Authority (VPA) entered into an agreement with APM Terminals Virginia, Inc. to lease facilities and equipment owned by APM Terminals North America, Inc. Virginia International Terminals, Inc. (a discrete component unit of the VPA), is designated to be the operator of said facility during the term of the lease and is a party to various agreements made part of the lease. Lease commitments extend to June 30, 2030. Lease payments include base rent, volume rent, and options rent. The minimum annual lease payments begin at $40,000,000 for the first non-transitional year. Payments increase both notionally and by an inflation escalator. The total estimated lease obligation is estimated to be $1.2 billion for the 20-year term. The Virginia Department of Planning and Budget has appropriated $33.6 million for the Virginia Port Authority resulting from this lease, to be available for the 2011 fiscal year.

On July 8, 2010, the Virginia Public School Authority (VPSA) issued its $72,655,000 School Tax Credit Bonds (Qualified School Construction Bonds) Series 2010-1. Qualified School Construction Bonds were established under the ARRA. The bonds were issued to purchase general obligation school bonds issued by participating localities to finance capital projects for public school purposes.

On July 28, 2010, the University of Virginia issued $190,000,000 par amount of Taxable General Revenue Pledge Bonds, Series 2010. The Series 2010 Bonds were issued to refund $19,701,500 of the University's outstanding commercial paper and fund new construction on the grounds of the University. The Series 2010 Bonds were issued as Build America Bonds (BABs) for purposes of the American Recovery and Reinvestment Act of 2009 with a coupon rate of 5.0 percent. The University will receive a 35.0 percent interest subsidy payment from the U.S. Treasury on the amount of each interest payment made on the Series 2010 Bonds, resulting in an effective yield to the University of 3.2 percent.

On August 26, 2010, the Virginia Housing Development Authority (VHDA) borrowed $33,000,000 from the Rental Housing Bonds, Series 2010D Non-AMT.

On August 31, 2010, the VHDA borrowed $40,000,000 from Bank of America, N.A., Revolving Credit Agreement.

On October 19, 2010, the VPSA issued its $85,510,000 School Financing Bonds (1997 Resolution) Refunding Series 2010C to refinance certain of its Series 2004A and 2004B bonds for debt service savings.

On October 26, 2010, the Virginia College Building Authority (VCBA) issued its Educational Facilities Revenue Bonds (21st Century College and Equipment Programs) $55,815,000 Series 2010B-1 and $290,600,000 Series 2010B-2 (Federally Taxable BABs). The proceeds of the bonds will be used to finance certain capital projects at public institutions of higher education.

On November 10, 2010, the (Virginia Public School Authority) VPSA issued its $9,975,000 of School Financing Bonds (1997 Resolution) Series 2010D to purchase certain general obligation local school bonds to finance capital projects for public schools.

On November 18, 2010, VCBA issued its $322,710,000 Educational Facilities Revenue and Refunding Bonds, Series 2010A-1, 2010A-2 and 2010B under the Public Higher Education Financing Program (the Program). The A-1 Bonds were sold in the amount of $65,060,000 and are tax-exempt. The A-2 Bonds are Taxable BABs sold in the amount of $156,610,000. The Authority will use the proceeds of the Series A-1 and A-2 Bonds to acquire Institutional Notes from participating public institutions of higher education. Each participating institution will use the proceeds of its Institutional Note to finance capital projects approved by the General Assembly. Series 2010B Refunding Bonds in the amount of $101,040,000 were sold to refinance certain outstanding maturities of the Authority's Series 2000A, 2001A, 2002A and 2003A Bonds for debt service savings.

The Virginia Biotechnology Research Partnership Authority (VBRPA) is in discussions to sell BioTech One and the BioTechnology Center buildings and land to the Virginia Commonwealth University (VCU) (major component unit). The VBRPA will net $4.5 million from the sale and VCU will assume the existing Banc of America note. VBRPA will lease back the BioTechnology Center for $1 per year. An anticipated closing date has been set for December 2010.

The VBRPA Board has given approval for the Authority to utilize proceeds from tax-exempt bonds or taxable-debt to build BioTech Ten. The Board also has given approval for VBRPA to advance its own funds to pay expenditures for the project and then receive reimbursement from the bonds or taxable debt or both.