

Management's Discussion and Analysis

The following is a discussion and analysis of the Commonwealth of Virginia's (Commonwealth) financial performance, including an overview and analysis of the financial activities of the Commonwealth for the fiscal year ended June 30, 2005. Readers should consider this information in conjunction with the transmittal letter, which is located in the Introductory Section of this report, and the Commonwealth's financial statements, which are located after this analysis.

FINANCIAL HIGHLIGHTS

Government-wide Highlights

The Primary Government's assets exceeded its liabilities at June 30, 2005, by \$14.3 billion. Net assets of governmental activities increased by \$1.4 billion and net assets of business-type activities increased by \$235.1 million. Component units reported an increase in net assets of \$1.5 billion from June 30, 2004.

Fund Highlights

At the end of the fiscal year, the Commonwealth's governmental funds reported a combined ending fund balance of \$3.7 billion, an increase of \$979.5 million in comparison with the prior year. Of this total fund balance, \$2.8 billion represents unreserved fund balance and the remaining \$943.4 million represents amounts reserved for specific purposes, such as the Revenue Stabilization Fund and education. The enterprise funds reported net assets at June 30, 2005, of \$417.5 million, an increase of \$233.4 million during the year.

Long-term Debt

The Commonwealth's total debt rose during the fiscal year to \$20.3 billion, an increase of \$1.9 billion or 10.1 percent. During fiscal year 2005, the Commonwealth issued \$3.7 billion of new debt. The majority of new debt issues were due to refunding old debt. More detailed information regarding these activities begins on page 130.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Statements

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

The Statement of Net Assets (pages 44 and 45) presents information on all of the Commonwealth's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may indicate whether the financial position of the Commonwealth is improving or deteriorating.

The Statement of Activities (pages 46 and 47) presents information showing how the Commonwealth's net assets changed during fiscal year 2005. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

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

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

Discretely Presented Component Units – account for functions of legally separate entities for which the Commonwealth is financially accountable. The Commonwealth has 21 non-higher education component units and 20 higher education institutions that are reported as discretely presented component units. Information regarding the individual financial statements of the component units is presented in the notes to the financial statements.

This report includes two schedules (pages 52 and 56) that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities on the appropriate government-wide statements (full accrual accounting). The following indicates some of the reporting differences between the government-wide financial statements and the fund financial statements.

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

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the Commonwealth's funds can be divided into three categories: governmental, proprietary, and fiduciary. Each of these categories uses different accounting approaches. Fund financial statements begin on page 50 and provide detailed information about the major individual funds.

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

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

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

- **Proprietary funds** – The Commonwealth maintains two different types of proprietary funds, enterprise and internal service. These funds report activities that operate more like those of private sector business and use the full accrual basis of accounting. Enterprise funds report activities that charge fees for supplies or services to the general public like the State Lottery. Enterprise funds are reported as business-type activities on the government-wide financial statements. The enterprise funds use the full accrual basis of accounting and the only differences between amounts reported on the government-wide statements and the Enterprise Fund statements are due to internal service fund activity (see reconciliations on pages 58 and 60). Internal Service funds report activities that charge fees for supplies and services to other Commonwealth agencies, like Fleet Management. Internal Service funds are reported as governmental activities in the government-wide statements because these types of services predominantly benefit governments rather than business-type functions.

The Commonwealth reports 31 individual proprietary funds. Information is presented separately in the proprietary fund statements for the State Lottery Department, Virginia College Savings Plan, Pocahontas Parkway Association, and Unemployment Compensation Funds, all of which are considered major funds. Data from the other enterprise funds are aggregated into a single column on the fund statements. All internal service funds are aggregated into a single column on the fund statements. Individual fund data for all nonmajor proprietary funds is provided in the combining financial statements immediately following the Required Supplementary Information.

- **Fiduciary funds** – These funds are used to account for resources held for the benefit of parties outside the government and use the full accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because the resources of these funds are restricted and cannot be used to finance the Commonwealth's operations. The Commonwealth's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Nets Assets beginning on page 68.

The Commonwealth's fiduciary funds are the:

- Private-purpose Trust, which reports the activities for 6 separate funds and accounts for transactions of trust arrangements in which the principal and income benefit individuals, private organizations, or other governments;
- Pension Trust, which reports the activities of 9 separate pension and other employment retirement plans for employees;
- Investment Trust, which accounts for the activities of the 3 external investment pools; and,
- Agency, which accounts for assets held on behalf of others in 19 separate funds.

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

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

Notes to the Financial Statements

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

Required Supplementary Information

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

Other Information

The combining statements referred to earlier in connection with nonmajor funds and component units can be found beginning on page 169 of this report. The individual fund information is aggregated into a single total on the combining financial statements, which carries forward to the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Primary Government's assets exceeded its liabilities by \$14.3 billion during the fiscal year. The net assets of the governmental activities increased \$1.4 billion or 10.9 percent, while business-type activities had an increase of \$235.1 million or 127.6 percent. This large increase was mainly due to increases for the Virginia College Savings Plan and the Unemployment Insurance Fund which are discussed in more detail on pages 37 and 38. The government-wide beginning balance was restated for correction of prior year errors to arrive at a restated beginning balance of \$12.5 billion.

Figure 22
Net Assets as of June 30, 2005 and 2004
(Dollars in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 7,902,206	\$ 6,373,608	\$ 2,878,094	\$ 2,339,250	\$ 10,780,300	\$ 8,712,858
Capital assets	14,830,515	14,017,682	339,440	344,473	15,169,955	14,362,155
Total assets	<u>22,732,721</u>	<u>20,391,290</u>	<u>3,217,534</u>	<u>2,683,723</u>	<u>25,950,255</u>	<u>23,075,013</u>
Long-term liabilities outstanding	4,773,133	4,438,077	2,299,339	2,035,207	7,072,472	6,473,284
Other liabilities	4,036,604	3,401,053	498,919	464,293	4,535,523	3,865,346
Total liabilities	<u>8,809,737</u>	<u>7,839,130</u>	<u>2,798,258</u>	<u>2,499,500</u>	<u>11,607,995</u>	<u>10,338,630</u>
Net assets:						
Invested in capital assets, net of related debt	11,829,878	11,097,037	(132,310)	22,117	11,697,568	11,119,154
Restricted	1,252,362	856,916	600,218	411,994	1,852,580	1,268,910
Unrestricted	840,744	598,207	(48,632)	(249,888)	792,112	348,319
Total net assets	<u>\$ 13,922,984</u>	<u>\$ 12,552,160</u>	<u>\$ 419,276</u>	<u>\$ 184,223</u>	<u>\$ 14,342,260</u>	<u>\$ 12,736,383</u>

The largest portion of the Primary Government's net assets (81.6 percent) reflects its investment in capital assets (e.g., land, buildings, equipment, construction in progress, and infrastructure), less any related outstanding debt used to acquire those assets. These assets are recorded net of depreciation in the financial statements. The Primary Government uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the Primary Government's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities (see Figure 22).

An additional portion of the Primary Government's net assets (12.92 percent) represents restricted net assets. These resources are subject to external restrictions or constitutional provisions specifying how they may be used. The remaining balance of \$792.1 million are unrestricted net assets (see Figure 22).

Approximately 96.9 percent of the Primary Government's total general revenue came from taxes. While the Primary Government's expenses cover many services, the largest expenses are for Education, Individual and Family Services, and Transportation. General revenues normally fund governmental activities. For fiscal year 2005, governmental activity program and general revenues exceeded expenses by \$1.6 billion. Program revenues exceeded expenses from business-type activities by \$757.7 million. The following condensed financial information was derived from the Government-wide Statement of Activities and provides detail regarding the change in net assets (see page 46).

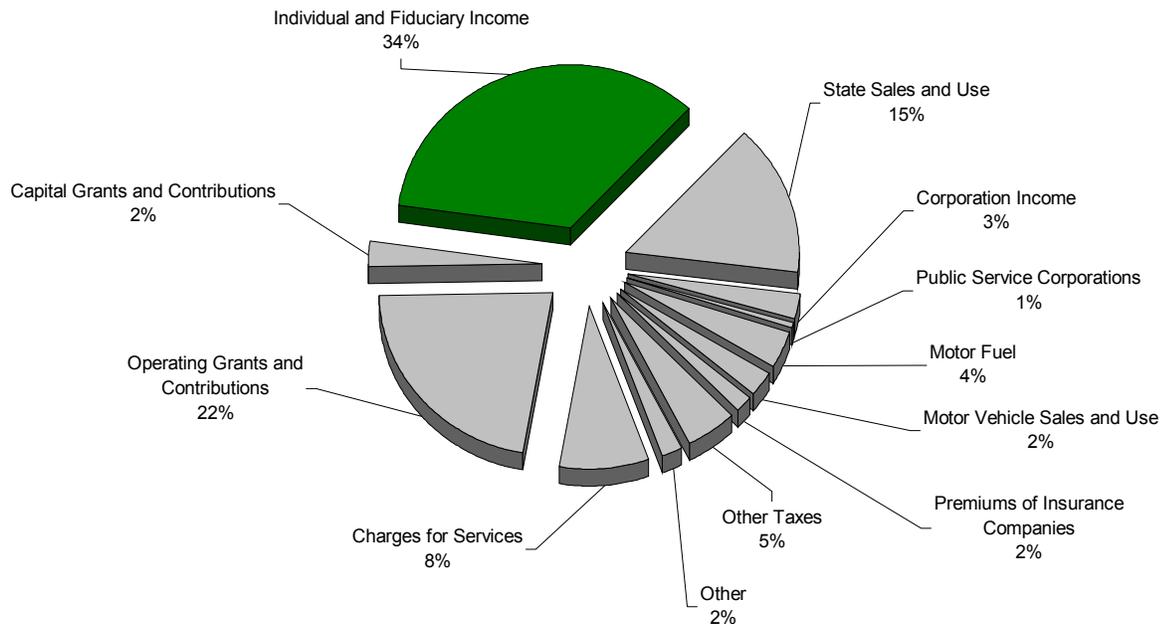
Figure 23
Changes in Net Assets for the Fiscal Years Ended June 30, 2005 and 2004
(Dollars in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program Revenues:						
Charges for Services	\$ 1,999,510	\$ 1,935,446	\$ 3,008,729	\$ 2,507,230	\$ 5,008,239	\$ 4,442,676
Operating Grants and Contributions	5,262,170	5,312,347	19,205	16,861	5,281,375	5,329,208
Capital Grants and Contributions	578,416	734,334	-	-	578,416	734,334
General revenues:						
Taxes:						
Individual and Fiduciary Income	8,356,263	7,363,659	-	-	8,356,263	7,363,659
State Sales and Use	3,578,159	3,014,336	-	-	3,578,159	3,014,336
Corporation Income	651,170	412,030	-	-	651,170	412,030
Public Service Corporations	89,091	91,770	-	-	89,091	91,770
Motor Fuel	912,035	907,640	-	-	912,035	907,640
Motor Vehicle Sales and Use	598,741	588,935	-	-	598,741	588,935
Premiums of Insurance Companies	373,571	351,333	-	-	373,571	351,333
Other Taxes	1,107,576	783,931	12,096	12,152	1,119,672	796,083
Unrestricted Grants and Contributions	52,703	51,919	-	-	52,703	51,919
Investment Earnings	154,306	25,529	9,913	8,775	164,219	34,304
Miscellaneous	291,025	283,653	662	382	291,687	284,035
Contributions to Permanent Funds	-	31	-	-	-	31
Total Revenues	24,004,736	21,856,893	3,050,605	2,545,400	27,055,341	24,402,293
Expenses:						
General Government	2,029,571	1,946,633	-	-	2,029,571	1,946,633
Education	7,268,677	6,496,639	-	-	7,268,677	6,496,639
Transportation	2,493,336	2,217,124	-	-	2,493,336	2,217,124
Resources and Economic Development	764,599	687,254	-	-	764,599	687,254
Individual and Family Services	7,991,041	7,587,126	-	-	7,991,041	7,587,126
Administration of Justice	2,261,787	2,126,114	-	-	2,261,787	2,126,114
Interest and Charges on Long-term Debt	166,491	171,944	-	-	166,491	171,944
State Lottery	-	-	908,021	846,491	908,021	846,491
Virginia College Savings Plan	-	-	310,967	4,391	310,967	4,391
Pocahontas Parkway	-	-	38,797	36,626	38,797	36,626
Unemployment Insurance	-	-	359,189	484,875	359,189	484,875
Nonmajor	-	-	653,259	611,244	653,259	611,244
Total Expenses	22,975,502	21,232,834	2,270,233	1,983,627	25,245,735	23,216,461
Excess/deficiency before transfers	1,029,234	624,059	780,372	561,773	1,809,606	1,185,832
Transfers	535,130	549,246	(535,130)	(549,246)	-	-
Increase in net assets	1,564,364	1,173,305	245,242	12,527	1,809,606	1,185,832
Net assets, July 1, as restated	12,358,620	11,378,855	174,034	171,696	12,532,654	11,550,551
Net assets, June 30	\$ 13,922,984	\$ 12,552,160	\$ 419,276	\$ 184,223	\$ 14,342,260	\$ 12,736,383

Governmental Activities Revenues

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

Figure 24
Revenues by Source – Governmental Activities
Fiscal Year 2005



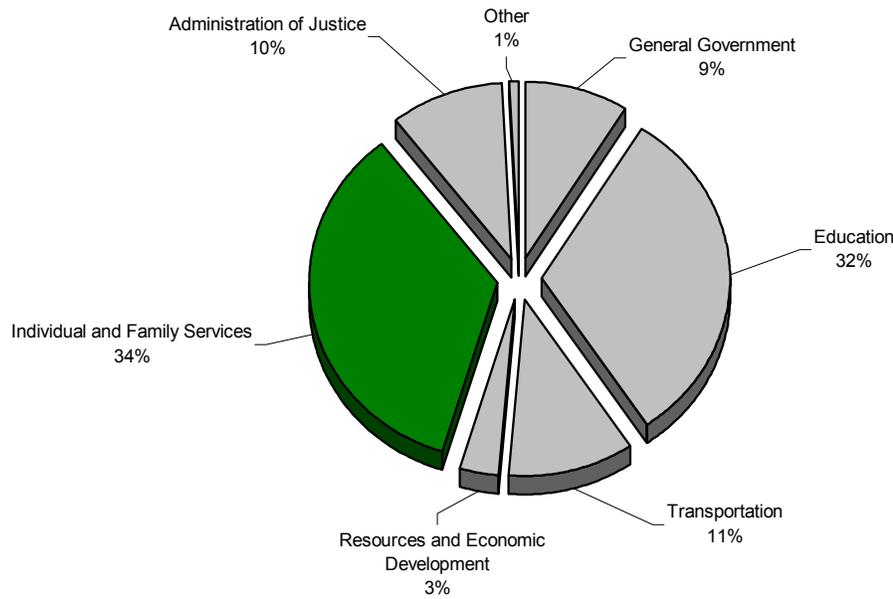
The Commonwealth's overall financial position increased in fiscal year 2005 when compared to fiscal year 2004, due to the increases in enhanced compliance programs. Net collections increased 24 percent as a significant amount of revenue last year was collected during the Tax Amnesty period and somewhat distorts the comparison.

General fund revenue collections increased by 19.1 percent in fiscal year 2005 when compared to fiscal year 2004. This increase is attributable to a strong increase in Individual Nonwithholding payments (estimated and final) and corporate income tax payments. In addition, the increase is due to the tax reform legislation that increased the Recordation Tax (up 10 cents per hundred effective August 2004) and the Virginia Retail Sales and Use Tax (effective September 1, 2004) from 4.5 percent to 5 percent.

Governmental Activities Expenses

The following is a graphical representation of the Statement of Activities expenses for governmental activities. Governmental activities expenses increased by \$1.7 billion or 8.2 percent. The majority of the increase is related to the General Fund which is discussed further on pages 38 and 39.

Figure 25
Expenses by Type – Governmental Activities
Fiscal Year 2005



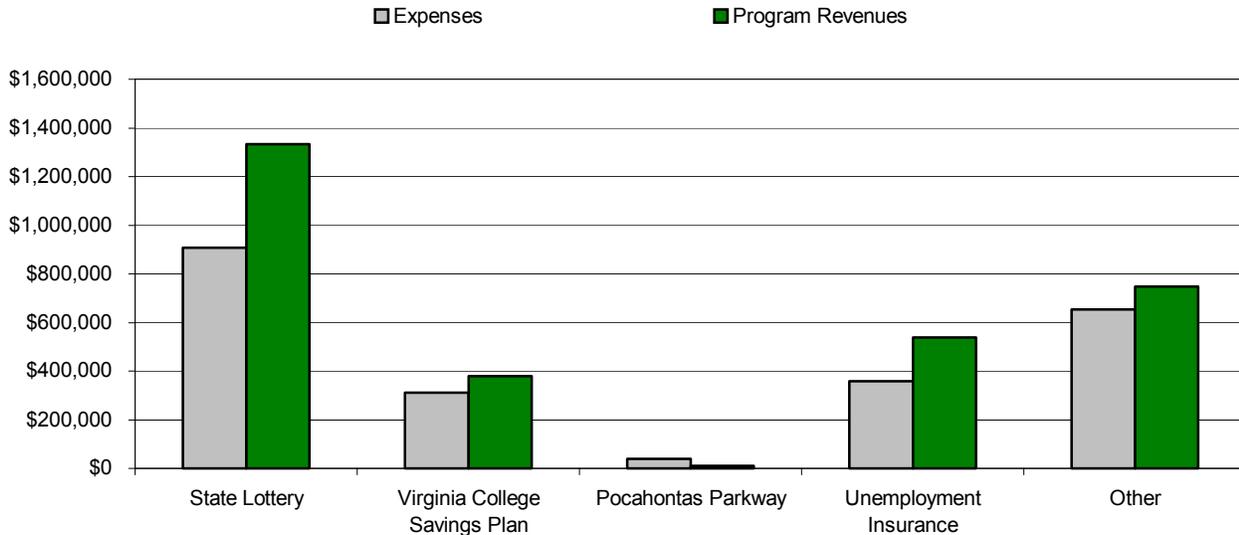
Net Assets of Business-type Activities

Net assets of business-type activity increased by \$235.1 million during the fiscal year. Factors contributing to this change were:

- Lottery sales increased by \$71.6 million (5.7 percent) over last year to a record \$1.334 billion. Net income was a record \$432.7 million, an increase of \$11.8 million (2.8 percent) from fiscal year 2004. Sales of all Lottery products, except Lotto South, increased in fiscal year 2005. Sales of Scratch games increased by \$48.6 million (7.7 percent) and Mega Millions increased \$5.2 million (3.9 percent). The decline in Lotto South was 8.6 percent.
- Virginia College Savings Plan's net assets increased by \$68.3 million (53.1 percent), from a deficit of \$128.5 million to a deficit of \$60.2 million. This improvement in financial position is primarily attributable to lower than expected tuition increases at Virginia higher education institutions, greater than estimated investment gains, and additional revenue from the approximately 11,000 new contracts issued during the fiscal year. In addition, continued favorable market conditions generated greater interest income as well as increased the fair value of investments. Interest and accounts receivable together increased by \$1.4 million over the prior year. Tuition contributions receivable, which represents the actuarially determined amount to be collected from contract holders, increased by \$80.0 million, or 35.7 percent, while total tuition benefits payable increased by \$272.7 million (23.6 percent). Both increases are a direct result of the sale of over 11,000 new contracts.
- Pocahontas Parkway Association (The Association) experienced its third full year of operation in 2005 and toll revenues increased \$2.7 million (35 percent) over last year. As of June 2005, actual traffic using the facility averaged about 105,000 vehicles per week, which is approximately 48 percent of the initial forecast. Investment earnings remained relatively constant with the previous year due to the influence of the Guaranteed Investment Contracts. In accordance with the Trust Indenture, the Trustee transferred \$204,432 to the Virginia Department of Transportation's Capital Cost Savings Account. The Association's accumulated deficit balance increased to (\$140.3) million in fiscal year 2005 from (\$115.1) million in fiscal year 2004. This change is due to debt service expenses, operating expenses, and the transfer to the Capital Cost Savings Account exceeding revenues by \$25.2 million. In April 2005, Moody's Investor Service downgraded the Association's Senior Toll Road Revenue Bonds from Ba2 to Ba3 and the First Tier Subordinate Bonds from B1 to B3. In August 2005, Standard & Poor's downgraded the Senior bonds from BB to BB-. There was no change in the rating from Fitch's (BBB-) during the year.

- Unemployment Insurance Fund cash and cash equivalents balance increased \$183.4 million during fiscal year 2005 compared to a decrease of \$97.9 million in fiscal year 2004. This increase is primarily the result of higher rates for unemployment insurance and lower payouts of unemployment benefits. The average insurance rate for 2005 was 1.66 percent, including pool charge of .22 percent and fund building charge of .20 percent versus a fiscal year 2004 average rate of 1.52 percent. Unemployment rates of 3.4 percent in fiscal year 2005 versus 3.9 percent in fiscal year 2004 show the continued economic recovery.

Figure 26
Business-type Activities
Program Revenues and Expenses
For the Fiscal Year Ended June 30, 2005
(Dollars in Thousands)



FUND STATEMENTS FINANCIAL ANALYSIS

As of the end of the fiscal year, the Primary Government's governmental funds reported combined ending fund balances of \$3.7 billion. Of this total amount, \$2.8 billion, or 74.6 percent, constitutes unreserved fund balance. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to a variety of other restricted purposes such as outstanding debt and capital outlay.

General Fund Highlights

The General Fund is the chief operating fund of the Primary Government. At the end of the current fiscal year, unreserved fund balance of the general fund was \$520.5 million and reserved fund balance was \$708.5 million. Total fund balance of the general fund increased by \$783.0 million during the fiscal year. The fiscal year 2005 general fund revenues were 19.1 percent greater than the fiscal year 2004 revenues.

The 2004-2006 adopted budget includes \$1.3 billion in net additional general revenues generated from the revision of the general fund revenue forecast, the phase out of state sales tax on food, the transfer of \$23.2 million to transportation for rail services, \$6.7 million to reflect conformity to recent federal tax law changes and a sizeable increase in transfers from Lottery and ABC profits. The net surplus is supported by the revenue growth in fiscal year 2004 and strong economic growth in fiscal year 2005.

The adopted tax policy changes include:

- accelerated sales tax phase out, with a revenue impact of \$200.1 million;
- advanced reduction in food sales tax to the entire 1½ percent with a revenue impact of \$99.1 million;
- selective deconformity which passes federal tax benefits to small businesses and individuals, having a revenue impact of \$6.7 million; and,
- car rental tax, with a revenue impact of \$23.2 million, which has been redirected as a source for rail improvement.

Spending increases include:

- \$229.4 million deposited to Revenue Stabilization Fund representing both the constitutionally required deposit and the “super” deposit required by the Code of Virginia;
- \$212.2 million to meet the projected cost of Medicaid services for mandated clients;
- \$163.9 million for capital projects and maintenance reserve purposes;
- \$347.6 million for a variety of new transportation initiatives;
- \$131.7 million salary increases for teachers, state employees, college faculty;
- \$86.4 million for water quality improvement;
- \$292.1 million for the Virginia Health Care Fund; and,
- \$147.6 million for the Public Education Standards of Quality/Local Real Estate Property Tax Relief Fund.

Major Special Revenue Fund Highlights

The Commonwealth Transportation Fund ended the fiscal year with a fund balance of \$1.36 billion, which is an increase of \$41.1 million from the prior year. The increase in fund balance was primarily the result of transfer activity. In fiscal year 2004, the Commonwealth Transportation Fund had net transfers out to other funds of \$128 million compared to net transfers in of \$117 million in fiscal year 2005. The General Fund transferred \$200 million to the fund as part of the 2005 Transportation Initiative to replenish the fund. The transfers were used to fund a \$193.4 increase in transportation expenditures, including a 21 percent increase in maintenance expenditures for primary and secondary road maintenance which was offset by a 9 percent decrease in construction expenditures.

The Federal Trust Fund balance increased by \$41.2 million. The increase is primarily the result of the State Board of Elections receiving an advance funded grant. Expenditures decreased by \$220.5 million when compared to fiscal year 2004. Education expenditures were much higher in fiscal year 2004 due to the one time \$240.7 million disbursement of funds received pursuant to the Jobs and Growth Tax Relief Act.

The Literary Fund balance declined \$17.8 million (5.3 percent) when compared to the prior fiscal year. While total revenues increased by \$36.2 million, or 26.5 percent, total expenditures increased by \$14.4 million, or 7.8 percent and Other Financing Sources decreased \$3.7 million or 28.6 percent. The increase in revenues is the result of the Literary Fund receiving \$35.0 million more in transfers from the Unclaimed Property fund than in fiscal year 2004. The ending cash balance in the Literary Fund was \$101.0 million (which is \$14.0 million or 16 percent above the \$87.0 million balance in fiscal year 2004). Of that amount, \$4.0 million has already been obligated to be disbursed in the future.

Capital Asset and Debt Administration

Capital assets. The Primary Government’s investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounts to \$15.2 billion (net of accumulated depreciation totaling \$10.0 billion). This investment in capital assets includes land, buildings, improvements, equipment, construction in progress, and infrastructure. Infrastructure assets are items that are normally immovable such as roads, bridges, drainage systems, and other similar assets. The increase in the Primary Government’s investment in governmental capital assets was primarily attributable to infrastructure increases of \$611 million. The Primary Government reports equipment with a value of \$50,000 or greater and an expected useful life of two or more years. The Primary Government capitalizes all property, plant, and infrastructure that have a cost or value greater than \$100,000.

Additional information on the Primary Government’s capital assets can be found in Note 11, “Capital Assets.”

Figure 27
Capital Assets as of June 30, 2005
 (Net of Depreciation)
 (Dollars in Thousands)

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$ 1,575,836	\$ 16,412	\$ 1,592,248
Buildings	1,374,686	7,144	1,381,830
Equipment	259,559	25,099	284,658
Infrastructure	8,872,880	284,893	9,157,773
Construction in Progress	2,747,554	5,892	2,753,446
Total	\$ 14,830,515	\$ 339,440	\$ 15,169,955

Long-term debt. The Commonwealth does not issue general obligation bonds for operating purposes. At the end of the current fiscal year, the Commonwealth had total debt outstanding of \$20.3 billion. Total tax supported debt is \$5.9 billion and total debt not supported by taxes is \$14.4 billion. Total debt backed by the full faith and credit of the government is \$954.0 million and \$1.3 billion is considered moral obligation debt. The remainder of the Commonwealth's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

During fiscal year 2005, the Commonwealth issued \$3.7 billion of new debt for various projects. Additional information on the Commonwealth's outstanding debt can be found in Note 20. Further, the Commonwealth maintains a "triple A" bond rating for general obligation debt from the three rating agencies: Moody's Investors Service, Standard & Poor's Ratings Group, a division of The McGraw Hill Companies, Inc., and Fitch, Inc.

State statutes limit the amount of general obligation debt the Commonwealth may issue for each specific type of debt. The 9(a) bonds, which have been issued to redeem previous debt obligations, are limited to 30 percent of 1.15 times the annual tax revenues for fiscal year 2005. The 9(b) bonds, which have been authorized by the citizens of Virginia through bond referenda to finance capital projects, are limited to 1.15 times the average of selected tax revenues for fiscal years 2003, 2004 and 2005. The 9(c) bonds, which have been issued to finance capital projects that will generate revenue upon their completion, are limited to 1.15 times the average of selected tax revenues for fiscal years 2003, 2004 and 2005. The current debt limitation for the Commonwealth is \$4.2 billion, \$11.7 billion, and \$11.9 billion, respectively, for the 9(a), 9(b), and 9(c) general obligation bond issues. These limits significantly exceed the Commonwealth's outstanding general obligation debt.

Figure 28
Outstanding Debt as of June 30, 2005
General Obligation and Revenue Bonds
(Dollars in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
General obligation bonds				
9(b)	\$ 555,447	\$ -	\$ 555,447	\$ -
9(c)	101,585	-	101,585	296,963
Revenue bonds	-	463,357	463,357	-
Total	\$ 657,032	\$ 463,357	\$ 1,120,389	\$ 296,963

Economic Factors and Outlook

Building upon the growth of last year, fiscal year 2005 has been an excellent year for the Commonwealth. On average, the year-over-year quarterly growth rate in real wages and salaries reached 5.5 percent in fiscal year 2005. Fourth quarter fiscal year 2005 has been estimated by Virginia Commonwealth University's Center for Urban Development. Retail sales amounted to \$83.4 billion in fiscal year 2005, a 6.0 percent increase over fiscal year 2004. New housing in Virginia fell slightly (less than 1 percent), however, increases in wages and salaries, personal income, employment, and retail sales have helped the Commonwealth continue its economic expansion during fiscal year 2005. For a more in-depth discussion on the Commonwealth's economy see "Virginia Economic Highlights" on page 17.

Requests for Information

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

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

